Understanding Mixed-income housing

Traditionally, housing has been built and maintained for a single type of resident: Very low-income units often come in the form of single-room occupancy dwellings; affordable units are often subsidized through government programs; and market-rate units are built without that aid. Buildings often include only one type of housing. Yet there is a growing effort to provide a mix between affordable and market-rate units in order to encourage equal opportunity to live in neighborhoods with high opportunity and to reduce concentrations of poverty This short overview provides information on several approaches that may be used to finance mixed-income housing in Chicago.

Affordability Requirements Ordinance (ARO)

As described on the affordable housing fact sheet, the Chicago ARO requires certain housing development projects to include affordable units as part of their buildings or provide a payout of $100,000 per unit. Since it was passed in 2003, the ordinance has resulted in about 70 units being built in market-rate buildings. A mayoral taskforce is currently examining how to expand the ARO.

Chicago Low-Income Housing Trust Fund

The Fund's revenues derive from proceeds from the ARO and other sources. The Fund provides a rental subsidy similar to the federal Housing Choice Voucher program and interest-free forgivable loans that can replace up to 50 percent of a developer's first mortgage. The program is designed for residents whose incomes do not exceed 30 percent of area median income (AMI).

The Fund has recently begun working with market-rate developers to subsidize affordable units within market-rate buildings; the first deal was organized in June 2014 with FLATS Chicago, which has rehabilitated several older buildings in Uptown. In that deal, the Fund has agreed to subsidize rents for 58 units over 10 years, at a total cost of $4.3 million.

Low-Income Housing Tax Credit (LIHTC)

This federal program provides tax relief for developers constructing affordable housing units. LIHTC funds can be distributed either through a standard "4%" process that requires developments simply to provide a baseline level of affordable units, or a competitive "9%" process that provides more sustained funding.

Receiving 9% LIHTC funding is currently difficult for mixed-income projects in Illinois because the process by which projects are chosen (referred to as the Qualified Allocation Plan, or QAP), places preference on projects that are located in low-market areas (referred to as Qualified Census Tracts) and projects with a higher share of rental assistance from other sources. Investors in projects have a strong preference for 100 percent LIHTC projects because the market-rate units are riskier. In addition, because of the difficulty of syndicating LIHTC funds (an important part of the process), projects with fewer than about 40 affordable units are difficult to finance.

HOME funding

HOME provides federal funding to support affordable housing units, but can be leveraged as one financing source on a broader mixed-income project. HOME funds, however, are limited by congressional appropriations and are distributed competitively.

Partnerships between affordable and market-rate developers

In certain cases, affordable and market-rate developers can work together to complete a project. At Essex Crossing in New York City, for example, an affordable housing developer is building 500 units in collaboration with a market-rate developer that is constructing 500 units. This collaborative approach provides housing for a variety of income groups.