

**CITY OF CHICAGO  
DEPARTMENT OF COMMUNITY DEVELOPMENT**

**STAFF REPORT  
TO THE  
COMMUNITY DEVELOPMENT COMMISSION  
REQUESTING DEVELOPER DESIGNATION  
JANUARY 12, 2010**

**I. PROJECT IDENTIFICATION AND OVERVIEW**

Project Name: Mercy Preservation Housing

Applicant Name: Mercy Housing Lakefront

Project Addresses: 4946 N. Sheridan Road and 850 W. Eastwood

Ward and Alderman: 46<sup>th</sup> Ward – Alderman Helen Shiller

Community Area: Uptown

Redevelopment Project Area: Hollywood Sheridan and Wilson Yard TIF Area

Requested Action: TIF Developer Designation

Proposed Project: The acquisition and rehabilitation of 850 West Eastwood which is a sixteen story, brick apartment building with indoor parking on the lower level, and the first and second floors. There are a total of 231 units housed on floors three through sixteen, with bedroom sizes ranging from one to three bedrooms. Renovations will include: adding insulation to exterior walls, replacing existing carpeting in all apartment living rooms, hallways and bedrooms, painting, and new kitchen cabinets, countertops and appliances. Additionally, 15% or 35 units will be adaptable and 5%, or 12, will be accessible for use by handicapped individuals.

Rehabilitation of 4946 North Sheridan Road which is a three-story, brick apartment building with commercial space on the ground level. Currently, the building consists of eight single-room only (SRO) units with private baths, 58 SRO units with shared baths and four one-bedroom units with private baths. After rehabilitation, the mix will be 49 SRO units with private baths, 16 studio units with private baths and four one-bedroom units with private baths. Additional renovations in this building will include, but not be limited to, installation of an elevator (previously none), sprinkler system, removal of the outside fire escapes and installing new internal staircases and escape routes, replacing windows, tile flooring, new kitchens (appliances and cabinets), and baths in all of the units.

TIF Assistance: \$3,000,000

## **II. PROPERTY DESCRIPTION**

Addresses: 4946 N. Sheridan Road and 850 W. Eastwood

Location: Uptown

Tax Parcel Numbers: Sheridan Road – 14-08-411-012; Eastwood – 14-17-213-014

Land Area: Sheridan Road – 204,976; Eastwood – 230,400

Current Use: Both buildings are fully occupied.

Current Zoning: Sheridan – B2-3; Eastwood – R-4

Environmental Condition: A Phase I Environmental Site Assessment was completed for both buildings by Environmental Consulting Group, Inc. on August 24, 2009. The assessment indicated there were no Recognized Environmental Conditions associated with the sites. The City of Chicago's Department of Environment issued an environmental clearance letter on October 20, 2009.

## **III. BACKGROUND**

On June 26, 2009, the developer applied to the Department of Community Development (DCD) for Tax-exempt bond proceeds as well as loan funds to purchase and rehabilitate 850 West Eastwood, and 4946 North Sheridan Road. The Eastwood building consists of 231 one to three-bedroom units for families, and the Sheridan Road building consists of 69 single room only (SRO), studio and one-bedroom units for individuals. Both buildings are fully-occupied and the residents have expressed their desire to remain in their respective locations. The rehabilitation and preservation of these buildings will upgrade all units, bring the buildings up to current City codes, and retain 280 or 93% of the units for individuals and households earning no more than 60% of the area median income (AMI) and below.

The neighborhood is a mix of multi-family residential, institutional and small commercial uses. Convenience-oriented shopping runs along Sheridan Road, Broadway Street and Wilson Avenue. Lake Shore Drive is approximately a quarter mile east of the site, providing good regional access to downtown Chicago and the north side.

850 West Eastwood, which is one-half block west of Clarendon Avenue, is in close proximity to the CTA Red line. The area is flanked with older three-flat buildings and a few single-family homes that have been subdivided into apartments in the area. On the west side of Clarendon Avenue are high-rise apartment and condominium buildings similar in size to the subject property. To the east are a number of parks and recreational uses, including Clarendon Park and Montrose Harbor.

4946 North Sheridan Road sits on the southwest corner of Sheridan and Argyle Street. South of the site are convenience stores and single-family residences. The east side boasts apartment buildings on Sheridan Road with three-flats, and a self-help retirement facility along Argyle Street. The north portion is a mixture of small commercial uses, and a mix of mid and high-rise residential buildings. This building is also conveniently located near Truman College.

Both locations have good access to public transportation with elevated train stops and CTA buses running along the north-south and east-west arterial streets.

**IV. PROPOSED DEVELOPMENT TEAM**

**Development Entity:** HWA-850 Eastwood Limited Partnership, an Illinois limited partnership (the “Borrower”), was formed by Mercy Housing Lakefront (the “Developer”). It will consist of HWA-850 Eastwood GP Corp., NFP, an Illinois not-for-profit 501 (C)(3) Corporation, as the general partner with a .01% ownership interest and Mercy Housing Lakefront with a 99.99% ownership interest. Mercy Housing Lakefront is the sole member of the GP.

At the time of closing on the construction financing, the general partner, HWA-850 Eastwood GP Corp., NFP will have a .01% interest and 99.99% of the Owner’s investor member interest will be sold to an entity purchasing the 4% Low Income Housing Tax Credits.

**Experience:** Mercy Housing, formed in 1981 by the Sisters of Mercy of Omaha, is a 501 (C)(3) not-for-profit corporation which specializes in the purchase of at-risk housing for renovation and lease to low-income families and individuals. In 2006, Mercy Housing acquired Lakefront Supportive Housing in Chicago, and combined to create Mercy Housing Lakefront. Lakefront Supportive Housing was also a not-for-profit developer that specialized in the development and operation of single room occupancy (SRO) properties with supportive services. Mercy Housing Lakefront is a capable, experienced organization with 28 years of experience that currently owns, and successfully manages more than 1,400 affordable and SRO units in the Chicago area. Mercy Housing Lakefront recently completed the renovation of The Malden Arms. The Malden Arms is an 86-unit SRO building located in the Uptown neighborhood that has been preserved for homeless, formerly homeless or at-risk homeless individuals. Mercy Housing Lakefront also successfully manages their properties through their supportive services arm, Mercy Services Corporation (MSC). Currently, MSC manages 15 properties in the Chicago area, and provides for tenant services such as social services, initial leasing and rent collection, maintenance, and preservation of the property to meet city, state, and federal requirements.

**Other City-funded Projects by this Developer:**

Prior developments have included the following: The Miriam Apartments – 4707 N. Malden – 66 units, The Carlton Apartments – 4626 N. Magnolia – 70 units, The Delmar Apartments – 5042 N. Winthrop – 163 units, The Major Jenkins Apartments – 5012 N. Winthrop – 160 units, The Belray Apartments – 3150 N. Racine – 70 units, The South Loop Apartments – 1521 S. Wabash – 207 units, The Holland Apartments – 240 W. 107<sup>th</sup> Place – 83 units, Wentworth Commons – 11045 S. Wentworth Avenue – 51 units, Near North Apartments – 1244 N. Clybourn – 96 units, Englewood Permanent Supportive Housing – Peoria & Sangamon at 63<sup>rd</sup> Street – 99 units and The Renaissance Apartments – 3762 S. Wabash – 101 units.

**Other development team members include:**

<b>Architect:</b>	Weese Langley Weese
<b>General Contractors:</b>	Sheridan Road - Madison Construction Eastwood – Linn-Mathes
<b>Property Manager:</b>	Mercy Services Corporation
<b>Developer’s Counsel:</b>	Applegate & Thorne-Thomsen, P.C.
<b>Developer’s Bond Consultant:</b>	Universal Structured Finance – Bart Leary
<b>Property Manager:</b>	Mercy Services Corporation

**V. PROPOSED PROJECT**

**Project Overview:**

Located in the Uptown neighborhood on the north side of Chicago, this project will rehabilitate 300 rental units in two buildings for very-low to moderate-income individuals and households. The buildings will be renovated and preserved, and brought up-to standard City codes. Renovations will include items that will not only preserve existing buildings but will also incorporate green features that will make them more energy efficient.

A site plan, floor plans and elevations are provided as exhibits to this report.

**Residential Unit Profile:** The following table provides a detailed description of the proposed project. These rent levels will satisfy the Chicago affordable housing ordinance, which requires 10 percent affordable units in projects receiving City assistance in the form of a land write-down, or 20 percent affordable units in projects receiving TIF assistance. The Department of Community Development has reviewed and approved the affordable unit rents.

**UNIT PROFILE**

**850 West Eastwood:**

TYPE	NUMBER (0-60%)	RENT (0-60%)	NUMBER (61%-Mkt)	RENT (61%-MKT)	SQUARE FOOTAGE
1 bed/1 bath	54	\$1,130*			600
1 bed/1 bath	3		\$ 548		600
2 bed/1 bath	104	\$1,356*			900
2 bed/1 bath	10		\$ 658		900
3 bed/2 bath	53	\$1,567*			1,165
3 bed/2 bath	7		\$ 761		1,165
<b>TOTAL:</b>	<b>231</b>				

\* The developer, Mercy Housing Lakefront, has applied for an extension of the existing Section 8 HAP Contract for this building. If approved, the extension will go for a 20-year term and will allow tenants to pay 30% of their adjusted monthly income for rent with the HAP subsidy paying the remainder rent. The rents reflected in this chart are inclusive of the 30% the tenant is paying.

**Utilities:** Tenants will pay heat, cooking and other electric.

**4946 North Sheridan Road:**

TYPE:	NUMBER (0-60%)	RENT* (0-60%)	SQUARE FOOTAGE:
Studio/w bath	49	\$ 523	250
Studio/w bath	16	\$ 660	375
1 bed/1 bath	4	\$ 775	400
<b>TOTAL:</b>	<b>69</b>		

\*All units in this building are supported through Project based Section 8 rents.

**Utilities:** Tenants will not pay any utilities.

**Environmental Features:**

This project will incorporate green features such as eco-space elevators, energy star ductless split air conditioning system in all units, energy star refrigerators, new blow-in R-49 attic insulation, new blow-in exterior wall insulation and high efficiency boilers for heating, fluorescent drum type light fixtures with fluorescent lamps, and low-flow model toilets and showerheads.

**VI. FINANCIAL STRUCTURE**

This development will be funded with various sources of public financing. 54% or \$35,000,000 of the funds will come from tax-exempt bonds issued by the City of Chicago. The permanent financing will have a principal amount of \$26,010,000, which will be supported by Net Operating Income (NOI). The bridge portion will have a principal amount of \$8,990,000, and be used during the construction period. It will be supported with a line of credit which will be repaid with Limited Partner equity pay-ins. The bond(s) will be enhanced by Freddie Mac. Due to the use of tax-exempt bonds, the project will automatically generate low-income housing tax credits at the 4% level. The use of these 4% credits will generate \$13,051,590 of equity, \$8,990,000 of which will be used to repay the bridge bond, and the remaining \$4,061,590 will be used for the project. Additionally, the 4946 North Sheridan Road building has been registered with the Illinois National Historic places and as such, qualifies for historic tax credits of \$1,307,876. Equity generated from the sale of the tax credits will be paid into the project in tranches. There will be a portion paid at closing, and the remainder will be funded at various stages throughout construction to completion and finally to occupancy. Seller financing of \$4,163,520, which is the difference between the appraised amount and the selling price of the 850 Eastwood building, will be loaned to the project and have a balloon payment due. The developer will also defer developer fee of \$7,274,405. The developer will have a ten year period in which to collect the fee provided the buildings are performing in the black.

DCD has preliminarily set-aside \$5,173,242 in loan funds, and the Department of Housing & Urban Development (HUD), has preliminarily set aside \$2,295,000 for green retrofitting.

TIF funds will represent 5% of the financing and will be used to pay or reimburse the developer for TIF eligible project costs. A cash payment of TIF funds in the amount of \$2,000,000 will be made at closing of the redevelopment agreement. The remaining \$1 million in TIF assistance will be broken into two payments of \$500,000. One payment of \$500,000 will be made at the certificate of completion and the second payment of \$500,000 to be made on the first anniversary of the certificate of completion. Available increment will be defined as that from the Project PIN as well as area-wide increment from the Wilson Yards TIF district beginning with the first collection after the closing of the RDA.

Illinois Affordable Housing Tax Credits (IAHTC) better known as Donations Tax Credits (DTC), is funding 2% of the development costs. The 850 Eastwood land is viewed as a donation, and 50% of the land value, or \$1,732,000, is the amount of the DTCs that are to be sold to generate \$1,386,000 in equity for the project. Other funding sources for this project will be comprised of donations and grants from energy funds.

The following tables identify the sources and uses of funds:

<b>SOURCES:</b>		
Lender / Partner	Amount	% of Total Dev Costs
Series "A" Bonds	\$26,010,000	40.0%
Series "B" Bonds	\$ 8,990,000	14.0%

TIF Developer Designation – Mercy Housing Lakefront  
HWA-850 Eastwood Limited Partnership

DCD "New" Loan Funds	\$ 5,173,242	8.0%
City of Chicago - TIF Funds	\$ 3,000,000	5.0%
HUD Green Retrofit Funding	\$ 2,295,000	3.0%
IAHTC Donation Tax Credits	\$ 1,386,000	2.0%
MHL Note	\$ 4,163,520	6.0%
Energy Grants	\$ 1,071,777	2.0%
Deferred Developer Fee	\$ 7,274,405	11.0%
Historic Tax Credits	\$ 1,307,876	2.0%
Tax Credit Equity	\$ 4,061,590	6.0%
Repaid HOME funds from HWA	\$ 691,860	1.0%
Enhanced Rent Vouchers	\$ 400,000	1.0%
<b>TOTAL</b>	<b>\$65,825,270</b>	<b>100.00%</b>

<b>USES:</b>			
<b>HARD COSTS :</b>	<b>AMOUNT:</b>	<b>PERCENT:</b>	<b>\$/SQ. FT. OF BLDG</b>
Building/Land Acquisition	\$ 23,500,000	36%	\$ 53.98
Construction	20,024,804	30%	\$ 45.99
Construction Contingency	1,947,465	3%	\$ 4.47
<b>Total Hard Costs:</b>	<b>\$ 45,472,269</b>	<b>69%</b>	<b>\$104.44</b>
<b>SOFT COSTS:</b>			
Architect & Engineering Fees	1,030,168	2%	\$ 2.37
Relocation Costs	1,177,660	2%	\$ 2.70
Accounting/Legal Fees*	457,409	.01%	\$ 1.05
Pre Development Due Diligence Costs	109,784	.002%	\$ 0.25
Bond Costs*	1,245,650	2%	\$ 2.86
Construction Period Interest	3,256,310	5%	\$ 7.48
Construction Letter of Credit Fees	1,967,400	3%	\$ 4.52
1 <sup>st</sup> Mortgage Financing Fees*	735,010	.01%	\$ 1.69
Reserves*	1,755,915	3%	\$ 4.03
Deferred Developer Fee	7,274,405	11%	\$ 16.71
Developer Fee	1,000,000	2%	\$ 2.30
Other	343,290	.01%	\$ 0.79
<b>Total Soft Costs</b>	<b>\$ 20,353,001</b>	<b>31%</b>	<b>\$46.75</b>
<b>Total Development Cost</b>	<b>\$ 65,825,270</b>	<b>100.00%</b>	<b>\$151.19</b>

\*See attached sheet for the breakdown of legal, bond, financing and reserve costs.

Note: combined sq. ft. for the project is 435,376

## **VII. PUBLIC BENEFITS**

The proposed project will provide the following public benefits.

**Affordable Housing:** The project will preserve 300 rental units for individuals and families of which 280 will be affordable to households earning 60% or less of the area median income and below for a minimum of 30 years.

**Environmental Features:** Environmentally friendly features have been incorporated into the design of the building, including eco-space elevators, energy star ductless split air conditioning systems in all units, energy star refrigerators, R-49 attic insulation, new blow-in exterior wall insulation and high efficiency boilers for heating, fluorescent drum type light fixtures with fluorescent lamps, and low-flow model toilets and showerheads.

**Permanent Jobs:** The project is estimated to generate five permanent jobs as follows: Property Manager, Assistant Manager, Maintenance Engineer, and two Janitors. The Mayor's Office for Workforce Development (MOWD) has been informed of the project and will work with the developer on job training and placement.

**Construction Jobs:** The project will produce 40 temporary construction jobs.

**Affirmative Action:** The developer will comply with the requirements of Chicago's affirmative action ordinance, which requires contract participation of 24% by minority-owned business enterprises (MBEs) and 4% by woman-owned business enterprises (WBEs). The developer has provided notification of the proposed project, by certified mail, to eight associations of minority contractors and women contractors. A sample version of the letter and copies of the post office receipts for the certified letters are presented as exhibits to this report.

**City Residency:** The developer will comply with the requirements of Chicago's city residency ordinance, which requires that at least half of all construction-worker hours be filled by Chicago residents. The developer will also comply with the requirement that all construction jobs are paid the prevailing wage.

### **VIII. COMMUNITY SUPPORT**

Alderman Shiller endorses the project and has provided a letter of support (see exhibits for copy). Additionally, she has been working with the developers to assist in scheduling community meetings to discuss the timing and rehabilitation of the buildings. Mercy Housing Lakefront is the owner of the 4946 N. Sheridan Road building, and they have been meeting with and informing the tenants of the proposed rehabilitation project as well.

### **IX. CONFORMANCE WITH REDEVELOPMENT AREA PLAN**

The proposed project is located in the Wilson Yards and Hollywood/Sheridan Tax Increment Financing Redevelopment Project Area. The Wilson Yards Tax Increment Financing Redevelopment Project Area was established on June 27, 2001, and The Hollywood/Sheridan Tax Increment Financing Redevelopment Project Area was established on August 16, 2007. The proposed project meets the goals of the TIF Redevelopment plans for the preservation and rehabilitation of residential uses.

### **X. CONDITIONS OF ASSISTANCE**

If the proposed resolution is approved by the CDC, the DCD will negotiate a redevelopment agreement with the developer. The redevelopment agreement will incorporate the parameters of the proposed project as described in this staff report.

It is City policy that no business will be conducted with a development entity whose principal has outstanding municipal debts (such as unpaid parking tickets, unpaid water bills, unpaid business licenses,

and others), is in arrears of child support payments, or who is a debtor in bankruptcy, a defendant in a legal action for deficient performance, a respondent in an administrative action for deficient performance, or a defendant in any criminal action. DCD will initiate a thorough background check of all principals having an ownership interest of 7.5 percent or greater, and of the boards of directors and trustees of non-profit organizations. Similar background checks will be conducted on the development entity itself.

Closing of the redevelopment agreement will not occur before the City Council has approved the agreement, the developer has obtained all necessary City approvals including zoning and building permits, and the developer has presented proof of financing. The redevelopment agreement will include a development timetable.

## **XI. RECOMMENDATION**

The Department of Community Development has thoroughly reviewed the proposed project, the qualifications of the development team, the financial structure of the project, the need for public assistance, its public benefits, and the project's conformance with the redevelopment area plan, and DCD recommends that the CDC recommends to the City Council the designation of HWA-850 Eastwood Limited Partnership as Developer for the development of Mercy Preservation Housing located at 850 West Eastwood and 4946 North Sheridan Road.

**ADDENDUM TO HWA-850 EASTWOOD LIMITED PARTNERSHIP CDC REPORT:**

**BREAKDOWN OF BOND COSTS:**

Bond Agency Fee:	\$ 4,000
Issuer Fee:	525,000
Issuer Counsel:	60,000
Bond Counsel:	85,000
Underwriter Counsel:	65,000
Underwriter Takedown:	320,250
Trustee Fees:	9,000
Rating Agency:	25,000
Structuring Agent:	150,000
Printing Fee:	<u>2,400</u>
<b>TOTAL:</b>	<b>\$1,245,650</b>

**FINANCING FEES:**

Originator Fees:	\$ 350,000
Bond Enhancement Fees:	350,000
Application Fees:	<u>35,010</u>
<b>TOTAL:</b>	<b>\$ 735,010</b>

**LEGAL FEES:**

Accounting:	\$ 57,409
Lender Fees:	25,000
Freddie Mac Fees:	40,000
Bridge Bond Lender Fees:	65,000
Borrower Legal Fees:	<u>270,000</u>
<b>TOTAL:</b>	<b>\$ 457,409</b>

**RESERVES:**

Operating:	\$ 905,565
Replacement:	105,000
Taxes & Insurance:	294,748
Enhanced Rent Vouchers:	400,000
Rent-up & Marketing:	<u>50,602</u>
<b>TOTAL:</b>	<b>\$1,755,915</b>