Executive Summary

This report evaluates the market feasibility of the proposed 46-unit Horner Park Lofts rental community to operate as a Low-Income Housing Tax Credit (LIHTC) and market-rate project in Chicago, Illinois. Based on the findings contained in this report, it is our opinion that a market exists for the proposed subject development, assuming it is constructed and operated as outlined in this report. The proposed bedroom types (studio, one- and two-bedroom) are considered appropriate for the targeted general-occupancy tenant population, and the number of each unit type offered is supportable within the Chicago Site PMA based on the findings of our report.

In addition, the subject site's location within census tract 1606.01 qualifies as an opportunity area, as more than 50% of households in the aforementioned census tract earn more than 100.0% of the Chicago median income in the last three consecutive years and the poverty rate is less than 20.0%. The preceding factors were determined based on ACS data.

The following is a summary of key findings from our report:

Project Concept

The subject project involves the new construction of the 46-unit Horner Park Lofts rental community in Chicago, Illinois. The project will offer seven (7) studio, 33 one-bedroom, and six (6) two-bedroom garden-style units within a four-story, elevator-served residential building with integrated community spaces. Horner Park Lofts will be developed using Low-Income Housing Tax Credits (LIHTC) and 40 units will target lower-income family households earning up to 30% and 60% of Area Median Household Income (AMHI). The remaining six (6) units will operate as unrestricted market-rate. A total of 11 one-bedroom units will also operate with Project-Based Voucher assistance. The proposed project is expected to be complete by September 2021.

Site Evaluation

The subject site is a vacant building located at 2801 West Montrose Avenue in the northern portion of Chicago. The site is situated southwest of the intersection of West Montrose Avenue and North California Avenue, two moderately-traveled roadways that will allow for convenient ingress and egress of the subject site. The site is clearly visible to traffic along these roadways and is also clearly visible from the adjacent Horner Park. The immediate site neighborhood consists primarily of residential and commercial/retail structures in fair to good condition, which are expected to have a positive impact on the desirability of the neighborhood.

The subject site is also within proximity to a variety of community services. Notable services within 2.0 miles include (but are not limited to) public schools, major employers, grocery and discount shopping stores, public safety departments, restaurants, gas stations, recreational and healthcare facilities. Public transportation options are also accessed within 1.0 mile of the site, with eastbound and westbound CTA bus stops located adjacent east of the site. Overall, the proximity to community services and public transportation are expected to enhance the marketability of the site. Overall, the subject site is considered conducive to affordable multifamily rental product such as that proposed.

Primary Market Area

The Primary Market Area (PMA) is the geographical area from which most of the support for the subject development is expected to originate. The Chicago Site PMA includes the neighborhoods of Ravenswood Manor, Kimball and Irving Park in the northern portion of the city of Chicago. The boundaries of the Site PMA include West Foster Avenue to the north; North Damen Avenue to the east; Interstate 90 to the south; and North Pulaski Road to the west. A map delineating the boundaries of the Site PMA is included on page *III-3.*

Demographics

The Chicago Site PMA is projected to experience both population and household decline between 2019 and 2024, a trend which has been ongoing since 2000. The household decline is projected to be concentrated among renter-occupied households over the next five years, as owner-occupied households will remain relatively stable. Regardless, more than 29,000 renter households will continue to exist in the market through 2024. More than 36.0% of all renter households are projected to earn between $20,000 and $60,000 in 2024, the primary income range for the majority of the subject units proposed. Based on the preceding factors, a deep base of potential support for product similar to that proposed for the subject site will continue to exist within the Site PMA for the foreseeable future, despite the continued demographic declines projected for the market through 2024. Additional demographic information is included in Section III – *Primary Market Area Characteristics*, beginning on page 17.

Economy

The labor force within the Chicago Site PMA is relatively well-balanced in that no single industry segment represents more than 16.1% of the total labor force. A well-diversified labor force generally contributes to the economic stability of an area. It is of note, however, more than 53.0% of the local labor force is comprised within the Health Care & Social Assistance, Educational Services, Retail Trade and Accommodation & Food Services industries. Typically, these segments offer lower wage positions conducive to affordable housing alternatives such as those proposed for the subject site.

The Cook County economy has experienced significant improvement in recent years, both in terms of total employment and unemployment rate trends. Although employment growth has slowed within the county the past two years, a slight increase of 0.5% has been reported thus far in 2019 (through July). The unemployment rate has declined by nearly six full percentage points since 2013, to a rate of 4.0% through July of 2019, which is lower than the statewide average of 4.3% and is very similar to the national average of 3.9%. Based on the preceding factors and considering the numerous announcements of new and/or expanding businesses within the area, we expect the Cook County economy will continue to improve for the foreseeable future. Additional economic information is included in Section III – *Primary Market Area Characteristics,* beginning on page 22.

Rental Housing Overview

We identified and personally surveyed 11 conventional housing projects containing a total of 617 units within the Site PMA. This survey was conducted to establish the overall strength of the rental market and to identify those properties most comparable to the subject site. These rentals have a combined occupancy rate of 98.2%, a strong rate for rental housing. Each of the rental housing segments surveyed is summarized in the following table.

Project Type	Projects Surveyed	Total Units	Vacant Units	Occupancy Rate
Market-rate	4	158	3	98.1%
Market-rate/Tax Credit	2	65	8	87.7%
Tax Credit	2	154	0	100.0%
Tax Credit/Government-Subsidized	2	166	0	100.0%
Government-Subsidized	1	74	0	100.0%
Total	11	617	11	98.2%

Nearly all rental housing segments in this market offer affordable (i.e. Tax Credit or government-subsidized) units. The overall occupancy rate of 98.2% indicates the rental housing market is performing well.

Comparable Tax Credit Housing Supply

The subject project will target general-occupancy (family) households earning up to 30% and 60% of Area Median Household Income (AMHI) under the Low-Income Housing Tax Credit (LIHTC) program. Within the Site PMA, we identified and surveyed two family (general-occupancy) LIHTC projects which are considered comparable to the subject project in terms of unit types offered and target population. Due to the limited supply of comparable LIHTC product within the market, we also identified and surveyed two additional comparable LIHTC projects outside the market, but within Chicago. The four comparable general-occupancy LIHTC properties surveyed and included in our comparable analysis, along with the subject development, are summarized in the following table.

Map I.D.	Project Name	Year Built/ Renovated	Total Units	Occ. Rate	Distance to Site	Waiting List	Target Market
Site	**Horner Park Lofts**	**2021**	**40***	**-**	**-**	**-**	**Families; 30% & 60% AMHI**
1	2247 W Lawrence Ave.	2019	3*	33.3%	1.2 Miles	None	Families; 60% AMHI
10	Westerner	2017	2*	100.0%	0.8 Miles	None	Families; 60% AMHI
902	Borinquen Bella	1924 / 2010	47	100.0%	3.8 Miles	36-60 Months	Families; 50% AMHI
910	Lyndale Place	1930 / 1997	67	100.0%	2.9 Miles	12-24 Months	Families; 30% & 60% AMHI

OCC. - Occupancy
*Tax Credit units only
900 Series Map IDs are located outside the Site PMA

The four LIHTC projects have a combined occupancy rate of 98.3% and two of the four maintain waiting lists for their next available units, the longest of which is a duration of up to 60 months. This is a clear indication of pent-up demand for additional general-occupancy LIHTC product in the market and region. The subject development will alleviate a portion of this demand.

Note that 2247 W. Lawrence Avenue (Map ID 1) is currently operating with an occupancy rate of just 33.3%, however, this is due to the size of the property (three LIHTC units) and the fact that two units are currently vacant. According to management at this property, these two vacant units recently became available and are expected to be filled soon.

The gross rents for the comparable projects and the proposed rents at the subject site, as well as their rent per square foot, unit mixes and vacancies by bedroom are listed in the following table:

		Gross Rent/Per Sq. Ft. - Percent of AHMI (Number of Units/Vacancies)			
Map I.D.	**Project Name**	**Studio**	**One-Br.**	**Two-Br.**	**Three-Br.**
Site	**Horner Park Lofts**	**$936/$1.73-60% (7)**	**$501/$0.74-30% (11) $1,002/$1.49-60% (22)**	**-**	**-**
1	2247 W Lawrence Ave.	-	$836/$1.43-60% (2/1)	-	$1,182/$1.16-60% (1/1)
10	Westerner	$771/$2.57-60% (1/0)	$1,075/$2.69-60% (1/0)	-	-
902	Borinquen Bella	-	$796/$1.14-50% (3/0)	$963/$1.07-50% (19/0)	$1,057-$1,091/$1.06-$1.09-50% (25/0)
910	Lyndale Place	-	$1,054/$1.11-$1.51-60% (3/0)	$1,269/$1.59-$1.75-60% (57/0)	$775/$0.64-$0.65-30% (5/0) $1,470/$1.20-$1.23-60% (2/0)

900 Series Map IDs are located outside the Site PMA

The subject rents at 60% of AMHI are generally competitive with those reported among similar unit types at the comparable LIHTC projects. These competitive rents, along with the fact that only one of the comparable properties offers studio units, could create a competitive advantage for the subject property. This is particularly true when considering nearly 32.0% of all renter households in the market are comprised of one-person households and that nearly 40.0% of these one-person households earn below $40,000.

Comparable/Competitive Tax Credit Summary

A limited supply of conventional general-occupancy LIHTC product is offered within the Site PMA, as only two such properties were identified and surveyed at the time of our analysis and these two properties include just five units. In addition to these properties, we also surveyed two additional general-occupancy LIHTC properties outside the Site PMA that offer unit types similar to those proposed for the subject project. The four properties surveyed have a combined occupancy rate of 98.3% and two of the three maintain a waiting list, the longest of which is a duration of up 60 months.

The subject project will offer some of the only studio units among the comparable properties, which is expected to create a competitive advantage for the property. This is especially true when considering that one-person households comprise nearly 32.0% of all renter households in the market and that nearly 40.0% of all single-person renter households in the market earn less than $40,000.

The subject's proposed gross Tax Credit rents are considered competitive and marketable within the Site PMA. Although higher than some of the rents in the market, the newness of the subject development, as well as its superior amenities packages, will ensure the subject is marketable.

An in-depth analysis of the Chicago rental market, as well as the comparable LIHTC properties, is included in Section IV - *Housing Market Characteristics* of this report.

Market-Rent Advantage

Based on Rent Comparability Grids included in *Addendum E*, it was determined that achievable market rents for units similar to the subject development are summarized as follows:

Bedroom Type	Proposed Collected Rent (AMHI)	Achievable Market Rent	Market Rent Advantage
Studio	$882 (60%)	$1,290	31.6%
One-Bedroom	*$434 (30%) $935 (60%)	$1,575	72.4% 40.6%
Two-Bedroom	$1,267 (Market-rate)	$1,840	31.1%

*Maximum allowable collected LIHTC rent

The proposed collected rents represent market rent advantages ranging from 31.1% to 72.4%, depending on unit type and targeted income level. Typically, Tax Credit rents are set 10% or more below achievable market rents to ensure that the project will have a sufficient flow of tenants. As such, the proposed rents should represent significant values for the local market.

Capture Rate Estimates

Assuming the project is complete in 2021, the following table illustrates the amount of income-qualified households that are anticipated to be within the PMA at that time. Our capture rate calculations follow:

	Percent of Median Household Income					
	Scenario One					Scenario Two
	30%/Section 8 ($0-$21,390)	30% ($17,177-$21,390)	60% ($34,354-$42,780)	Total ($0-$42,780)	Market-Rate	Tax Credit Only ($17,177-$42,780)
Number of Proposed Units	11	11	29	40	6	40
Size- & Income-Eligible Households 2021	/ 3,046	/ 733	/ 1,525	/ 7,039	/ 9,074	/ 4,726
Capture Rate	= 0.4%	= 1.5%	= 1.9%	= 0.6%	= < 0.1%	= 0.8%

As the preceding illustrates, the capture rates by targeted AMHI level range from 0.4% to 1.9%. These capture rates are considered very low and easily achievable within the Chicago Site PMA and demonstrate a deep base of potential size- and income-appropriate support for the subject development. This is especially true when considering the lack of general-occupancy Tax Credit product in the Site PMA, which will likely allow the proposed subject project to capture a larger than typical share of the income-qualified applicants. It is also of note that the capture rates for the subject project are well below the typical IHDA threshold of 5.0% for family projects. In addition, the subject's capture rate of less than 0.1% for the subject's market-rate units illustrates that there is also significant size- and income-eligible support for the subject's market-rate units.

Penetration Rate Calculations

The 328 existing (surveyed and unsurveyed) and proposed affordable general-occupancy units in the market must also be considered when evaluating the achievable penetration rate for the subject development. Based on the same calculation process used for the subject site, the income-eligible range for the existing and planned affordable general-occupancy units is $0 to $62,040. Note that because the subject development will target families, we have excluded the affordable age-restricted units in the market. Based on the Demographic Characteristics and Trends of household incomes for the Site PMA, there will be an estimated 13,508 households with eligible incomes. The 328 existing and proposed affordable general-occupancy units represent a penetration rate of 2.4% of the 13,508 income-eligible households, which is summarized on the following table.

	Market Penetration
Number of comparable affordable units (Proposed and Existing)	328
Income-Eligible Rental Households – 2021	/ 13,508
Overall Market Penetration Rate	= 2.4%

It is our opinion that the 2.4% penetration rate for the affordable general-occupancy units, both existing and proposed, is achievable.

Absorption Estimates

Considering the facts contained in this market study, as well as the preceding factors, and comparing them with other projects with similar characteristics in other markets, we are able to establish absorption projections for the proposed subject development. It is our opinion that the 40 proposed LIHTC units at the subject site will reach a stabilized occupancy of 95.0% within approximately three months of opening. This absorption period is based on an absorption rate of approximately 12 units per month.

These absorption projections assume a 2021 opening date. Further, these absorption projections assume the project will be built as outlined in this report. Changes to the project's rents, amenities, floor plans, location or other features may invalidate our findings. Finally, we assume the developer and/or management will aggressively market the project throughout the Site PMA a few months in advance of its opening and continue to monitor market conditions during the project's initial lease-up period. Note that Voucher support has also been considered in determining these absorption projections and that these absorption projections may vary depending upon the amount of Voucher support the subject development ultimately receives.

Additional information regarding capture and penetration rates, as well as our absorption projections is included in Section V - *Affordability Demand* of this report.