
A DEMAND ANALYSIS FOR
THE PROPOSED

HEART'S PLACE
A 16-UNIT SUPPORTIVE HOUSING PROJECT

120 EAST BOEGER DRIVE
ARLINGTON HEIGHTS, ILLINOIS 60004

JANUARY 16, 2017

PREPARED FOR

UP DEVELOPMENT, LLC



January 16, 2017

Ms. Jessica H. Berzac
UP Development
900 West Jackson Boulevard, Suite 2W
Chicago, Illinois 60607

RE: Demand Analysis for Heart's Place in Arlington Heights, Illinois

Dear Ms. Berzac:

We are pleased to submit the following demand analysis for the proposed construction of Heart's Place in Arlington Heights, Illinois. The property will consist of 16 two-bedroom permanent supportive housing units targeting households with a disability and/or experiencing chronic homelessness. All units will be subsidized through the Housing Authority of Cook County's Section 8 and Regional Housing Initiative (RHI) programs and tenants units will pay 30 percent of income as rent, while supportive resident services will be coordinated by the Housing Opportunity Development Corporation (HODC).

There is very strong demand for supportive housing options from local target tenant groups. American Community Survey (ACS) disability data highlights nearly 3,000 qualified individuals in the Arlington Heights alone, while a deep secondary demand pool of income-qualified households also exists. The proposed two-bedroom layouts are very versatile and can accommodate a range of household sizes—particularly families, which remain underserved by the current supply of permanent supportive housing units in suburban Cook County—and the site will maintain good access to health care, recreation, and shopping options in the neighborhood.

The development partnership has been very successful in the past in coordinating local social service agencies to identify and meet the housing needs of these target tenant groups, and similar projects in the nearby communities of Mt. Prospect, Glenview, and Wheeling are all fully-occupied with lengthy waiting lists. Given these findings, we support your proposal. Development Strategies appreciates the opportunity to assist you with this analysis. Should you or your associates have any questions about the following report, please call. We will be glad to hear from you.

Yours very truly,



Brad Beggs, MAI
Illinois State Certified General Appraiser



Jake Narup
Analyst

TABLE OF CONTENTS

PROJECT SUMMARY INFORMATION	1
DEVELOPER INFORMATION	1
LOCATION	1
APARTMENT DETAILS/RENT SCHEDULE	3
DEMAND/AFFORDABILITY	3
LOCAL DEMAND FROM QUALIFIED HOUSEHOLDS	3
AFFORDABLE RENT ANALYSIS	4
IHDA DEMAND ANALYSIS	4
DETAILED DEMAND ANALYSIS	6
OVERALL HOUSING NEED	7
CONCLUSIONS	8
ASSUMPTIONS AND LIMITING CONDITIONS	APPENDIX
CERTIFICATION.....	APPENDIX
APPENDIX	
• Assumptions and Limiting Conditions	
• Certification	
• Qualifications	

PROJECT SUMMARY INFORMATION

DEVELOPER INFORMATION

The developer of the subject property will be:

UP Development
900 West Jackson Boulevard, Suite 2W
Chicago, Illinois 60607

Project Description:

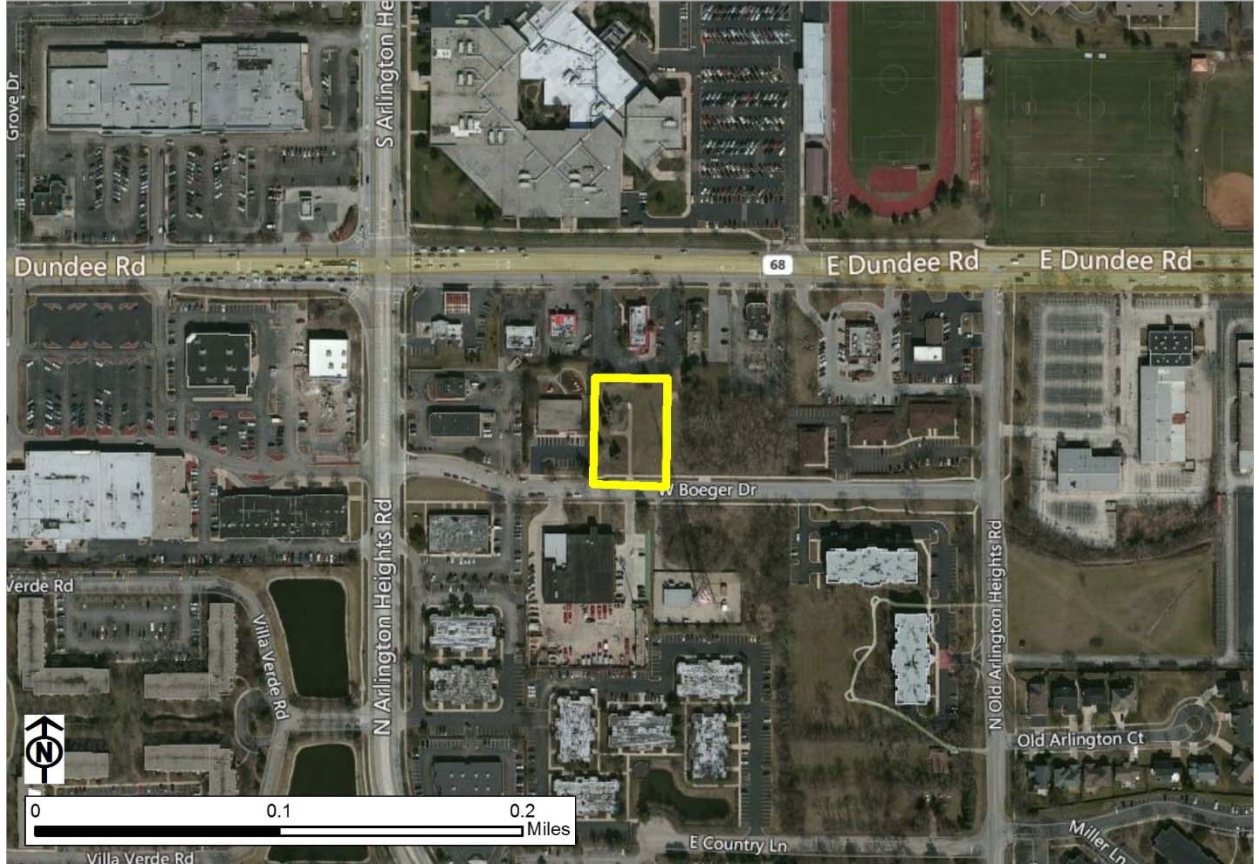
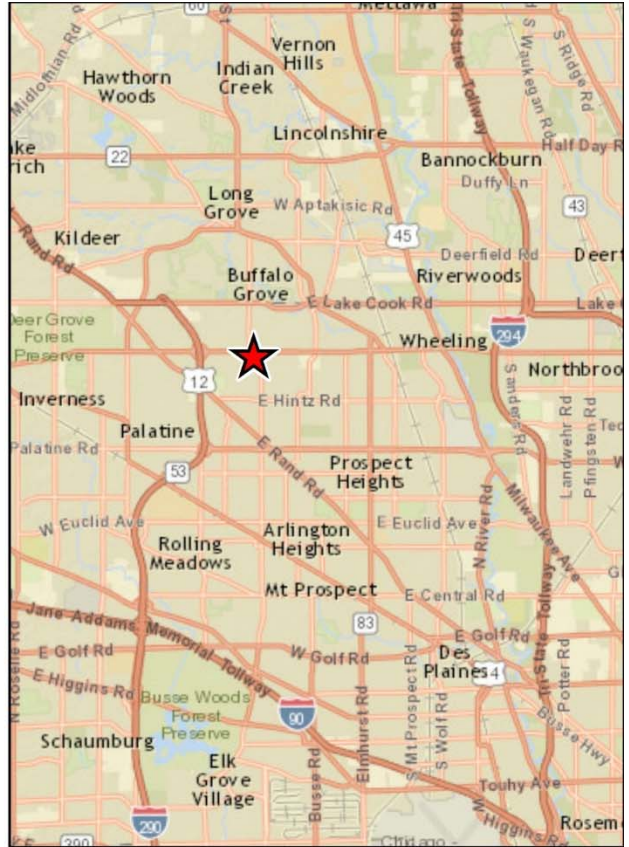
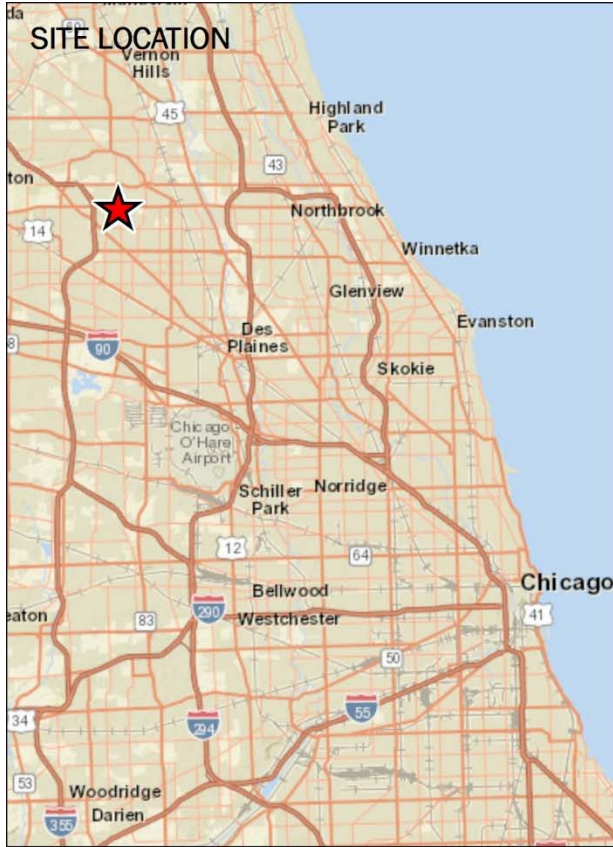
The subject of this demand analysis is the proposed Heart's Place, a new 16-unit permanent supportive housing development to be constructed at 120 East Boeger Drive in Arlington Heights, Illinois, that will be reserved for households with disabilities or experiencing chronic homelessness. Four units will be restricted to households earning below 30 percent of Area Median Income (AMI) and the remaining twelve units will be restricted at 60 percent of AMI.

The project will be partially funded by IHDA through the Low-Income Housing Tax Credit program. A Section 8 HAP contract administered by the Housing Authority of Cook County and the Regional Housing Initiative will subsidize all 16 units, while supportive housing services will be coordinated by the Housing Opportunity Development Corporation (HODC).

LOCATION

The site is located near the northern Arlington Heights near the boundary of neighboring Buffalo Grove. Boeger Drive is immediately east of North Arlington Heights Road—a primary north-south thoroughfare—and just south of East Dundee Road—a primary east-west thoroughfare and commercial corridor. Surrounding uses include several fast food restaurants, an orthodontic office, an auto care center, and a radio station. The site is within two miles of routes 53 and 83 and is easily accessible from across the northern portion of Cook County.

The following page includes a map illustrating the site's location.



APARTMENT DETAILS/RENT SCHEDULE

The subject will contain 16 two-bedroom units. Four units will be available to tenants earning less than 30 percent of AMI, and twelve units available to households earning less than 60 percent of AMI. Because of the HACC and RHI subsidies, proposed rents will exceed LIHTC maximum gross rents, but tenant contributions at 30 percent of income will fall below the rent limits. The proposed unit mix is summarized in the following table.

Heart's Place							
PROPOSED UNIT MIX							
<i>Unit Type</i>	<i>Total Units</i>	<i>Average Unit Size</i>	<i>Contract Rent</i>	<i>Proposed Rent/SF</i>	<i>Utility Allowance</i>	<i>Gross Rent</i>	<i>LIHTC Max Gross Rent</i>
30% AMI							
2-BR/1-Ba	4	980 SF	\$1,298	\$1.32	\$0	\$1,298	\$519
60% AMI¹							
2-BR/1-Ba	12	980 SF	\$1,298	\$1.32	\$0	\$1,298	\$1,039

All units will be supported by an HACC, RHI, or other subsidy and tenants will pay no more than 30% of income towards rent

The landlord will pay for all utilities including water, sewer, trash, gas heat and hot water, and electricity. The proposed two-bedroom units will range in size from 809 to 1,190 square feet, averaging 980 square feet. These layouts are very versatile and can accommodate a range of household sizes, particularly families, which remain underserved by the current supply of permanent supportive housing units in Cook County.

DEMAND/AFFORDABILITY

LOCAL DEMAND FROM QUALIFIED HOUSEHOLDS

Data from the American Community Survey (ACS) provides insight into the incidence of a number of disability types in the market. While reliable data is not available at the municipal level, the incidence of disabilities at the county level can be applied to Arlington Heights' population to provide an estimate of the number of individuals that would be qualified for the proposed units. This data is provided by age group, but we have focused our analysis on adults aged 64 and younger. Disabled adults above the age of 64 are likely to pursue alternative housing accommodation in assisted living or skilled nursing facilities.

The population distribution by age and implied disability ratios for Arlington Heights are summarized in the following tables.

Age Distribution Comparison			Disability Ratios (Ages 18 to 64)		
Age Cohort	Arlington Heights		Disability	Arlington Heights	
Total 2016 population:	76,120		Total population:	45,536	
0 - 4 (Pre-school)	3,839	5%	Hearing	565	1.2%
5 - 17 (K-12)	12,083	16%	Vision	688	1.5%
18 - 24 (College Age)	5,369	7%	Cognitive	1,462	3.2%
25 - 34 (Early Workforce)	8,443	11%	Ambulatory	1,940	4.3%
35 - 49 (Family Years)	14,836	19%	Self-Care	692	1.5%
50 - 64 (Empty Nesters)	16,888	22%	Independent Living	1,371	3.0%
65 - 74 (Seniors)	7,372	10%	Total	3,661	8.0%
2016 Median Age	43.8		Distribution based on county-level data; American Community Survey 2010-2014		

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Though individual disability rates range from 1.2 percent (hearing difficulty) to 4.3 percent (ambulatory difficulty), many individuals have disabilities in multiple categories, resulting in an overall disability rate of eight percent for those aged 18 to 64 in Arlington Heights.

Heart's Place will be disability neutral, and able to accommodate residents with a number of types of disability types. However, it will lack the on-site staff support to accommodate individuals with a self-care disability, which is defined as "having difficulty bathing or dressing". Excluding these 692 individuals lowers the overall disability rate to 6.5 percent, which represents qualified demand of approximately 2,969 individuals in Arlington Heights.

Additional support will be derived from homeless or near homeless households. According to 2016 HUD data, the suburban Cook County Continuum of Care (CoC IL-511) identified 571 households currently residing in emergency shelters or transitional housing. This includes approximately 136 households with at least one adult and one child. This subpopulation has an average household size of 2.9 persons—too large for the studio and one-bedroom units common among many existing supportive housing communities, but well-suited for the proposed layouts of Heart's Place.

AFFORDABLE RENT ANALYSIS

We have included a secondary demand analysis identifying the number of households in Arlington Heights that are income-qualified for the proposed community. To qualify for the tax credit units, incomes of tenants must fall below 30 percent and/or 60 percent AMI for Cook County as established by HUD.

IHDA DEMAND ANALYSIS

The **capture rate** is defined by IHDA as "the percentage of low income households needed to achieve stabilized occupancy" and is calculated by dividing the number of the proposed affordable units by the total number of

income/age eligible households in the market area.¹ We have calculated the number of income-qualified households on the following pages.

The Section 8 and RHI contracts will cover all of the property's units. In this scenario, essentially any household earning less than \$41,580 (the maximum income for a two-bedroom unit at 60 percent AMI for Cook County) would be eligible to live at the subject. While some tenants may have some form of income or assistance, a minimum income of zero is used to analyze demand.

We have summarized the maximum allowable LIHTC rents, the proposed rents, and the income ranges by unit type and income level in the following table.

Rent and Income Analysis								
Unit Type	Average Household Size	2016 Max. Gross Rent	Utility Allowance	Maximum Affordable Rents (Net)	Proposed Contract Rents	Proposed Gross Rents	2016 Minimum Income	2016 Maximum Income
30% AMI								
2-BR	3.0	\$519	\$0	\$519	\$1,298	\$1,298	\$0	\$20,790
60% AMI								
2-BR	3.0	\$1,039	\$0	\$1,039	\$1,298	\$1,298	\$0	\$41,580

To quantify demand for the property, we must first determine the number of households that are qualified by income to live at the property. ESRI has provided income estimates of the number of households in the Arlington Heights, which we have summarized in the following table.

Primary Market Area - Households by Income		
Household Income	2016 Estimate	
Total households:	31,461	
Less than \$15,000	1,812	6%
\$15,000 - \$24,999	1,841	6%
\$25,000 - \$34,999	2,039	6%
\$35,000 - \$49,999	3,487	11%
\$50,000 - \$74,999	5,391	17%
\$75,000 - \$99,999	4,317	14%
\$100,000 - \$149,999	5,800	18%
\$150,000 or more	6,774	22%
Median HH Income	\$80,388	

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Based on data from the previous table and the income ranges established for each unit type, we have determined that there are 7,222 households that earn less than \$41,580. Of these, 2,878 households are eligible for 30 percent AMI units.

¹ The definitions of the penetration rate and capture rate are often interchangeable and switched, depending on the agency involved. For instance, the National Council of Housing Market Analysts defines the capture rate as, "the percentage of age, size, and income qualified renter households in the primary market area that the property must capture to achieve the stabilized level of occupancy."

We have summarized the capture rate calculation in the following table.

IHDA Capture Rate Calculations			
	<i>30% AMI</i>	<i>60% AMI</i>	<i>Total</i>
	<i>Units</i>	<i>Units</i>	<i>Demand</i>
ESRI Estimate of 2016 Qualified Households	2,878	7,222	7,222
Total Units	4	12	16
Indicated Capture Rate (Units ÷ Qualified HHs)	0.1%	0.2%	0.2%

By using the IHDA methodology for calculating capture rates, the project has an overall capture rate of 0.2 percent. IHDA guidelines suggest that a capture rates up to five percent are reasonable for projects that are not age-restricted to seniors. Thus, the very low capture rates for the subject suggest that there is substantial demand for affordable rental housing. In the unlikely scenario that the property stops serving a targeted tenant base with disabilities, these figures indicate the property would continue to be successful as traditional affordable housing.

DETAILED DEMAND ANALYSIS

To more accurately determine the capture rate for households that would be interested in renting units at the subject, we will eliminate homeowners from the field of potential renters and make an additional adjustments for household size. Further, we have determined that 75 percent of the units will be rented by households within the Arlington Heights, so only these units will be used in the capture rate calculations.

Renter Household Ratio

We start by subtracting the portion of renters that are not necessarily in the market for rental housing similar to the subject, as well as those that already own a home. According to 2016 ESRI estimates, approximately 24 percent of the households in Arlington Heights area are renters. However, given the cost of home ownership in the area, low-income households are much more likely to rent. Approximately 45 percent of households qualified for 30 percent AMI units rent, while 40 percent of those qualified for 60 percent AMI units rent.

Household Size Ratio

As the subject will offer only two-bedroom units, not all households will be willing to rent the units due to their household size. While a two-bedroom unit could accommodate an individual, we have focused on households of two to four persons, which comprise 62 percent of all households in Arlington Heights.

Market Area Ratio

We have estimated that 75 percent of the demand for the subject property will come from the village of Arlington Heights, with the remaining 25 percent coming from other parts of Cook County. Therefore, the capture rate calculations for the primary market area are based on twelve of the subject's 16 units.

Our detailed capture rate calculations are summarized in the following table.

Summary of Demand from Income-Qualified Households

	30% AMI	60% AMI	Total
	Units	Units	Demand
ESRI Estimate of 2013 Qualified Households	2,878	7,222	7,222
Renter Household Demand	45%	40%	41%
Household to Size Ratio	62%	62%	62%
Qualified Renter Households	803	1,791	1,836
Units Serving Income Group	4	12	16
Demand from Primary Market Area	75%	75%	75%
Units Serving Primary Market Area	3	9	12
Indicated Capture Rate	0.4%	0.5%	0.7%
(Units ÷ Qualified HHs)			

Given the small number of proposed units, detailed capture rates remain very low. The capture rate for 30 percent units is 0.4 percent, while 60 percent units generate an overall capture rate of 0.5 percent. The project's overall capture rate is 0.7 percent, highlighting significant demand for affordable housing.

OVERALL HOUSING NEED

The target tenant pools identified above will be further supplemented by referrals from HODC and partner social service providers such as WINGS, the Kenneth Young Center, and Alexian Brothers. The development partnership has been very successful in the past in coordinating these groups to identify housing needs within the community and advance a viable product to meet them.

HODC recently opened Axley Place, a similar 13-unit permanent supportive housing community in nearby Glenview (six miles southeast) in late 2016. The community includes a combination of one-, two-, and three-bedroom units and was fully-occupied upon completion. HODC capped the Axley Place waiting list at 100 applicants—nearly ten applicants for each unit—and Mr. Koenig indicated that a large number of additional households showed interest in applying. This represents a waiting period of several years for most qualified households, and highlights only a fraction of the demand for housing of this type.

UP Development has also completed several similar projects targeting tenants with mental disabilities. Myers Place was the first supportive housing development of this type completed in the northwest suburbs in 2013 and is located in neighboring Mt. Prospect. Demand has been overwhelming since its completion. Upon opening the application window approximately 150 submissions were made in the first several hours, essentially filling the property immediately. The waiting list was reopened in 2015 for a brief period, reaching its maximum length of 50 applicants within one hour. A second property, PhilHaven, opened in Wheeling in late 2016. Several hundred families attempted to apply the first day applications were accepted, with the waiting list for some unit types closing within four hours.

CONCLUSIONS

Heart's Place will create 16 two-bedroom permanent supportive housing units serving low-income disabled and homeless households. There are very few affordable housing options in Arlington Heights and neighboring communities, and no affordable facilities in the village that provide services for the targeted tenant base. The general demand for any type of affordable housing in Arlington Heights remains largely unmet, as evidenced by a very low capture rate of 0.2 percent under IHDA's methodology for calculating demand, and ACS data highlights nearly 3,000 qualified disabled individuals in the village.

The development team has had success in the past in meeting the supportive housing needs of the target group in other suburban Cook County communities. The property's coordination with local social service agencies will provide a significant number of supplementary tenant referrals, and the proposed two-bedroom layouts will accommodate larger households that have been historically ill-suited to studio and one-bedroom permanent supportive housing units. Overall, the project will have no negative impact on existing subsidized and market rate properties in the area and will be an asset to the community while filling an existing housing gap.

VIII. APPENDIX

1. ASSUMPTIONS AND LIMITING CONDITIONS
2. CERTIFICATION
3. QUALIFICATIONS

ASSUMPTIONS AND LIMITING CONDITIONS

This economic analysis and study of housing needs is subject to the following limiting conditions and assumptions:

1. Information provided by various secondary sources is assumed to be accurate. However, this information cannot be guaranteed or construed to represent judgments by the consultant. Such information and the results of its application by the consultant are subject to change without notice.
2. The future course of the Cook County economy is based on our current understanding of the market and representations made to us. The future course of residential development is difficult to predict and our forecast is subject to change, although we deem our projections as reasonable given current information available.
3. We have analyzed the current economic conditions in the primary market area and have taken them into consideration in making our projections. However, should the local, regional, or national economies suffer a major recession or depression, this will have a material effect on our projections.
4. Our analyses, opinions, and conclusions were prepared in conformance with the requirements of the Code of Professional Ethics and the Standards of Professional Practice of the Appraisal Institute, of which Brad Beggs is a member.

CERTIFICATION

Development Strategies understands that this demand analysis is to be submitted to the Illinois Housing Development Authority (IHDA) and we certify that IHDA may rely on the data included in this document in its review of competing tax credit and financing applications. We agree to answer any questions regarding this report and our knowledge of the development proposal from IHDA staff and commissioners.

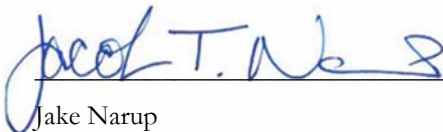
Development Strategies certifies that, to our knowledge and understanding:

- All information and procedures used to establish the study were from factual data and prepared in a professional manor.
- Development Strategies meets IHDA's requirements for professional services firms, including registration with the Illinois Department of Revenue to conduct business in Illinois, adequate insurance coverage, business tenure, and knowledge and experience in preparation of market studies for affordable housing projects using federal, state, and local funding.
- Development Strategies is a member of the National Council of Housing Market Analysts.
- Neither Development Strategies nor any of its employees has any direct or indirect identity of interest with any member of the sponsor's development team.
- Neither Development Strategies nor any of its employees has any direct or indirect ownership interest in the project.
- Our fee for preparation of this study does not rely in any way on the recommendations contained herein.
- No undue pressure or collusion with our client or its representatives exists in the findings and determination of the report.
- We have personally inspected the market area of the proposed development, including the site of the proposed development and each of the competitive properties.

Development Strategies, Inc.



Brad Beggs, MAI



Jake Narup



CAREER SUMMARY AND BACKGROUND

Jake’s experience is based in neighborhood development and outreach, where his work has focused on creating cohesive communities through resident empowerment. He works with the research team on various projects that include demographic and economic analyses, market research, and other research assignments.

Jake has been involved in a variety of projects including market studies, economic impact analyses, corridor studies, feasibility analyses, and various other projects. Prior to joining Development Strategies, Jake worked as a university research assistant in public policy, contributing to various neighborhood development initiatives in the city of St. Louis. Previously, he was a staffer in a community organizing office performing research and community outreach duties to assess the health impacts of environmental pollution in low-income neighborhoods.

EDUCATION

Master of Urban Affairs,
Saint Louis University,
St. Louis, MO, 2013

Bachelor of Arts, Sociology and Political
Science, University of Illinois,
Champaign, IL 2011

EXPERIENCE

Market Studies

- Examine the feasibility of various proposed Low Income Housing Tax Credit (LIHTC) developments and/or rehabs in many states throughout the country including Missouri, Illinois, Pennsylvania, California, Michigan, the District of Columbia, and others.
- Compile demographic and housing data for market reports, including the creation and organization a database for affordable housing complexes in the St. Louis region.
- Examining the feasibility for potential residential and mixed-use development by gathering and analyzing data for sites in the St. Louis, Chicago, and Kansas City regions.
- Assessing market support for the reuse of the historic National Maritime Building in Manhattan, New York as a mixed-use medical facility.

Economic Impact Analysis

Data collection and research modeling economic impacts for the remediation and redevelopment of the River City Business Park, a brownfield site located in St. Louis, Missouri.

Neighborhood Plans

Provide market analysis and strategies, as well as economic strategies to help revitalize neighborhoods and districts.

Corridor Plans

Data collection and analysis for the future development of several nodes and neighborhoods in Kansas City, Missouri and Kansas, City, Kansas. Analysis of demographic and income projections, rental housing , for-sale housing, office space and retail demand.

Appraisals

Contributed to appraisals of newly built or rehabilitated multi-family and mixed-use properties in many cities including St. Louis, Chicago, Pittsburgh, Detroit, Kansas City, Los Angeles, Milwaukee, and others.



CAREER SUMMARY AND BACKGROUND

Brad is principal-in-charge of Development Strategies' real estate consulting division and also leads the firm's appraisal practice. With education in architecture, business, and construction management—in addition to 25 years' tenure with Development Strategies—he brings a high level of expertise and credibility to each project.

He is a recognized expert in real estate valuation and has provided testimony in a variety of cases where the accurate value of property has been an issue. The valuations provided for these cases are easy to defend, as Brad uses his experience and the resources of Development Strategies to build a strong case for his conclusions.

His knowledge of the national real estate market has been a valuable asset that the firm has used in many consulting assignments. Brad has conducted or lent his experience to a wide variety of appraisals, market analyses, feasibility studies, highest and best use analyses and other projects requiring economic research and data analysis. He is an approved appraiser and market analyst for many lending institutions, state and local housing agencies, and the United States Department of Housing and Urban Development (HUD).

Brad acknowledges the great value and efficiency technology affords our industry and he is responsible for ensuring Development Strategies' computer network and information systems assist our professionals in making the best use of their time and resources. He was instrumental in creating a full time staff position for a Geographic Information Systems (GIS) professional who now assists with nearly every project handled by the firm.

EDUCATION

Master of Business Administration
Washington University
Olin School of Business, 1991

All coursework completed and examinations passed for Master of Construction Management
Washington University
Sever Institute of Engineering

Bachelor of Arts, Architecture
Washington University
School of Architecture, 1990

REGISTRATIONS

Appraisal Institute, MAI

Certified General Real Estate Appraiser

- Georgia 362070
- Illinois 153001237
- Indiana CG40500281
- Kentucky 4879
- Michigan 1201074684
- Minnesota 40428193
- Missouri RA2973
- Ohio 2014004574
- Pennsylvania 4146
- Tennessee 4616
- Wisconsin 1928-10

Temporary license status in several states

PROFESSIONAL MEMBERSHIPS

Appraisal Institute (MAI)

CIVIC ACTIVITIES

Habitat for Humanity of St. Louis

- Board of Directors, 2011 - Present
- Project Development Committee
- Real Estate Committee Chairman

EXPERIENCE

Brad has been involved with various market and investment value appraisal assignments of multifamily residential, commercial, industrial, and institutional properties, including vacant land as well as mixed-use projects, primarily in the Midwestern United States. He is recognized as an expert in the field of affordable, mixed-income, mixed-use, and market rate housing and has completed work on projects throughout the United States.

He is actively involved in the following types of projects:

- Expert testimony given in federal court, circuit court, and numerous depositions and condemnation hearings regarding issues of value. Non-testimony assistance provided in a number of additional court cases
- Valuations involving low-income housing and historic tax credits, grants, and favorable financing
- Valuation and commentary on value methodology provided for real estate tax appeal cases
- Market studies, rent comparability studies, and repositioning analyses for Section 8 and other deeply subsidized housing projects
- Market and feasibility analyses, including focus group discussions and surveys, for various single-family and multiple-family housing developments in urban, suburban, and small town settings
- Market and investment value appraisals of Choice Neighborhood and HOPE VI public housing redevelopment projects in many cities
- Market analysis and redevelopment plans for numerous mixed-use districts including retail, office, hotel, and residential uses
- Hotel market studies and appraisals
- Valuation of special use properties, including schools, museums, sports facilities, concert halls, theatres, churches, etc.
- Highest and best use analysis and development strategies for a wide variety of properties in all types of locations