

Staff Report to the Housing Commission

To: The Chairman and Members of the Housing Commission
From: Nora Boyer, Housing Planner
Re: Arlington 425 – Response to Affordable Housing Guidelines
Report Prepared: April 25, 2019
Meeting Date: April 29, 2019

Background

Arlington 425 is a residential and commercial development proposed for the northern three quarters of vacant Block 425 located in downtown Arlington Heights. Block 425 is bounded by Campbell Street to the north, Sigwalt Street to the south, Highland Avenue to the east, and Chestnut Avenue to the west.

The proposed development would involve the construction of three buildings on the site; one building along Chestnut Avenue, one building along Campbell Street, and one building along Highland Avenue. The developer is proposing a four-story residential building on the Chestnut Avenue side of the site, a nine-story residential building with ground floor commercial space on the Campbell Street portion of the site, and a thirteen-story building with five floors of parking and residential units above on the Highland Avenue side of the site. The total number of residential units proposed in the three buildings is 361.

Affordable Housing Guidelines

The Village of Arlington Heights' affordable housing guidelines suggests that, in a rental development of this size (i.e. a development of 26 or more units), 15% of the units be affordable to households at or below 60% of Area Median Income (AMI) at affordable rents. Therefore, the guidelines call for 54 affordable units in this development (361 total units x .15 = 54 affordable units).

Developer's Proposals

December 20, 2018 Letter - In their first formal response to the Village's affordable housing guidelines, the developer stated that they were "committed to promoting affordability in private housing within the Village." They further stated that due to the cost of development they would be unable to finance and ultimately sell the development with 54 affordable units. Instead, the developer committed to providing 15 affordable units in the development.

February 8, 2019 Letter - The developer provided additional details stating that the proposed 15 affordable units would be studio and one-bedroom units located in all three buildings. The developer further stated that they reserved the right to allocate the units among the buildings; that unit sizes would equate to the average unit types and sizes in each of the buildings; and the number of affordable units would be reduced to 13 if the building facing Chestnut is developed as a condominium project.

April 4, 2019 Letter - The developer's current response to the affordable housing guidelines states that they would provide actual affordable units and/or to provide payments in lieu (or a combination) equivalent to 27

units (rather than 54) with the actual number of units, payments in lieu of units, allocation of units among buildings; and other considerations to be discussed with the Housing Commission.

April 12, 2019 Meeting – Staff met with the developer at which time the developer proposed 27 units as follows:

1. 20 actual affordable units or 5.5% of total units in the development.
2. Income eligibility and rent levels affordable at 80% of Area Median Income (AMI).
3. That the affordable units all be studio and one-bedroom units.
4. A fee in lieu payment for 7 affordable units or 2% of total units in the development at \$25,000 per unit (\$175,000 total).

April 12, 2019 Meeting Referenced Above – Staff presented the following to the developer:

Staff Alternative Proposal

At the April 12, 2019 meeting referenced above, staff proposed 27 units in the following alternative:

1. 18 actual affordable units or 5% of total units in the development
2. Income eligibility and rent levels affordable at 60% of Area Median Income (AMI).
3. That the affordable units all be studio and one-bedroom units.
4. A fee in lieu payment for 9 affordable units or 2.5% of total units in the development at \$25,000 per unit (\$225,000 total).
5. Preference is to be given to current Arlington Heights residents and/or veterans.
6. If the affordable housing guidelines are revised in the future resulting in a lower requirement than what the developer and Village agree upon, the lower of the two standards would be applied going forward.

Analysis

The following issues have been identified when analyzing this and other affordable housing proposals under the Village's guidelines:

Cost of providing an affordable unit:

In evaluating the cost of providing actual affordable units, staff evaluated the 4 N. Hickory project, Arlington Downs, and an existing apartment building that was for sale and listed on Loop Net in the summer of 2018. On average, the cost to build or acquire apartment units ranges from \$157,000 to \$252,000 per unit (average \$204,500/unit). At the estimated value of \$204,500/unit, the value to purchase or build 18 affordable housing units is approximately \$3.7 million.

Financial impact on development/Loss of developer income:

Based on the \$2.32 monthly market rate rent per square foot of apartment spaces reported by the developer:

- Total estimated rent for the development annually: \$8,458,200
- Lost rent income for 20 units per the developer if 1/3 of the affordable units are studio units (7 units) and 2/3 are one-bedroom units (13 units) as shown below is \$188,148 or 2.2% of gross rental income per year.

Projected Market Rent vs. Rents Affordable at 60% AMI (2018)

	2019 Arlington Heights Max. Monthly Rent	Market Rate Rent at \$2.32 per sf	Difference in Rent per Month	# of Affordable units	Total Lost Rent per Month	Total Lost Rent per Year
Studio Unit	\$889	\$1,385	\$496	7	\$3,472	\$41,664
One-bedroom Unit	\$952	\$1,891	\$939	13	\$12,207	\$146,484
				20	\$15,679	\$188,148

*There may be programs available that could reduce the rent differentials.

Village Guidelines and Village Board Directives:

1. Negotiation and Emphasis on Inclusion of Affordable Units

As the Housing Commission is aware, the 15% affordable housing goal for larger developments as stated in the Village's guidelines has only been attained on a few occasions and usually by niche affordable housing developers that utilized multi-layered financing including government-sponsored affordable housing financing programs. The fee in lieu of affordable units of \$75,000/unit has never been attained, with the most common recently approved amount being \$25,000 per affordable unit. See the attached Inclusionary Affordable Housing Table for the history of units and fees approved to date.

The percentage threshold and fee amount are guidelines (both of which have been reduced from the original amounts). The Housing Commission and the Village Board have evaluated projects on a case-by-case basis to determine the number of affordable units that are feasible in each development given factors such as housing market conditions, land cost, construction cost and infrastructure needs. The Village has not yet adopted its guidelines by Code as it was recognized that every new development is subject to unique circumstances.

During this project's early review before the Village Board, and last summer when discussing other development projects, the Village Board made it clear that they wish to see actual units included within future rental developments. This preference is consistent with the guidelines as stated in the *Multi-Family Affordable Housing Toolkit for Rental Housing* that it distributed to developers:

"The construction of the affordable units is preferred. However, in lieu of providing affordable units as per the Village's guidelines above the suggested payment in lieu of providing the affordable units is \$75,000 per unit with the funds to be used by the Village exclusively to create and/or preserve affordable housing in the Village." (emphasis added)

Privately-financed developments have been unable to incorporate the number of affordable units or pay the fee in lieu amount as stated in the Village's guidelines; otherwise these privately-financed projects would not have been feasible and, as a result, no affordable units would have been created nor would contributions have been made to the Affordable Housing Trust Fund. Since the inception, the Village has modified its guidelines and the Housing Commission continues to evaluate and consider recommending adjustments to the guidelines with the goal to create affordable housing without inhibiting development. Over the past couple of years, the bar has been raised for the number of actual units and the fee in lieu amounts that are provided or required.

2. Income Eligibility Standard

The Village's guidelines directs affordable rental programs to households at or below 60% of AMI. The developer proposes an income eligibility standard to 80% AMI.

The two income eligibility levels, adjusted for household size, are:

Household Size	2018 Max. Income at 60% AMI	2018 Max. Income at 80% AMI
1	\$35,580	\$47,400
2	\$40,620	\$54,200
3	\$45,720	\$60,950
4	\$50,760	\$67,700

The Village's income eligibility standard is set at 60% AMI for the following reasons:

- The Illinois Affordable Housing Planning and Appeal Act which requires that 10% of Illinois communities' housing stock be affordable sets the income eligibility standard for affordable rental housing at 60% AMI. Therefore, units created that meet this standard contribute to the Village meeting the State-required units whereas units created to be affordable at 80% AMI would not.
- The 2013 *Homes for a Changing Region* report for Arlington Heights indicated that there is:
 - Insufficient rental housing units in Arlington Heights, at the current and projected demand, for renter households with annual incomes at or below \$35,000/year (in 2013 dollars), which is more consistent with the 60% AMI levels.
 - An excess of rental housing units in Arlington Heights, for current and projected demand, for renter households with annual incomes above \$35,000 - \$75,000 (in 2013 dollars), which is more consistent with the 80% AMI levels.
- As indicated below, the difference between the affordable monthly rent between the developer's market rate and monthly rent affordable at 80% AMI is a discounted rent but the difference between the market rate rent and rent affordable at 60% AMI provides a meaningful measure of affordability.

Projected Market Rent vs. 60% and 80% AMI (2018)

	Market Rate Rent/Month	Affordable Rent at 80% AMI/Month	Difference between Market Rent and Rent at 80% AMI/Month	Affordable Rent at 60% AMI/Month	Difference between Market Rent and Rent at 60% AMI/Month
Studio Unit	\$1,385	\$1,185	\$200	\$889	\$496
One-Bedroom Unit	\$1,891	\$1,270	\$621	\$952	\$939

*Affordable rents for a studio unit is calculated at 30% of maximum monthly income for a one-person household at 80% AMI and 60% AMI. Affordable rent for a one-bedroom unit is calculated at 30% of monthly maximum income for a 1.5 person household at 80% and 60% AMI. This is the method used by the Illinois Housing Development Authority.

For these reasons, staff believes that it is better have fewer units affordable at 60% of Area Median Income (AMI) rather than more affordable units at 80% of Area Median Income (AMI).

3. Unit Size Mix

The Village’s guidelines call for the size (i.e. bedroom mix) and the standard interior finishes of the affordable units to be consistent with the market rate development. The guidelines also state that the affordable units are to be disbursed throughout the development.

The developer is proposing studio and one-bedroom units at a proportional mix but no two-bedroom units due to the larger rent differential

Of the studio and one-bedroom units proposed for Arlington 425, approximately 1/3 are studio units and 2/3 are one-bedroom units. Therefore, the bedroom mix of the affordable units should reflect these proportions and be disbursed throughout the Arlington 425 rental buildings.

Recommendation

After analyzing the cost of providing affordable units, financial impacts on the Arlington 425 developer, and the Village Boards goals and directives, it is recommended that the affordable housing component of Arlington 425 meet the following conditions:

1. 18 actual affordable units be provided (5% of all units), affordable at 60% Area Median Income (AMI) that are to be affordable in perpetuity.
2. A payment in lieu of 9 units (2.5% of all units) to be paid at \$25,000 per unit (\$225,000 total) at the time of permit issuance for the first building to be constructed at Arlington 425.
3. The income eligibility standard for the affordable units is to be 60% of the Area Median Income (AMI) for the Chicago-Joliet-Naperville area, adjusted for household size as updated annually by HUD.
4. The maximum rents are to be the rents determined to be affordable to households at 60% of Area Median Income (AMI) for the applicable unit sizes (studio and one-bedroom units) according to the method used by the Illinois Housing Development Authority (IHDA) for the Chicago Metro Area.

5. That 1/3 of the 18 affordable units will be studio units (6 studio units) and 2/3 of the affordable units will be one-bedroom units (12 one-bedroom units), which is consistent with the proportions of these units in the development.

6. Preference for tenancy of the affordable units will be given to current Arlington Heights residents and/or veterans.

7. The developer shall submit an annual report concerning compliance with the affordable housing program by January 31 of each year in a form as determined by the Village and in compliance with all other elements of the guidelines.

8. If the Village's affordable housing guidelines are revised prior to the issuance of the first building permit for this project to standards that are lower than what the developer and Village agree upon, that the lower of the two standards will be applied.

Additionally, it is recommended that the Housing Commission evaluate the guidelines and recommend modifications to address market conditions and eliminate future case-by-case negotiations.