REPORT OF THE METROPOLITAN PLANNING COUNCIL
LAKE FOREST TASK FORCE
Convened Spring 2007

LAKE FOREST

Breaking New Ground for Affordable Housing

COMMUNITY BUILDING INITIATIVE

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PROJECT SCOPE

In February 2007, the City of Lake Forest asked the Metropolitan Planning Council to assist in reviewing the proposed redevelopment plans to convert Barat Campus, formerly a college, into a new residential community. MPC's assignment was to develop recommendations for applying Lake Forest's new Inclusionary Zoning Ordinance to this large-scale redevelopment. At the city's request, MPC brought together five experts in the fields of affordable housing finance, law, mixed-income housing development, and municipal housing planning and programs. On March 7, 2007, these experts met with city staff and the developer, Bob Shaw, to assist them in answering the following questions:

1. What steps should be taken to promote the successful integration of affordable and market-rate housing?
   - What sort of resident selection and management issues should be considered?
   - Are there issues related to the integration of family and senior housing in a development of this size?
   - What is the appropriate ownership and association structure (fees, etc.) and are there good models for creating a successful mixed-income condominium association?
   - Are there examples of successful affordable rental and ownership in the same development?
   - Are there examples of affordable housing products integrated successfully in upscale, high-end, residential suburban areas?

2. What are some of the developer's options for creating a wider range of price points in the market-rate product?

3. What are some financing options to support the development, including the best use(s) of the Lake Forest Housing Trust Fund?

4. What are the city's and developer's roles in making this new community successful, and in what areas do the city and developer need to work together?

THE AFFORDABILITY CRUNCH

Home to many of the Chicago region's wealthiest citizens, Lake Forest claims the fourth highest family income in the state of Illinois, and has some of the most expensive homes in the region and state. The average home price in Lake Forest is over $1 million, and it is also surrounded by similarly affluent communities. As a consequence, high land costs and property values have made it nearly impossible for working families to find housing in Lake Forest or seniors with limited incomes to age in place. Just 13 percent of the combined housing stock of Lake Forest and its immediate neighbors, Northbrook, Deerfield, Highland Park, and Highwood, is affordable to workers earning less than $50,000 — workers who account for more than two-thirds (69 percent) of the workforce in the five-community area.[1] To meet this growing housing demand, these communities will need to add a combined total of 4,800 apartments and 10,000 for-sale homes (affordable to households earning less than $75,000) by 2030.

JUST 13 PERCENT OF THE COMBINED HOUSING STOCK OF LAKE FOREST AND ITS IMMEDIATE NEIGHBORS, NORTHBROOK, DEERFIELD, HIGHLAND PARK, AND HIGHWOOD, IS AFFORDABLE TO WORKERS EARNING LESS THAN $50,000 — WORKERS WHO ACCOUNT FOR MORE THAN TWO-THIRDS (69 PERCENT) OF THE WORKFORCE IN THE FIVE-COMMUNITY AREA.

When the State of Illinois passed the Affordable Housing Planning and Appeal Act in 2003, it was no surprise that Lake Forest and many of its neighbors were among the 49 communities found to have less than 10 percent of their housing stock affordable to moderate and low-income households. But even prior to the state's official findings, Lake Forest had already begun to lay out a thoughtful plan to create new housing opportunities for residents and workers not earning the $300,000+ per year needed to purchase the average home, or even the $55,000 per year needed to rent one of the hard-to-find apartments in the city.

[1] Analysis conducted by Fregonese Associates for Chicago Metropolis 2020 and the Metropolitan Mayors Caucus. Further data analysis conducted by czb, LLC, in 2007, for the Metropolitan Planning Council.

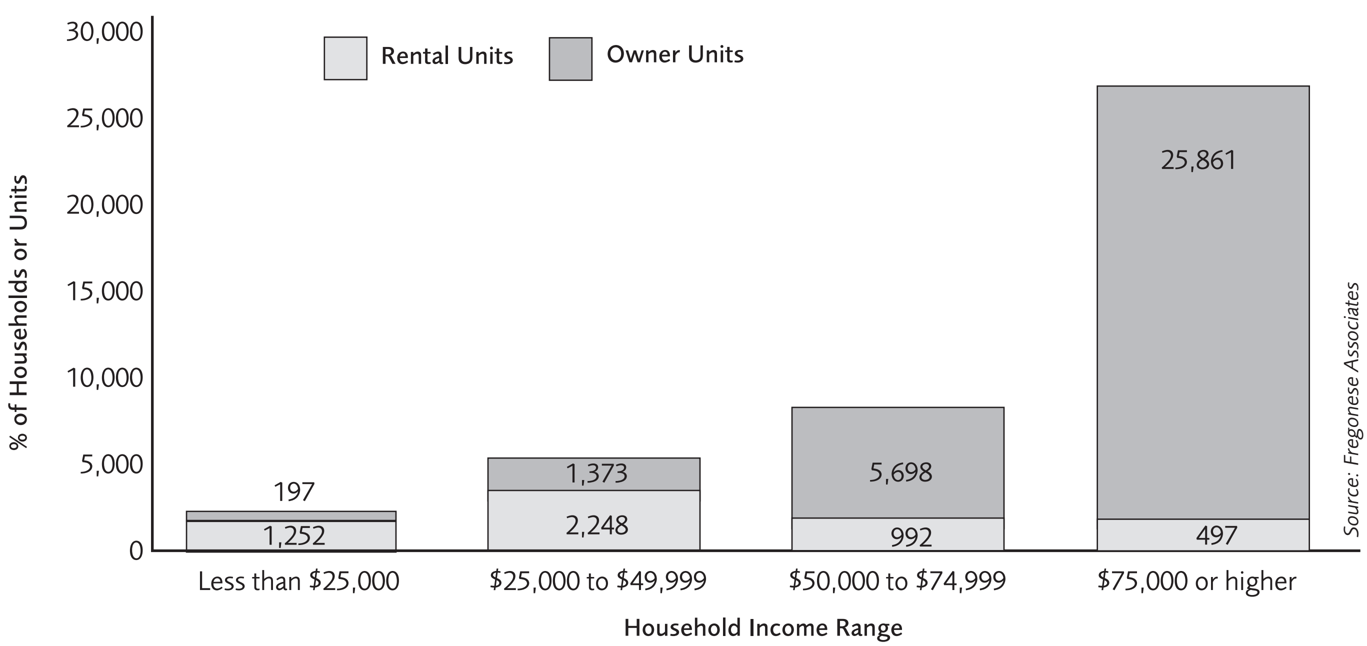
In 2005, Lake Forest adopted an Affordable Housing Plan that set out a comprehensive strategy to implement policies and take advantage of potential opportunities to integrate affordable homes into the city's housing stock. Among those strategies were implementing Inclusionary Zoning (IZ) and Demolition Tax ordinances, developing a Housing Commission and Housing Trust Fund, and identifying five target areas suitable for mixed-income housing development.

After adopting the housing plan, the city, led by a newly established Ad Hoc Housing Committee, began implementing many of the plan's recommendations. For example, in December 2005, Lake Forest passed its Inclusionary Zoning ordinance, the second of its kind in Illinois (Neighboring Highland Park enacted an IZ ordinance in 2003). Lake Forest's ordinance requires 15 percent of homes in all new developments, condominium conversions, major renovations, and conversions from non-residential to residential buildings, to be affordable to households earning less than 80 percent of the area median income ($59,600 for a family of four, in 2007.) In February 2006, the city passed a Demolition Tax, which assesses $10,000 for demolition of single and two-family homes and $5,000 per unit for demolition of multi-unit buildings. The city expects to generate $250,000 to $300,000 per year in revenue from the Demolition Tax, which will go into Lake Forest's Housing Trust Fund. When the city established the Trust Fund in December 2006, the Ad Hoc Housing Committee was replaced with a permanent Housing Trust Fund Board. Of the five sites identified in the Affordable Housing Plan as opportunities for mixed-income housing, the Barat Campus redevelopment has moved most quickly.

BARAT COLLEGE CAMPUS: AN HISTORIC OPPORTUNITY

The former Barat College campus is situated approximately one mile south of Lake Forest's central business district and train station. Located at 700 E. Westleigh Rd., the site is approximately 23 acres and includes both historic and contemporary structures. Originally founded by the Sisters of the Sacred Heart, some of the campus' structures date back to 1904. In 2001, Barat College formed an educational alliance with DePaul University and became Barat College of DePaul University.

The Intersection of Affordability and Availability: North Shore* Units Affordable to Households at Different Income Levels



* Deerfield, Highland Park, Highwood, Lake Forest, and Northbrook

Barat College's "Old Main" Building is on the National Historic Registry and must be preserved in the redevelopment.

In 2004, DePaul University notified Lake Forest that it intended to sell the property. The city formed a planning team to explore possible uses for the site. The City Council initially preferred to preserve the property for educational uses, yet after many months, DePaul was not able to identify an appropriate buyer interested in operating an educational institution. The city then shifted its focus to an adaptive reuse of the property, at which point the planning committee identified several parameters for the site's redevelopment, including:

1. Preserve the Old Main building, the green space in front of Old Main, and the cemetery;
2. Protect the ravine;
3. Be compatible with surrounding uses; and,
4. Increase the allowed density on the site, if necessary.

In January 2006, Barat Woods, LLC, purchased the property and created a plan for the adaptive reuse of the site into a residential development.

The site's current zoning designation (R-4) allows for one dwelling unit per acre, the equivalent of 14 single-family homes. Properties surrounding the campus have zoning districts allowing for 1.5 to 4.6 units per acre. The city preferred to retain the current zoning on the site and write in a special use to accommodate higher density. The city owns a 2.8-acre property just north of the site and has no plans yet to develop it. This city-owned land includes wetlands and is highly valued by residents as a park and nature preserve area.

Initial Site Plans

Upon review of the developer's plans, the Lake Forest Plan Commission expressed an openness to allow 117-124 homes on the site, with a density range of 4 to 4.5 units per acre. The proposed unit mix is as follows:

OLD MAIN CONDOMINIUMS:	**52**
(APPROXIMATELY 10 ONE-BEDROOM, 9 ONE-BEDROOM WITH LIBRARY, 20 TWO-BEDROOM, AND 10 THREE-BEDROOM)	
TOWNHOME:	**37**
CLUSTER HOMES:	**31**
TOTAL HOMES:	**120**
(NOT INCLUDING THE AFFORDABLE HOMES REQUIRED BY THE IZ ORDINANCE)	

Planned home sizes in the new Barat Woods community range from 1,100 to 3,000 square feet, with the market-rate prices ranging from $550,000 to $1.5 million.

Preserving and complementing the Old Main building and surrounding community character and architecture is a priority of the city and developer. All of the townhomes and cluster homes will incorporate Georgian Classical Revival architecture. The plans call for underground parking structures for all of the Old Main condominiums, with a parking requirement of one and a half to two spaces per home. In addition, there will be three elevator cores in Old Main and each townhome will have elevator access.

Inclusionary Zoning

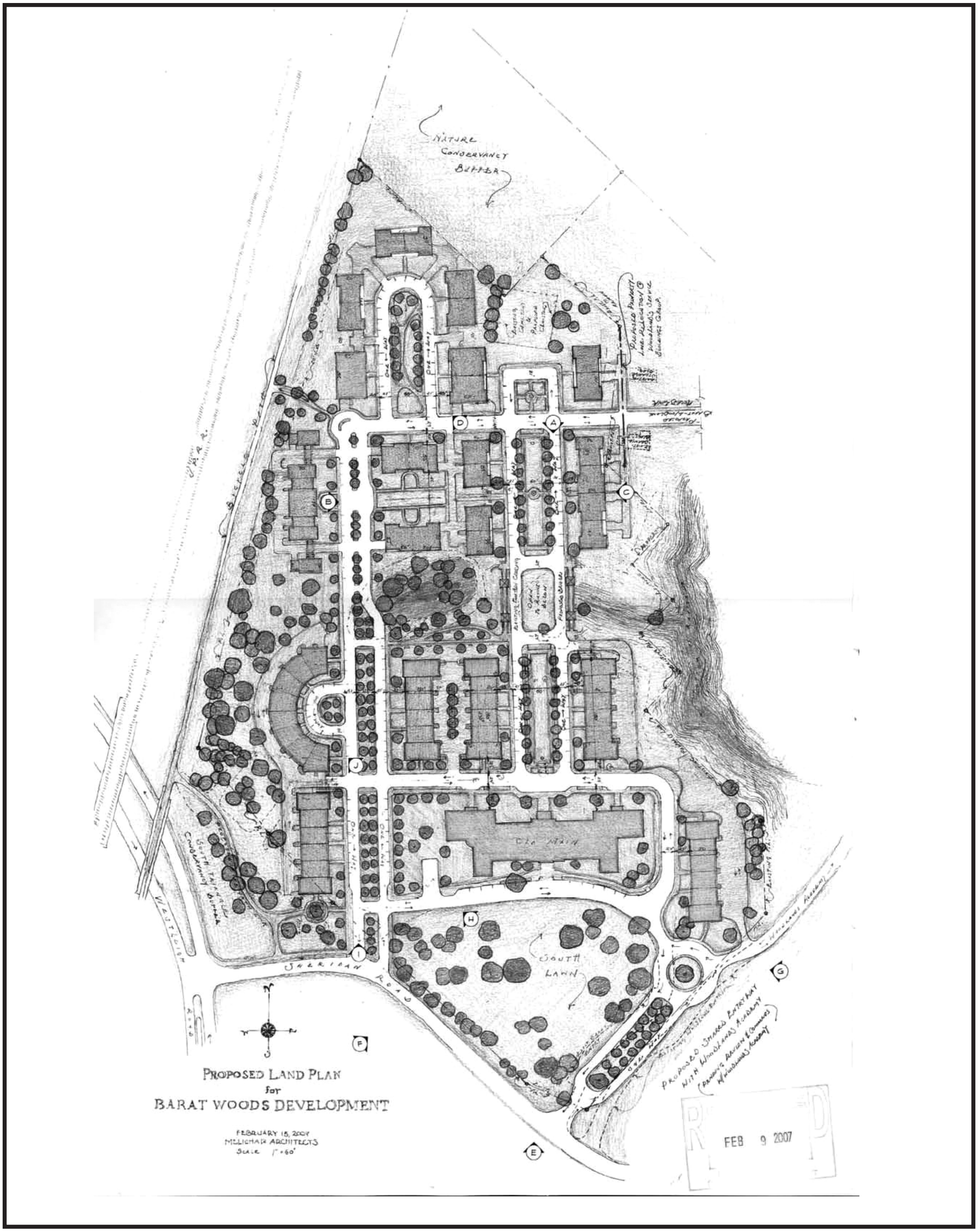
The initial review by the Plan Commission, Housing Trust Fund Board, and Lake Forest City Council resulted in a preliminary approval of 117 to 124 market-rate homes. According to the Lake Forest's IZ ordinance, Barat Woods, LLC, would be required to add 18 affordable homes to the 120 outlined in existing plans. Based on 2007 guidelines for the Chicago area from the Illinois Housing Development Authority (IHDA), affordable for-sale homes would be priced from $139,000 to $268,000, depending on the size of the home and family. Apartments would be priced at the monthly rent of $848 for a one-bedroom and $1,018 for a two-bedroom apartment. Lake Forest's IZ ordinance has a provision that allows a $130,000 fee to be paid in cash or donated land in lieu of building the affordable homes on site. In order to apply for this provision, the developer must "demonstrate to the satisfaction of the City Council that the alternate means of compliance will further affordable housing opportunities in the city to an equal or greater extent than compliance with the on-site requirements."

While 18 homes would be required to meet the IZ ordinance, the Lake Forest City Council is asking that the developer build at least half of the affordable on-site homes and will allow a fee in-lieu payment for the remaining homes ($1.17-$1.43 million to the Housing Trust Fund.) The chart below summarizes the possible scenarios as outlined below by the developer and city.

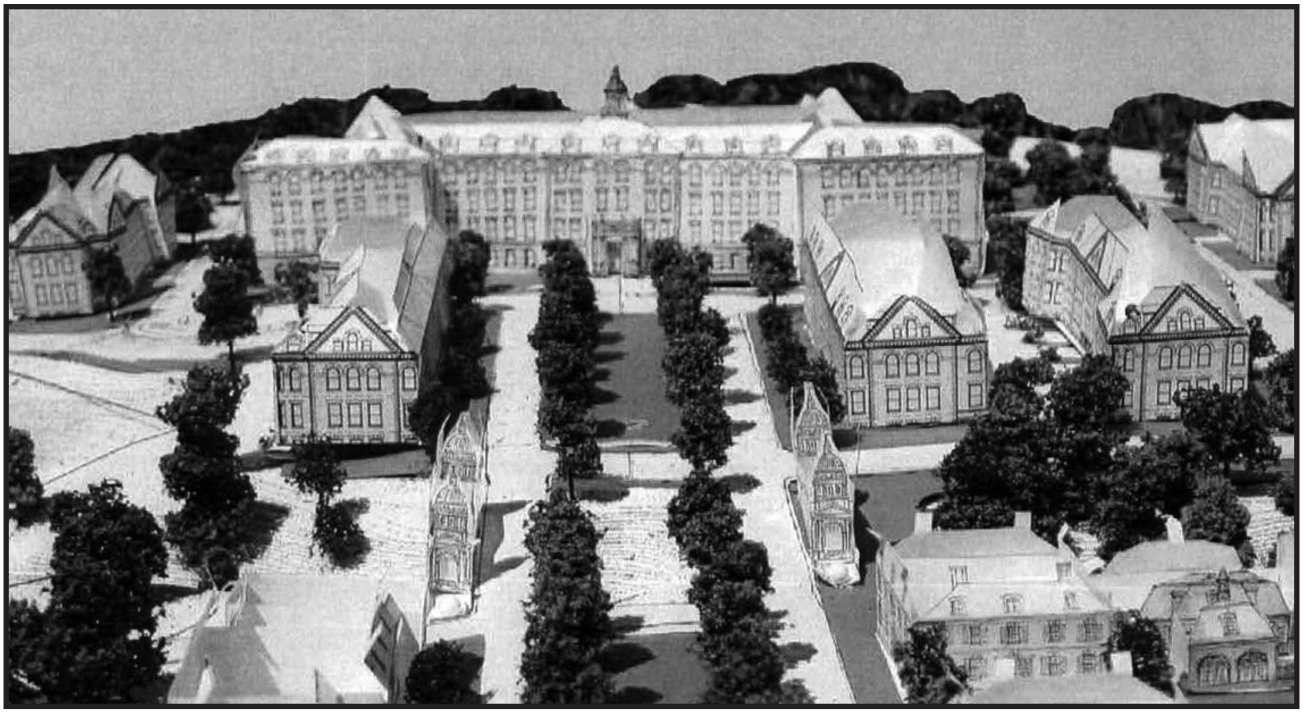
As part of the IZ ordinance, the city requires the bedroom mix and square footage of affordable homes to match the market-rate homes, which splits the mix of affordable homes on the Barat site evenly between one-bedroom and two-bedroom units. The IZ ordinance identifies seniors as the priority population for new affordable homes, but also allows working families to qualify.

Inclusionary Zoning scenarios under current development plans

PROPOSED SCENARIOS	MARKET - RATE UNITS	REQUIRED IZ ON-SITE AFFORDABLE UNITS	COMPROMISE FOR ON-SITE AFFORDABLE UNITS	IN-LIEU FEE TO THE CITY (IN MILLIONS)	TOTAL UNITS WITH ALL AFFORDABLE HOMES ON-SITE	TOTAL UNITS WITH PARTIAL ON-SITE IZ UNIT WAIVER
Barat Woods Proposal	120	18	9	$1.17	138	126-130
City Scenario	117-124	18-22	9-11	$1.17-$1.4	135-146	126-135



Initial Barat Woods Site plans, Barat Woods, LLC.



View of proposed Barat Woods neighborhood looking south toward the Old Main building.

METROPOLITAN PLANNING COUNCIL TASK FORCE RECOMMENDATIONS

Incorporating Affordable Homes

The MPC Task Force had a lengthy discussion of the mission, goals, and requirements of the Lake Forest Inclusionary Zoning Ordinance and Affordable Housing Plan. The city's ultimate objective is to increase the supply of affordable homes in Lake Forest. And while the in-lieu fee alternative of $130,000 per home will be useful to expand Lake Forest's Housing Trust Fund, it does not compare to the value of building an affordable home on the site. Therefore, the Task Force encourages the city to consider requiring as many of the homes on site as possible. This property presents an enormous opportunity and sets a precedent for how the IZ ordinance will be enforced. The city is providing a substantial incentive simply by allowing the development of over 120 homes on a site zoned to allow just 14.

This report identifies ways in which the city and developer can work together to lower and supplement development costs and integrate affordable homes throughout the site, while staying true to site plan concepts. The Task Force understands the city is comfortable with waiving the requirements for some of the on-site affordable homes; however the Task Force encourages the city and developer to look closely at the following cost-saving techniques and resources as a means of building as many affordable homes as feasible and appropriate to this development.

The developer initially suggested locating all of the required affordable homes in a cluster on the site's northern edge, but the city was concerned about isolating particular residents. This concept was also inconsistent with the requirement of the IZ ordinance to disperse affordable homes throughout the development. Barat Woods, LLC, revised the proposal and is now suggesting putting approximately two affordable homes in the Old Main condominium building, adding two accessory units onto two of the cluster homes in the middle of the site, and incorporating two affordable townhomes.

CASE STUDIES:
Mixing a High-End and Affordable Housing

The following case studies demonstrate how affordable homes have been successfully integrated into relatively high-priced markets.

LAUREL COURT, HIGHLAND PARK, ILL.

Meeting affordability requirements through split-level townhomes

Laurel Court will be Highland Park's first development constructed under the city's inclusionary housing policy. It is a 15-unit townhome development. Two of the homes are affordable and are included as part of two split-level townhomes, much like those being proposed for the Barat campus. Market-rate price points for Laurel Court range from $500,000 to $1,000,000. The affordable three-bedroom townhomes sold for $164,478 and the affordable four-bedroom townhome sold for $275,527. The development is currently under construction and the majority of both affordable and market-rate homes have already been sold.

GREENWOOD MEADOWS, ANDOVER, MASS.

Maximizing small parcels to incorporate affordability

Greenwood Meadows consists of 24 three or four-bedrooms homes. Six homes — 25 percent — are affordable at an average selling price of $199,000. The remaining 18 market-rate homes are sold for approximately $600,000. Similar to Lake Forest, Andover's high household median income of $98,600 makes these affordable homes critical to accommodating lower-income families and individuals.

The financing structure of Greenwood Meadows is especially unique. The affordable homes required no public subsidy dollars; instead, developers took advantage of Massachusetts' Chapter 40B law, which allows for special permitting and zoning for projects incorporating affordable homes. Greenwood Meadows received a zoning change that decreased the lot size to quarter-acre parcels, allowing more homes on the site and supplementing the cost of offering the six below-market homes.

The Task Force agrees the affordable homes should be dispersed throughout the site and have recommended a few alternative ways this can be accomplished. In addition, the Task Force recommends the city and developer explore creating as many affordable two-bedroom and one-bedroom-with-library homes as possible, to maximize the supply of homes that can accommodate small families. In Arlington Heights' Timber Court, a mixed-income development, there has been a significant demand for homes of these sizes, according to Nora Boyer, housing planner for the Village of Arlington Heights and MPC Lake Forest Task Force member.

Throughout this report, MPC has outlined several models. While technically all of these examples could be incorporated into the Barat Campus redevelopment, the Task Force encourages Barat Woods, LLC, and the city to keep it as simple as possible (At the end of this report, MPC has laid out the different options in a simplified table.)

The Task Force was asked to consider the possibility of mixing for-sale and rental homes and to discuss ways this might work for the Barat College development. According to Task Force member Sara Lindholm, of the Community Builders, integrating apartments into the same building as for-sale homes can be difficult, but there are many best practices. It is a simpler development and management structure to designate one particular property on the site as a rental building. This building should be either mixed-income, or, if it is developed as an all-senior project, a 100 percent affordable building could work.

There are some options for dispersing apartments throughout the site.

1. Employer-owned

An employer enters into an agreement with the developer to purchase an affordable home and then rent it at an affordable price (60 percent of AMI or below) to an income-qualified employee. The agreement would require the employer to adhere to the same deed restriction requirement of the Lake Forest Inclusionary Zoning Ordinance. This is a common practice among universities. Locally, Loyola, Northwestern, and the University of Chicago have purchased homes and made them available to employees.

2. City-owned

The City of Lake Forest uses the Housing Trust Fund to purchase an affordable home and rent it at an affordable price to an income-qualified employee. For example, the Highland Park Housing Commission established a nonprofit entity to own and manage low-income senior housing. This entity owns 12 homes in the Sunset Woods development (60 homes total, 48 of which are privately owned) and rents them out to low-income seniors. Highland Park is also working on another development where the city is donating land for the development of 14 homes, four of which will be owned by the Highland Park Illinois Land Trust and rented to families at affordable prices.

3. Developer-owned

Barat Woods, LLC, either purchases or retains the homes themselves, or partners with a developer experienced in affordable housing development and management to rent and manage the homes, which are rented to income-qualified tenants. According to Task Force member Andrea Klopfenstein, of Holsten Real Estate Development Corporation, the development partnership in Holsten's North Town Village in Chicago purchased 40 homes distributed throughout the property. A few potential development partners include Housing Opportunity Development Corporation or Brinshore Development. Barat Woods, LLC, would qualify for the state tax credit if this land was donated to or discounted for a nonprofit development partner.

Other options to consider are creating a separate rental building on the northern portion of the site that would be developed as a HUD 202 property to provide affordable rental housing for seniors, or build a mixed-income building in the same location. While the Task Force still recommends affordable homes be scattered throughout the site, a small affordable senior building could work on its own. According to the Task Force, this scenario would account for some affordable homes, and the others would still be scattered throughout the development. To do this most successfully, Barat Woods, LLC, could donate that small piece of land to an experienced HUD 202 developer well-versed in both the building and property management sides of the development process. Barat Woods, LLC, should look at existing site plans to see if the northern site can be slightly reconfigured to accommodate a small building of approximately 10 units.

Creating a Wider Range of Price Points

The city and developer are interested in exploring ways to create a wider range of price points throughout the development, not only for the designated affordable homes, but also by building more moderately priced homes. With the application of the IZ ordinance and the developer's projected price points for the market-rate homes, there will be a significant price and income gap between these two resident segments. Affordable homes will sell for less than $215,000, or rent for less than $1,020 per month, and market-rate homes will sell for around $550,000 to $1.5 million. Residents who would qualify for the affordable homes would have to earn less than $59,600, while residents in market-rate homes would need to earn at least $180,000. Creating a smaller price and income gap would help to create stronger community cohesiveness by reducing economic disparities between neighbors. Developing the additional required affordable homes on site is one way to address this challenge.

The city asked the MPC Task Force to look at utilizing the Housing Trust Fund as a way to lower the cost of some of the market-rate homes to serve middle-income families earning in the range of $60,000 to $100,000. While Task Force members fully agree greater income diversity is important for the success of the project, they felt utilizing the Trust Fund to do so detours from the mission of the fund to serve low to moderate-income residents. According the Task Force Chair Nicholas Brunick, of Applegate Thorne-Thompson, this would be the first use of the Trust Fund and this valuable and scarce resource should be utilized solely for the purpose of housing seniors and families earning below 80 percent of the AMI. There are other ways the Housing Trust Fund can be used for this redevelopment project, including purchasing the affordable for-sale homes to rent to families earning below 60 percent AMI, providing matching funds for down-payment assistance for income-qualified households, or further subsidizing the affordable sales price.

The Task Force discussed ways to lower some of the price points through development cost-savings techniques.

1. Density and Size

One of the main cost factors in determining the final sales price is the size of the home. The Task Force thought there were some simple ways to add smaller homes to the site while still maintaining the character and continuity of the site plans. Creating more homes would reduce the per-unit cost, allow for a wider variety of unit sizes, and ultimately lower sales or rental prices.

The townhomes are planned as five-story buildings. One option is to divide some of the townhomes to have an accessible home on the first floor, with a four-story townhome above it. This model accommodates families who may want their senior parent or another family member living with them. There have been similar developments in the region that diversified the housing stock within a planned community to allow for this type of multi-generational living. Laurel Court in Highland Park, for example, uses split-level townhomes to accommodate the required affordable homes. According to Lindholm, her experience with seniors has shown this population's preferences can vary. Some like to live among other seniors, while some prefer to be close to their families or more integrated within a community of diverse ages. Splitting some townhomes into two separate homes could provide three to four additional modest-sized homes, some of which could be affordable, while others could be more moderately priced in the $200,000-$400,000 range.

Similarly, adding one to three homes onto the building to the far north of the site is consistent with the site designs and provides additional smaller homes at lower price points. These homes would still be around 2,500 square feet, which is a decent size and serves a large market segment. In addition, the Task Force suggested the developer look at varying the size of the condominiums within Old Main to allow for a greater square footage range. Finally, the city might consider allowing an additional six townhomes on the site, all of which would be affordable or moderately priced.

These options could generate an additional 15 to 18 smaller homes without disrupting the character, massing, or general design of Barat Woods. Of these 15 to 18 homes, 10 to 11 could be affordable to satisfy the IZ ordinance.

2. Parking

Another significant development expense that gets passed on to consumers is the cost of parking. The city might consider lowering the parking requirements to one or 1.5 spaces per unit. The affordable senior housing, in particular, may require less parking. The developer may also consider other parking alternatives for the townhomes and cluster homes and reduce some of the two-car garages to one-car.

3. Elevators and Accessibility

The developer could explore reducing the number of elevators. Elevators are very costly and there may be ways to incorporate more shared elevators for all types of homes. Having dedicated elevator service for each townhome, for example, may not be necessary and will drive up costs. In addition, having 100 percent elevator access will require all homes to be accessible according to the Americans with Disabilities Act. By reducing the number of elevators, the ground floor homes would be accessible. Overall, 20 percent of the homes must be adaptable to allow for conversion to accessible homes upon application by the initial occupant, which would be 24-36 homes total.

Managing Secondary Housing Costs

The management structure currently proposed for Barat Woods includes one master homeowners association to manage the entire site, plus individual associations for the condominiums and townhomes. An understandable concern of the city and developer is how to ensure moderate and low-income households will continue to be able to afford to live in their homes with potential increases in association assessments and property taxes. When there is a large difference between the incomes of market-rate owners and affordable owners, the potential challenge is that higher-income homeowners may overrule moderate and low-income residents when it comes to decisions around property upkeep and investment and, ultimately, increases in the assessment. If this happened unchecked, the moderate and low-income homeowners could be priced out of their homes through assessments alone. In addition, with dramatic increases in property values in the city, property tax increases could have the same consequence. The Task Force has outlined several options to address these concerns.

1. Vary Unit Size

As mentioned above, creating a greater variation in unit size and incomes throughout the site will create a greater diversity of assessment and, therefore, a more level playing field between the higher and lower-income homeowners.

2. Include Assessment and Taxes in Affordability Calculation

Ensure that every time an affordable home is sold, the current assessment and property taxes are calculated into the overall housing costs, so that the combination of mortgage, assessment and property tax costs does not exceed 30 percent of the purchaser's income.

3. Assist with Assessment Increases

Utilize the Housing Trust Fund to help low and moderate-income homeowners pay additional assessment costs that overburden their incomes.

4. Base Assessment on Price

As with the Timber Court development in Arlington Heights, base association assessments on the sales price instead of square footage, so that homeowners in the affordable homes pay less of a percentage of the total assessments collected.

Task Force member Nicholas Brunick explored this option. Currently, the Illinois Condominium Property Act states the percentage ownership of "common areas" shall be based upon the "value" of the condominium. Unfortunately, the act does not define "value." Typically, this means market value, which is normally based on unit size. However, when a unit price is permanently restricted, value can also be based on the affordable sales price. Voting rights for this condominium would then also be lower. In addition, the legislation also states a condominium may not have more than one classification of owner. Again, the definition of "classification" is unclear. For the townhomes and single-family homes on the property, there is no state law that delineates how to determine assessments. Given the extreme difference between the current price points of the market-rate and affordable homes, the Task Force would caution the developer and city to explore this option carefully. It could create tension between the two types of homeowners, where the market-rate owners could get frustrated about carrying the cost of the affordable homeowners. This model might be more palatable if there are more varying price points throughout the site as described earlier, or, as in the Arlington Heights case, there is a smaller price difference between the market and affordable homes.

5. Require Affirmative Vote

In the association declarations, insert language that requires assessments for particular types of work above and beyond general maintenance to get a positive vote from at least one affordable homeowner. There have been homeowners and condo associations structured this way in Boston, Mass. Additionally, the number of market-rate homeowners is likely to be greater than the affordable homeowners, resulting in limited voting strength for lower-income owners. It may be worthwhile to consider creating a Board of Trustees with three members, one of whom must be an affordable homeowner.

6. Lower Property Tax Assessment

Work with Shields Township to assess the affordable housing properties at a reduced level, similar to the agreement Highland Park entered into with Moraine Township.

Financing Options

In addition to the recommendations listed previously on ways in which the city and developer can work together to create a wider array of housing types and prices, the Task Force identified a number of funding resources that can provide additional assistance to the developer and residents. While timing and funding availability may not meet this development's needs for every source listed, they are resources to help finance various aspects of the development.

1. State Donation Tax Credit

The Illinois Affordable Housing Tax Credit, known as the state donation tax credit, provides a $ .50-on-the-dollar tax credit to individuals or organizations that donate to participating nonprofit housing developers. A donation can be made in the form of cash, securities, property, or real estate. While a number of donations may be made, the aggregated amount must be at least $10,000. Along with the federal deduction allowed for charitable donations, a donation of $10,000 would likely cost the donor $3,250 once the credit is taken. Tax-exempt organizations can also benefit from this donation because the credit is transferable, meaning they can sell the credit on the private market. While this will not equate to the full 50-cent value, the organization will still be able benefit from the sale.

This state donations tax credit is one of the more flexible and available financial products IHDA provides. MPC is happy to work with the City of Lake Forest and IHDA to explore the best use of this resource to help make this and other mixed-income developments in the city feasible, including:

- **Developer write-down of inclusionary units**
  Because the city is planning to waive the requirement for some inclusionary units, as this is negotiated, one way Lake Forest can maximize a contribution to its Housing Trust Fund is to work with IHDA to apply the state donations tax credit to the units that are built on site. In a private-market transaction, state donations tax credits can be obtained when the seller is donating property or selling it at a discounted price to a nonprofit organization. In the case of Barat Woods, the developer may be able to sell the required units to a nonprofit partner and cede the tax credits to the Lake Forest Housing Trust Fund. The fund can then be used, among other things, to support the monitoring of the units and tenant selection. Using these tax credits will help the city maximize the contribution to the trust fund while still waiving the requirement for some of the on-site units. The city could receive the $130,000 in-lieu fee for every unit not built on site. The developer could cede to the city the $.50-on-the-dollar received in tax credits for the value of the price discount for every unit built on the site (difference in appraised value and affordable sales/rent price). For traditional donors, the tax credit is available when the households served earn less than 80 percent of Area Median Income (for-sale housing) or 60 percent of AMI (for rental housing). Employers, as outlined below, have different parameters.

- **Employer investment.** Barat Woods, LLC, could attract local employers to invest directly in the development or assist their employees purchase there. MPC and REACH Illinois could facilitate or otherwise support this effort. The employer would be able to take advantage of the 50-cent tax credit for each dollar donated. Employers can access the tax credits by 1) investing directly in an affordable housing development or a trust that will ultimately serve local employees, or 2) providing assistance to their employees. In addition, Barat Woods, LLC, can utilize the same tax credit by donating or discounting land to an affordable housing developer to build some or all of the affordable homes. For employers investing in housing for the local workforce, they are eligible to receive tax credits for employees who earn up to 120 percent of the Area Median Income. This suggests employers can supplement the mix of homes affordable at price points even beyond what is required through the IZ ordinance.

  Building on the "Housing for a Competitive Workforce" forum Lake Forest co-hosted with four neighboring municipalities, for area employers in June 2007, it is an ideal time for expanded outreach for employer investment and support. Again, MPC would be happy to coordinate with the city to explore the range of ways employers can invest in housing solutions, addressing the particular questions raised and suggestions offered by the many enthusiastic business and civic leaders who joined Mayor Michael Rummel and his peers on June 15.

2. Historic Tax Freeze

Because Old Main is on the National Register of Historic Places, homebuyers may qualify for a historic tax freeze through the Property Tax Assessment Freeze Program. This is an incentive for first-time homebuyers only. Information can be accessed through the Illinois Historic Preservation Agency or Illinois Secretary of the Interior. In order to qualify, the property must meet the following requirements.

- Be a registered historic structure, either by listing on the National Register of Historic Places or designated by an approved local historic preservation ordinance.
- Be used as a single-family, owner-occupied residence or condominium, cooperative, or an owner-occupied residential building with up to six homes.
- Have at least 25 percent of the property's market value spent on an approved rehabilitation project.
- Be a substantial rehabilitation that significantly improves the condition of the historic building.
- Be rehabilitated in accordance with the Secretary of the Interior's "Standards for Rehabilitation."

3. Leverage County and State Support

The city may use local trust fund dollars to leverage other resources for the affordable homes, such as the Lake County and/or State of Illinois housing trust funds. These resources could be combined to make the required affordable homes more affordable. For example, the city could use its trust fund to match funds with the state and employers to provide greater down payment assistance to income-qualified homebuyers. Or, the city could invest directly in the home and match that with either state or county resources to lower the actual price, so that instead of being affordable to a homeowner at 80 percent AMI, it would be affordable to a homeowner at 60 percent AMI.

4. Establish a Cooperative Structure for Lake Forest College, Lake Forest Hospital, or Other Major Employers

Lake Forest College, the hospital, or local public schools may be interested in partnering to establish a cooperative housing structure, where the employer would purchase some of the homes and employees would buy shares in the homes and enjoy a limited equity return. This may be tax exempt when owned by a nonprofit, and could create a better continuum of price points between affordable and market-rate levels.

5. Community Development Block Grant Funds (CDBG)

Lake Forest may be able to access Lake County CDBG funds to invest directly into the affordable housing component of this project.

6. IDOT Infrastructure Funding

The city and developer could explore accessing Ill. Dept. of Transportation enhancement grants for infrastructure improvements on the site.

7. Incentives for Energy Efficiency

The Ill. Dept. of Commerce and Economic Opportunity, Illinois Clean Energy Community Foundation, Center for Neighborhood Technology, and Chicago Community Loan Fund are some of the organizations that provide financing for energy efficient and "green building" development practices.

8. Open Space Lands Acquisition and Development Grant Program (OSLAD)

The Ill. Dept. of Natural Resource's OSLAD program provides funding for the acquisition or development of land for public parks and open space. Local governments can receive up to 50 percent of total project costs, with a maximum award of $750,000 for acquisition and $400,000 for development or renovations.

9. Local Financial Institutions

City and developer can partner with local banks to offer lower interest rates and closing cost assistance for income-eligible home buyers.

Partnership Roles for Creating a Successful Mixed-Income Community

Building a well-designed, well-managed, and cohesive mixed-income community is dependent upon strong partnerships between the developer, local officials, and nonprofit sectors. The Task Force has outlined several appropriate roles for each partner.

1. City of Lake Forest

City staff and the Housing Trust Fund board should do their own internal assessment of how extensive their roles will be in this redevelopment. This can only be measured by the city's understanding of its own internal capacity to take on various tasks. Community responsibilities vary widely in the administration of IZ ordinances and other housing programs. In Arlington Heights, for example, Task Force member and village Housing Planner Nora Boyer has taken on the responsibility of qualifying all of the homes and tenants in the Timber Court mixed-income development. The village itself has the right of first refusal when an affordable home is being sold. In other communities, these same services are contracted out to a partner, usually a nonprofit organization.

Below is a list of some of the more relevant roles for the city, both staff and the Housing Trust Fund Board:

- **Ensure Homes Stay Affordable for the Long-Term.** Whether or not the day-to-day monitoring gets contracted out, the city should ultimately have the responsibility of ensuring that homes continue to be sold at restricted prices in accordance with the city's IZ ordinance. Task Force member Betsy Lassar outlined how Highland Park requires the developer to record an Affordable Unit Declaration of Covenants, Conditions and Restriction for each affordable home. This declaration outlines the specific use and resale restrictions, thereby ensuring the long-term affordability of each home. As an additional safeguard, the city can place a second mortgage of a nominal dollar amount on each affordable home. If a title company misses the declaration in the event of a refinancing or resale, the city will still be alerted due to the second mortgage. The city and its attorneys must make the policy decisions about deed restriction and resale of the affordable homes.

- **Identify a Nonprofit Partner.** The city would retain a third-party administrator of the IZ program to monitor the homes and certify homebuyers, as well as assist, if necessary, on identifying a development partner to build affordable homes on site.

- **Set Sales and Rental Prices.** The city is responsible for developing the affordable price calculation based on income, family size, interest rates, unit size, and other factors such as association fees and property taxes.

Ensuring Long-Term Affordability: ARLINGTON HEIGHTS RESALE FORMULA

Arlington Heights determines the resale price to be the lesser of three options: the indexed value of the home at the time of sale, the affordability cap, and the fair market value.

(1) The indexed value of the home, which is the initial sales price at the time of purchase increased by the percentage increase in the Median Income from the original date of purchase to the date of notice of intent to sell.

(2) The affordability cap, which is defined as the affordable price for a household earning 80 percent of AMI or below, based on units and household size (two persons for a one-bedroom unit and three persons for a two-bedroom unit).

Mortgage calculation

- Monthly housing cost allowance is monthly household income multiplied by 30 percent
- National interest rate for a 30-year fixed rate mortgage for the past six months plus 25 percent
- Secondary housing costs: .10 percent down payment, monthly assessments, homeowners insurance, homeowner association dues, and property taxes.

(3) Fair market value, which is the current appraised value.

All three of these options are calculated after reducing the Maximum Restricted Resale Price for "Excessive Damage Amount."

Ensuring Long-Term Affordability: HIGHLAND PARK MAXIMUM RESALE PRICE CALCULATION

The resale price in Highland Park is determined to be the lesser of two options: formula purchase price or appraised value. The formula purchase price is based upon the current appraised value, minus a percentage of the market value appreciation. The appreciation percentage is determined by the owner's investment ratio and a standard appreciation factor of 15 percent. Any capital improvements can be credited to the calculation, and the purchase price is the lesser of either the calculated formula purchase price of the appraised value.

EXAMPLE

Owner's initial purchase price:	**$170,000**
Current appraised value at resale (7 years after initial purchase):	**$250,000**
Initial appraised value:	**$200,000**

Step 1) Calculate owner's share of market value appreciation

Current appraised value	$250,000
- *Initial appraised value*	*$200,000*
Market value appreciation	$50,000
*X Owner's investment ratio**	*85%*
	$42,500
x Shared appreciation factor	15%
= Owner's share of market appreciation	$6,375

Step 2) Calculate formula purchase price

Owner's original purchase price	$170,000
+ Owner's share of market value appreciation	$6,375
+ Capital improvements credit (if any)**	$3,360
Formula purchase price	$179,735

*The owner's investment ratio is the owner's purchase price ($170,000) divided by the initial appraised value ($200,000).

**The capital improvement credit is calculated using the portion of the owner's assessment fees paid towards the condominium association's working capital reserve. Assume that this portion is $600 per year. Each payment is depreciated on a straight-line basis for a period of 15 years beginning in the year it was made. Therefore, $40 is subtracted each year from the $600 payment. The value of the credit after 7 years is $3,360.

Ensuring Long-Term Affordability: CHICAGO MAXIMUM RESALE PRICE CALCULATION

The maximum resale price of homes purchased under the Chicago Community Land Trust is determined by the difference in the initial fair market value and the affordable purchase price paid by that homeowner. The selling homeowner receives a percentage of this difference, and the percentage is determined at the time of initial home purchase by a preset calculation. The maximum resale price for the new homebuyer cannot exceed 120 percent of the Area Median Income.

EXAMPLE

Owner's initial purchase price:	**$185,000**
Initial appraised market value:	**$285,000**
Market value at the time of resale	**$335,000**

Step 1) Calculate owner's share of appreciation at the time of initial purchase

Initial fair market value (by appraisal)	$285,000
- *Affordable sales price*	*$185,000*
Difference	$100,000

Allowed share of market appreciation (see below): 20%

Preset appreciation rates are based on the difference between market value and affordable sales price at the time of purchase.

If difference between market value and affordable price is	Then % of appreciation is
$25,000-$50,000	25%
$50,001-$100,000	20%
$100,001 - $150,000	15%
Over $150,000	12%

Step 2) Calculate share of appreciation at the time of resale

Market value at time of resale	$335,000
- *Initial fair market value*	*$285,000*
Market value appreciation	$50,000
x Allowed percentage share of appreciation	*20%*
= Owner's share of market appreciation	$10,000

Step 3) Calculate maximum resale price

Initial affordable sales price	$185,000
+ Owner's share of market appreciation	*$10,000*
Maximum resale price	$195,000

The city should also consider developing a policy around assets. One challenge that may arise, particularly with seniors in the community, is determining the implications of existing assets. While income guidelines might be clear, one factor that might create a grey area is the threshold for taxable and non-taxable assets. The City of Highland Park tries to balance the fact that senior purchasers need savings and investments (other than real estate) for their retirement. However, Highland Park does require that the combined assets of a household after purchasing a home under the program may not exceed 150 percent of the Chicago Area Median Income for that household size.

Review Marketing Plan. While the city may not be interested in directly assisting with marketing the affordable homes, at minimum, the city should review any marketing materials the developer creates to ensure that when and how the affordable homes are being marketed are clearly specified.

Leverage Resources and Assistance. As mentioned above, through the Trust Fund, the city has the opportunity to leverage other resources, as well as work with the assessor's office to assess affordable homes appropriately.

2. Barat Woods, LLC

Aside from actually doing the deal and building the homes, the developer would be responsible for the following items:

Develop Marketing Strategy. Create a marketing plan that outlines how the affordable homes and market-rate homes will be marketed, as well as the timing of the marketing and sales. This marketing plan must be approved by the city. It is important to clearly determine which party is responsible for incurred marketing costs.

Help Identify Additional Resources. Work in partnership with the city to reach out to potential resources such as Lake County and local employers.

Develop Request for Proposals. If the developer chooses to pursue the option of attracting a development partner to build and manage the affordable homes, the developer and city should work together to issue a request for proposals to attract an affordable housing developer for the site. However, the developer should be the lead entity responsible for the RFP.

3. Third-Party Partner

Certify Applicants. The third-party contractor would certify homebuyers or renters based on the affordability calculation developed by the city or in partnership with the city.

Leverage Assistance for Applicants. Nonprofits, such as Affordable Housing Corporation of Lake County or Housing Opportunity Development Corporation, can help applicants leverage funding sources from Lake Forest, employers, the county, state, and financial institutions.

Monitor Affordability. Through due diligence processes, the title company should monitor affordability when reviewing the Affordable Unit Declaration of Covenants, Conditions, and Restrictions at resale. A nonprofit partner can monitor this process and work with the title company to ensure sellers adhere to resale restrictions.

Manage Affordable Apartments. The entity could manage the apartments. Most likely, there would need to be at least 20 apartments on site to make this worthwhile for a third party manager.

Develop Lottery System. A lottery should be created that weights applicants for the affordable homes based on city priority populations.

Market-Based Scenarios

Below are three examples that lay out possible ways to locate all required affordable homes (15 percent) on site.

Scenario 1 demonstrates how the unit mix might play out by allowing slightly greater density, with 11 additional structures, plus some split-level townhomes. This also provides a good example of creating opportunities for moderately priced homes by adding additional smaller homes.

Scenario 2 provides an example of allowing a small multi-unit building on the northern portion of the site. This can be built by the developer or a development partner, and could entail either a HUD 202 senior building or a mixed-income family building.

Scenario 3 demonstrates incorporating all mandated affordable homes into current plans for the site.

These scenarios in no way capture all of the ways in which affordable homes can be incorporated on the site. Ultimately, Barat Woods, LLC, and the City of Lake Forest must work together to determine what works best with the market and the site.

Any of these three scenarios, or their variations, can incorporate the development cost savings and price-reduction techniques outlined throughout this report, including varying the condo home size and square footages, reducing parking spaces or building parking above ground, or reducing the number of elevators.

SCENARIO 1: FULL IZ COMPLIANCE ON SITE ALLOWING FOR HIGHER DENSITY + SPLIT-LEVEL

	TOTAL UNITS	AFFORDABLE	AFFORDABLE % OF UNITS	MARKET RATE	MARKET % OF TOTAL
OLD MAIN CONDOMINIUMS					
1-bedroom	10	1	1%	9	6%
1-bedroom w/ library	9	4	3%	5	4%
2-bedroom	20	4	3%	16	11%
3-bedroom	10	3	2%	7	5%
Subtotal	49	12	8%	37	26%
TOWNHOMES					
Split unit on first floor	7	2	1%	5	4%
Split unit on 2-4 floor	7	2	1%	5	4%
5-story townhome	43	2	1%	41	29%
Subtotal	57	6	4%	51	36%
CLUSTER HOMES					
Cluster (*w/ 3 added on northern area*)	34	1	1%	33	23%
Accessory units	2	2	1%	0	0%
Subtotal	36	3	2%	33	23%
Total	**142**	**21**	**15%**	**121**	**85%**

SCENARIO 2: LAND DONATION TO DEVELOPMENT PARTNER FOR MULTI-FAMILY OR SENIOR	TOTAL UNITS	AFFORDABLE	AFFORDABLE % OF UNITS	MARKET RATE	MARKET % OF TOTAL
OLD MAIN CONDOMINIUMS					
1-bedroom	10	0	0%	10	8%
1-bedroom w/ library	9	2	2%	7	6%
2-bedroom	20	3	2%	17	14%
3-bedroom	10	1	1%	9	7%
Subtotal	**49**	**6**	**5%**	**43**	**35%**
TOWNHOMES	37	3	2%	34	28%
MULTI-FAMILY OR SENIOR MULTI-UNIT	10	6	5%	4	3%
CLUSTER HOMES					
Cluster	24	1	1%	23	19%
Accessory units	2	2	2%	0	0%
Subtotal	**26**	**3**	**2%**	**23**	**19%**
Total	**122**	**18**	**15%**	**104**	**85%**

SCENARIO 3: FULL IZ COMPLIANCE ON-SITETOWNHOMES					
OLD MAIN CONDOMINIUMS					
1-bedroom	10	0	0%	10	9%
1-bedroom w/ library	9	3	3%	6	5%
2-bedroom	20	3	3%	17	15%
3-bedroom	10	2	2%	8	7%
Subtotal	**49**	**8**	**7%**	**41**	**35%**
TOWNHOMES	37	5	4%	32	27%
CLUSTER HOMES					
Cluster	29	2	2%	27	23%
Accessory units	2	2	2%	0	0%
Subtotal	**31**	**4**	**3%**	**27**	**23%**
Total	**117**	**17**	**15%**	**100**	**85%**

The Metropolitan Planning Council will continue to offer its expertise to support this effort, particularly with employer engagement and investment. MPC also is involved in the Charter One Workforce Housing Initiative with five north suburban communities — including Lake Forest — to leverage greater employer investment, and is prepared to assist with direct outreach for this particular development.

METROPOLITAN PLANNING COUNCIL

LAKE FOREST TASK FORCE

Founded in 1934, the Metropolitan Planning Council (MPC) is a nonprofit, nonpartisan group of business and civic leaders committed to serving the public interest through the promotion and implementation of sensible planning and development policies necessary for an economically competitive Chicago region. MPC researches and develops policy recommendations and conducts outreach and advocacy in partnership with public officials and community leaders to enhance equity of opportunity and quality of life throughout metropolitan Chicago.

The Council's work in Lake Forest is a part of its Community Building Initiative, which supports communities throughout the Chicago region in determining solutions to local development challenges, testing and refining policies and strategies, providing models for other communities, and creating a network of regional partners and contacts.

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