Memorandum

To: Chair and Members of the Plan Commission

From: Sarah Flax, Housing and Grants Administrator
      Savannah Clement, Housing Policy and Planning Analyst

Subject: Inclusionary/Affordable Housing Proposal for the Vermilion Planned Development at 601 Davis

Date: November 27, 2017

Summary:
Housing and Grants staff has reviewed the affordable housing proposal for the development project at 601 Davis Street from Vermilion Development. The proposal would provide four (4) on-site affordable dwelling units at 50% and 60% of the area median income (AMI), and a $1.5 million payment to St. Vincent de Paul for a rental assistance and homeless prevention program. Under the City’s Inclusionary Housing Ordinance (IHO), the developer would be required to provide 32 units of affordable housing on site or pay a fee in lieu of those on-site units of $3.2 million.

Discussion:
Vermilion states that compliance with the IHO either by providing 32 housing units on site, two at 50% and two at 60% of AMI, or by paying a fee in lieu of $3.2 million would render its development project at 601 Davis Street financially infeasible. The developer has proposed providing four affordable units on site and a contribution of $1.5 million for a one-time monetary donation to a local not-for-profit for rental assistance and homeless prevention program.

To assess the financial infeasibility of full compliance with the IHO, staff met with the developer and a commercial lender that has no involvement in the development or active projects in Evanston to review the financial assumptions and analysis for the project. Financial feasibility is defined by the developer as achieving an Untrended Yield on Cost (net operating income if the project were operating today divided by total project cost) of 6% to secure the debt and equity financing to construct the project. The commercial lender noted this yield would be of interest to investors given the current capital financing climate, including banks that would want a take-out lender following project completion, and noted that banks’ financing decisions are based on multiple factors on a project-specific basis.
The table below shows the Untrended Yield on Cost and the Stabilized Yield on Cost (net operating income when the building is projected to be stabilized in 2020 that includes estimated rent increases, divided by the total project cost) for the project with four affordable housing scenarios: 1) 4 affordable units on site at 50% & 60% AMI and $1.5 million contribution to rental assistance and homelessness prevention program, 2) 10 affordable units on site at 50% & 60% AMI, 3) full fee-in-lieu of $3.2 million, and 4) 32 affordable units on site at 50% & 60% AMI.

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Untrended Yield on Cost</th>
<th>Stabilized Yield on Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>4 on site units + $1.5 million</td>
<td>5.97%</td>
<td>6.21%</td>
</tr>
<tr>
<td>10 on site units</td>
<td>5.97%</td>
<td>6.21%</td>
</tr>
<tr>
<td>$3.2 million fee-in-lieu</td>
<td>5.92%</td>
<td>6.16%</td>
</tr>
<tr>
<td>32 on site units</td>
<td>5.71%</td>
<td>5.94%</td>
</tr>
</tbody>
</table>

Rather than seeking a reduction in the number of affordable dwelling units on site or the fee in lieu per Section 5-7-10 Reduction of Requirements of the IHO, the developer has proposed four on-site units affordable for 50 years plus a cash payment of $1.5M to a local not-for-profit as a financially feasible contribution to affordable housing. See attached description. Although providing ten units on-site delivers the same yields, the rent assistance and homeless prevention would serve more families in an immediate timeframe and could assist households at lower income levels than rent restricted units. Both options would require a reduction in development costs to achieve an Untrended Yield on Cost of 6%; providing a fee in lieu of $3.2 million or 32 on-site affordable units is financially infeasible based on the goal of a 6% Untrended Yield on Cost.

The proposed program would help 80 families per year for five years with $300,000 allocated annually as follows:

- $125,000 per year for rental assistance, helping 10 families each year
- $125,000 per year for homeless prevention, helping 70 families each year
- $50,000 per year for a case manager

This equates to spending $12,500 annually per household (HH) for rental assistance, consistent with the current expenditure per HH in the City’s HOME-funded Tenant-Based Rental Assistance (TBRA) program for homeless or unstably housed families with children under 18 years that demonstrate the capacity to maintain their housing independently following 24 months of rent assistance. That program also provides wrap around supports including case management, job training, linkages to health care and other services on an individualized basis. TBRA uses Small Area Fair Market Rents (SAFMR) determined by HUD. The FY2018 SAFMRs are shown below.

<table>
<thead>
<tr>
<th>Zip Code</th>
<th>Efficiency</th>
<th>1-Bedroom</th>
<th>2-Bedroom</th>
<th>3-Bedroom</th>
<th>4-Bedroom</th>
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<tr>
<td>60201</td>
<td>$1,230</td>
<td>$1,420</td>
<td>$1,650</td>
<td>$2,100</td>
<td>$2,510</td>
</tr>
<tr>
<td>60202</td>
<td>$1,090</td>
<td>$1,250</td>
<td>$1,460</td>
<td>$1,850</td>
<td>$2,220</td>
</tr>
</tbody>
</table>

While the SAFMRs allow HHs increased opportunity to secure rental housing in Evanston than the Chicago Metropolitan Fair Market Rents, SAFMRs are substantially
lower than the rents for most units in the downtown Evanston and other TOD areas. If the proposed rental assistance program follows the SAFMR guidelines, it would likely result in households renting units outside of the TOD and downtown districts. Conversely, if the rent subsidies are increased to afford market rents in the downtown or other TOD areas, the cost per HH will increase and result in either a reduction in the number of households assisted per year or in the total period of rental subsidies.

In addition, the proposal estimates that 70 families will be helped each year for five years with homeless prevention, which averages $1,785 per family. This is consistent with two programs currently provided by Connections for the Homeless: the Emergency Solutions Grant prevention program averages approximately $1,818 per household, and the State of Illinois prevention program averages $1,733. Those programs both target renter households that have received an eviction notice but also that have a demonstrated capacity to maintain their housing following a one-time or relatively short-term subsidy period. Both programs can pay some rent arrearages. The Illinois program provides a one-time payment and requires that all rent and utility debt is satisfied at the time of service. ESG prevention can provide 3-6 months of rent assistance going forward, as well, but is restricted to serving HHs with incomes < 30% AMI.

The following calculations are provided to show comparable benefits of the proposed affordable housing program versus 10 affordable units on site only.

- Four on-site units at 50% & 60% AMI + $1.5M Rental Assistance and Homeless Prevention program:
  - 4 rent restricted units for 50 years = 2,400 months of housing
  - 10 HHs receiving rent assistance for five years = 600 months of housing
  - 70 HHs receiving assistance per year for 5 years = 280 months/units of housing assistance
  - Total 2,400 + 600 + 280 = 3,250 months of housing assistance
- Ten on-site units at 50% & 60% AMI for 25 years = 3,000 months of housing assistance;

Additional considerations:

- The City currently funds three rental assistance programs: HOME-funded Tenant-Based Rental Assistance (TBRA), ESG-funded Rapid Re-Housing, and the General Assistance program managed and operated by the Health and Human Services Department. Additionally, City Council is considering the implementation of another rental assistance program that was discussed on October 30. Adding another rental assistance program could provide duplication of services by different providers. In addition, if or how a new program would be sustained is not determined.
- The proposed rental assistance and homeless prevention program do not appear to account for rent increases over the five year period.
- One of the goals of the Inclusionary Housing Ordinance is to integrate affordable housing in TOD areas close to amenities where rapidly rising rents make housing inaccessible to lower income residents. Four affordable units onsite would address this goal. However, the rental assistance program would likely result in families being housed outside of the downtown district or other TOD areas.