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Community Housing Development: Building a Brighter Future

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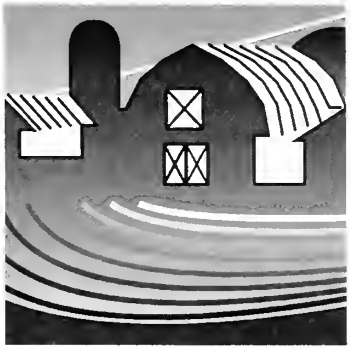

Dear Readers:

The need for additional and improved housing is a very important issue in the Midwest and across the nation. Without adequate housing to address the needs of all segments of the population, the ability of a community and region to retain or improve the quality of life for all residents is greatly inhibited.

Opportunities exist to stimulate housing through local initiatives. Throughout this manual, you will find tools and information to help your group create viable housing development strategies.

The Midwest has many examples of exciting local initiatives to address the housing problem in smaller communities. This workbook describes nearly two dozen projects that are making a difference to the people in their communities. One of the many inspiring projects was undertaken in the smallest community represented, Ohio, Illinois (population 500). Each of the case studies illustrates community response to some of the key housing trends facing many communities. In addition, the case studies model basic steps to real estate development presented here in the workbook.

This workbook is truly a "source" book for communities. In addition to information regarding trends, you will find steps to development, needs assessment strategies, and funding resources.

We sincerely hope this workbook proves to be a valuable resource to you. In order for us to gauge the usage of this manual and to provide updates to your community, we ask that you complete the information form in Appendix XI as a first step in the assessment process.

We welcome any questions, comments, or requests for assistance that you may have during the course of the assessment process. All of the project sponsors listed below are available to assist you in this process. We look forward to hearing from you!

Sincerely,

Illinois Association of Regional Planning Councils

Illinois Housing Development Authority

Illinois Institute for Rural Affairs, Western Illinois University

Rural Partners

University of Illinois Extension

USDA Rural Development

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University of Illinois Extension
College of Agricultural, Consumer and Environmental Sciences
University of Illinois at Urbana-Champaign

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Authors:

Ann Ziebarth, Ph.D., Housing Education Consultant, St. Paul, MN

Kathleen Brown, Extension Educator, University of Illinois Extension, Macomb, IL

Paul Elgatian, Extension Educator, University of Illinois Extension, Quad Cities, IL

Project partners included the following agencies and organizations:

Illinois Association of Regional Planning Councils

Illinois Housing Development Authority

Illinois Institute for Rural Affairs, Western Illinois University

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University of Illinois Extension

USDA Rural Development

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Paul Galligos, Rural Partners

Amy Griswold, University of Illinois Extension

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Steve Kline, Illinois Institute for Rural Affairs

Ann Marshall, University of Illinois Extension

Bill Pluta, Illinois Housing Development Authority

Barry Ramsey, USDA Rural Development

Graphic design:

Debra J. Eisenmann

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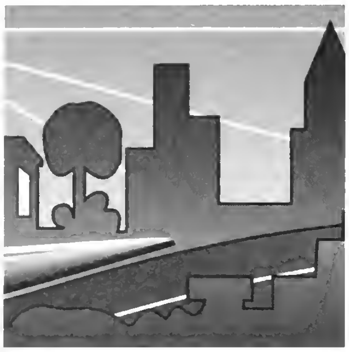
Guidebook Feedback Form

We would appreciate your comments about this guidebook. Please fill out the form in Appendix XI and return it to the address provided.



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OVERVIEW

Rural America has recently undergone major economic, social, and demographic changes. The housing impact of these changes varies considerably. Some small towns and rural areas are facing rapid population growth, while others are declining or have stable populations that, over time, have a growing proportion of older residents. In order to meet local housing needs, each community should objectively consider its own situation, determine feasible alternatives, and set specific priorities.

Housing doesn't just happen. It is the result of a process of obtaining a site; providing water, sewer, and electric service; designing the building; acquiring building permits; hiring skilled labor; purchasing materials; constructing the unit; and marketing, occupying, and managing it. Developing affordable housing in small towns is especially difficult. While there may be a need for additional housing, it may not be economically feasible to produce. First, there is often an affordability gap between what it costs to build new housing and the amount that most residents can afford to pay for housing. Second, many smaller communities have the potential for a value gap between the cost of construction and the appraised value of the unit for financing. Third, there can be a shortage of builders or developers interested in providing housing development and construction services in small communities.

This publication is designed to assist groups in assessing local housing needs, determining strategies for meeting those needs, overcoming barriers, and actually providing housing. Included in this book are examples of successful development projects, resource information for funding, and worksheets for planning.

BACKGROUND ON HOUSING NEEDS IN RURAL COMMUNITIES

Five trends are impacting the increasing demand for housing development in small communities. First, the economic success of rural development brings an increased housing demand when workers move into the community. Second, the demand for housing pushes up housing costs often beyond what some low-income households can afford, which increases the risk of housing insecurity and even homelessness in some areas. Third, the increased proportion of elderly residents in rural areas creates a demand for housing designed to meet their changing needs. Fourth, lack of housing construction over time results in an older housing stock, which means that some housing units are dilapidated and no longer meet the shelter needs of current or future occupants. Finally, homelessness remains a problem in rural areas. Increasingly, the rural homeless are characterized by families with young children, workers seeking short-term rental housing, and young single adults.

Trend 1: Economic Development and Workforce Housing Needs

A 1996 survey of rural Illinois residents found that more than half of the respondents felt the overall economic prospects for the next five years were anticipated to stay the same or get better (Walzer and Beier, 1997). Successful economic development, however, can lead to unanticipated problems. One of those problems is the shortage of housing to accommodate a growing demand in the labor force.

According to the Illinois Department of Employment Security, most new jobs in rural areas pay between $7.50 and $15 an hour. These wages translate into annual incomes of approximately $15,000 to $30,000. Using a common rule of thumb that a household can afford to purchase a home priced at two and a half times its annual income, the sales price of affordable homes must be between $37,500 and $75,000.

If there is not an active market of existing homes priced around $50,000, most newcomers in rural communities find it difficult to become homeowners. The Illinois Association of REALTORS reports that median sale prices of existing homes in the second quarter of 1999 ranged from a low of $80,000 in Region 7 (Champaign County, Danville, Decatur, Jacksonville, Logan County, Quincy-Springfield areas) to a high of $208,300 in Region 1 (Barrington, Lake County, McHenry County, North Shore-Barrington, and northwest area).

Finding affordable rental housing may also be difficult. Many smaller communities resist the development of apartments or townhomes. The cost of new construction for multifamily housing may also require rent levels that are higher than would be affordable for many families. Affordable housing is a ratio of housing costs (rent or mortgage payment + basic utilities) that is at or below 30 percent of household income. Again, considering the $7.50 to $15 per hour employment base, affordable monthly rent, including basic utilities must be $396 to $792 or less. Constructing new rental housing costs more than $50,000 per unit and requires rent levels above the affordable amount. Large apartment complexes, which are more economical to build, are less desirable for families with children. Preferable single-family homes, cluster homes, or townhouses are more expensive to construct and manage, thus requiring higher rents to meet cash flow.

Factors Influencing Housing Affordability

- Income and wage rates in the community
- Job security and income stability
- Market-driven rental rates and home sales prices
- New construction costs of land, materials, and labor

Trend 2: Rising Construction Costs of New Housing

The cost of providing new housing is based primarily on four factors: preconstruction expenses, cost of financing, price of developable land, and the material and labor costs of building. For larger projects, percentage-based developer fees and professional services such as architectural and engineering costs also affect the total cost of new construction. Although construction costs vary by location, the costs of all components in housing construction have risen rapidly in the past few years in most areas.

Preconstruction costs include expenses related to gaining control of the building site, surveying the property, conducting environmental impact assessments, obtaining permits and reviews, and legal fees. These costs are often fixed and do not vary with the project size or development budget.

Financing costs for construction loans, bridge loans, and mortgages are no less expensive in rural areas than they are in urban areas. In some cases, they are more difficult to obtain. Rural lenders may be reluctant to make loans for multifamily construction. Lacking familiarity with the secondary loan markets and special mortgage products, rural lenders are less likely to provide access to affordable financing. The rapid development of mortgage companies has bypassed rural communities. Competition among mortgage companies in urban areas results in a wide variety of loan packages available to urban consumers, but in rural areas there is not a sufficient volume of lending to attract mortgage company development.

Land costs, contrary to common opinion, are not significantly lower in rural areas and small communities. Small city subdivision lots with utilities, streets, curbs, and gutters provided are not cheap. Acreages and larger lots can be even more costly when the expense of private wells and septic systems is considered.

Construction costs include expenses related to providing labor and materials necessary for home building. Over time, the average square-foot cost of building housing has increased. The square footage of new home construction has increased dramatically. This means that newer homes often are more costly than older existing homes. In 1971, the average size of a new home was 1,520 square feet; in 1995, the average square footage of a new home was 2,120 square feet (U.S. Bureau of the Census, compiled by the National Association of Home Builders Economics Department). According to the National Association of Home Builders, today's cost of lumber and wood products represents one-third of the cost of materials used to build a home. A typical home of 2,000 square feet requires nearly 16,000 board feet of lumber and 6,000 square feet of structural panels, such as plywood. At $400 per 1,000 board feet, the lumber package for such a home costs nearly $10,000 (NAHB, 1999). (This is national data and may be somewhat lower than local material costs.)

Even when a household's income makes the construction of a new home feasible, there are sometimes barriers to financing it. In housing markets where few homes are sold in a year, the lack of comparable sales figures can result in an appraised value for financing lower than the cost of construction. When this happens, a **value gap** occurs, and the potential buyer must meet the difference with up-front cash. Few families have the necessary capital to make up the value gap.

Vacancy Rates

Vacancy rates are a common measure of the availability of housing in a particular market area. One rule of thumb is that a community needs to have an overall vacancy rate of 5 percent in order to provide enough options for relocating households to choose a home that meets their family's needs and financial ability. In smaller communities, vacancy rates of 5 percent or greater may mistakenly suggest that new housing is not needed. Communities need to evaluate vacancy rates for various kinds of housing—rental units, existing home sales, senior housing, or rent-assisted housing.

Trend 3: Lack of Housing Development Over Time

The most affordable housing typically is existing, previously owned homes. For this housing to be available, however, there must be an active market of homes being put on the market for sale and a flow of buyers. In small communities, the housing market is often uneven, with construction, sales, and purchases more common in some years than others. Long periods without construction can result in a lack of existing housing for future homebuyers seeking more affordable housing.

Trend 4: Growing Numbers of Elderly Residents

The growing population of rural elderly is a major demographic trend impacting rural housing needs today. Over 18.4 percent of the rural population is elderly (Clarke and Miller, 1990). Older residents tend to be one of three groups: those who are long-time residents "aging-in-place," those who are naturally attracted to the community—often long-time residents of the surrounding rural areas or nearby communities, and those who are recruited to a community as newcomers.

Those who have aged in place are more likely to be homeowners, but often their homes need major repairs or renovation. In Illinois, 73 percent of households headed by persons over age 65 were homeowners; 62 percent lived in single-family homes (U.S. Department of Commerce, 1995). Approximately one-third of Illinois homes occupied by elderly households were built before 1940 (U.S. Department of Commerce, 1995).

Designing Concepts for Senior Housing

Not all seniors need specially designed housing, but many of the design features recommended for handicap accessibility can be incorporated into features that make housing easier for anyone to use. For example, lever handles on doors are handy whether one's arthritic hands find knobs difficult to grasp or when carrying a laundry basket makes opening a door difficult. Evaluating for universal design requires common sense and a systematic review of plans or buildings from an everyday user's perspective.

Rural places attract some elderly residents because they are low-cost places conveniently located near a retiree's current or past home or near places where a retiree's friends and family reside (Reeder, 1998, p. 13). Newcomers who are attracted to rural areas from cities tend to be relatively affluent married couples with established connections in the community. They often choose to live outside of town in the surrounding rural area (Galston and Baehler, 1995, p. 207). These newcomers are more likely than long-term residents to use public health and medical services, public parks and recreation areas, and cultural programs (Glasgow, 1995).

Several studies have shown a clear link between the number of retirees and short-term growth in employment and population (Glasgow, 1990; Reeder, 1998). Rural elderly people tend to suffer more chronic health problems and higher rates of poverty than urban counterparts. As a result, there may be greater demand for services and specially designed housing (Galston and Baehler, 1995). The local economic impact of new retirees in a community may be limited if the town lacks a full range of goods and services, forcing them to go elsewhere to obtain health services or other consumer demands. The employment generated by the increased proportion of older residents is generally in the service and retail sector. Such jobs are often low-wage positions requiring limited skills with little opportunity for advancement (Reeder, 1998). "Places with slow population growth are more likely to benefit from retiree-attraction policies, since they are more likely to have trouble finding new jobs for youth and are losing their main-street businesses to regional service centers." (Reeder, p. 10)

Housing Alternatives for Older Adults

Most older adults are homeowners who "age-in-place" (remain living in the same place). Those who do move often move to stay near their families or move only short distances, such as from cities to suburbs (Reeder, 1998). Homeownership rates decline as people grow older and find that maintaining their homes becomes more difficult. Those who decide to move often choose housing designed to meet the needs of older persons. Older persons tend to relocate for one of two reasons. Those who relocate are either "amenity seekers" or "assistance seekers." Some choose to move upon retirement looking for a more favorable climate or recreational areas, while others find it necessary to seek more supportive housing as they become frail or experience memory losses that result in safety concerns. In any case, research indicates that, nationally, fewer than 1 percent of elderly residents who do relocate, move to another state (Galston and Baehler, 1995). The following list ,adapted from a market study conducted by Essential Decisions, Inc. (1998), provides definitions of housing designed specifically for older residents.

Modifications to Existing Housing

Given that the majority of older residents remain in their own homes, modifications may be necessary to make the house or apartment more livable. According to a study by Gilderbloom and Markham (1996), older persons who live alone, especially men and people in poor health, have greater housing modification needs. The most helpful modifications were fairly minimal changes, such as handrails or grab bars for getting around and in or out of the dwelling; push bars on doors; and special sinks, faucets, or cabinets within the home.

Adult Retirement Communities

Adult retirement communities are specifically designed for active, independent seniors. Units are often available for ownership as clusters of single, owner-occupied units or through cooperative or condominium ownership arrangements. The units may be single houses, duplexes, townhomes, or multifamily owned or rented apartment units. Adult retirement communities often have amenities and limited services such as clubhouses, outdoor activities, or transportation arrangements. Generally there are no extensive medical or nursing services available except as individually contracted home care. A manager is usually responsible for general maintenance and upkeep of the grounds and public areas. A monthly fee is usually charged for these services. The housing is typically limited to people who are 55 years or older.

Market-Rate Supportive Housing

Congregate housing is specially designed multi-unit housing for independent to semi-independent persons that includes community social and dining facilities. Individual units include, at a minimum, a living room/bedroom, bathroom, and kitchenette. Developments typically offer at least one meal a day and some housekeeping services. Transportation and personal support services may be available. Service fees may be part of the monthly housing costs (rent, condominium, or cooperative fees), or billed separately.

Assisted Living Facilities

Assisted living housing is specially designed multi-unit housing for the frail elderly who need various support services such as meals, housekeeping, and personal-care support. Assisted living services can range from providing meals and social activities to extensive care-related services through licensed, on-site home care agencies. Typically, these units include 24-hour awake staff supervision. The definition and requirements for assisted living facilities vary across the country. For example, Illinois requires that assisted living facilities be licensed in order to use "assisted living" in their name. Licensing requires that the facility meet minimum standards for services, resident admission, discharge criteria, and protection for tenants' rights. The state's Department of Public Health provides regulatory oversight of Illinois's assisted living facilities.

Rent-Subsidized Apartments

Rent-subsidized apartments for the elderly are usually designed for, and limited to, people who are at least 62 years of age or persons with disabilities. Local, state, and/or federal government sources finance the construction or rental costs of these buildings. Sponsors of the housing include nonprofit, limited profit, and for-profit organizations as well as public housing authorities. There are income limitations for residents of this type of housing. Rents are often subsidized, with the amount of rent based on the occupant's income. In some buildings, recreational activities and support services, such as meals, housekeeping, or transportation are provided. Fees for services may be included in the rent or charged separately. In some cases, social service agencies are contracted to provide services, and the housing organization manages the property.

Nursing Homes

Nursing homes provide living and total care services to residents. Special care may be available to those with mental as well as physical limitations, such as persons suffering from Alzheimer's disease. Nursing homes have licensing requirements.

Trend 5: Hidden Homelessness in Rural Areas

A surprising number of people find themselves without a secure place to sleep each and every night in rural America. Homelessness is often thought of as an "urban" problem and therefore is ignored by rural leaders. For people with very low incomes or seasonal employment, the threat of homelessness is quite real. Teenagers may find that they are "independent children"—not welcome at home but not legally able to obtain a place of their own. Moving from friend to friend, living in cars, or camping out are common strategies of rural homeless individuals and families. Emergency housing shelters are rare in rural areas. Persons fleeing from domestic violence are frequently turned away from overcrowded shelters and are forced to return to unsafe situations.

Addressing homelessness in small communities and rural areas is especially difficult. Many citizens and local officials are unaware that the problem may exist in their community. To help homeless people and those in insecure housing to obtain permanent places to live requires a high proportion of subsidies and ongoing service programs.

TYPES OF HOUSING TO ADDRESS LOCAL NEEDS

Addressing housing needs in a community requires a wide variety of housing alternatives, from small, low-cost apartments for rent, to homes for growing families, upscale living for the well-off, and options for retirees and aging adults. **Housing types** include single-family homes, townhomes, apartments, and housing with supportive services. Manufactured homes can be single-wide "mobile homes," double- or even triple-wide units. These single-family homes are built according to federal construction standards. **Housing tenure** options include homeownership, cooperative housing, condominium living, and renting. By providing a mix of housing types with various tenure options, individuals and families of all sizes and income levels can become a viable part of your community and its local economy.

Most people think of housing tenure as either owning or renting a home; however, there are a number of alternatives between these two extremes.

One way to provide affordable market-rate housing is through **shared ownership** in the form of condominiums, cooperative housing, mutual housing associations, and land trusts. Housing tenure in the form of shared ownership can involve all architectural types of housing–single detached homes, cluster homes, townhouses, or apartments.

Condominiums are housing units in which the interior of each unit is owned and maintained by the occupant, and the exterior and site are owned and managed by a homeowner's association. Owners typically pay both a mortgage and an association fee. Management of the shared ownership portion of the property may be guided by a homeowner's association board of directors or handled by a developer.

Cooperative housing is a form of ownership in which occupants of a building typically hold a share in the housing development that includes the right to occupy a specific unit. Residents have decision-making responsibility for the operation and maintenance of a housing development. There are several kinds of cooperatives that vary according to the degree of ownership control and responsibility residents hold.

Housing land trust organizations provide for more affordable housing in two ways. First, the cost of the land is removed from the purchase of the home, and the title to the land is held in trust by a nonprofit organization or local government entity. Occupants hold title to the house and have a very long-term lease (usually 99 years) for the land on which it sits. This approach lowers the cost of the home by removing the land expense from the sale of the housing. Second, most land trusts restrict the profit a homeowner can receive upon selling a home to the original investment plus approved home improvements made to the property. This assures that the housing stock will remain affordable over time. Homes may be transferred to family members or heirs. At the time of sale or ownership transfer, a new land lease is provided, usually for another 99 years.

Mutual housing associations provide shared equity ownership in housing in order to make the housing more affordable to lower-income occupants. The home mortgage is co-owned by the resident and a nonprofit organization.

Planned unit developments are housing developments where residents are owner-occupants of a housing unit and the lot it sits on as well as co-owners of shared property such as streets, sidewalks, and amenities such as clubhouses or swimming pools. Sometimes referred to as "gated communities," a planned unit development is typically managed by a homeowner's association that is the decision-making body for maintaining the shared property. Again, residents typically pay a mortgage on their homes and lots as well as an association fee to cover the costs of maintaining the shared property.

Villa homes/cluster housing combine housing type and tenure. Villa homes are single-family, owner-occupied dwellings in planned unit developments. Residents own their homes and lots and are members in an association that handles exterior maintenance. Villa homes are sometimes called detached townhouses. Cluster housing is a planned unit development or condominium that consists of attached housing with two to four units per building. Cluster housing is frequently designed for barrier-free living and targeted toward older adults.

BARRIERS TO PROVIDING SUFFICIENT HOUSING IN RURAL COMMUNITIES

The preference for traditional, single-family, owner-occupied housing provides barriers to the provision of sufficient affordable housing in many rural communities. Expectations for the size and features of new homes today increase the cost of new construction even beyond the increases resulting from more costly land, labor, and materials. The relatively small scale of rural housing developments or multifamily rental housing often increases the cost per unit. Elderly residents are often reluctant to leave long-established family homes, even when alternative housing is available. This means that there is a lag in the market for existing housing that is suitable for families. In addition, rural communities often have a concentration of households with lower incomes. This lowers the area median income and makes the economic feasibility of assisted housing even more difficult. The expertise needed to tap into capital financing for multifamily housing development is often limited in rural communities, and the small scale of the projects makes them less attractive for experienced urban developers. Many rural areas find that the shortage of experienced contractors and skilled labor to rehabilitate or construct housing is a key problem.

Limited Availability of Experienced Contractors and Skilled Labor

Many builders and contractors focus on custom home building. A "custom home" is contracted and built for a specific customer. The homeowner frequently shares the risk of the construction cost by providing or co-signing to finance construction costs. In contrast, speculative housing is built by a developer/builder for the open market. In these situations, the developer/builder is responsible for the entire initial cost of predevelopment and construction and recovers these expenses plus a profit at the time of sale to the new homeowner. Many small contractor/builders do not have sufficient capital to finance the predevelopment and construction costs upfront. Speculative housing development is also risky, as there may be a delay in the sale of the home after it is constructed.

Inexperienced developers can have difficulty obtaining the required financing for housing projects. Lenders and funding agencies often feel that projects have less risk of failure if experienced developers and property managers are part of the development team.

Housing construction is often built on a very tight profit margin. Builders and developers in urban areas can take advantage of economies of scale. They can purchase materials and building components in large quantities at discounted prices from building materials suppliers, plumbing wholesalers, and other sources. They can also subcontract skilled laborers, such as electricians and plumbers, assuring them steady employment. In rural areas, contractors often have difficulty finding the skilled labor they need. Skilled carpenters, electricians, and plumbers are in short supply. In order to compensate for less regular job schedules, skilled construction contractors in rural areas often charge higher rates. Because there are fewer skilled workers, those who are available can command higher wages. In addition, fewer young people are choosing careers in the technical trade industries. This contributes to the labor shortage as more experienced trades persons retire.

Communities that recognize the problem of limited availability of contractors and skilled labor can begin to develop a long-term strategy by encouraging and supporting the vocational educational programs in their area. They can support school-to-work efforts of their local school districts. And, they can highlight successful careers in the construction trades. This "grow-your-own" policy builds the community's social capital.

Overcoming the barriers to providing sufficient housing in rural communities often begins with the development of local expertise. A community's success in providing housing often depends on a rather intangible asset called **social capital**. Social capital is the local capacity to take on issues, conduct planning, set priorities, and follow through to make needed changes and improvements. Often if a community has one or two people who care deeply and have enough time and energy, they can make the difference between a successful project and a fumbled attempt. These "community spark plugs" start projects and keep them going until they are completed.

People sometimes assume that small communities do not have enough professional expertise to be successful at tackling projects as difficult and complex as developing housing. This is *not* necessarily the case. To provide community-based housing solutions requires a leadership team that can find the information, ask questions, and keep up an organized effort.

DEALING EFFECTIVELY WITH PUBLIC ISSUES AND OPPOSITION

One of the most surprisingly common problems that housing advocates face is community opposition to new housing development or housing programs. Those supporting additional affordable housing frequently encounter local resistance or conflict when proposing housing development projects. Community residents may simply not want to see their community change and are reluctant to welcome newcomers to their town. They may fear that new residents will be "different" or "bad neighbors." This resistance to housing development is called **NIMBYism** or "not in my backyard." Current residents may recognize a need for additional housing in the community—but they don't want it to be built near their homes.

NIMBYism is often the result of misperceptions that new housing will lower property values or that it will raise taxes or require additional community services. Arguments against affordable housing development also include a bias against rental housing, a desire to maintain the status quo in the community, fears that racial or ethnic diversity will increase community conflicts, or concerns that there will be few benefits for current residents. These fears may never come to pass with the new housing, but they should be recognized and addressed before housing development takes place. The best way to combat NIMBYism is to provide as much information as early as possible about the need for additional housing and the alternatives to meeting that need. Providing this information early helps prevent false rumors about the development. With citizen involvement, housing development can enhance the community rather than become a source of conflict and protests.

Dealing with NIMBYism

Before projects become controversial, remember the three keys to avoiding opposition.

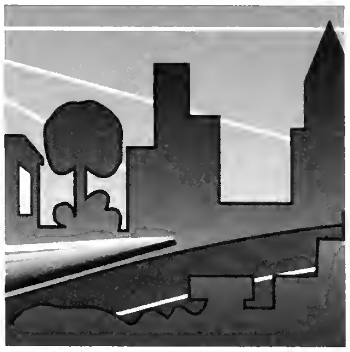
1. Communicate. Community support is vital; let others know what the needs are, and provide opportunities for their involvement in providing solutions.

2. Work with stakeholders. Identify all possible stakeholders and make special efforts to keep them informed and involved.

3. Identify the impact of the project for neighbors. Provide information on the potential change in property values that could result from the project.

Existing landlords may protest the development of housing for economic reasons. They may see that increasing the supply of housing will cause rent levels to go down, or they may fear that they will not be able to compete with higher-quality housing. For communities to grow and prosper, housing must continue to be developed. It is important that existing landlords recognize the need for additional housing and understand the advantage of providing high-quality, well-managed rental housing.

Basic Steps in Real Estate Development



Real estate development occurs in five separate phases. The first phase is to develop a project concept. Second, the feasibility of the project is determined. Third, project financing must be obtained. Only then can the fourth phase, construction, begin. Finally, an ongoing process of project operations occurs. Each of these phases of development entails a series of tasks that must be accomplished. Some of the tasks will overlap phases. This section of the guidebook highlights the development process. It is important to recognize that, although these are basic steps, development rarely occurs in a simple, linear manner. To be successful, plans typically must be revised several times; some steps, such as the needs assessment, may be already completed. Furthermore, delays may occur at any point in the process. See Appendix III for checklist.

PHASE I. PRECONSTRUCTION

In order to initiate a housing project, it is important to determine the community's assets in terms of housing resources as well as the apparent needs. Begin with a general idea of what the community has to offer, what is missing, and what would be nice to have. Define the concern and identify an initial perception of the community's interest, concerns, and priorities. Comments like those below can trigger the awareness that housing needs are a concern in the community.

> "If only we had more senior housing, then our elderly residents would have more convenient places to live and their homes would be available for younger families."
>
> "I heard that the businesses are having a hard time recruiting employees—there's nowhere for them to live."
>
> "Why can't somebody do something about those old trailers—they look awful!"

There are six steps in the preconstruction phase. These six steps are described below.

Step 1. Convene a steering group or housing coalition.

The first step is to organize a small group to examine the housing situation in your community. This group might include local lenders, business groups such as the chamber of commerce, contractors/home builders, insurance representatives, social service agency representatives, and local housing activists. The group will need to invite input from the whole community as well. This can be done through a formal, community-wide meeting or an informal gathering of opinions. Be sure to include as many different participants as possible. For example, ask renters, homeowners, builders, lenders, public officials, schoolchildren, teenagers, elderly persons, people with all different income levels, those with disabilities, those who work in social service agencies, law officers, and landlords to share their opinions.

Gather ideas about both physical resources and social capital. Physical resources include all the different types of housing in the community (houses, apartments, mobile home parks, homeless shelters, single rooms, nursing homes, group homes, temporary housing) and other resources such as vacant land, lots for sale, and the capacity of your sewer and water systems. Social capital resources are the people, agencies, and organizations that are interested and involved in housing planning, housing development, housing services, and housing regulation. Included in the list might be lenders, city planners, public housing authority officials, regional planning agency staff members, area agency on aging staff, community action agencies personnel, Extension educators, employers, and so on.

Step 2. Review, develop, and compare apparent needs to organization's mission and goals.

The private sector alone frequently fails to meet the community's needs if more profitable alternatives are available for developing higher-cost housing. To successfully meet the housing needs of lower-income working families or retirees, it is frequently necessary to bring together various public and private organizations. The objectives of the group or organization should mesh with the community's needs before housing development can occur. Problems of "turf-ism" can sometimes arise. "Conflict among organizations can take place for three fundamental reasons: 1) if one organization perceives the other as a direct and regular competitor for resources that are not likely to be shared; 2) if one organization perceives that costs (money, time, or energy) are greater than the benefits of collaboration; or 3) whether the organization feels it is flexible enough to change its current goals, tasks, and philosophy to adopt the course of action proposed by the collaboration" (Siek and Hague, 1992). One way of responding to turf-ism is to divide the project task or development priorities among several agencies.

Step 3. Conduct assessment and analyze housing need.

Community leaders often identify housing as a local concern, but they may be uncertain what action will address the perceived problem. One reason solutions are difficult is that the problem is rarely defined specifically. A community **needs assessment** is a place to begin to clarify the specific needs in the community and solutions to address them.

When discussing housing needs in your community, it helps if you specify which category of "need" is being considered.

Although some communities hire outside consultants to conduct housing assessments, communities that organize a group of local officials, community leaders, and citizens to do this step benefit more. A "do-it-yourself" approach builds the social capital of the community, because more people gain knowledge about the housing conditions and the development process.

Whether the community hires a consultant or does the work locally, before conducting a housing needs analysis, it is important to clearly identify the "audience" of the study: Who are you attempting to inform, influence, or persuade?

You also need to know what you intend to accomplish with the needs assessment, and whose needs are to be assessed. Finally, you need to identify the specific questions to be answered. The questions in Appendix I, The Five "A's" of Housing, are a good place to start.

Identifying Needs

When assessing a local situation, it is important to realize that needs can be understood in different ways. There are four basic categories of needs:

- Normative needs are identified in relationship to an expected standard of service or living.
- Comparative needs are seen in terms of the relative condition of a group measured against some other group.
- Felt needs are perceived by individuals experiencing the problems.
- Expressed needs are those needs for which demands are being made.

Step 4. Develop a housing strategy.

Getting information about the local housing situation and needs provides the basis for developing a housing strategy. The strategy is a systematic means of determining priority projects and developing a plan of action.

Getting Community Support

Select a small group of people to gather and organize data and prepare a report for the community as a whole. It's a good idea to include someone from the media and a local librarian in this group. Plan to report the findings of the local needs assessment in as many ways and as many times as possible. Newspaper articles, reports at public meetings such as city council meetings, posters in main street windows, fliers, school presentations, public hearings, radio interviews, and church bulletins are all ways of informing the community of your findings. Make sure that key decision makers have summaries of the report, and put copies of the complete report in the local library, city hall, and school library.

In some communities, a public forum is held to get residents' opinions on the priority for housing changes in the community. The meeting usually includes an oral report of the findings from the community housing assessment and a summary report of two to four pages. Various housing development options are provided and members of the audience have a chance to discuss which options they feel are best. Participatory methods for making priorities visual include asking people to rank their preferences or place colored dots on large sheets of paper to indicate their first, second, and third choices.

Once a priority project for housing development is determined, specific action plans must be developed. A project must be feasible for it to occur. Begin with a market analysis for the specific type of housing that is identified.

Market Analysis for Specific Priority Project

Initially, the market analysis will identify the geographic boundaries of the market area where you anticipate 80 percent of potential customers will originate. This may be a community, a county, or a zip code area. Collect overall population trends for the primary market area. Population trends may be targeted to a potential client group based on factors such as age, family structure, or income. An example would be retirees with incomes above the area mean income.

The second step in a market analysis is to conduct a competitive inventory. What housing alternatives are available for your targeted group? When comparing the market, it is helpful to make a summary chart of the alternatives, the location and size of projects, features and special amenities, as well as the consumer cost (rent, sales price, association fees, or other expenses).

Market Competition Comparisons

The third step in the market analysis is to estimate the price structure or monthly rate for your potential market group. Demand for housing units will vary according to the affordability. One market study for projecting the demand for housing for the elderly was based on monthly rents of $850 for market-rate independent living units, $1,850 for traditional assisted living units, and $2,800 for special-care units designed for persons with Alzheimer's disease. The market rate of $850 was estimated to be affordable for households with incomes at or above the median income for the primary market area. This indicates that, in order to meet the housing needs of those across the income range, some assistance is required to make the housing affordable (Essential Decisions, Inc., 1998).

Market studies are used to document the need for the type and amount of affordable housing units being proposed. Funding agencies often require market studies as part of the application process.

Competitive Inventory Form

Property and location	Number of units by bedroom size	Rents charged	Description of amenities

Step 5. Review roles of the partners/collaborators involved in the project.

Once a specific project has been identified as the priority, it is important to review the overall direction the housing effort is taking. Check to see if any key stakeholders or interested persons are left out of the decision-making group. Be sure to include representatives of potential client groups, local officials, and lenders at this time. Since many housing projects include public-private partnerships or collaboration among a number of organizations, it is important to determine the responsibilities and roles of each group. Projects can fall apart if organizations duplicate each other's efforts or if assumptions are made that "somebody else" is handling a particular task. A memorandum of agreement can be written and signed to make sure that all groups involved clearly understand their own responsibility and that of the other collaborators.

Step 6. Prepare design concept.

A design concept provides a way to communicate the project proposal with the community, potential funders, architects, builders, and others. The design concept is a statement regarding the purpose of the project. Identify the number of units, the targeted rental or housing costs, and possible development sites. Answer questions such as, Why is it important to do this particular project? What vision does the group have for the housing that is being considered? What will the housing look like? Photographs or sketches may be useful to illustrate the ideas.

PHASE II. PROJECT FEASIBILITY

Good ideas do not always work. The second phase of development is to determine whether or not it is possible to do the project. Projects can fail because there are problems locating, financing, or completing the development.

Step 1. Organize the development team.

When considering the development of multifamily housing, the first step is to organize a development team. This includes professionals such as a developer, attorney, architect, engineer, general contractor, property management agent, advocates, and representatives of potential residents. Identifying the project manager and including him or her on the development team early is recommended. This will address a significant concern of lenders regarding the long-term financial security of the project.

Step 2. Conduct the site search and select preliminary choices.

A land search is necessary to identify available sites in the market area that have serious development potential. To do this, ask local officials and real estate agents for information, check the delinquent tax notices in the county courthouse, be alert for sales, and be sure to consider the donation potential of government property.

Once a short list of possible sites has been identified, a chart of characteristics for comparison is useful. Include the property location, availability of utilities, size and shape of the lot, frontage, access roads, topographic features, soil characteristics, and vegetation/endangered species.

Finding a Developer

Locating a developer who is interested in small projects is sometimes difficult. Begin by creating a list of possible developers to contact; ask other communities for recommendations. If a housing development in a nearby community is similar to one that is desired, contact the project manager or local officials to get information on the developer involved. Chambers of commerce, homebuilder's associations, and contractor associations have membership listings of local businesses involved in housing development and construction. This is a good source of potential developers for your project. The Better Business Bureau maintains a list of complaints made against businesses; it is a good idea to check with them regarding the reputation of the firms you are considering. Communities can also consider enhancing their social capital by encouraging a local builder to acquire the skills necessary to take on larger development projects.

Step 3. Conduct informal environmental and regulatory review.

Assessing the site from a perspective of protection of the natural environment and absence of toxic substances is the next step in the project feasibility stage. Consider any features that may provide barriers to housing development, such as wetlands, flood plains, historic or archaeological sites, or designated wild/scenic rivers. In order to avoid the expense and liability of toxic wastes or environmental hazards, your informal environmental review sites should be examined for potentially harmful toxins such as asbestos, petroleum hydrocarbons, pesticides, underground storage tanks, grain fumigants, and heavy metals. The previous uses of the property are particularly important in conducting an informal environmental review. Longtime residents of the community can be very helpful in identifying potential environmental concerns.

Step 4. Prepare detailed design and initial cost estimates.

Professional architects or builders prepare a design proposal and rough cost estimates for all necessary items. This provides an estimate of the total development costs that are expected to occur. Cost estimates are based on the preliminary building plans, anticipated land costs, and development fees. This step is the initial part of the project financing phase and is required in order to develop a financial **pro forma**, or statement of all expected costs and revenues for the development.

Step 5. Perform initial sources and uses of funds analysis.

Once the preliminary cost estimates are made, an analysis of the affordability for the targeted resident group can be determined. If the result is that straight market-rate, unassisted development with conventional financing will provide affordable housing, then the project can proceed directly. In some cases, however, there is a gap between the cost of developing the housing and the affordable consumer price. In these situations, sources of financing, public involvement, or rental assistance are sought. The sources and uses of funds are *extremely* critical. Reviewing the potential funding gives the team a good reality check on the project's feasibility.

Gap Financing

In the process of determining the financing required for a particular housing development, it often becomes apparent that there is a gap between the housing cost desired for a targeted potential resident group and the revenue required to meet the housing development and ongoing management costs. In order to keep the housing affordable, "gap financing" may be necessary to keep development costs down. Gap financing can be in the form of public or private subsidies for the project, such as donation of land, deferred property taxes, lower interest rates, or rent assistance for residents.

If state or federal funds are used to provide gap financing, the project may be required to have income eligibility limits for residents. There generally are not gap financing programs available for market-rate housing developments.

Step 6. Gain site control with conditions.

There are two primary ways of gaining control of the desired development site. The **option to purchase** is a written contract between a seller and a purchaser agreeing to hold open an offer to sell property at a certain price for a stated period of time. If the buyers decide not to purchase the property, they may do so without being required to state a specific reason. **Purchase contracts** are similar to options to purchase in that they are binding contracts in which a buyer agrees to purchase property within a specific period of time, for a specified price. However, in the case of a purchase contract, an earnest money deposit is made by the buyer that can only be refunded if specified contingencies in the contract cannot be met.

Site control is an essential element for many funding applications. If options to purchase are used, they must be for an adequate time to cover the application review and approval time frame.

PHASE III. PROJECT FINANCING

The third phase of the development process is to obtain financing for the project. There are 10 steps in the project financing phase.

Step 1. Develop the project finance plan.

The steps to finance residential development take place in a straightforward sequence. An example of a project finance plan (or pro forma) is included in Appendix IV.

The first step a developer takes is to select a potential project. Usually this decision is based on a local housing market study. The project idea might be units for rent, sale, or some combination of renter- and owner-occupied units. From the concept, rough estimates are made for development costs.

After the rough cost estimates are collected, the developer will prepare pro forma financial statements that project cash flow over the life of the project, usually on a monthly or quarterly basis. One set of statements is prepared for the construction phase, and if the development will be owned and operated by the developer after construction is completed, then an operational pro forma is prepared as well. These pro forma statements are estimates of the project's profitability and overall financial condition for the future. The operational pro forma details the finances of the project after the construction phase is completed and the units are rented, helping the developer estimate whether the project will generate enough income to satisfy the investors. In addition, a well-conceived pro forma can predict potential cash shortfalls. This tells the owners what working capital requirements will be needed throughout the different phases of the project's production and operation.

The pro forma statements contain all the expected costs and revenues of the development. In an apartment complex, the bulk of the revenues comes from rents. Typical expenses in a pro forma statement include but are not limited to acquisition cost, financing expenses, construction, fees, development cost, vacancy allowance, building operation, real estate taxes, management fees, reserves, debt service, repairs, and maintenance.

If the pro forma indicates a reasonable return to the investor (developer), the next step is to obtain financing from a lender. Financing occurs in two phases. In the first phase, the developer secures a construction loan. If the developer retains ownership of the project after completion (as in an apartment complex), then a permanent loan needs to be arranged.

Going to the lender requires much preparation and should be taken seriously. The first thing the lender will note (especially a local lender) is the reputation of the developer and the contractors. Does the developer have professional credibility; does the developer understand the business? In addition to the pro formas, the lender will look for a business plan (with market study), resumes detailing the background and experience of key personnel, and the architect's plans and specifications. Essentially, the lender is making sure the developer is a serious and qualified candidate with a venture that will succeed.

Lenders are interested in and take a careful look at pro forma statements. Among other things, lenders check the statements for reasonableness. Are these revenues reasonable for a project of this scope? How does this venture compare with similar projects? Most important to the lender is: Will there be enough revenues to pay off the loan?

The construction phase of development is seen as the riskiest part. As a result, loans that cover construction usually have higher interest rates. Developers will try to get a commitment for the permanent financing at the same time the construction loan is approved. However, the permanent loan and the construction loan are not always from the same lender. Often the investor will secure a construction loan from one lender and find a permanent loan with another.

Because construction expenses do not all occur at once, lenders will hold the loan until the developer has accumulated a sufficient amount in expenses. This amount depends on the project and the project size. For single-family homes, there may be four "draw downs" during construction. For a larger apartment complex, the draws may occur as often as once a month. During the draw downs, the lender will compare the actual expenses with those budgeted in the pro forma. If there are inconsistencies with the projections, the lender may withhold payments.

After the construction phase is completed, it is time to replace the construction loan with a permanent loan. If the two loans are from separate institutions, the permanent loan is used to pay off the construction loan. If the developer is building a house and selling it, then a closing is held. The proceeds from the sale are used to pay off the construction loan and other expenses. What remains is the profit that the developer keeps.
Once the construction loan is paid, the owners will begin making monthly payments on the permanent loan. The pro forma (budget) is also reviewed after renting begins. If it is discovered that expenses are higher than what was budgeted, then property managers must look for ways to reduce these expenses or increase the income. Additionally, many developers set funds aside and pay them into a separate bank account called "replacement reserves." The replacement reserves account is used to pay for major maintenance and repairs that occur over the life of the project. Typically this is about $200 per unit per year.

Step 2. Hire appropriate consultants, if necessary.

Developing the pro forma, dealing with environmental impact assessments, and filing applications for federal housing program funds are often complicated tasks; communities frequently seek professional consultants to assist in the process. It is not always necessary to hire an outside consultant when planning and implementing housing in your community. However, sometimes outside assistance can be beneficial. Consider the following if you are thinking of hiring outside professional consultants:

- Are you dealing with issues that have been a concern for many years?
- Are you uncertain that your team has sufficient expertise or time to complete the project without outside help?
- Will your decisions have legal consequences?
- Is there already conflict or opposition over the project?

If you answered yes to any of these questions, it may be a good idea to get some outside assistance.

How to Hire a Consultant

Before bringing in a consultant, it is critical to define the problem as specifically as you can. The more concise the project, the less costly and the more beneficial the use of a consultant will be. For example, decide if you want the consultant to design, conduct, and analyze needs assessment survey forms or only to analyze the data collected. You may want to find professional assistance for the following:

- Needs assessment
- Site evaluations
- Development proposal
- Engineering feasibility and environmental assessments

Prepare a Request for Proposals (RFP) that clearly identifies the work to be accomplished, the projected time frame, the qualifications you expect from the consultant, the amount of money available for the project, and the proposal review process. Identify the process for announcing the RFP and hiring the candidate.

You can identify potential consultants through contacts with local professionals, such as bankers or city planners. The homebuilder's association may be able to help you. Other communities who have hired consultants are good sources of information for potential professionals.You can also look through the telephone directory or on the Internet for listings of housing consultants.

Once you have received proposals from potential candidates, review the proposals to identify strengths and weaknesses of each candidate. Check the references of the top three to five candidates. Call representatives from communities recently served to determine their level of satisfaction.

Interview the top two or three candidates. Be sure to ask each candidate the same series of questions. Review their responses and the reaction of the committee. If the consultant doesn't "feel right," he or she is probably not a good match for your community's needs.

Select a consultant and issue a contract. The contract should include the scope of work; time frame for expected communications, reports, and products; and the fee payment schedule. It is a good idea to retain a portion of the fee until the final product is completed (Kozoll, 1994).

Income Eligibility

Most federal and state housing programs have income eligibility requirements based on the area median income (AMI) adjusted for household size. For most nonmetropolitan counties in Illinois, residents must have incomes below either 50 percent or 80 percent of the area median family income. For one-person households, the annual income limit at 50 percent of AMI for nonmetropolitan Illinois is $14,550 or less; for two-person households, the limit is $16,600; for three-person households, it is $18,700; and for four-person households, the limit is $20,750 (Illinois Housing Development Authority, February 1999).

families, individuals, businesses, nonprofit organizations, and farms) that will be displaced (forced to move permanently) as a result of rehabilitation, demolition, or acquisition are entitled to relocation and other assistance. A guide for grant recipients regarding the URA and other regulations is available from the Illinois Department of Commerce and Community Affairs (DCCA).

Step 5. Revise schematic building plans and update cost estimates.

It is typical for building plans and cost estimates to be modified prior to final funding application. If building codes and zoning ordinance issues have emerged, they should be resolved at this time.

Step 6. Prepare funding and loan forms.

It is a good idea to develop a timetable of due dates and review/processing time frames for funding applications. This timetable will provide a realistic development schedule.

Lenders often require specific details for funding and loan forms even after preliminary contacts and preproposals are submitted. This is a necessary step in the development process.

Step 7. Draft marketing and management plan.

While waiting for all the funding to be approved and finalized, develop a marketing and management plan. A marketing plan identifies the strategies that will be used to sell or rent the housing units including advertising, use of a "model unit," tours, and so forth. The management plan identifies the staff requirements for handling marketing through the lease or sale of units and provides guidelines for procedures to handle marketing. For example, the management plan will identify the hours that the on-site office will be maintained, describe financing options, and detail the application and resident selection procedures.

Step 8. Determine roles and method of construction management.

Who will be responsible for construction management? Will there be oversight by collaborators? Who will be authorized to make decisions as construction changes become necessary or problems arise? Who will hire, manage, supervise, and inspect the work of subcontractors, as well as making certain they are paid promptly? If this work is delegated to a contractor, it may still be necessary to designate a decision command chain for unexpected situations.

Step 9. Compare approved project to development concept.

Before proceeding any further with your development project, now is a good time to step back and make sure that you are still on track. Review Phase I, Step 6. Does the project meet the original objectives that were prioritized in your needs assessment process? If not, why not?

Step 10. Negotiate and secure project financing.

Finalizing financing may require some negotiation and arrangements for the funds to be available to begin construction. Lenders are critically concerned with whether the project will generate enough revenue to meet debt service and operational requirements. All sources of financing should be secured and available at the time construction starts.

PHASE IV. PROJECT CONSTRUCTION

The developer and/or contractor usually manages the following steps in construction. It is important, however, for all the collaborators to understand the construction process. There are 14 steps in the construction phase.

Step 1. Complete design drawings and estimates.

Architects and engineers will develop site plans and blueprints for the building. These are used by contractors to develop estimates for the construction costs.

Step 2. Submit plans, request scheduling for approvals.

In most cases, there will be local governmental regulations regarding any construction that occurs. Projects must be reviewed in order to meet zoning and land-use requirements, environmental regulations, or building codes. In this step, project planners submit their plans, drawings, and applications to city or county staff and the watershed district, and request that their project be put on the calendar for any necessary approval reviews.

Step 3. Make a detailed construction budget.

The construction budget should be as detailed as possible. Identify what you expect it will take to complete the project.

Step 4. Qualify contractors and develop bid list.

This step clarifies the requirements for contractors to be eligible to bid on the project and notifies them that the job will occur. A notice or "request for bids" is published with a deadline for accepting bids. A list of the bids received is then compiled.

Step 5. Purchase the property.

Acquiring real property can be a lengthy process, especially if federal funds are being used. The typical acquisition process under the Uniform Relocation Assistance and Real Property Acquisition Regulations includes 1) determine specific property to be acquired; 2) issue preliminary acquisition notice; 3) obtain preliminary title evidence, boundary survey, and legal description; 4) contract for property appraisal and invite owner to accompany appraiser; 5) await appraisal review by state agency; 6) establish just compensation; 7) provide written purchase offer and summary statement; 8) explain acquisition procedures and negotiate with owner; 9) if negotiations are successful, sign purchase agreement; 10) execute deed, complete settlement cost statement, pay incidental costs, and pay net amount; 11) execute short-term lease for period until relocation is completed and obtain final evidence of title showing the state agency as owner.

Step 6. Initiate and complete bidding requirements.

The normal process of awarding contracts is to advertise for bids; allow substantial time for contractors to submit bids; publicly open those bids received; and, within 90 days, award the contract(s). The general rule of thumb is to get at least three bids for every job before selecting a contractor.

Step 7. Finalize construction estimates and project budget.

The contractor who is awarded the bid should have the opportunity to review his or her bid before a final project budget is agreed upon.

Step 8. Develop a construction schedule.

A construction schedule should include the estimated dates the work will begin, inspection dates for work in progress, and draw-down dates when the contractor can get partial payment for completed work.

Step 9. Close on loans and grants.

Loans and grants must be finalized with signatures and a transfer of funds into the project account. This is called a loan or grant closing.

Step 10. Obtain building permit.

If the local jurisdiction requires a building permit, it must be obtained before any construction can begin.

Step 11. Hold preconstruction meeting, commence construction.

A meeting with the project team and the contractor to review the project schedule, financing, and timeline is often held. After the preconstruction meeting, the building begins. A ground-breaking ceremony is sometimes held at this time. This is an opportunity to celebrate the work that has been completed to make the project happen. Ground-breaking ceremonies are also opportunities to let the community know what is happening with the project.

Step 12. Initiate marketing.

It is best to develop the market plan prior to completion of the project. If marketing begins before construction is completed, delays in obtaining revenue from rent or sales will be minimized.

Step 13. Monitor progress or subcontractors throughout project.

Projects that use federal funds require federal labor standards be monitored. The Davis-Bacon Prevailing Wage Act stipulates that all laborers and mechanics employed on any federally assisted work must be paid wages at least once per week that are prevailing in their labor market for corresponding classes of workers as determined by the Secretary of Labor. Rehabilitation of residential property is exempt from Davis-Bacon unless it is designed for use of eight or more families.

The Contract Work Hours and Safety Standards Act requires laborers and mechanics be paid one and one-half times their rate of compensation for hours worked over 40 hours in one work week. Second, it assures that no laborer or mechanic will be required to work in surroundings that are unsanitary, hazardous, or dangerous to health or safety.

Step 14. Issue final inspection and certificate of substantial completion.

PHASE V. PROJECT OPERATIONS

As the project construction nears completion, the attention of the development team turns toward the marketing and sales/rental of the units. Details regarding the closing of construction loans and the transfer to more permanent financing must also occur. The following seven steps are usual processes in the completion of a real estate development effort.

Step 1. Solicit and select property manager or sales representative.

This step often occurs prior to the completion of the project construction. A decision is made regarding whether the developer or project team will take on the day-to-day responsibility of selling or renting the property. Typically, a property manager or sales representative is hired.

Step 2. Hold open house/community relations event.

Holding a community event or open house proves an opportunity to advertise the building to potential residents as well as let the wider community see the project. Once the units have been rented or sold, the general public will rarely have an opportunity to see the inside of the building(s).

Step 3. Select tenants or offer sales.

Legal Issues of Fair Housing

The Fair Housing Amendments of 1988 expanded the Civil Rights laws to protect persons with disabilities and families with children from discrimination in the sale or rental of housing. It is illegal to discriminate against people based on race, color, creed, sex, marital status, religion, and national origin. In some states and locales, additional protections are provided prohibiting discrimination based on sexual or affectional orientation or reliance on public assistance.

The U.S. Department of Housing and Urban Development enforces fair housing laws. Persons who believe they are discriminated against may file a complaint with HUD or contact a lawyer or legal assistance.

Landlord-Tenant Rights and Responsibilities

The lease is a legal contract that establishes rights and responsibilities for both landlords and tenants. Landlords must deliver the premise at the beginning of the lease. They must maintain the premises in habitable condition and supply essential services. Landlords must provide for tenants quiet enjoyment of the unit and notify tenants regarding terms of the lease and lease expiration. In addition, landlords are required to return security deposits when the prescribed period of tenancy ends. Tenants have responsibilities also, which include, first and foremost, payment of rent. In addition, tenants must comply with the terms of the lease and maintain their unit in clean and safe condition. They must respect the privacy and quiet enjoyment of others. Tenants are required to allow reasonable access to the unit by the landlord and to provide proper notice prior to vacating the premises.

Step 4. Initiate construction closeout.

Before a building is occupied for the first time, a construction closeout is completed. This is a walk-through inspection with the new owner who signs a statement that the project is completed to his or her satisfaction.

Step 5. Hire a site manager.

For rental property, the initial rental of units can be done by one person or firm, but ongoing management may be handled by someone else. In large projects, a site manager is commonly hired to handle day-to-day problems in the building.

Step 6. Oversee move in.

For first-time occupants of a new building or one that has been substantially renovated, it is important for the development team to oversee the move-in process. New occupants need to be assured that their homes will be safe when there are many unfamiliar people around, moving household goods in and out. At such a time, residents are particularly vulnerable to theft.

Step 7. Conduct equipment warranty inspections.

Any equipment with warranty options, such as stoves and refrigerators or mechanical systems, should be evaluated and inspected to assure that the equipment is in working condition. The warranties should be filed with the appropriate company and copies kept with the property-owner's records.

PHASE VI. POSTOCCUPANCY EVALUATION

Completion of a housing construction project is just the beginning, not the end of a community's involvement in housing. The process of marketing, managing, and maintaining the units is an ongoing challenge. After a housing development is completed and residents have lived in it for two years or more, a **postoccupancy evaluation (POE)** can be used to review the success of the project. POEs are systematic means of determining the financial success of the project, the residents' satisfaction, and, for rental properties or developments with homeowner's associations, the management perspective.

Residents' opinions about the development can be obtained through the use of a survey, interviews, or group discussions. Questions typically are asked around a set of themes or concerns that have been expressed. It is a good idea to keep the survey brief—one or two pages. Ask questions that apply to the project. Examples of survey questions are provided in Appendix IX.

Summary: New Housing in Your Community

Housing development can be a challenging and rewarding process, but it does not happen spontaneously. Even though many obstacles exist, once a housing project is completed, it provides homes for many people and will last many lifetimes. The actual creation of housing is born out of a dream and made a reality by planning, organization, and determination.

Recall the five trends that have shaped the housing needs in rural communities. Then, discover how some communities are meeting those trends head-on. Recognizing the trends in your community will be an important first step in identifying the most pressing housing needs for your community. See Appendix VIII for community case studies.

Trend 1: Economic success increases housing demand. The town of Hull, Iowa (population 1,740) experienced a housing shortage due to the expansion of local firms. The town's initial solution involved the subsidized development of 12 tax-forfeited properties. That success led to a second development involving 25 new lots. In Winnebago, Minnesota (population 1,500), local economic development was limited by a housing shortage. A major local employer provided a second mortgage matching a no-interest loan for eight units of rental housing for company employees. Eleven employers in Hoffman, Minnesota (population 639) contributed to a community fund to convert a former school into eight rental units. In Pelican Rapids, Minnesota (population 1,929), 40 units of multifamily rental housing were built with the employer as a silent partner. In Bigfork, Minnesota, 40 new single-family homes were constructed with support from an employer who wanted to expand operations there.

Trend 2: Demand for scarce housing increases housing costs beyond the means of low-income residents. Rapidly rising housing costs and a scarcity of rental units prompted the city of Northfield, Minnesota (population 14,700) to provide affordable rental housing for larger families. The community development agency's initial 8-unit undertaking has blossomed into a project involving 24 rental units; 18 units of single-family, self-help housing; 2 transitional housing units; 9 additional units of leased transitional housing; and 2 units of homestead rehabilitation housing.

Trend 3: The increased proportion of elderly residents creates demand for specialized housing. To fund a senior housing project, the city of Imperial, Nebraska (population 2,007) issued municipal revenue bonds.

Trend 4: Lack of ongoing construction over the years has led to an aging housing stock. In northern Minnesota, the shortage of contractors and skilled labor was addressed through several projects. The Northwest Technical College Carpentry Program built two homes on campus, which were then moved to a subdivision. High-school students worked on a home with Habitat for Humanity, and a second Habitat project involved local adults. In Galesburg, Illinois (population 33,530), tax-credit financing has spurred construction, first of a 60-unit rental development for low-income residents, and now a second, 64-unit development, also for low-income residents.These projects increased the social capital in the community while creating new homes for local residents.

Trend 5: Rural homelessness persists, often involving families with young children, workers who need short-term rental housing, and young single adults. Low-Income Housing Tax Credits have provided capital for projects, lowering the amount to be borrowed and thus making projects more affordable. Affordable housing is one way to prevent homelessness in communities.

These trends can be perceived as chances to develop new housing or improve existing housing. Because of the changing population, demographics, and lifestyles, communities have the opportunity to mold and color themselves for future generations. Innovation, enthusiasm, and careful planning can ensure a result that will both meet needs and enhance the community.

Appendix I.
The Five "A's" of Housing—A Community Review

One way of assessing the housing situation is to consider five factors that contribute to sufficient housing in a local community. These five factors include availability, adequacy, appropriate architectural design, affordability, and area amenities.

FIVE A'S CHECKLIST

1. Availability

Vacancy rates are a common measure of the availability of housing in a particular market area. One rule of thumb is that a community needs to have an overall vacancy rate of 5 percent in order to provide enough options for relocating households to choose a home that meets their family's needs and financial ability. In smaller communities, vacancy rates of 5 percent or greater may mistakenly suggest that new housing is not needed. Communities need to evaluate vacancy rates for various kinds of housing–rental units, existing home sales, senior housing, or rent-assisted housing.

What kind of housing already exists in your community? Review the current housing stock.

How many housing units are available currently for rent or for sale? _____

How many are of the following housing types? _____

- single-family detached homes _____
- apartments _____
- manufactured homes _____
- townhouses _____

What percentage of the housing is available for sale or for rent? _____

2. Adequacy

Housing adequacy focuses on the condition of the total housing in the community, as well as the condition of the housing currently on the market.

How many homes or apartment units are units in substandard condition, with

- deteriorating appearance? _____
- inoperable plumbing? _____
- inadequate wiring? _____
- leaking roofs? _____
- crumbling foundations? _____
- unsafe steps? _____

Total number of substandard homes in your community _____

Are people in your community living in garages or sheds? _____

Are individuals or families staying for months in campgrounds? _____

3. Appropriateness—Matching Housing and Household Needs

Next, consider how well the housing in the community matches the people who live there as well as potential residents.

Do persons with physical or mental disabilities have homes that support them, or do their living situations create barriers to the best quality of life possible? _____

Are families living in overcrowded places too small to comfortably accommodate the number of people living there? _____

Is there a mix of housing available for those who would like to move to a bigger or smaller home? _____

Is housing available for those who are renting but would like to become homeowners, as well as homeowners who would really rather not have so much responsibility and upkeep? _____

4. Affordability

The expected allocation of a household's budget for housing has steadily increased over time. In the early 1900s, a thrifty household was expected to budget 20 percent of its income for housing. Today, the standard set by the U.S. Department of Housing and Urban Development is 30 percent or less. Housing affordability is the ratio of a household's shelter cost (rent or mortgage plus basic utilities) to its household income. For example, a household having one earner with a job paying $7.50 per hour ($1,200/month) needs housing that costs under $400 per month (including utilities) to be affordable. For families considering home ownership, the interest rate can directly impact the monthly mortgage costs. Increasing interest rates will make housing less affordable.

Is housing available in your community so that households across the entire range of incomes can obtain it without spending more than 30 percent of their income? _____

Another measure of housing affordability is to determine if the cost of housing puts people into poverty.

Is the cost of housing such that the remaining income is within two-thirds of the poverty level adjusted by family size? _____

5. Amenities

Finally, you will want to assess the community for the amenities it provides. Determining the quantity and quality of a community's amenities is difficult and rather subjective. The following questions are designed to stimulate a local discussion. For many communities these services are shared with other towns.

Are housing development resources available? _____

Do local lenders provide housing development loans? _____

Are contractors available to build new homes or apartments? _____

Are contractors available to do home renovation, remodeling, and repairs? _____

Are educational programs available for first-time homebuyers? _____

Are there sufficient employment opportunities? _____

Are the schools of high quality? _____

Are retail services available? _____

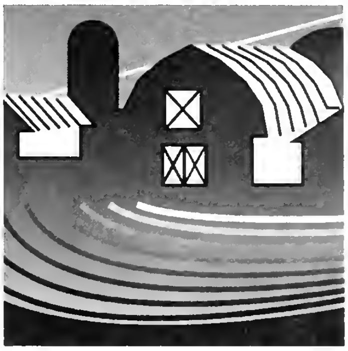
Is day care available for children and adults? _____

What are the recreational facilities and opportunities in the area? _____

Are medical services (doctor, dentist, clinic, hospital, pharmacy) available? _____

Is public transportation available for persons who are unable to drive? _____

Appendix II.
Suggestions for Collecting Housing Information



Answering the questions about the housing situation in your community will require collecting as much factual information as possible. The information is useful for explaining the extent of the need and identifying the priority concerns. The numbers are often needed for planning documents, funding applications, and public relations. Use multiple sources of data to get as complete a picture as possible.

Government agencies and local organizations often have data already available; this is called secondary data. However, secondary data such as census data can often be out of date. It is a good idea to verify the data or collect new primary data that reflects the situation in the community today. The following section briefly describes different sources of housing information and offers suggestions for collecting or using the data.

DATA SOURCES

The place to find the basic information about housing in your community is at the nearest library. You may also want to search for information on the Internet. (See Appendix V for a list of web sites to start your search.) The United States Department of Commerce, Bureau of the Census collects data on housing across the country. Some information is collected every 10 years as part of the census of Population and Housing. Census information is available in local libraries and online through Internet resources. One thing to keep in mind about using census data is that the larger the geographic area that you use, the more detailed information is available. For areas with small populations, information may be very limited. Information on incomes and housing costs is typically reported as the "median." This means that an equal number are more or less than the number provided. If the reported number is a "mean," it refers to the *average.* Average numbers can be misleading, especially if small groups are being considered.

Local realtors and appraisers often have information about recent home sales and other residential property transfers. They are a good source of information regarding the local housing market. Information available may include homes currently on the market and the asking price, average price of homes sold in the past six months, the average length of time property remains on the market, and a general impression of local housing needs. It is important to recognize that this information is focused on home and property ownership. Realtors and appraisers may not be as aware of housing situations for renters in your community unless they also provide rental listings or management services.

Real estate transfers are recorded with the county for tax purposes. Contact your county register of deeds at the courthouse to see if information on locations of recent property sales is available.

If your community or county requires building permits prior to new construction or for major remodeling, you may be able to collect information about housing construction and renovation by reviewing these records.

Nonprofit organizations frequently gather information about the local community and needs of individuals and families. Check with agencies and organizations to see what data they have already collected. Ask to look at grant applications, annual reports, or summaries of the services they have provided. Examples of local organizations that may be helpful include local religious organizations, regional planning councils, community action agencies, university resources, area agencies on aging, Habitat for Humanity chapters, public and private schools, and advocacy groups such as domestic violence services or tenant organizations.

Local planning officials, elected governmental representatives, and directors of agencies and organizations are often well informed about local housing needs. A brief interview with them is a useful means of collecting information. Be sure to ask local law officials and school administrators as well. Ask the same questions of each expert. Record their responses as completely as possible. Read through your notes immediately following the interview and clarify any confusing details while your memory is still fresh. A tape recorder is very useful, but ask permission of the person you are interviewing before taping the conversation.

PHOTOGRAPHIC DOCUMENTATION

A picture is worth a thousand words. Providing photographs of the local housing situation is a good way to see your community from a fresh perspective. One idea is to purchase disposable cameras and give them to a random selection of residents (children, teenagers, elders, advocates, officials, etc.). Ask each person to take pictures of the five "best" and five "worst" examples of housing in the community. Make a display of the photographs, numbering them and identifying their location on a map. Post the display in a storefront window or other public place, and invite viewers to comment on the photographs.

MAPPING-WINDSHIELD SURVEY

A windshield survey is a visual observation of a community that is recorded on a plat map or similar map of the community. Plat maps are often available at the county assessor's office. These maps include not only the existing streets and roads but also boundary lines for property ownership and, often, the outlines of major buildings such as houses and retail businesses.

1. General Overview

Begin by identifying features of the approaches to your community. What type of roads lead into and out of town? Is there outlying housing beyond the city limit (mobile home parks, subdivisions, or clusters of houses)? Are there signs that indicate local housing developments, businesses, churches, or service clubs that advertise your community to visitors and potential new residents? Are there major roads, rivers, lakes, or railroad tracks that separate your community? Identify neighborhoods? Are there obvious differences in housing by general areas of the community? Is there evidence of public transportation such as bus-stop signs, taxi, and senior citizens' buses?

2. Residential Areas and Neighborhoods

Note the general character of the neighborhoods. Locate the variety of housing types on your map. Is there any multifamily housing? (Multiple mailboxes are one clue that multifamily housing is present, even if the style of building does not suggest it.) Note evidence of the characteristics of the families (e.g., toys in yards, type of vehicles). Are there curbs, gutters, sidewalks, and streetlights? Note any facilities that provide services such as childcare facilities, youth centers, or senior centers. Note schools, cultural facilities (e.g., public library, museum, community theater, band shell), and religious buildings.

3. Downtown and Business Districts

Note commercial businesses and services. Identify the type of businesses. Be sure to identify employers.

4. Municipal Facilities/Services

Locate the city or village hall, county courthouse, police and fire stations, hospitals, clinics, mental health facilities. Identify parks and recreation areas such as ball fields, playgrounds, and camping facilities. Be sure to include water and sewer facilities such as the water tower and sewage treatment plant or lagoons.

5. "Windshield" Evaluation of Neighborhood Housing Quality

HOUSING QUALITY CHECKLIST

Property Address ______________________

Randomly select a block from each of the residential areas and neighborhoods that were identified earlier. Map the condition of the housing in these blocks by looking at the outside of each house, and note any features or conditions that may affect the health, safety, and general welfare of the housing occupants or neighbors.

Rank each property on a scale of 1 to 4:

1 = dilapidated and/or dangerous, should be demolished
2 = needs major repair (foundation cracked, roof needs to be replaced)
3 = needs minor repair (paint is peeling, windows are cracked)
4 = good condition

When ranking each property, consider the following items:

_____ Are sidewalks in good condition?

_____ Are entry steps even and sound; if 3+ steps, is there a solid handrail?

_____ Are storm or screen windows in place and in good condition?

_____ Are doors in good condition?

_____ Is the chimney safe and sound (no missing bricks or mortar)?

_____ Is the roof solid without missing shingles or defects that might cause leaks?

_____ Are gutters and downspouts in place and set to carry water away from the foundation?

_____ Is the exterior paint in good condition without peeling, chipping, or flaking?

_____ Are garages and/or sheds structurally sound and in good repair?

_____ Are garbage and trash containers closed?

_____ Is the landscaping well maintained—grass mowed or snow removed?

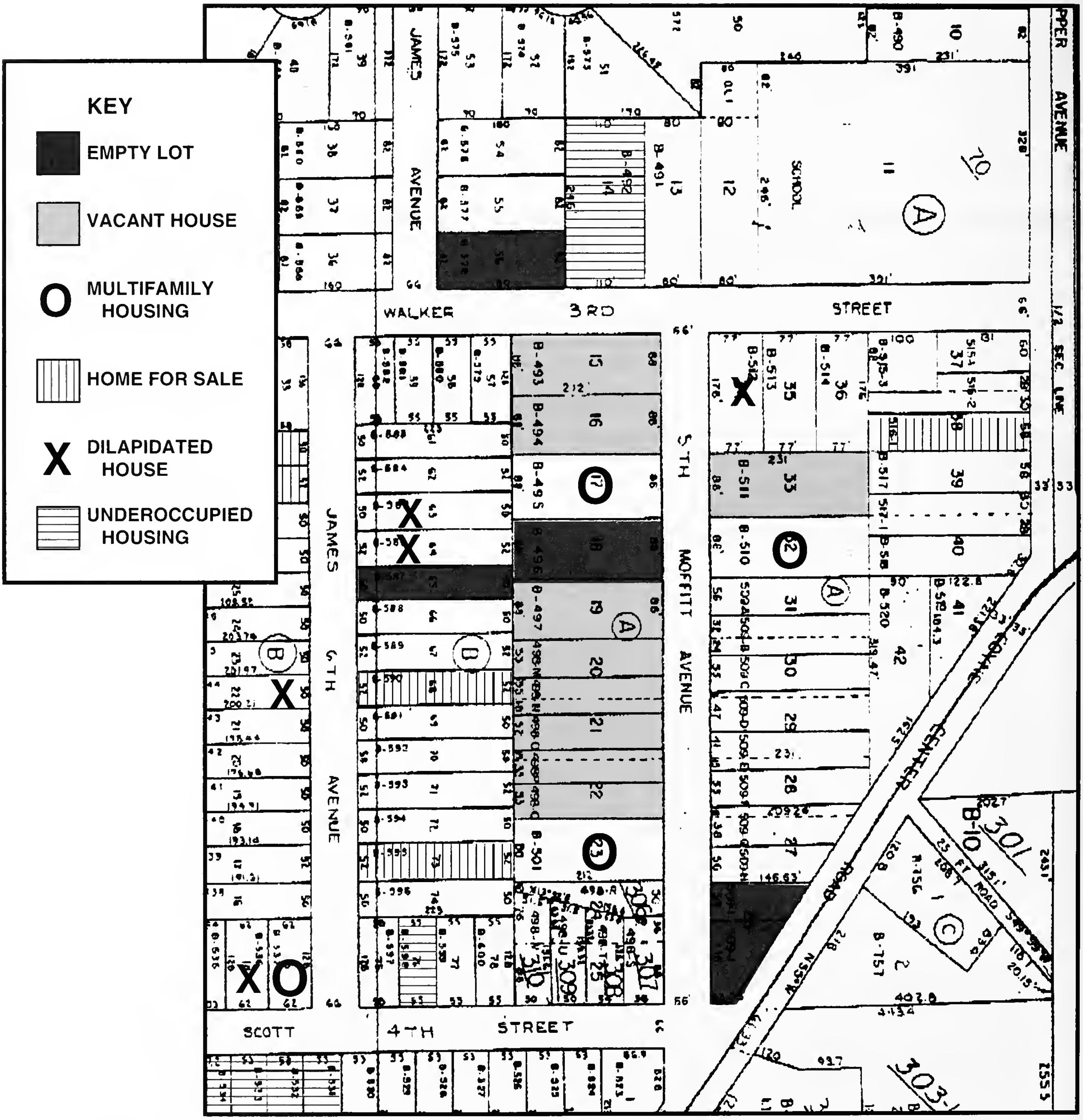
_____ Is off-street parking (other than lawns) available?

_____ Average score for property

Source: White, 1992.

6. Other Information

You may wish to add to the map the boundaries of land-use zoning districts. If you have information on property that is in violation of local building codes or where utilities have been disconnected, that may be noted as well. Using different colors to identify housing condition and land use or zoning will make the map easier to understand. Identify opportunities for housing development or redevelopment such as vacant land, abandoned schools, in-fill lots, or vacant second-story storefronts.



HOUSING REVITALIZATION SURVEY OF LOCAL RESIDENTS

To identify the need in your community for housing revitalization, a survey mailed to local residents may be helpful. Depending on the size of your community, you may want to conduct a random-sample survey rather than a survey of all residents. Keep the survey as short as possible. A sample survey is provided here. For more information, see White, Jensen, and Cook, 1992. This publication is also available online. Go to http://www.extension.iastate. edu/Pages/housing/data-access.html and click on American Association of Housing Educators.

HOUSING AND NEIGHBORHOOD REVITALIZATION SURVEY

Survey number _____

The city of Hometown is conducting a survey of citizens to obtain needed information about housing and public facilities conditions in your neighborhood. This information will help us decide whether to apply for a grant to make improvements. The information you give us will be *confidential.* Your participation in this survey is voluntary. Please return it when you pay your water bill by sending it with your check, or put it in the box outside the Water Department at City Hall.

Thank you for your help!

1. Do you own or rent your dwelling unit?

_____ own _____ rent

2. Approximately when was your house/building built? (check one)

_____ this year

_____ 1979-1999

_____ 1960-1978

_____ 1940-1959

_____ before 1940

3. Do any of the following need major repair or replacement? (Check all that apply.)

_____ doors/windows _____ heating

_____ foundation/structure _____ roof

_____ well/septic _____ plumbing

_____ electrical _____ siding

4. Does anyone living in your household have a physical disability?

_____ yes _____ no

If yes, what kinds of improvements would make your home more convenient for that person?

____

____

____

____

____

5. Would you be willing to apply for a zero-percent deferred payment loan to make needed repairs on your home? The loan would not need to be repaid unless the home was sold within five years.

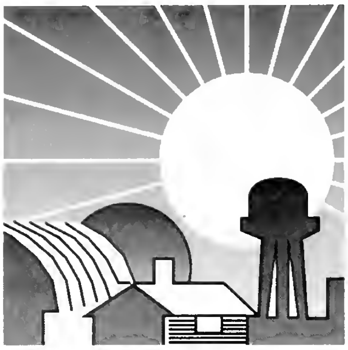
_____ yes _____ no

6. How many children under the age of six years live in your household? _____

7. Compared with the median household income of the area, $xx,xxx, your income is

_____ above the median income

_____ below the median income



Appendix III.
Real Estate Development Checklist

Developing residential real estate is a complicated process. The following checklist is designed to help nondevelopers follow the process. The development process is not always a neat linear one. The following items are what is typically needed to complete new construction of multifamily housing. This process could take from three months to three years to complete. Set a project completion date, and also prepare a timeline identifying completion dates for each phase of the project.

Preconstruction Phase

_____ Convene a steering group or coalition of interested persons.

_____ Complete a community housing assessment plan.

_____ Identify priority problems to be addressed.

_____ Obtain community support for a specific project.

_____ Conduct the market analysis.

_____ Create a project timeline.

_____ Develop a design concept.

_____ Organize a development team.

_____ Conduct the site search.

_____ Select preliminary choices.

_____ Complete informal environmental and regulatory review.

_____ Detail a design proposal with initial cost estimate.

_____ Locate potential sources for financing.

_____ Gain site control with or without conditions.

_____ Develop a financial plan for development, management, and funding.

_____ Hire appropriate consultants (optional).

_____ Submit funding applications.

_____ Obtain regulatory approvals (zoning, environmental assessment, etc.).

_____ Revise schematic plans and updated cost estimates.

_____ Prepare final funding and loan forms.

_____ Draft marketing and management plan.

_____ Determine roles and method of construction management.

_____ Reevaluate approved project to development concept.

_____ Negotiate and secure all project financing.

Construction Phase

_____ Complete design drawings and estimates.

_____ Submit plans and request scheduling for approvals.

_____ Obtain building permits.

_____ Complete final construction budget.

_____ Qualify contractors and develop bid list.

_____ Purchase property.

_____ Complete bidding and select developer/contractor.

_____ Develop a construction schedule with draw-down dates.

_____ Close on loans and grants.

_____ Commence construction.

_____ Initiate marketing.

_____ Monitor construction progress.

_____ Conduct construction inspections at key points—wiring, mechanical systems, etc.

_____ Complete construction.

_____ Issue final inspection and certificate of completion.

Occupancy and Operations Phase

_____ Initiate marketing plan.

_____ Solicit and select property manager or sales representative.

_____ Hold open house/community relations event.

_____ Select tenants or offer sales.

_____ Hire site resident manager.

_____ Oversee move in.

_____ Complete evaluations and warranty inspections.

_____ Conduct postoccupancy evaluation.

Appendix IV. Financing Pro Forma

The first part of the project pro forma is a *project cost analysis* that includes costs of acquiring the property, refinancing costs, construction costs, fees, and development costs. A descriptive outline of the project financing is provided here, followed by an example of a completed project.

PROJECT COST ANALYSIS

1. Acquisition costs including cost to purchase land and the existing building, which includes any liens or outstanding taxes that must be paid to clear the title.

2. Refinancing costs include the amount of the principal to pay off existing loans plus any prepayment penalty fees.

3. Cost of construction including the building materials that can be estimated on a square foot cost basis or detailed out, on-site and off-site improvements, general conditions (estimate 6 percent), overhead costs (estimate 2 percent), profit (estimate 6 percent), and a contingency amount for unanticipated construction expenses (estimate 5 percent).

4. Fees that should be included are permanent loan fee, construction loan fee, appraisal(s), title fee, permit fees, architect and engineering fees, developer fees (estimate 15 percent), legal costs, and environmental and market studies.

5. Development costs include the interest charged on the construction loan, real estate taxes, required escrow funds, insurance, closing costs for both construction and permanent loans, marketing and expenses to rent or sell units, cost certification, legal fees for tax opinions, and, if appropriate, a tax-credit processing fee (6.5 percent is estimated for Low-Income Housing Tax Credit projects).

In order to obtain financing for rental projects, it is necessary to include the **annual income and expense analysis** as part of the pro forma. This includes projected revenue for the project and projected expenses to estimate the cash flow and assure the lender that the project will generate sufficient income to repay the long-term debt. Revenues include rent or sales income to the project. Projected revenues must be adjusted for vacancies. Expenses include insurance, management and administration, operating costs, repair and maintenance, real estate taxes, and reserves for major improvements and unexpected costs.

ANNUAL INCOME AND EXPENSE ANALYSIS

Income

Potential gross income is the total possible revenue from rents. In tax-credit projects or other assisted housing where some units have rent levels restricted by the income of the occupants, a range is estimated.

Vacancy and loss must be subtracted from the potential gross income since it is unrealistic to expect 100 percent paid occupancy at all times. Vacancy is typically estimated at 5 percent.

Miscellaneous income may be added if the project includes other sources of revenue such as community space that is available for rent.

Expenses

Insurance expenses include fire and liability insurance, employee health insurance, and worker's compensation insurance.

Management and administration costs include the management fee if a firm is hired to manage the project; payroll for management staff; costs for legal, auditing, and accounting services; and advertising costs.

Operating expenses include utilities, cleaning supplies or service, trash removal, and exterminating.

Repair and maintenance expenses include payroll for maintenance workers, supplies, decorating costs, grounds-care contract, supplies for landscaping, and snow-removal services.

Reserves are required to provide funds for scheduled maintenance, mechanical replacement, and major improvements, such as roof replacement, resurfacing of parking areas, etc.

Real estate taxes are also included in expenses.

Once the income and expenses are identified, the **net operating income** provides the estimated cash flow of the project. This amount is what will be used to pay the financial debts and provide profit to the investors of the project.

Net Operating Income = Potential Gross Income —Total Expenses

Capital Analysis

The third part of the pro forma is the **capital analysis,** which consists of a description of the costs of financing and capital resources. The capital analysis includes a debt coverage ratio, mortgage costs, and tax-credit analysis where appropriate.

Debt coverage ratio is determined by making sure that the net operating income is sufficient to cover the cost of the debt service. Debt service is the mortgage principal payment, plus mortgage insurance, taxes, and required property insurance. Most lenders require that a minimum debt coverage ratio be maintained to approve financing the project. In some cases, a maximum debt coverage ratio is also established.

Mortgages are analyzed as part of the pro forma as well. For all sources of financing, document the type of loan, interest rate, amortization, term (length of the loan), principal (amount borrowed), factors, and debt service requirements.

If **tax-credit financing** is to be used, the capital analysis must include this as well. There are two parts to tax-credit analysis. The first is the tax-credit basis, which is the total project costs minus land and building costs. The second includes tax credits for the building itself. For both parts, the tax-credit amount is determined. The cash value will be somewhat less than the amount determined by the sale of the tax credits (typically $.60 to $.70 for each $1.00 of tax credit extended over 10 years).

Amount to be financed is the total project cost less tax-credit amount and all loan proceeds. The remaining amount, called the **shortfall**, is the amount of cash required to do the project.

Shortfall = Total Project Cost – Tax Credit – Loans

ILLINOIS EXAMPLE FOR RETIREES' RENTAL HOUSING

The pro forma on page 47 is from a housing development for the elderly in Illinois. This particular project has 115 units. Though this was a private sector initiative, there was a need for some public sector assistance. This assistance came in the form of federal tax credits and tax increment financing (TIF) for all 115 units.

Listed on this sheet are the types of expenses the developers expected. Since this project used tax credits, there are some additional items included. Under project cost analysis, the first four lines deal with tax credits. The first line begins with "TC Two Bedroom 60 percent 607 – 73." What this first line means is tax credit (TC), two bedrooms, 60 percent of median income, $607 per month rent, minus $73 per month utility allowance. The remaining three lines follow the same pattern.

When looking at this pro forma, a typical lender will first look at the "debt coverage ratio." This is located in the right-hand column near the top. The debt coverage ratio indicates how much more the net income (income after all expenses except debt service) exceeds the debt service (mortgage payment). Debt service is very important to the lender; it basically defines the lender's "comfort level" with the project. In general, a debt coverage ratio of 1.10 or higher is expected.

After looking at the debt coverage ratio, the lender will look over the revenue sources and inspect them for reasonableness. After considering the revenues, the lender will examine the expenses in the same manner. The reasonableness test is usually based on prior experience, but may be based on comparison of similar projects.

Pro forma: Project, Cost, Income, Expense, and Capital Analysis

PROJECT COST ANALYSIS

TC Two Bedroom	60%	607-73	36
TC Three Bedroom	60%	702-90	56
TC Two Bedroom	30%	304-73	10
TC Three Bedroom	30%	351-90	13
Total			115
ACQUISITION COST			
Land			50,000
Liens & Taxes			0
Building			0
ACQUISITION: Total			50,000
: Per Unit			435
REFINANCING COST			
Existing Principal			0
Prepayment Penalty			0
Other			0
REFINANCING: Total			0
: Per Unit			0
OWNER EQUITY RECAP: Total			0
:Per Unit			0
CONSTRUCTION COST / Unit			64,431
Const./Rehab Costs			6,809,538
On-Site Improvements			500,000
Off-Site Improvements			100,000
Gen. Conditions (6%)			444,572
Overhead & Profit (2% & 6%)			592,763
Construc. Contingency (5%)			370,477
CONSTRUCTION: Total			8,817,350
: Per Unit			76,673
FEES			
Permanent Loan Fee			50,000
Construction Loan Fee			76,000
Appraisal(s)			3,000
Title & Permits & Fees			5,000
Architect/Engineer			135,000
Developer (15%)			1,350,000
Legal			35,000
Environmental & Market Studies			5,000
FEES:Total			1,659,000
: Per Unit			14,426
DEVELOPMENT COST			
Construction Interest			112,000
Real Estate Tax			2,500
RET & HIP Escrow			55,000
Insurance			15,000
Perm Loan Closing Cost			0
Const. Loan Closing Cost			0
Marketing/Soft Cost/Lease Up			50,000
Cost Certification			6,000
Consultant			109,350
Tax Opinion			0
Tax Credit Processing Fee (6.5%)			58,800
DEVELOPMENT COST:Total			408,650
: Per Unit			3,553
PROJECT COST:Total			10,935,000
PROJECT COST:Per Unit			95,087

ANNUAL INCOME AND EXPENSE ANALYSIS

POTENTIAL GROSS INCOME	$	$/Unit	% of PGI
TC Two Bedroom 60% 607-73	230,688	6,408	29.00%
TC Three Bedroom 60% 702-90	411,264	7,344	51.80%
TC Two Bedroom 30% 304-73	27,720	2,772	3.50%
TC Three Bedroom 30% 351-90	40,716	3,132	5.10%
TIF Income 70% of Real Estate Taxes	84,000	730	10.60%
Total POT. GROSS INCOME (PGI)	794,388	20,386	100.00%
VACANCY & LOSS	35,519	772	5.00%
EFFECTIVE GROSS INCOME	758,869	19,614	95.00%
INSURANCE EXPENSE	$	$/Unit	% of PGI
Fire & Liability	11,661	254	1.50%
Employee Health & Work Comp	4,428	96	0.60%
Total INSURANCE	16,089	350	2.00%
MANAGEMENT & ADMIN EXPENSE	$	$/Unit	% of PGI
Management Fee	23,620	513	3.50%
Management Payroll	45,700	993	5.80%
Legal, Audit, & Acctng. Services	7,320	159	0.90%
Advertising	3,780	82	0.50%
Other	2,760	60	0.30%
Total MANAGEMENT & ADMIN.	83,180	1,808	11.00%
OPERATING EXPENSE	$	$/Unit	% of PGI
Fuel Oil	0	0	0.00%
Gas	10,000	217	1.30%
Electricity	10,000	217	1.30%
Water & Sewer	4,000	87	0.50%
Cleaning Supplies	2,400	52	0.30%
Payroll Taxes	5,970	130	0.80%
Trash Removal	3,600	78	0.50%
Exterminating	1,500	33	0.20%
Cleaning Contract	1,200	26	0.20%
Total OPERATING	38,670	841	4.90%
REPAIR & MAINTENANCE EXPENSE	$	$/Unit	% of PGI
Maintenance Payroll	14,000	304	1.80%
Maintenance Supplies	1,200	26	0.20%
Decorating	1,800	39	0.20%
Grounds Contract & Supplies	12,000	261	1.50%
Other	3,080	67	0.40%
Total REPAIRS & MAINTENANCE	32,080	697	4.00%
REPLACEMENT RESERVES	23,000	200	2.90%
REAL ESTATE TAXES (1/3 * 8%)	120,000	2,609	15.10%
TOTAL EXPENSES	313,019	2,722	39.40%
NET INCOME	445,849	9,692	55.60%

Maximum Allowable Cost Per Unit		# Units	Total
Two Bedroom	81,418	46	3,745,228
Three Bedroom	105,326	69	7,267,494
Maximum Allowable Project Cost		115	11,012,722
Maximum Allowable Cost Per Unit			95,763

CAPITAL ANALYSIS

Net Income	445,849
Debt Service	378,623
Minimum Debt-Coverage Ratio	1.10
Maximum Debt Service	405,317
Debt Coverage Ratio	**1.178**

********* Mortgage Routine 1 ***********

	Mort. #1	Mort. #2	Mort. #3
Type(1-2)	1	1	1
Interest Rate	8.00%	0.00%	0.00%
Amort (Mo)	360	0	0
Term (Mo)	240	0	0
Principal	4,300,000	0	0
Factor	0.67%	0.00%	0.00%
Debt Service	31,552	0	0
	x12		
Annual	378,623		

********* Mortgage Routine 2 ***********

	Mort. #4	Mort. #5	Mort. #6
Type(1-2)	1	1	1
Interest Rate	0.00%	0.00%	0.00%
Amort (YR)	0	0	0
Term (YR)	0	0	0
Principal	0	0	0
Constant	0.00%	0.00%	0.00%
Debt Svc	0	0	0

Total Debt Capital (Mortgage)	4,300,000
Total Debt Service	378,623
Cash Flow after Debt Service	67,227
Available New Debt Service (ANDS)	26,695

TAX CREDIT ANALYSIS
(Excludes Land & Building)

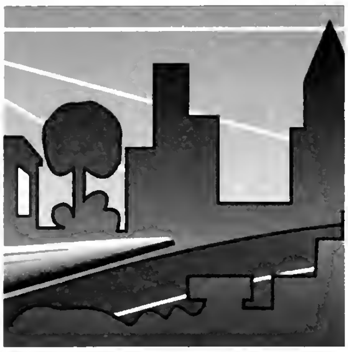
Total Project Cost	10,935,000
Less: Land & Bldg Cost	50,000
Equals: Tax Credit Basis	10,885,000
Tax Credit Amount (9%)	904,461
Cash Value of Credits	0.72
Cash Equivalent of Tax Credits	651,212
Over 10 yrs.	6,512,119
Multiplier Tax Credit Units	99.00%
Tax Credits	6,446,998

TAX CREDIT ANALYSIS
(Building Only)

Building	0
Tax Credit Amount (4%)	0
Cash Value of Credits	0.72
Cash Equivalent of Tax Credits	0
Over 10 yrs.	0

AMOUNT TO BE FINANCED

Total Project Cost	10,935,000
Tax Credit Amt (Include Bldg.)	6,446,998
Project Cost less Tax Credit Amt	4,488,002
Loan Proceeds	4,300,000
Shortfall	188,002



Appendix V.
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Web Sites for Information on Housing for Seniors

American Association of Retired Persons (AARP)
http://www.aarp.org

National Council of Senior Citizens
http://www.ncscinc.org

Senior Communications
http://www.senior.com

Web Sites for Housing Needs Assessments

Developing Community Housing Needs Assessments and Strategies
http://www.extension.iastate.edu/pages/housing/aahe/guidebook/contents.html
Click on American Association of Housing Educators.

Federal Home Loan Bank of Chicago—list of Illinois members
http://www.fhlbc.com/illmem.htm

Habitat for Humanity
http://www.habitat.org

Housing Assistance Council
http://www.ruralhome.org

Illinois Association of REALTORS, for data on home sales and median prices
http://www.illinoisrealtor.org

Illinois Department of Employment Security
http://lmi.ides.state.il.us

Illinois Housing Development Authority
http://www.ihda.org

Illinois Institute for Rural Affairs
http://www.iira.org

University of Illinois Extension Laboratory for Community and Economic Development
http://www.ag.uiuc.edu/~lced/

Iowa State University Extension Service, for general economic data about the Midwest region by state and county
http://www.profiles.iastate.edu

National Association of Home Builders (NAHB), for data on new home construction.
http://www.nahb.com

National Congress for Community Economic Development
http://www.ncced.org

National Housing Institute
http://www.nhi.org

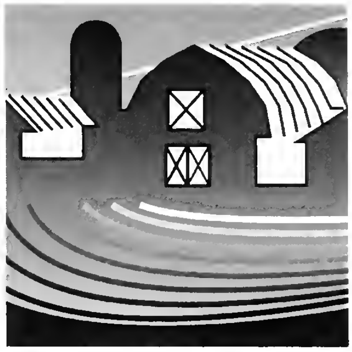
Rural Local Initiative Support Corporation
http://www.ruralisc.org

U.S. Department of Agriculture—Rural Housing Service
http://www.rurdev.usda.gov

U.S. Department of Housing and Urban Development
http://www.hud.gov

U.S. Department of the Treasury, Community Development Financial Institutions Fund (CDFI)
http://www.treas.gov/cdfi

Appendix VI. Sources of Funding for Technical Assistance



The Enterprise Foundation

10227 Wincopin Circle, Suite 500
Columbia, MD 21044
(410) 964-1230

The Enterprise Foundation works through a network of more than 1,200 community-based nonprofit organizations. The goal of the foundation is to see that all low-income people in the United States have the opportunity for fit and affordable housing and to move out of poverty into the mainstream of American life.

Habitat for Humanity

121 Habitat Street
Americus, GA 31709-3498
(912) 924-6935

Habitat for Humanity is a nonprofit, ecumenical Christian housing ministry seeking to eliminate poverty housing and homelessness. Habitat works through volunteer labor and tax-deductible donations of money and materials to build and rehabilitate simple, decent houses with the help of the homeowner/partner families. Habitat houses are sold to partner families at no profit, financed with affordable, no-interest loans.

There are 51 affiliate organizations in Illinois. To find an organization close to you, check the Habitat for Humanity International web site at http://www.habitat.org.

Housing Assistance Council (HAC)

1025 Vermont Avenue NW, Suite 606
Washington, DC 20005
(202) 842-8600

HAC is a national nonprofit corporation created to increase the availability of decent and affordable housing for low-income people in rural areas throughout the United States. It provides many services for local, state, and national organizations including loans, publications, technical assistance, training, and special projects.

Illinois Association of REALTORS

P.O. Box 19451
Springfield, IL 62794-9451
(217) 529-3904

The IAR web site provides access to information and resources for its members and the general public. Information on buying and selling a home, mortgage rates, home sales, and median sales prices is included.

Illinois Housing Development Authority (IHDA)

Office of Housing Coordination Services (OHCS)
401 N. Michigan Avenue, Suite 900
Chicago, IL 60611
(312) 836-5383

The Illinois Housing Development Authority provides community leaders with technical assistance for a number of development activities including housing development. The Office of Housing Coordination Services is an information and referral source for all housing programs throughout Illinois. While OHCS cannot help individuals secure housing, it is a resource for potential housing program applicants and developers.

OHCS is also responsible for coordinating Illinois's five-year consolidated plan and its annual action plan. OHCS also staffs a state agencies housing committee, which meets bimonthly to provide enhanced communication among housing-related agencies.

Illinois Community Action Association

101 N. 16th Street
Springfield, IL 62703
Phone (217) 789-0125
Fax: (217) 789-0139
http://www.icaanet.com

The Illinois Community Action Association is a membership organization that serves as the network for Illinois not-for profit corporations and units of government that strive to raise the health, educational, and economic standards of Illinois citizens living at the lower social and economic margins.

National Congress for Community Economic Development (NCCED)

1030 15th Street NW, Suite 325
Washington, DC 20005
(202) 289-9020

NCCED serves as a trade association and advocate for more than 3,600 community-based development corporations (CDCs) across America. NCCED provides public policy research, special projects, publications, training sessions, conferences, and specialized technical assistance.

National Housing Institute (NHI)

439 Main Street, Suite 311
Orange, NJ 07050
(973) 678-9060

NHI is a nonprofit organization that examines key issues affecting affordable housing and community development practitioners and their supporters. They communicate their findings in an objective, journalistic style in *Shelterforce*, a bimonthly magazine.

Rural Local Initiative Support Corporation (Rural LISC)

1825 K Street NW, Suite 1100
Washington, DC 20006

This national nonprofit organization has created equity funds to assist nonprofit organizations in completed tax increment housing projects. LISC provides technical assistance to nonprofit housing organizations.

U.S. Department of the Treasury

Community Development Financial Institutions Fund (CDFI)
601 13th Street NW
Washington, DC 20005

The CIFI program is designed to serve economically distressed communities and individuals who lack access to capital by providing lending and investment capital. Grants from the fund can help a CDFI strengthen its institutional capability to effectively use new or expanded sources of lending capital. Typical uses of technical assistance grants have included the purchase of consulting services, office technologies to improve operating efficiencies, and training for staff or board members. Funding is competitive. In 1998, 70 out of 112 applications were funded. The average grand award amount was $42,638. For 1999, the maximum amount of the technical assistance grant was $50,000. Matching funds are not required, and applications are accepted between February and April. Notice of funds availability is published in the Federal Register.

U.S. Housing and Urban Development (HUD)

Community Builders
Chicago Regional Office
Ralph Metcalfe Federal Building
77 W. Jackson Boulevard
Chicago, IL 60604-3507
(312) 353-5680

Community Builders serve as the front door to HUD. They are knowledgeable about what HUD does and what it can do to help communities realize their goals. Contact them regarding solutions to particular housing or community development programs. A listing of the Illinois Community Builders is available on the HUD web site: http://www.hud.gov /local/chi/chicb.html.

University of Illinois Extension

Paul Elgatian
Quad Cities Center
4550 Kennedy Drive
East Moline, IL 61244
(309) 792-2500, ext. 215

Community and economic development staff throughout the state have worked in partnership with community leaders and key housing advocacy agencies to facilitate planning and development. Local contacts for University of Illinois Extension are available in most counties or by contacting the number above. You may also visit the following web site: http://www.extension.uiuc.edu/com/com-dev.html.

Appendix VII. Potential Sources for Project Financing

Illinois Department of Commerce and Community Affairs (DCCA)

Tim Call, Community Development Assistance Program (DCCA)
620 E. Adams Street
Springfield, IL 62701
(217) 785-6165

The Illinois Department of Commerce and Community Affairs receives funding from the federal Community Development Block Grant for economic development, infrastructure, and housing. These funds are earmarked for nonentitlement cities, towns, and counties in the state on a competitive basis. Housing funds can be used for rehabilitating residential buildings; for historic preservation; or for acquisition, disposition, clearance, and relocation to arrest the decline of an area. Funding must be utilized to assist very-low-income and low-income households as defined by HUD's Section 8 Area Median Income.

Fannie Mae—Midwestern Regional Office

One S. Wacker Drive, Suite 3100
Chicago, IL 60606-4667

Eligible lenders can obtain approval under the Delegated Underwriting and Servicing Program that allows them to provide housing loans that Fannie Mae will purchase. The advantage to the lender is that they have access to additional loan capital; they increase their revenue from fees for origination, underwriting, and servicing loans; and they are assured that the loan will be transferred to the secondary market (Fannie Mae) immediately, which eliminates financial risk. For single-family housing, contact the Director of Low- and Moderate-Income Housing at (312) 368-6293. For multifamily housing, contact the Vice President for Multifamily Activities at (404) 365-6265. The Midwestern Regional Office serves Illinois, Indiana, Iowa, Michigan, Minnesota, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin.

Federal Home Loan Bank (FHLB) of Chicago

111 E. Wacker Drive, Suite 700
Chicago, IL 60601
(312) 565-5700

Two programs that provide funding for affordable housing, the **Community Investment Fund (CIF)** and the **Affordable Housing Program (AHP)**, are available through FHLB member banks. Check with your local lenders to see if they are members. Under the CIF program, any member of the FHLB can borrow money from its district Federal Home Loan Bank at a discounted rate. These funds can then be passed to the borrower in the form of a lower interest rate on the loan for up to 30 years. The AHP is a competitive program designed to provide deep interest-rate subsidies to finance homeownership for families with incomes below 80 percent of the area's median income. Funds can also be used to finance the purchase, construction, or rehabilitation of rental housing. At least 20 percent of the occupied units must be filled by very-low-income households with incomes of 50 percent or less than area median income. The rent levels for these households must not exceed 30 percent of the income of the family adjusted for family size.

For a listing of institutions that are members of the FHLB in Illinois, check the web site at http://www.fhlbc.com/illmem.htm.

Illinois Housing Development Authority (IHDA)

Office of Housing Coordination Services (OHCS)
401 N. Michigan Avenue, Suite 900
Chicago, IL 60611
(312) 836-5200

First-Time Homebuyer Program

Through this program, IHDA issues bonds and makes the proceeds of those bonds available for single-family home mortgages. IHDA and its bond underwriters determine an acceptable interest rate for the home mortgage loans, which is usually at least one to one and a half percentage point below prevailing conventional rates. Upper income limits of eligible buyers and the purchase price of homes are set according to IRS guidelines and vary by county. The maximum loan term is usually 30 years. Eligibility is limited to first-time homebuyers, defined as those who have not paid real estate taxes on their primary residence in the previous three years. For homes purchased in certain "targeted" areas of the state, this requirement is waived and the income and purchase price limits are higher. The program is operated through more than 500 lenders in Illinois. Contact Homeline at 800-942-8439 for a listing of approved lenders.

Mortgage Credit Certificate Program

Generally available to first-time homebuyers in home rule communities that have ceded their bonding authority to IHDA, Mortgage Credit Certificates (MCC) give approved first-time homebuyers more purchasing power by providing a significant federal tax credit that may decrease tax liability by up to $2,000 annually. This program may be used in conjunction with FHA, VA, or conventional mortgages, but not with IHDA's First-Time Homebuyer Program.

Illinois Affordable Housing Trust Fund

This trust fund is primarily funded by a portion of the real estate transfer fee, making available approximately $14 to $17 million annually to create affordable housing for those with most acute housing needs. Special emphasis is placed on assisting the working homeless, the developmentally and physically disabled, single-parent families, and the elderly needing congregate care. The fund provides minimal-interest-rate loans and a small number of grants to groups and organizations for gap financing or financing of last resort, leveraging other dollars to create affordable housing. The maximum loan amount is $500,000, but interest rates and terms are negotiable. Grants are available only to nonprofit groups and are limited to $5,000 for any single very-low-income family and $2,500 for any single low-income family. For more information, contact the Illinois Affordable Housing Trust Fund at (312) 836-5318.

Low-Income Housing Tax Credits (LIHTC)

LIHTC provide equity capital for developing rental housing, single-room occupancy, and certain housing for homeless persons. Tax credits are allocated for a specific project and then sold through a syndicate broker to corporate and institutional investors seeking to lessen their tax burden. The revenue generated is typically between $0.50 and $0.60 for each $1.00 of tax credit. The nonprofit housing sponsor typically pays for the transaction and syndication costs as well.

To receive the tax credit, a nonprofit housing sponsor must apply to the state housing finance agency. State housing finance agencies receive an allocation of $1.25 per person from the Internal Revenue Service that they must then distribute to projects within their state. Each state will have an allocation plan to determine the distribution priority and application procedures. Eligible projects must set aside either 20 percent of the units for households with incomes of less than 50 percent of the area median income *or* 40 percent of the units for households with incomes of less than 60 percent of the area median income. The restricted units must remain affordable at rent levels below 30 percent of the household income adjusted for size of the unit (not size of the family) for at least 15 years.

LIHTC program funds are *extremely* competitive and funding is limited. In Illinois, the Housing Development Authority has been able to fund about one in five applications due to lack of credits being available.

HOME Program

This program is designed to expand the availability of affordable housing, particularly rental housing, for low- and very-low-income persons. IHDA is the administrator for these U.S. Department of Housing and Urban Development funds for Illinois. Eligible activities under the state's HOME Program include acquisition with rehabilitation; new construction of rental housing; local programs to rehabilitate single-family, owner-occupied homes; and local programs to assist low-income households to purchase a home. To receive more information about the HOME Program, call (312) 836-5383.

Tax-Exempt Bonds for Multifamily Housing

The long-term, fixed interest rates of these bonds provide a predictable financing structure for developers and IHDA. The tax-exempt status of these bonds makes them attractive to investors and allows IHDA to issue them at a lower interest rate. IHDA passes the resulting savings along to developers, making the inclusion of low-income units financially feasible. Developments financed with tax-exempt bonds must set aside either 20 percent of their units for households at or below 50 percent of the area median income *or* 40 percent of their units at or below 60 percent of the area median income.

Taxable Bonds and Loans

Taxable bonds are generally used in conjunction with tax credits because they allow developers to take advantage of a higher tax-credit rate. Developments financed with taxable bonds must make 20 percent of the units available to households with incomes below a level to be determined by IHDA staff, but not to exceed 80 percent of the area median income. The same benefits of taxable financing can be achieved through a direct sale of whole loans to interested investors.

501(c) (3) Bonds

These bonds are used to finance multifamily developments spearheaded by not-for-profit corporations. Income limits for residents will vary depending on whether the buildings are being developed for first-time use, are being substantially rehabilitated, or contain nonresidential facilities.

HUD/IHDA Risk-Sharing Program

This program provides fixed 25- to 40-year loans for multifamily projects. Projects may be new construction or substantial or moderate rehabilitation projects. For the length of the loan, at least 20 percent of the units must be set aside for households earning at or below 50 percent of the area median income *or* 40 percent of units for those at 60 percent or below the area median income. Debt coverage ratios should be 1.15:1. For more information on multifamily bond financing programs, call (312) 836-5355.

Institute for Community Economics (ICE)

57 School Street
Springfield, MA 01105-1331
(413) 746-8660 ext. 113

ICE's Revolving Loan Fund builds a bridge between socially concerned investors and grassroots organizations revitalizing and strengthening their communities. Since its creation in 1997, fund investors have helped lend more than $31 million representing 350 loans to community organizations in 29 states. ICE also provides technical assistance to grassroots organizations interested in developing Community Land Trust Affordable Housing.

U.S. Department of Agriculture—Rural Housing Services (USDA-RHS)

USDA Rural Development

Illini Plaza, Suite 103
1817 S. Neil Street
Champaign, IL 61820
(217) 398-5194

USDA Rural Development housing programs are limited to rural areas and small towns (up to 20,000 population in nonmetropolitan areas). Loans, grants, and guarantees are made to applicants unable to obtain commercial credit due to limited resources and income. USDA resources are used in partnership with state and private credit sources to the maximum extent possible. Major programs include guaranteed and direct loans for homeownership, direct loans and grants for home repairs, and rental and cooperative housing for low-income tenants.

Rural Development delivers housing programs to support a wide variety of rural housing needs. A network of local field offices located throughout Illinois administers these programs. Local staff members are experienced in working with individuals and organizations and are able to provide hands-on assistance as needed. A brief summary of the programs is provided below:

Homeownership loans, guaranteed or direct, are available to build, buy, or improve homes.

Home repair loans and grants are available to assist homeowners in making essential home repairs. Grants are available to low-income senior citizens. Low-interest loans with extended repayment terms are available, based on the homeowner's ability to repay.

Apartment financing is offered under both a direct and guaranteed loan program. Direct loan funds are limited and applicants are encouraged to apply through the guaranteed program. This is a streamlined program designed to meet the needs of local lenders and to encourage "best possible terms" for the applicant.

Assisted living, nursing home care, and **specialized housing needs** are often met through the agency's Essential Community Facility program for proposals from nonprofit organizations. Financing is available to for-profit organizations from the agency's Business and Industry Loan program.

Site development financing is available to both nonprofit and for-profit organizations.

Farm Labor Housing financing is provided to farming interests to provide temporary or permanent housing for farm workers.

Mutual Self Help Housing is a program to assist a group of individuals to work together as a team to build their own homes.

U.S. Department of Housing and Urban Development (HUD)

Chicago Regional Office
Ralph Metcalfe Federal Building
77 W. Jackson Boulevard
Chicago, IL 60604-3507
(312) 353-5680

HOME Program

HOME is the largest federal block grant to state and local governments designed exclusively to create affordable housing for low-income households. Funds are awarded annually as formula grants. States and local governments use the money to establish housing grants, direct loans, loan guarantees, or other forms of credit enhancement, or rental assistance or security deposits. These are used for building, buying, and/or rehabilitating affordable housing for rent or homeownership or to provide direct rental assistance to low-income people.

Community Development Block Grant (CDBG)

The state CDBG Program provides states with annual direct grants, which they in turn award to smaller communities and rural areas for use in revitalizing neighborhoods, expanding affordable housing and economic opportunities, and/or improving community facilities and services.

Appendix VIII. Community Case Studies: Creative Solutions for Housing Development in Small Towns

Communities across the Midwest are facing new housing challenges; many have used creative strategies to address their local housing needs. The examples here are designed to stimulate ideas for ways for other communities to address their local housing needs.

Rental Townhome Development

Northern Oaks Family Housing Development. Northfield, MN

Sean Allen, Housing Development Coordinator
Three Rivers Community Action, Inc.
1414 North Star Drive
Zumbrota, MN 55992
(507) 732-8510
E-mail: Sean.Allen@threeriverscap.org

With rapidly rising housing costs and rental vacancy rates under 2 percent, the city of Northfield, Minnesota, recognized the need for additional affordable housing and included it in the 1994 Comprehensive Plan. Additional rental housing for larger families was highlighted as a priority need. Working with the area community action agency, an application was made to the Minnesota Housing Finance Agency (MHFA) to develop 10 three- and four-bedroom rental townhouse units affordable for working families with incomes at or below 50 percent of the area's median income. This grant application was not awarded. However in 1995, a second grant proposal was funded by the Federal Home Loan Bank Affordable Housing Program (FHLB-AHP) to subsidize $10,000 per unit for the eight-unit development. This award was the seed that began a development process that was completed in May 1999.

Delays in the project development came from four sources: 1) the difficulty in securing the gap financing required to keep the housing affordable, 2) opposition by adjacent property owners to the development of affordable housing, 3) the need to have a zoning change approved, and 4) difficulty in arranging for necessary professional services.

Total development costs were $772,000, or $96,500 per unit. In order to meet these costs and keep the housing affordable for the targeted residents, a complex set of financing was required. The funding for the development illustrates the complex mix of public and private sources needed to compete a development while keeping the housing affordable. Funding sources included the following:

Minnesota Housing Finance Agency ($320,000 deferred loan)

Federal Home Loan Bank Affordable Housing Program ($80,000 grant)

Greater Minnesota Housing Fund ($60,000 deferred loan)

local employer ($20,000 capital contribution)

City of Northfield (donation of tax-foreclosed land and $20,000 CDBG grant) utility company ($5,000 grant)

South East Minnesota Initiative Fund ($2,000 grant)

Three Rivers Community Action, Inc. ($2,000 capital contribution)

private lender ($143,000 first mortgage)

Local Housing Redevelopment Authority ($210,000)

Opposition to the project was strongest from homeowners in an adjacent neighborhood. While NIMBYism is not unusual when any housing development occurs, this was unexpected since the project was part of a planned-unit development that provided affordable housing to those residents. Public hearings were held in response to concerns about the development. Such discussions were an effective strategy for building public support for the project.

In order to meet the requirements of the MHFA funding approval and construct on the site with a minimum of grade changes, city approval of zoning and building codes exemptions was necessary. Obtaining approval resulted in at least six planning reviews and revisions as well as a public hearing.

The professional resources to complete the project were drawn from the region. The contractor was from Rosemont, the architect from the Twin Cities, and the community action agency is located in Zumbrota. Three Rivers Community Action, Inc. has expanded its housing involvement to include 18 units of single-family, self-help housing; 2 transitional housing units; 24 rental units; and 2 units of homestead rehabilitation housing, along with leasing 9 additional units of transitional housing.

The project is owned by the community action agency, with the management handled through the Rice County Housing Redevelopment Authority. The units were rented within one month of project completion, and currently there is a waiting list, especially for the four-bedroom units. Some of the residents receive rent subsidies through the Section 8 voucher program. Rents are $495 per month for the three-bedroom units and $545 per month for the four-bedroom units.

Speculative Single-Family Home Construction

Community Development Corporation Speculative Homes. Dieterich, IL

Bill McLain, Superintendent
Dieterich Community Unit No. 30 Schools
P.O. Box 187
Dieterich, IL 62424
(217) 925-5247

Dieterich Community Development Corporation (DCDC) noticed that there had been no new housing in the village (population 568) for a number of years. Also, the community was experiencing an increasing proportion of elderly population and there was a concern about the possible decline in enrollment at the school. As a result, the DCDC decided to build a "spec house" (on speculation, or with no prior commitment from a buyer) to see if anyone would be interesting in buying it.

A member of DCDC had a lot available, and the corporation worked with local contractors to build the home. The owner of the lot and the contractors agreed to wait for payment until after the home was sold. The DCDC was financially responsible for the project.

To date, four spec houses have been built. Three have been sold and the fourth is currently for sale. All of the homes have three bedrooms, two baths, a full basement, and attached garage. They range in size from 1,200 to 1,600 square feet of living space. The average cost of each house was $90,000.

The purpose of the project was to bring in more residents and schoolchildren. The building of the spec homes encouraged the building of other new homes by private individuals, as well as the rehabilitation of other homes in the village. Businesses and services in the community have also expanded, including the development of an industrial park and a medical center. The project created an impression of growth and prosperity in Dieterich.

The DCDC advises that if other communities plan to take on housing development, they must first develop a plan and follow it in step-by-step order. Don't skip any of the steps and try to go back and do them later. The MAPPING Program, a strategic visioning process conducted by the Illinois Institute of Rural Affairs, was extremely beneficial because it brought together a nucleus of people who were interested in improving the community. Finally, it is imperative that signatures be obtained for all commitments.

Subdivision Development Use of Tax-Forfeited Property

Subsidized Development. Hull, IA

George Vandecamp, City Clerk
Hull, IA 51239
(712) 439-1521

Like many small towns, Hull, Iowa, wanted to provide new housing suitable for older residents in order to obtain older affordable homes for young families. The community is growing as a result of successful economic development and the expansion of local firms. To stimulate new construction, the community took direct action to facilitate development of a subdivision. A few years ago, the city of Hull (population 1,740) repossessed 12 developed residential lots due to delinquent property taxes. The city then sold the lots for between $500 and $2,500 with the stipulation that the owner must build a home on the lot within a year. All the lots were sold and the homes are occupied. These homes now generate an increase in the city's annual tax revenue.

The success of this original project encouraged the community to initiate a second new subdivision. The local industrial development corporation is coordinating the development of 25 additional lots. Developed lots in this subdivision, however, will sell for $19,500, with streets, curbs, gutters, and utilities in place. Given the substantial increase in the cost of the lots, it is unlikely that these new homes will be as affordable for working families in the community. The city administrator involved with the project would recommend the program to others. "This is a very successful program that can be replicated by other communities our size," says John Calsbeek.

Though the program has successfully increased the housing stock in Hull, it failed to meet the original goal of recycling more affordable older housing to younger families. Most of the occupants of the new housing are retired farmers who moved in from surrounding areas; thus, little existing housing came on the market as a result of the new development.

Local Housing Development Fund

Local Loan Funds for Housing Development. Galesburg, IL

Roy Parkin, Community Development Director
150 E. Simmons
Galesburg, IL 61401
(309) 345-3619

The city of Galesburg (population 33,530) set aside $300,000 in the city budget for loan to a developer. In the spring of 1998, a request for proposal process was announced to stimulate private development in the community. Prior to this time, the city had been unable to attract a private developer into this market, due to infrastructure costs associated with land acquisition and development. By providing up to $300,000 no-interest money for the first two years of the loan and 3 percent interest for the remaining two years of the loan, Galesburg hoped to stimulate new, single-family home construction.

The strategy is working. Developer Mike Martin successfully submitted a proposal for development of Castleberry Estates Phase II. This project is a continuation of a subdivision plan created in the late 1980s but stalled due to a lack of capital. This project has 28 lots under development in the northwest section of Galesburg next to Lake Story. Today there are 10 new homes under construction in Castleberry Estates Phase II; estimated value of the homes is $120,000 to $160,000. The developer has made payment on the loan from the city with each lot sale. By the time three-fourths of the lots are sold, the city loan will be repaid. In addition, taxing bodies will be receiving approximately $100,000 in new tax revenue from the homes constructed to date.

Employer-Assisted Housing

Employer-assisted housing is becoming common throughout the Midwest. Employers seeking to expand their operations often find housing a limiting factor in recruiting and keeping good employees and have become partners in housing development efforts in order to promote new construction of units that their workers can afford.

Company-Owned Housing. Winnebago, MN

Daniel Mundahl, City Administrator/Clerk-Treasurer
Winnebago, MN 56098
(507) 893-3217

In meeting with several large employers, the city of Winnebago (population 1,500) realized that their local economic development was limited by a housing shortage. A firm interested in a $10 million expansion that would require 50 new employees was reluctant to make the investment because there was no available housing for the potential workers. The city administrator brought together representatives from industry and local lenders, along with regional and state agency staff, to explore possible options. Focusing on the housing needs of local employees, the group worked together to create a housing development package resulting in eight units of rental housing. With rents of $450 for two-bedroom units and $495 for three-bedroom units, the new housing is affordable for working families in the community.

The key to the project's success was the involvement of a major employer in the project. The company provided a second mortgage to match a no-interest loan of $120,000

($15,000 per unit) provided by the Greater Minnesota Housing Fund in the form of a third mortgage. A first mortgage was arranged through the local lender. In addition, the project financing also included $3,000 per unit contributed by the utility companies and $1,500 in waivers from the city for sewer and water hookup and permit fees. A total of $233,585 in financing was required to develop the project.

As a result of the project, the company was able to offer housing to eight employees, the city was able to demolish an old house and improve the aesthetics of the area, and the local tax base was increased from approximately $10,000 to $560,000. All eight units rented immediately. The company owns and manages the units.

A recent housing study indicates that local residents are enthusiastic about the project. Housing remains in short supply in the community, with very few single-family homes available for sale; homes coming on the market have sold within three hours. While citizens indicated a need for additional single-family home development, there remains continued support for additional multifamily housing as well. The need for transitional rental housing for those moving into the community and the demand for upscale rental units with two-car garages and large living areas targeted to retirees has been identified.

City Administrator Daniel Mundahl encourages other communities to be involved in local housing development as part of their economic development activities. He recommends that the private sector must be willing to contribute if they want to attract and retain a skilled labor force. The key to making the project work was to assure the employer that company workers had first priority in occupying the new units.

Low-Income Housing Tax Credits

Low-Income Housing Tax Credits have been used to provide the equity capital necessary for developing affordable rental housing. The credits are allocated by the Internal Revenue Service to each state based on a per-capita rate of $1.25 per person; the greater the population, the more tax credits are available. Developers submit applications to the state housing agency for affordable housing development projects. Once the tax credits are awarded, corporations can purchase the tax credits at a discounted rate, lowering their tax burden for a 10-year time period. The cash from the sale of the credits provides capital to finance the project, lowering the amount that must be borrowed, which decreases the total development cost, and thus, makes the final project more affordable.

Hollow Tree Apartments and Parkway Estates. Galesburg, IL

Richard Dickson, Chamber Housing Committee
Galesburg Area Chamber of Commerce
292 E. Simmons, Box 749
Galesburg, IL 61401
(309) 343-1194

The Galesburg Chamber of Commerce organized a housing task force in response to a number of issues dealing with housing development and the implications for their current economic development efforts. Members of the committee include representatives from the real estate industry, builders association, city government, social service organizations, assessor's office, and local businesses. Key areas of concern for the community included a lack of rental housing, a lack of affordable housing, shortage of developed lots for new construction, and lack of upper-end housing.

The committee, in partnership with a private developer, has been successful in the creation of two tax-credit projects. Hollow Tree Apartments, a 60-unit development for low-income residents, was built with $342,253 of tax-credit financing. The developer is David Brint, 409 W. Huron, Chicago, IL 60610. Parkway Estates, another tax-credit development, consists of 64 units all targeted for low-income residents. The tax-credit financing for this project was $257,244, and the developer is Murray L. Childers, 428 Maine, Suite 300, Quincy, IL 62301.

Tax Increment Financing for Housing Development

Tax Increment Financing (TIF) districts have been used to encourage housing development in some communities. TIF districts can provide needed infrastructure and project financing if they produce adequate tax resources. The Illinois Housing Development Authority's emphasis has been for developers to look at housing as part of an overall community development effort. Redevelopment plans (requested of TIF districts), comprehensive plans, federal and state enterprise zones, and tax abatements all indicate strong community planning efforts and local support.

TIF districts may lower the cost of the development by reallocating the property tax assessed to the property. Recent changes in legislation have made it more difficult to use TIF in housing developments. However, in Illinois, projects that are located within TIF districts receive additional "points" for consideration in allocation of tax credits, so selecting a site within a TIF district may have benefits for development even if financing is not possible through the TIF district itself.

Tax Increment Financing. Ohio, IL

Jack Piper
Development Coordination Corporation
25430 2300 E. Street
Ohio, IL 61349
(815) 376-6121

The majority of rural towns have been negatively affected by the economic trends in mechanization of agriculture, increased resident mobility, and the transfer of employment and retailing to larger towns and cities that has occurred over the past 40 years. As a result, investment in rural communities has stagnated, discouraging new investment. The solution to this problem is to create sufficient incentive to attract new investment in the community.

During the course of a community planning meeting in Ohio, Ilinois (population 500), participants determined that rather than attracting factories to their community, their economic development efforts would focus on using grants/incentives to attract families. The development of 10 new homes per year for 10 years represents an investment of $10 million to $12 million, an attractive option for this small community. A plan was developed and implemented using a TIF district and a Special Service Area for funding of infrastructure costs. These infrastructure improvements equated to offering $10,000 grants to homebuyers/builders to assist in financing new home construction. The city hired a TIF consultant to determine the eligibility of the project area and the boundaries of the TIF district. The TIF district was legally established, and infrastructure improvements such as sewer and water lines and streets were made. Aggressive marketing is used to attract builders and homebuyers to the area.

As a result, Ohio, Illinois, has been able to attract $3 million of new investment into the small community. The "outside revenues" are primarily from state and federal funds that have flowed into the local schools due to increased enrollment. The State AID/TIF formula has amounted to $2 million in the past dozen years. The investment has paid off for the community; the TIF district will be able to retire all costs related to the development in the next 2 years and will have $125,000 per year of revenue for the 15 remaining years of the TIF district's life.

Development Coordination Corporation (DCC) will be breaking ground on similar projects in Woodhull, Oblong, and Meredosia in October 1999. Using incentives to attract new homeowners to build in these communities is the key to their success. A project in Villa Grove, Illinois, will provide 300 or more lots for residential development in that community, and DCC is also working with PawPaw, Table Grove, and Hoopeston, Illinois, to develop projects in those communities.

The critical factors common to all these projects are as follows:

1. a city/village willing to create a TIF district,
2. the availability of land that qualifies for a TIF,
3. developer willing to invest/risk in the purchase and improvements of the lots,
4. a cooperative and supportive local community attitude, and
5. a marketing plan that will attract new investment to the development.

According to Jack Piper, their experience indicates that virtually any community can attract new investment and growth if it is willing to avail itself of the available tools, such as TIF, and to work with some development group or entity to create an attractive investment climate.

Youth Involvement and Job Skill Development

Minnesota State Fair Youth and Adults Volunteer Project

Donna Gillen, Minnesota Alliance with Youth
(651) 296-4738

Dale Blyth, Center for 4-H and Youth Development
(612) 624-2188

Involving youth in addressing community problems can result in highly visible and dramatic results. The Minnesota Alliance with Youth and the University of Minnesota's Center for 4-H and Youth Development collaborated in an effort to facilitate youth and adult volunteers building a home for a family with special housing needs.

The project's goals were to 1) demonstrate the capability of volunteers in addressing critical community concerns, 2) highlight the power of adult and youth partnerships, and 3) provide a highly visible example of ways in which youth can be a key community resource. The Alliance with Youth and the 4-H center planned a five-day event at the state fair, each day showcasing one of the five promises to youth—to mentor, to protect, to nurture, to teach/learn, and to serve.

The "service day" showcased affordable housing as a critical community concern and provided an opportunity to demonstrate how youth can be an important part in solving the problem by building a house during the state fair. They set up a subcommittee to coordinate teams of youth and adult volunteers. Sponsors, including Andersen Windows and Home Depot, were involved in donating building materials and tools. A professional contractor volunteered to serve as the on-site construction coordinator. One committee member contacted several agencies to identify a recipient family. The family was selected on the basis of housing need, interest and ability to be involved in the project, and an income that would allow them to purchase the home once it was built. The family that was selected needed a home that was both handicap accessible and affordable for a one-earner family with wages of $9.50 per hour.

Approximately 250 volunteer youth and adults were involved in building the house. Thousands of state fair participants watched the process and toured the home when it was completed. The family obtained financing and located a lot, and the house will be moved to the site in the near future. The total cost of the house was targeted at $72,000. Final cost is yet to be determined, but it will be close to the targeted amount.

Project coordinators encourage other communities to involve youth in solving local problems. As Minnesota Alliance for Youth director Donna Gillen said, "It was a fantastic experience!" Communities benefit greatly when young people are at the table in leadership roles helping to solve problems. For organizations interested in taking on a volunteer building project, those involved in coordinating the project have the following words of wisdom:

- Logistics are key to a successful project. Identify the lot where the home will be placed before you start building. Local regulations, soil characteristics, and lot size can all affect the design and cost of the project.
- Make sure sponsors are in place and their role is clearly understood.
- The volunteer coordinator must be someone with good organizational skills and the ability to manage details.
- Find a licensed general contractor to provide construction management. Pay him or her if necessary. A contractor can assure that inspections and code requirements are met.
- Identify the criteria for selecting the homeowner early in the project according to the goals of the group. Selecting a specific family first provides a face to the project and allows the family to be involved in decisions about the home.
- Open the house for tours after it is built. Have volunteers available to talk about the project and housing needs. Prepare information fliers to share with people visiting the house.

Solving special housing needs one family at a time is one way communities can address local housing needs. Involving young people in the process gives them the opportunity to experience construction first hand. As one young volunteer stated, "I've always had an interest in carpentry. Plus, some people think girls can't do much, so I like to show them differently."

Alternative Construction Techniques

Hand Crafted Homes, Inc. Silvis, IL

John Crampton
Heartland Construction Company
(309) 796-0052

A rainy spring and a shortage of skilled workers prompted local contractor, John Crampton, to found Hand Crafted Homes, Inc. Springtime is typically a busy season for construction companies. Unfortunately, the rains of spring slow construction crews, causing a backlog of work. For contractors and developers, lengthy delays can make the difference between a profitable or unprofitable construction season. In addition to the spring rains, there was a shortage of skilled carpenters in the local labor pool. What was needed was a way to avoid weather and make up for the shortage of skilled labor.

Drawing from past experience, John Crampton knew what had to be done. Panels that are used to create the walls and floors of a home could be manufactured indoors to avoid weather delays. To compensate for the skilled labor shortage, they used jigs and templates to form critical parts. These jigs and templates simplify construction, minimizing the skills needed. The final panels manufactured in this manner are stronger than conventional panels.

Since the spring of 1997, Hand Crafted Homes has used their panels in over 300 housing units. Presently they have orders for an additional 450 housing units. The panels are constructed in a previously vacant warehouse near downtown Silvis, Illinois. The operation now employs eight persons inside the warehouse. According to Crampton, "Making panels this way has allowed us to build more houses, do it cheaper, and add amenities we normally could not afford." He estimates that by using the panel construction he saves at least $10 for every 2 x 8 that goes into the construction of the house.

Volunteer Housing Projects

Habitat for Humanity. Galesburg, IL

Jim Ecklund, Executive Director
Habitat for Humanity in Knox County
P.O. Box 467
Galesburg, IL 61402-0467

Knox County Habitat for Humanity organized in 1993 after an initial community meeting. Originally the board's goal was one house per year constructed by volunteers in Galesburg. After two years, the board decided to increase capacity by hiring a part-time executive director. With a part-time director starting in January of 1995, the Knox County Habitat for Humanity increased the number of homes built to four per year in 1999. To date, they have completed 13 homes—10 in the city of Galesburg and 3 in the communities of Altona, Wataga, and Abingdon.

The advantages of a part-time executive director have been enormous. Not only have the fund-raising efforts significantly increased under his leadership, but the group has also been successful in partnering with Illinois Housing Development Authority for no-interest mortgage money. Currently, IHDA is providing $15,000 per house. The total raised this past year was $180,000; IHDA's contribution makes up about one-third of the total funds. While the backbone of Habitat for Humanity is volunteer giving and church support, the business community has been a significant partner in Galesburg. Burlington Northern Railroad, Maytag, and Norwest Associated Bank have all made sizable contributions to this effort.

The average cost of homes is $38,000 to $42,000 for a three-bedroom, 1,123-square-foot home built on a crawl space. Property has been acquired from the city at minimal cost, donated, or purchased at assessed value—typically $1,000 for a quarter-acre lot. The homes are sold by way of a no-interest mortgage; Knox County Habitat for Humanity holds the mortgage. Partner families must meet the following criteria:

- Live in inadequate housing for the family
- Have an income level between 30 and 60 percent of the median family income in the county, which is $11,000 to $20,000 in Knox County.
- Commit to generate 500 hours of "sweat equity" work, in the form of 250 hours from the family and 250 hours from friends, co-workers, and church volunteers who have not been involved with Habitat for Humanity. The sweat equity can involve providing meals for workers and making phone calls relating to the work.

The new construction by Habitat for Humanity has impacted the community in a number of ways. In 1994, $184 in new property taxes were paid on Habitat homes in Galesburg. An estimated $10,555 in new property taxes will be paid in 2001. More importantly, this process has provided improved housing for families with a wide variety of backgrounds. In particular, single mothers and handicapped individuals have been given an opportunity to upgrade their quality of living at a price they can afford. When Knox County Habitat for Humanity began building in the southwest section of Galesburg, it made obvious changes to a neighborhood. A significant number of neighbors have added new siding, new roofing, or cleaned up their yards as a result of the new construction and improvements created by Habitat.

Habitat for Humanity's production goal for the city of Galesburg is to complete 20 homes for 20 families by the end of the year 2000.

Neighborhood Development Corporations

Emerson Park Development Corporation

Vickie Kimmel Forby, Executive Director
East St. Louis, IL
(618) 874-0777

Within larger cities, neighborhood organizations are often the catalyst for improving the quality of life for residents. One example is Emerson Park Development Corporation (EPDC) in East St. Louis, Illinois (population 40,000). This comprehensive 501(c) (3) nonprofit organization focuses on good schools, safe streets, job training, employment opportunities, public transportation, health care services, adult education, high-quality municipal services, *and* affordable housing. They provide housing services including homebuyer education, housing rehabilitation, new housing construction, multifamily rental units, and job training in construction methods and carpentry.

To date, the EPDC has rehabilitated 20 owner-occupied, single-family units; constructed seven new single-family homes; and acquired/rehabilitated and resold three units. They are also in the process of completing 181 units of multifamily housing. Financing for the housing project included HOME funds from the local Community Development Block Grant office with matching funds from the organization, conventional construction mortgages, tax credits, and public and private dollars. Buyers of the seven single-family homes were able to obtain down-payment assistance of $15,000 through CDBG funds.

Residents in the Emerson Park neighborhood face numerous housing problems. The poorest residents are living in insecure housing situations; many own their homes on a contract-for-deed basis. The low annual incomes and poor credit ratings of many of the residents, coupled with the fact that many lenders are reluctant to offer financing in the neighborhood, make it almost impossible for many interested homebuyers to qualify for a conventional mortgage. Homebuyer education classes assist people with no proven credit rating, as well as those with spotty credit ratings, develop an understanding of what it will take to qualify for a home in the future. Through the rehabilitation of existing units, EPDC was able to facilitate families staying in their current homes and provide a new homeowner an affordable home.

A key to EPDC's successful housing programs is the development of sound partnerships with other organizations, including private developers; universities; the city, county, state, and federal government; social service agencies; and banks. It is important to know the funding sources available and to see how the sources can come together to fund a project. Almost all EPDC projects are a collaboration of funding from volunteer labor to conventional financing.

A word to the wise from Vickie Kimmel Forby: "Collaborate and build partnerships, give credit and compliments often and regularly, be willing to always share the spotlight, and sometimes be willing to step out of it! None of us can accomplish anything without the assistance of another."

More Examples

Duckett Senior Citizens Apartments. Hoopeston, IL

Mickey Duckett, Owner
(217) 446-0706

In the rural community of Hoopeston (population 5,871), people recognized a need for additional affordable housing for senior citizens who wish to remain in their community.

A new 12-unit apartment building and triplex were proposed as the housing complex. The entire financing package was provided by the Edgar County Bank and Trust Company in Paris, Illinois. Edgar County Bank and Trust sought a USDA Rural Development guarantee in the amount of $998,000, or $66,533 per unit. Rural Development offered an 80 percent guarantee under its Business and Industrial Loan program. With this government guarantee, the lender was able to offer favorable rates and terms to finance the complex.

No predetermined income limits are established, but the rents remain affordable for low- and moderate-income applicants. No significant opposition to the project was expressed, with 10 construction-related jobs created and 3 permanent jobs established to manage and maintain the complex.

St. Agnes Subdivision. Niantic, IL

Robin Benson, Developer Contact
(217) 753-3955

Niantic, Illinois, is a rural community with a population of only 647, located near an Interstate 72 interchange between two growing central Illinois metropolitan areas (Springfield and Decatur). Very little new housing opportunities were available in the area, and new housing costs in Springfield and Decatur continue to climb, making housing difficult for a low-income family to afford.

The State Bank of Niantic is the only commercial lender in the community. In addition to the need for low-income family housing, they recognized the need for additional single-family housing to increase the tax base and support the local school system.

A central Illinois housing developer, St. Agnes Company, requested a $720,000 loan from the State Bank of Niantic to develop a residential subdivision to accommodate 44 single-family units. A variety of homes was offered, with St. Agnes Company providing a "turn-key" operation that included streets, curbs, driveways, dwellings, and landscaping. Since the goal was to provide affordable housing, energy efficiency was key to keeping homes affordable to purchase and maintain. Energy costs around $100 per month were projected, with the dwellings meeting or exceeding the CABO Model Energy Code standards.

The State Bank of Niantic sought a USDA Rural Development guarantee in the amount of $720,000, or $16,364 per unit. Rural Development offered an 80 percent guarantee under its Business and Industry Loan program. The State Bank of Niantic was also able to obtain Rural Development's guarantee on single-family mortgages to purchase completed units for low- and moderate-income families at competitive 30-year fixed rates. Complete units are priced between $70,000 and $95,000.

As an added bonus, 17 construction-related jobs were created in the community as a result of the development.

Marshall Browning Estates. DuQuoin, IL

Linda Whitman, Owner Contact
(618) 542-2146

With an identified need for transitional housing for the elderly, the nonprofit Marshall Browning Hospital Association hoped to bring an assisted living community to DuQuoin, Illinois. DuQuoin, a rural community of 6,697, is served by only one hospital, which also operates a nursing home. Vacant land adjacent to the hospital was available for development.

As an eligible nonprofit organization, Marshall-Browning Hospital Association sought direct financing from USDA Rural Development under its Community Facility Loan program. Rural Development was able to provide 40-year financing with a 4 percent fixed interest rate for all three phases of the project. The funding totaled $1,749,200, or $79,509 per unit.

Today, more than two dozen seniors enjoy the comforts of this beautiful facility. With meals, all utilities, and nearby services included, this development provides a good alternative to full-time nursing home care at about half the cost for seniors with limited financial resources. It serves as a model for other communities in downstate Illinois.

Havana Senior Apartments. Havana, IL

Kenneth Vitor, General Partner
Havana Associates I, LP, c/o The Lockwood Group
(314) 968-9092

In September 1992, a developer in Havana, Illinois (population 3,610) applied to the Farmers Home Administration (FmHA, now known as USDA Rural Development) for direct rural rental housing loan funds under its Section 515 program. The original plans were to build 24 units at an estimated cost of $788,000, or $32,833 per unit. Concerns about the market were expressed by HUD and other housing providers in the rural community, so the scope of the project was reduced to 16 units designated for the disabled and the elderly.

After numerous submissions and reviews, the plans were approved. However, the project faced a serious value gap; the proposed 16-unit development appraised for only $600,000, much less than the six bids received from various contractors. The appraisal was reviewed by USDA, but the $600,000 value remained unchanged. To make matters worse, funding for the Section 515 program during FY 1995 (beginning October 1994) was severely reduced by Congress.

With a two-year-old option-to-purchase sales agreement running out, the developer was forced to change sites in Havana. USDA again considered the project for funding in FY 1997 (beginning October 1996) based on amended construction documents and a new location. To stretch USDA's limited Section 515 funds, the developer sought a secondary mortgage from the Illinois Housing Development Authority's Affordable Housing Trust Fund.

With the understanding that a secondary mortgage would be obtained to secure the balance of the necessary funds, USDA Rural Development approved a $696,507 first mortgage loan in September 1997 to finance the complex. A commitment for a second mortgage of $125,000 was later obtained as agreed. The final piece of the funding puzzle was provided by the syndication of Low-Income Housing Tax Credits.

Due to intense competition from other projects in Illinois, Low-Income Housing Tax Credits were not awarded for the development during the first round of 1998. The developer applied again in the second round and was awarded a 10-year tax-credit allocation of $36,038 per year after agreeing to provide 12 affordable units to tenants who were at 60 percent of the area median income, four affordable units to tenants who were at 40 percent of the area median income, and four units of fully accessible housing for disabled or handicapped tenants. The compliance period is 30 years.

With the total development budget now at $946,000, or $59,129 per unit, construction bids were again released, to no avail. The lowest acceptable bidder was still higher than the development budget could afford. Negotiations with the bidders finally resulted in a contract award. The ground breaking was held in late 1998. The project now provides a beautiful setting for elderly and disabled persons. Tenants pay only 30 percent of their monthly income toward rent, including utilities. A ribbon-cutting ceremony was held in October 1999—a full seven years after the project's humble beginning.

Sun River Commons. Sun River Terrace, IL

Bea and Larry Nolan
B&L Development, LLC
(815) 939-1161

In late 1992, an idea began to form that affordable housing for the elderly could be provided in the tiny rural community of Sun River Terrace (Kankakee County). The developers had never developed a multifamily housing complex but had some experience with single-family rental properties. Land had been successfully acquired through a tax scavenger sale at the modest cost of $2,500. The need for 24 units of housing for the elderly in a community of only 532 was a tough sell to any lender. Farmers Home Administration (now USDA Rural Development) accepted a preliminary application but could not prioritize funds for the proposal at that time.

Despite this, preliminary plans were developed, and USDA agreed to process a full application in 1993 subject to the availability of funds. Final drawings were received in August

1994, but soon afterward, funding under the Section 515 rural rental housing program was severely reduced by Congress. With the cost of a 24-unit complex now expected to exceed $1 million, hope was almost lost.

To stretch USDA's limited loan funds, the developer agreed to seek a second mortgage commitment from the Illinois Housing Development Authority's Affordable Housing Trust Fund. Trust funds had never before been used in conjunction with USDA rural rental housing programs. With the understanding that a second mortgage commitment would be provided, USDA Rural Development was finally able to approve a $572,657 loan in September 1997. The trust fund provided their maximum loan authority of $500,000, with the developer providing the land and the balance of the necessary funds from personal resources.

With the support of community leaders, USDA, and the Illinois Housing Development Authority, the 24-unit complex was completed and dedicated in October 1998. Today, the complex is full and has a waiting list.

Acquisition and Demolition. Galesburg, IL

Many communities use an active acquisition and demolition program as part of their overall housing development strategy. This strategy is not only important to maintain attractiveness of the neighborhood, but has a positive effect on overall property values.

A strategy employed by the city of Galesburg is an active acquisition and demolition program. The city budget includes approximately $25,000 each year for demolition and cleanup of housing. Generally, these properties have not been maintained because of absentee landlords or lack of legal heirs to the property. Reports on substandard maintenance of properties are given generally by city employees or neighbors of the properties. Landlords are given a 15-day notice to clean up the property. If no action is taken, the city council authorizes legal action against the property owner to collect payment. Failure to pay fines can result in foreclosure. The city has also budgeted additional funds to cover the legal costs of foreclosure. Five or six properties per year have been acquired through this process over the past seven or eight years. Typically, the property is sold to neighbors who want to expand their lot. The city has also sold properties at a minimal cost or donated lots to Habitat for Humanity.

Turnkey Housing: Rent-to-Own Housing. Sioux Falls, SD

A South Dakota contractor has developed "rent-to-own" single-family townhomes. Marketed as "rent-to-own" units, families have the option to purchase the rental unit they live in. As part of the package, the residents are responsible for all maintenance and upkeep of the units, and a portion of their monthly payment is escrowed to provide a down payment for the unit at the end of the three years. Payments are gradually increased over the three years to provide opportunities for lower-income families to purchase a home. At the end of three years, residents have the right of first refusal to purchase their home.

Community Financed Housing for Retirees. Imperial, NE

Citizens in Imperial, Nebraska (population 2,007) were concerned that older residents who needed supportive housing were being forced to move elsewhere because no alternatives were available locally. Rather than look to the state or federal government sources for funding a senior housing project, the city issued municipal revenue bonds that were guaranteed by the city and purchased by private investors. The goal of the project was to provide a residential complex for retired residents with common living area, dining area, activity area, private dining room for family events, lobby, and office.

Building Social Capital: Bemidji Affordable Housing Project. Bemidji, MN

Addressing the problem of contractor and skilled labor shortages, vocational-technical education frequently provides a key training role. In northern Minnesota, the Northwest Technical College Carpentry Program built two homes on campus that were subsequently moved to sites in a new subdivision. Bemidji High School students built a house in collaboration with the Bemidji Area Habitat for Humanity. Adults were involved in a second Habitat for Humanity house that was also part of the city's affordable housing project.

Funding for the four homes involved multiple organizational support. The Minnesota Housing Finance Agency provided $152,400 as a start-up grant to pay for administrative costs. The Headwaters Regional Development Commission provided in-kind technical assistance. Northwest Minnesota Initiative Fund awarded a $22,000 grant for administration expenses. The city of Bemidji donated tax-forfeited lots, provided technical assistance, and subsidized 50 percent of the cost of paving for the subdivision. USDA Rural Housing guaranteed mortgages for first-time homebuyers, facilitating the financing for the new homeowners.

The project stimulated development in the community and provided immediate "value-added" worth. Completed homes were sold for $61,000 and were appraised at $70,000.

Employee Benefit Program: Bergquist Companies. Bigfork, MN

The Bergquist Companies of Cannon Falls, Minnesota, were faced with the lack of available housing necessary to expand their operations in Bigfork, Minnesota. As a result, the company became involved in a housing development project to support the development of 40 new, single-family homes. The firm provided down-payment assistance matching employees' funds up to $5,000 as a five-year forgivable loan. New homeowners received free homeownership counseling. The firm also provided the contractor with construction financing and gap financing for the completed units up to $15,500 per house. The city reduced the tax rates on the lots and provided the infrastructure. The Greater Minnesota Housing Fund provided $7,500 in gap financing for the first home.

Local Housing Fund/Adaptive Reuse of an Existing Building. Hoffman, MN

Local housing funds provide a means of pooling resources to facilitate housing development. In Hoffman, Minnesota (population 639), 11 employers contributed to a community fund that provided a $32,000 grant that was matched by a Greater Minnesota Housing Fund zero-percent loan, making it feasible to renovate an abandoned school into eight apartments.

Tax Credit Plus! Pelican Rapids Townhomes. Pelican Rapids, MN

In Pelican Rapids, Minnesota (population 1,929), a local employer became a silent partner in promoting affordable housing locally through the purchase of $1.5 million equity in federal Low-Income Housing Tax Credits. By paying $.10 over the market price for the tax credits, the firm contributed an additional $400,000 to the project. A 1 percent deferred loan through the Greater Minnesota Housing Fund provided $270,000 to the project as well. The outcome of this project was an additional 40 units of multifamily rental housing in the community.

Appendix IX.
Resident Feedback Survey (sample)

Dear Resident,

We are interested in your opinion about (name of development). Please fill out the following questions and return the form to the box by the mailboxes. We will pick up the forms on (date) and would appreciate your response by then. If you have questions about the survey, please contact (name, telephone number).

A summary of the survey results will be posted on the community bulletin board. If you would like a copy of the report, please put your name and address on the return envelope. We will separate the envelopes from the survey forms to keep individual responses confidential.

Thank you! Your opinion counts.

Building Appearance/Maintenance

1. How would you rate the overall appearance of the building and grounds?

____ terrific

____ better than most places

____ acceptable

____ could use some improvement

____ definitely needs improvement

Please comment:

____

____

____

____

2. What is your opinion of the following items?

Snow removal

____ handled quickly and efficiently

____ not done soon enough

____ poorly done

Lawn maintenance

____ well maintained

____ ok

____ poorly done

Landscape (flowers, shrubs, trees)

____ well maintained

____ needs some improvement

____ poorly done

Other suggestions:

____

____

____

____

Design of Units

1. How would you rate the arrangement of the rooms in your unit?

____ highly satisfactory

____ satisfactory

____ somewhat unsatisfactory

____ very dissatisfied

2. How would you rate the closets and storage space in your unit?

____ more than enough storage space

____ satisfactory storage space

____ could use more storage

____ definitely not enough storage space

What would you like to store that is difficult to store now?

____
____
____
____

3. How would you rate the appliances in your unit?

____ highly satisfactory
____ satisfactory
____ somewhat unsatisfactory
____ very dissatisfied

Please comment:

____
____
____
____
____
____
____

Safety and Security

1. Have you ever felt unsafe around other residents in the building?

____ never
____ one time
____ 2 or 3 times
____ 4 or 5 times
____ 6 or more times

2. Has a nonresident ever asked to be let into your building?

____ yes
____ no

3. Have you ever noticed an entrance to your building propped open?

____ yes
____ no

4. Are there areas in your building where you feel uncomfortable or unsafe?

____ yes
____ no

If yes, where?

____
____
____

5. What changes do you feel would make the building safer?

____ increase the brightness of the lighting in hallways
____ increase lighting in parking areas
____ install security cameras
____ install emergency alarms
____ have a security attendant at the entrance
____ have a security staff patrol the area
____ no need to make any change

Other suggestions:

____
____
____

Parking and Transportation

1. How many vehicles do you own?

____ none
____ automobile(s)
____ motorcycle(s)
____ boat(s)
____ personal water craft(s)
____ snowmobile(s)
____ other____________________________

2. Is there adequate parking available for your vehicles?

____ yes
____ no

3. What are your feelings about the availability of visitor parking?

____ there is too much

____ it is adequate

____ there is need for additional visitor parking

____ it doesn't concern me

4. How often do you use the transportation services available?

____ daily

____ weekly

____ occasionally

____ transportation service is not available

____ I do not need to use public transportation.

Amenities and Services

1. How often do you use the social room?

____ weekly

____ monthly

____ once or twice a year

____ never

2. How often do you have guests who stay more than one or two nights?

____ at least once a month

____ occasionally, two or three times a year

____ never

Management

1. How would you rate the management staff attitude toward residents?

____ highly satisfactory

____ satisfactory

____ indifferent

____ occasionally unsatisfactory

____ needs improvement

2. Do you feel comfortable talking to the management or staff at your building?

____ yes, very comfortable

____ somewhat comfortable

____ uncomfortable sometimes

____ not at all comfortable

Comments:

____

____

____

____

3. When you have a repair that is needed, how does the staff respond?

____ immediately

____ soon enough

____ not soon enough

____ doesn't respond

4. Are you involved in the resident association?

____ yes, actively involved as an officer or committee member

____ yes, attend board meetings

____ yes, attend the annual association meeting and vote for officers

____ read the newsletter and stay informed of association decisions

____ did not know there was an association

____ not interested in the resident association

Comments:

____

____

____

____

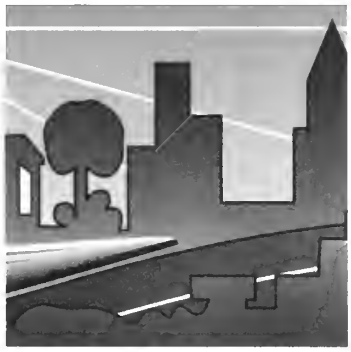
____

____

____

____

Appendix X.
Glossary of Housing Terms



Affordable housing. A ratio of housing costs (rent or mortgage payment + basic utilities) that is at or below 30 percent of household income.

AMI. Area median income; a measure used to compare households, eligibility for housing assistance.

Bridge loan. A loan of limited duration that is used to pay the cost of holding property following construction and before permanent financing is received.

Closing. Meeting at which ownership of real property is transferred.

Condominium. Housing tenure in which the interior of each unit is privately owned, while the exterior of the building and property are owned and managed by a homeowner's association.

Cooperative housing. Housing tenure arrangement where residents own shares in a company that owns and manages residential property (a building or development). The cooperative membership provides the right to occupy a specific unit. Limited cooperatives may have investors who are not residents.

Deed restrictions. Legal restrictions placed on an individual building site. These can range from architectural style or required exterior building appearance to prohibitions against parking boats or recreational vehicles. In the case of housing land trusts, deed restrictions can include resale ceilings and buyer income requirements.

Draws, draw downs. Scheduled construction payments made to contractors from the project funding, based on progress of the project and documented expenses.

Homeowner's association. A management group of property owners who typically make management decisions for condominiums or planned unit developments. An annual meeting provides an opportunity for all members to be informed of the budget, upcoming expenses, and to elect members to a board of directors.

Housing land trust. A nonprofit or public ownership of residential land in order to assure that housing remains affordable. Individuals hold title to the houses and improvements on the land through long-term leases; the nonprofit or government agency holds title to the land itself. When property is sold, the owners are limited in the profit they can make based on the value of the house and improvements exclusive of the land value. Since land is about one-third the cost of housing, this limitation lowers the price allowed, helping to keep the housing affordable, particularly in communities where land values are escalating rapidly.

Gap financing. Public or private subsidies required to make affordable housing financially feasible.

Gated community. A housing subdivision that is designed to be exclusive. Typically the housing is expensive. There are physical barriers identifying the community such as walls or fences and gates. Use of subdivision amenities (such as clubhouses or recreational areas) is restricted to residents and limited guests.

NIMBYism. Public opposition to affordable housing development. The term stands for "not in my backyard."

Option to purchase. A legal agreement to buy real estate property at a stated price within a specified period of time.

Permanent financing. The final source of funding for property ownership. This is typically a long-term (30-year) mortgage that places a lien on the property until the loan is repaid.

Predevelopment financing. Loan(s) or grant(s) used to pay for expenses incurred prior to the actual construction or rehabilitation of housing.

Presold or custom home. Home built with a presale agreement. Building these homes involves less risk for the developer than speculative homes and allows the consumer to give input on home style and design.

Pro forma. The financial documents used to identify construction, financing, and operating costs of real estate projects. These are used to determine "bottom-line" feasibility, secure funding, and obtain mortgages.

Replacement reserves. Budgeted amount to cover future expenses for major maintenance and repairs that are anticipated. For example, such reserves are planned to pay for repair or replacement of mechanical systems, plumbing, and roofs.

Speculative (spec) housing. Homes built without a presale agreement. Because there is not a predetermined buyer, the developer takes a financial risk with a "spec" home. And, because the home is built without a specific buyer in mind, the home buyer has few opportunities for design input.

Tenure. Terms for ownership category of housing occupants. Examples include renting, homeownership, condominium ownership, or cooperative shareholder.

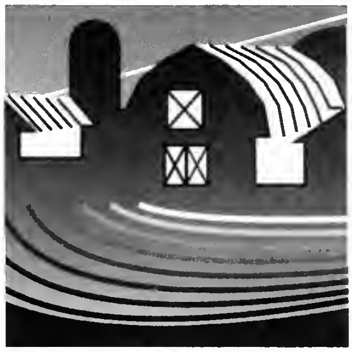
Title. Legal document establishing property ownership.

Type. Housing type is the style of the dwelling including single-family house, apartment, townhouse, or villa home.

Villa home. Clusters of three or four attached units. Often these are condominium or cooperative units, with occupants sharing in the ownership and/or management of the development.

Zoning. Local regulation of the character and use of land and buildings including the size of lots, types of structures allowed, building heights, setback requirements, open-space requirements, and allowable density.

Appendix XI.
Guidebook Feedback Form



Note: This feedback form is available on a web site as well.
See http://www.ag.uiuc.edu/~lced/main.html. Complete and return to Paul Elgatian, 4550 Kennedy Drive, East Moline, IL 61244.

FOLLOW-UP SURVEY

We are utilizing *Community Housing Development: Building a Brighter Future* in the following communities:

Contact person ____________________

Organization ____________________

Address ____________________

____

____

Phone ____________________

Date started ____________________

• How long has this organization been formed?

_____ Less than a year

_____ 1 to 4 years

_____ More than 5 years

• Has this organization been involved with other community development projects?

_____ Yes _____ No

• Briefly describe the development programs:

Business Recruitment ____________________

____

____

____

Community/Business Promotion ____________________

____

____

Beautification ____________________

____

____

____

Leadership Development ____________________

____

____

____

____

____

____

• General information about the project:

____

____

____

____

____

____

____

• How would you describe the community the organization is serving? For example, the village of Thorwood, Sampson County, or XYZ Subdivision.

____

____

____

____

- Who was involved in the planning process? List individual's names and organizations.

____
____
____
____
____
____
____
____
____

- How was the group organized?

_____ Voluntary
_____ Appointed by local government
_____ Subcommittee of the economic development organization
Other: _______________________
____
____
____

- What were the major goals for your housing development group? (Check all that apply.)

	plan to do	*completed*
Planning	_______	_______
Needs Assessment	_______	_______
Feasibility Study	_______	_______
Project Development	_______	_______
Other:	_______	_______

____
____
____

- Did any of the following groups work with you in this process?

- Rural Partners

Yes ______
Type of assistance ______________
____
____
____
Outcomes ______________________
____
____
____

- Illinois Institute for Rural Affairs, Western Illinois University

Yes ______
Type of assistance ______________
____
____
____
Outcomes ______________________
____
____
____

- USDA Rural Development

Yes ______
Type of assistance ______________
____
____
____
Outcomes ______________________
____
____
____

- Illinois Housing Development Authority

Yes ______
Type of assistance ______________
____
____
____
Outcomes ______________________
____
____
____

• Illinois Association of Regional Planning Councils

Yes ______

Type of assistance ______________________

____

____

____

Outcomes ______________________________

____

____

____

• University of Illinois Extension

Yes ______

Type of assistance ______________________

____

____

____

Outcomes ______________________________

____

____

____

• Briefly describe the assistance provided by these agencies: ______________________

____

____

____

____

____

• Has the guidebook helped your group take action in the housing area?

Not yet_____ No _____ Yes _____

Briefly describe the actions that have taken place with the support of these resources (workbook and/or agency involvement):

____

____

____

____

____

____

____

____

____

• Describe what changes have occurred in the economic makeup of the community or region.

____

____

____

____

____

____

____

____

____

• Were committees organized to assist with action steps?

Not yet _____ No _____ Yes _____

If yes, please provide the details.

____

____

____

____

____

____

• What types of committees were organized?

____

____

____

____

____

____

____

____

____

- Approximately how many people participated in each committee?

- Are these groups continuing to meet?

- What new ideas did community/organization members gain from working with the guidebook?

- What changes have occurred in your community as a result of using the guidebook?

- Have moneys been invested in new construction or renovations? Did this result in the establishment of new households in your community?

- *(Optional)* Name and phone number in case we would like to visit with you about your group.

- Additional comments:

Notes