Report of the Ad-Hoc
Missing Middle Housing Solutions
Advisory Committee

September 2024

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Introduction and Process Overview

From coast to coast, the United States is grappling with an unprecedented housing crisis, and Illinois is not immune. As housing and rental prices rise faster than incomes, an increasing number of households are challenged to find safe, decent, secure housing that is financially accessible.

The State of Illinois has prioritized the housing needs of the state's most vulnerable. The Office to Prevent and End Homelessness, part of the Illinois Department of Human Services, has implemented a multi-year strategy, Home Illinois, to reach towards functional zero homelessness statewide. The Illinois Housing Development Authority (IHDA) finances and encourages the growth and preservation of affordable housing for renters at 80% of the area median income (AMI) and below and homeowners up to 120% AMI. A concentrated and comprehensive effort currently does not exist to address the lack of inventory and affordability of housing choices for people earning between 80% and 140% AMI, loosely referred to as the "missing middle." This gap has ramifications on both low-income affordable housing stock – as middle-income earners are pushed into affordable housing markets – and a community's prospects for job growth and economic development.

Financing for housing development and preservation is typically structured to serve specific income tiers, asset classes and property types, as seen in Figure 1. On the ground in local communities, the systems are intertwined. Expanding the housing availability, affordability, and choice for the missing middle also helps to preserve affordable housing, prevent homelessness, and invest in more inclusive, mixed-income communities throughout the state.

Figure 1: Missing Middle and the Spectrum of Housing Affordability

Spectrum of Housing Affordability				
Eligible for public housing and/or housing vouchers*	Eligible for affordable rental units funded by the Low-Income Housing Tax Credit (LIHTC)	Eligible for some affordable rental units (e.g. those funded via HOME, CDBG, LIHTC income averaging)	Eligible for some affordable homeownership but often don't earn enough for available market rate units	Can afford market-rate units. Not eligible for housing supports.
0-30% AMI	**30-60% AMI**	**60-80% AMI**	**80-140% AMI**	**140% AMI or higher**

**Although public housing is eligible up to 80% AMI, the vast majority served are households 30% AMI and below*

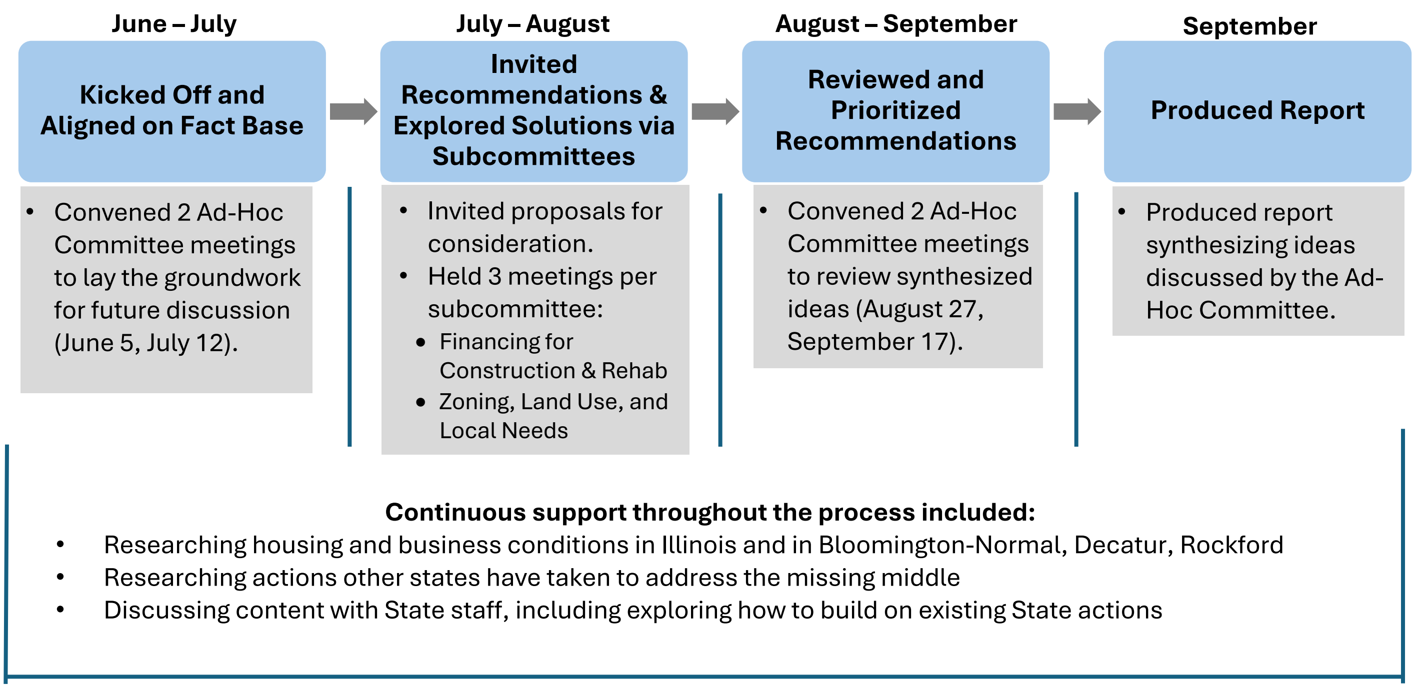
The Missing Middle

The Process

To address these concerns, the Governor's Office convened an Ad-Hoc Missing Middle Housing Solutions Advisory Committee, bringing together 19 executives from a cross-section of industries. Its purpose was to develop a series of potential interventions the State could pursue to accelerate the production or preservation of housing for middle- or moderate-income households (80-140% AMI), particularly in areas targeted for or experiencing significant business growth and expansion, such as Bloomington-Normal, Decatur, and Rockford. Ad-Hoc Committee volunteer members represented business, residential real estate developers, capital providers including Community Development Financial Institutions (CDFIs), local government, and other industry expertise.

From June through September 2024, the Ad-Hoc Committee discussed the sources of Illinois' housing shortage, reviewed demographic, housing and business conditions in local markets, with an eye toward the areas of Bloomington-Normal, Decatur, Rockford (Appendix B), explored best practices from other jurisdictions, and discussed proposed ideas put forth by Ad-Hoc Committee members. Figure 2 provides an overview of the process. The enclosed report summarizes the Ad-Hoc Committee's work.

Figure 2: Timeline of Ad-Hoc Advisory Committee Work, June – September 2024



The Challenge: An Issue of Supply

Reflecting national trends, a significant decrease in housing production in communities across Illinois has resulted in higher prices and rents that are increasingly inaccessible to households at a wider variety of income tiers. Housing production has experienced a national decline since the 2008 housing crisis, slowing further during the COVID-19 pandemic amid supply chain issues and economic uncertainty. As shown in Figure 3, national housing inventory has increased since 2021 but remains below pre-pandemic levels: From June 2019 to June 2021, active U.S. housing listings on Realtor.com decreased by 60%.[1] Although active listings have increased annually since 2021, June 2024's listings remain a 31% decrease from 2019.

Although Illinois' experience echoes that of communities across the nation, the state's challenges are more severe. From 2019 to 2024, Illinois' housing inventory decreased more and rebounded more slowly than national trends. (See Figure 4.) With a 67% decrease in inventory for sale from 2019 to 2024, Illinois was tied for the 3rd largest decrease across all states nationwide. Active listings did not begin to increase until June 2023 and rose by only 3% by June 2024.[2] On the other hand, a slow rebound began nationally in 2021, with listings growing approximately 29% since that time.[3]

Figure 3: National Housing Inventory from 2017 – 2024

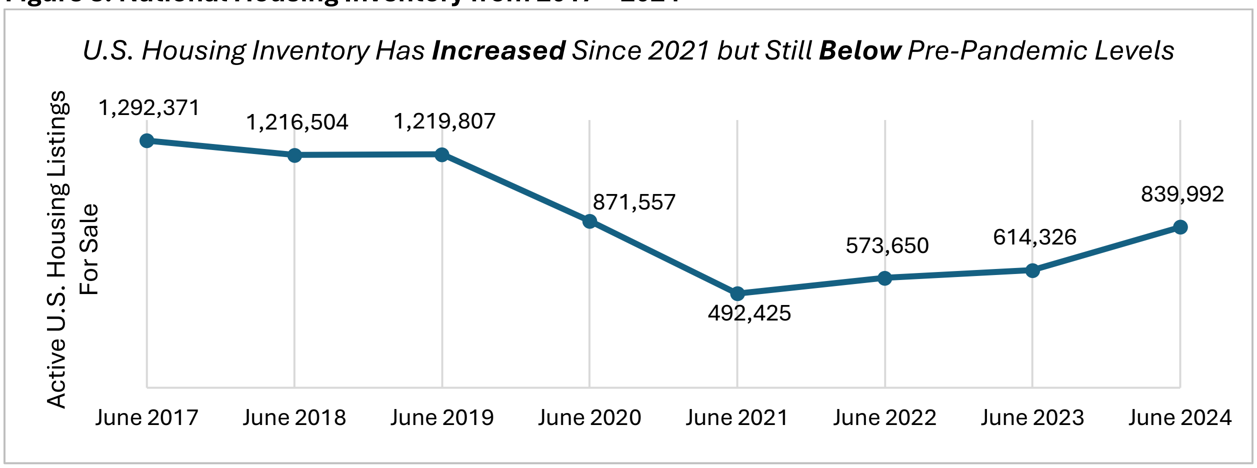
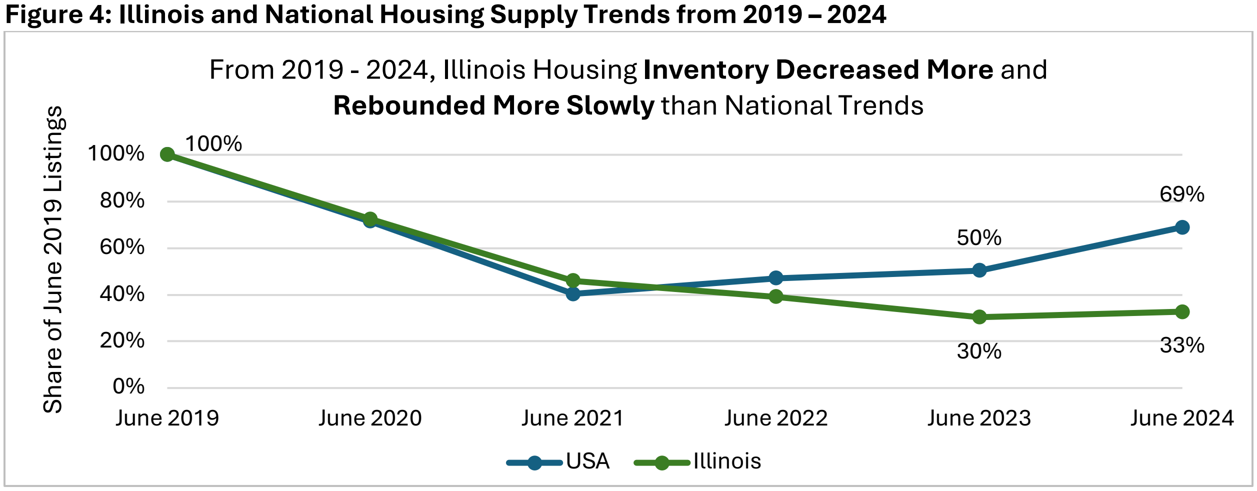


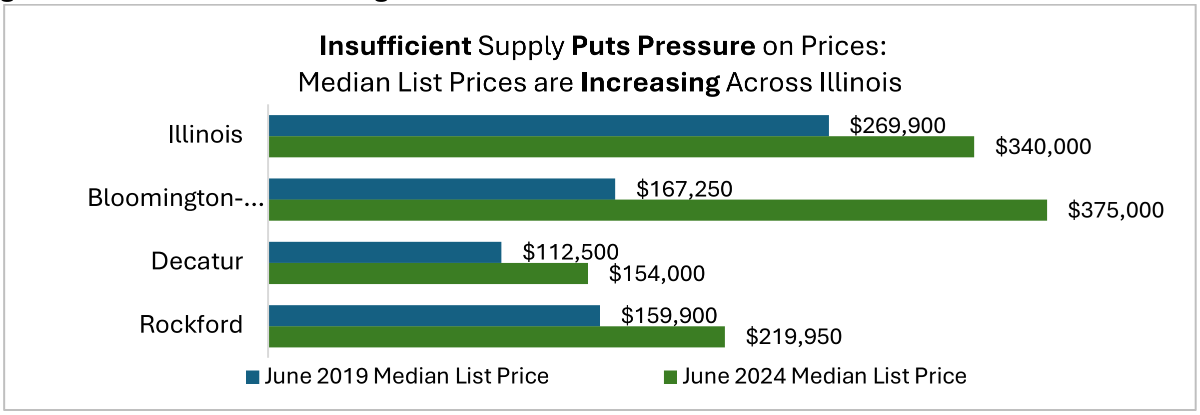
Figure 4: Illinois and National Housing Supply Trends from 2019 – 2024



Insufficient housing supply and a corresponding lack of production has put significant pressure on housing prices, exacerbating affordability challenges for households across income tiers. As shown in Figure 5, from June 2019 to June 2024, median list prices in Illinois increased by 26% (from $269,900 to

$340,000) on Realtor.com. The percentage is even higher in communities such as Bloomington-Normal (124%), Decatur (37%), and Rockford (38%).[4567] These percentage increases are all greater than the increase in inflation from June 2019 to June 2024 (23%), widening the affordability gap for households across a broader range of incomes.

Figure 5: Illinois Median Housing List Prices from 2019 – 2024



Broken Supply Chain

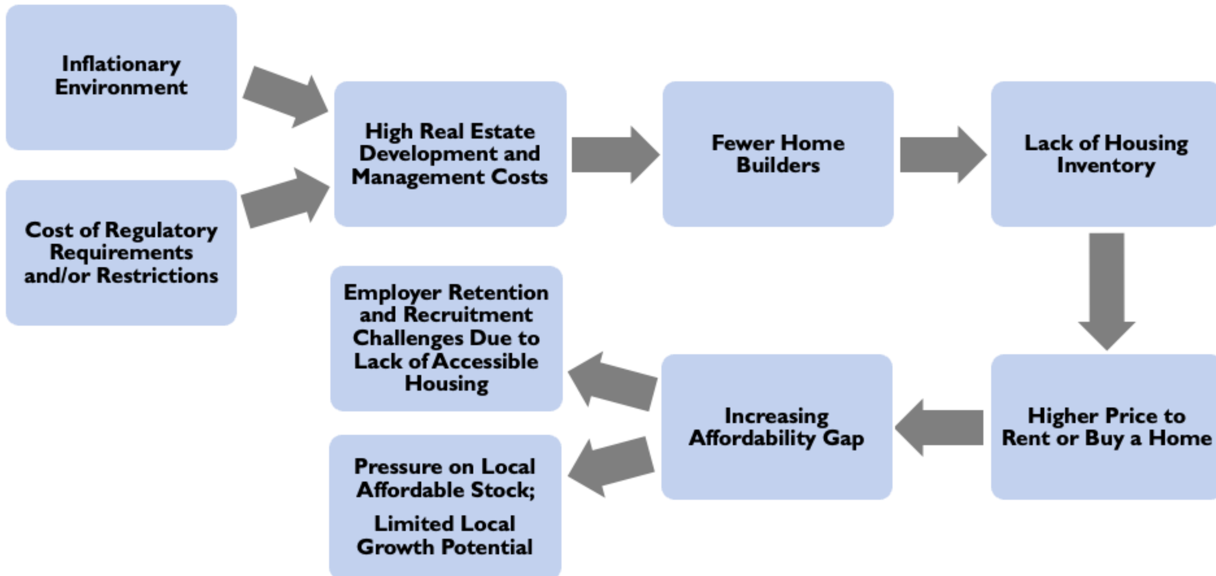
As Ad-Hoc Committee members explored the challenge more closely, one issue was made clear: there is a broken housing production supply chain that makes it difficult for the market to self-correct to increase housing affordability and choice for missing middle households. (See Figure 6.) Specifically:

- **The cost of residential real estate development and management continues to rise, due to the overall inflationary environment as well as the cost of regulatory requirements, particularly those born at the local level**. Since U.S. inflation reached its 40-year high in June 2022, interest rates have remained high, impacting not only the cost of mortgages but prices for labor and construction supplies. As a result, commercial real estate construction costs rose from 25 to 30% between 2019 and 2023.[8] Given the environment, financial institutions are increasingly risk-averse, making access to capital challenging or prohibitively expensive for residential developers. The capital gap between the cost of construction and an affordable price point for households up to 140% AMI is another key barrier keeping home builders away from the missing middle market.

  The cost of government regulations further increases costs; according to the National Association of Home Builders, in 2021, government regulations were 24% of the price of a new single-family home nationally.[9] Additionally, Illinois is home to the greatest number of local taxing bodies in the nation, many of which have additional layers of regulations, fees, and/or distinct entitlement and permitting processes that further drive up costs.

- **High costs have resulted in even fewer home builders in Illinois, and subsequently, an even smaller housing inventory.** The national construction industry has faced a significant shortage of skilled labor since the mid-2000s. Nationally, there are approximately one million fewer workers in the construction trades than there were during the last housing boom in 2007.[10] In Illinois, the construction industry employs about 4% of the state's workers, the 3rd lowest share in the U.S.[11] A significant number of builders left the industry following the Great Recession in 2008. Among those who have stayed in the industry in Illinois, many are aging out, and others have moved to the luxury market, where they can sell homes at prices higher than a middle-income household can afford.

Figure 6: Broken Housing Production Supply Chain



- **As previously described, the lack of builders and subsequent decline in production raises the price to rent or buy a home, impacting households and communities.** Nationally, from 2019 to 2024, a 31% decrease in housing inventory resulted in a 46% increase in median home sales prices, and Illinois communities are experiencing a similar crunch.[12][13] In addition to rapidly escalating prices, homes are selling quickly, furthering pressuring prices upward: According to Zillow.com, the median days from listing to a pending sale is between 4 – 6 days in each of Bloomington-Normal, Decatur, and Rockford.[14][15][16]

- **Despite the unprecedented economic growth underway in Illinois, employers seeking to expand businesses face challenges in attracting and retaining workers who want an affordable place to live near their place of work**. In the three target areas alone, major employers attract a large workforce and are undergoing significant growth, increasing housing demand.[17] In Bloomington-Normal, Rivian is investing $1.5 billion and plans to create 559 new jobs by 2030; Ferrero is investing $103.5 million and plans to create 75 new jobs by 2025'[18] In Decatur, manufacturing is the largest sector with 11,000 employees, and is forecasted to add 4,000 jobs by 2027. Rockford, also experiencing growth, contains high performing industry clusters in aerospace, automotive logistics, healthcare, and advanced manufacturing. Named the nation's top housing market of 2024, it is facing a housing shortage of approximately 3,000-9,000 units to keep up with its growth.

  Ensuring the availability of housing at price points that are accessible to a range of income tiers is critical for businesses to attract and retain talent, yet today, it remains a pain point and possible barrier to growth. Appendix C shows that although many employees of Rivian and ADM live near plants in Bloomington-Normal (McLean County) and Decatur (Macon County), respectively, substantial shares of employees live further away in surrounding counties, causing long commutes that detract from quality of life and become a barrier to employee retention.

- **Without housing options for the missing middle, local communities are at risk of further pressuring the existing affordable housing supply, limiting local economic growth potential, and unintentionally exacerbating existing divisions.** As outlined in Figure 1, the majority of existing housing programs are targeted for households at the lowest income levels and serve as critical resources to provide housing options for the most vulnerable. When missing middle households find themselves priced out of local markets, they look to existing naturally occurring, unsubsidized affordable units, thereby unintentionally putting pressure on the overall housing supply and/or pricing out those at lower incomes. Alternatively, they may seek out other places to live, depriving the community of its ability to grow their population of middle-class households. More housing options that are accessible to the missing middle will promote a more equitable and sustainable housing ecosystem and overall state economy.

The Complexity of the Issue Begs for Multiple Solutions

Barriers to entry suppress interest for many developers to participate in the market – particularly to serve the needs of missing middle households who do not qualify for housing supports. The complexity demonstrates that a single solution won't sufficiently fix the problem at-hand.

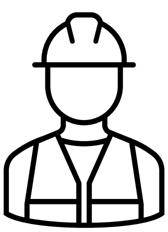
As outlined in Figure 7, homebuilders interested in the single-family, for-sale housing market are facing high costs, high risks, and a capital gap between what it costs to build a home and an affordable purchase price. That is why many have moved to the luxury home market where they have a better guaranteed exit – resulting in a lack of starter homes in local communities.

Developers of multi-unit rental properties or multi-phase development sites also face high costs for construction and ongoing property management. Many are also limited by local zoning and land use requirements, local opposition to increased density, and risk-averse lenders who are skeptical of the unprecedented demand, requiring significant equity requirements in an already tight credit environment. That is why, in today's market, some projects are sitting on the sidelines due to lack of financing, while for many others, local NIMBYism prevents the project from crossing the finish line.

Figure 7: Developer Point of View (2024)

Single-Family Developer (for-sale)

⇒ High costs (materials, labor, regulatory compliance of certain building features, local fees)
⇒ Pre-development risk (land, infrastructure, timeline to hold site during entitlements and permitting)
⇒ Capital to get started is expensive or hard to access
⇒ Gap of ~ $100,000 between cost to build and what missing middle can afford
⇒ No guaranteed exit



Multi-Unit Developer (rental or multi-phase site with for-sale and rental)

⇒ Local regulatory barriers (limited areas for zoned property type)
⇒ NIMBY-ism opposed to increased density
⇒ High construction costs (materials, labor, regulatory requirements, local fees)
⇒ Pre-development risk (land, infrastructure, timeline to hold site during entitlements and permitting, or across phases of project)
⇒ High ongoing management costs (insurance, utilities, maintenance)
⇒ Cost of capital is prohibitively high or will only cover Phase 1 of project

Acting now to address these issues is crucial to prevent housing affordability issues from continuing to worsen for a growing number of households and communities. Home price-to-income ratios have risen across the U.S. since the early 2010s, and this trend shows no sign of reversing.[19] Long construction timelines for new housing have only increased over time, impacting the full path to implementation.[20] Delaying action will only prolong the issue, making it even more expensive to address in the future.

Framework of Solutions

Given the issue's complexity, a multi-pronged package of solutions must be developed to overcome various barriers, attract builders, and advance a multi-year effort to spark a building boom in Illinois that benefits households of all incomes and is aligned with the state's unprecedented economic growth. Bold actions to address today's needs must be taken to increase housing affordable to the missing middle (80-140% AMI), while sustaining existing resource allocation for those under 80% AMI.

To ensure that communities across Illinois offer a diverse range of safe, quality, housing types accessible to a range of incomes for residents, the State should advance a set of solutions that address today's needs and also serve as a first step on a multi-year effort to realign the housing market with the state's economic and business growth trajectory. Over time, the solutions are intended to attract builders, create conditions for greater private investment, and accelerate the pace of development. A regional approach that leverages partnerships with local municipalities, employers, and residential builders will be the most effective path to implementation.

Address Urgent Needs	Achieve Intermediate Results	Visualize the Future
• Unlock financing • Fill capital gaps • Enhance the local enabling environment	• Active builders • Ecosystem of private investment • Accelerated pace of development	• Range of housing units accessible to range of incomes and lifestyles for today's workers.

The Ad-Hoc Committee's menu of solutions for consideration are outlined in the sections that follow, organized to achieve the following vision and goals, but intended to be packaged across categories to allow for the greatest impact.

Spark the Market

⇒ Unlock financing, reduce costs, and fill capital gaps for housing development.
⇒ Incentivize and attract builders to serve the missing middle market.
⇒ Accelerate the pace of development.

Enhance the Enabling Environment

⇒ Incentivize and/or require local municipalities to address restrictive policies, processes and timelines.
⇒ Eliminate State governmental barriers to housing production.

Foster an Ecosystem for Private Investment

⇒ Short-term: Require Illinois Pension Funds to invest in Illinois' housing development.
⇒ Longer-term: Stimulate a landscape of money managers seeking to invest capital in residential construction in Illinois.

Align and Invest in Regional Housing and Business Planning

⇒ Facilitate information sharing and local and regional coordination on shared issues of housing and economic development.
⇒ Provide technical assistance to local municipalities to advance housing goals.
⇒ Engage employers in helping to advance and invest in local solutions.

Elements for Consideration

As the State considers how to move forward its housing priorities, Ad-Hoc Committee members also seek to underscore the following key considerations across all areas of potential solutions.

First and foremost, there is not one singular solution to address the housing crisis. Packaging together ideas from across this report – including a mix of incentives, mandates, and technical support - to comprise a suite of solutions is needed to address the diversity of market needs and conditions while directing local action. When designing the package of solutions, additional considerations include:

- **Keeping barriers to entry low.** Ad-Hoc Committee members highly value simplicity in implementation and speed to market. Accessibility will also allow smaller community developers an on-ramp and more equitable opportunities to be part of the solution, so that participating builders range from large, well-capitalized players to smaller mom and pop builders in local target markets.

- **Advancing interventions that provide developers with certainty.** Developers – big or small – will be more attracted to incentives that help guarantee risk and provide them with certainty of an exit. Although developers should also have their own capital at risk, the State will only be able to move the needle on the scale of development if on-the-ground partners are set up to be successful.

- **Being realistic about capacity constraints**. Housing development is extremely local. That is why on-the-ground capacity for delivery is critical to success. Where needed, ensure local capacity exists or is being built on a parallel track, whether that be developers and builders, elected officials or municipal staff, Community Development Financial Institutions, community foundations or others.

- **Regional planning and coordination on housing development is critical**. Although individual housing developments exist in specific municipalities, people don't make choices about where they live based on community boundaries: they consider overall affordability, commute times, and other quality-of-life factors. Regional solutions make the issue more manageable and realistic to address.

- **Solutions must not unintentionally increase costs**. Financial solutions that trigger regulations with additional costs or administrative hurdles are not likely to be attractive. Although it is not anticipated that the solutions herein trigger such additional cost increases, assessing the structure of final decisions to maintain such simplicity is critical to success.

- **Testing solutions with local users, where possible**. The Ad-Hoc Committee developed this report on a timeline called for by the urgency of the housing crisis facing Illinois communities. The process did not include the collection of granular data on localized costs or engagement with smaller local builders and financial institutions active in the target markets. It will be important to test the structure of final solutions with the partners who will be needed for implementation.

- **Considering time-limitations for some financial interventions**. To avoid potential oversupply far into the future, consider making some financial interventions time-limited in nature.

- **Building tools across the full affordability spectrum continue to be critical.** Nationally, 33% of renters between 60-120% AMI spent more than 30% of their income on housing in 2022, compared to 80% of low-income renters.[21] As lagging production and investment across Illinois continues to put pressure on prices and increase affordability gaps, Ad-Hoc Committee members underscore the critical need to sustain resource allocation to households under 80% AMI to ensure the full housing spectrum can function properly.

Spark the Market

To attract builders back to Illinois housing markets and incentivize them to build homes affordable for households with incomes between 80-140% AMI, Ad-Hoc Committee members recommend a variety of financial incentives that can be utilized to spark the market by unlocking financing, reducing costs, and filling capital gaps at different phases of project financing.

Because healthy, sustainable communities require a range of housing types to meet local needs, solutions include those geared toward both single-family and multi-unit property types, as well as homeownership and rental housing opportunities. In many cases, different financial incentives can be packaged together to further decrease the cost of development and make a project more accessible to households at different income tiers. As much as possible, the solutions for consideration outlined below are designed to avoid triggering additional regulatory requirements that would increase costs in a way that dilutes the power of the incentive, making it unattractive to builders.

Goals

A. Unlock financing, reduce costs, and fill capital gaps for housing development.

B. Incentivize and attract builders to serve the missing middle market.

C. Accelerate the pace of development.

Solutions for Consideration

Extend Authority for Existing Affordable Rental Property Tax Incentive

Although the State does not administer property tax programs, the State has provisions in its Property Tax Code to encourage development and rehabilitation of housing that require timely attention.

1. **Extend Authority and Promote Adoption of the Statewide Affordable Illinois Special Assessment Program.** Signed into law in July 2021, Section 15-178 of the Property Tax Code creates a statewide special assessment program to incentivize the new construction and preservation of affordable housing. The incentive has proven to be groundbreaking in Cook County by closing the gap on affordable and missing middle housing development without significant public capital, serving as a national model. Since 2022, the incentive has benefitted 755 new or existing affordable and mixed-income properties in a variety of market types across Cook County (low-cost, high-cost, central business district), resulting in the creation or preservation of thousands of affordable, missing middle, and market rate units. The program, however, is currently scheduled to sunset on December 31, 2027, a date already creating adverse pressure for projects seeking entitlements and financing for construction starts in 2025 and beyond. A ten-year extension would spark continued private investment and advance development and preservation of thousands of housing units without direct cost to the State.

   Despite its success in Cook County, several Ad-Hoc Committee members representing downstate communities were unaware of the incentive, as it has not yet been adopted by county assessors statewide. Initial feedback pointed to a lack of awareness and/or disinterest in using a tool that was seen as only benefitting the Chicago market. In addition to extending authority, the State should advance efforts to actively promote the use of the incentive in jurisdictions across Illinois to incentivize new housing construction and/or investment in affordable and mixed-income housing.

Fill Development Capital Gaps for Single Family Homebuilders
The development capital gap between the cost of construction and an affordable price point for households up to 140% AMI is a key barrier keeping home builders away from the missing middle, also resulting in a lack of starter homes in communities across the state. Having a source of funds to address the development capital gap and demonstrate certainty of an interested buyer pipeline is an efficient way to spark interest in this market and could be delivered via the approaches outlined below.

2. **State Missing Middle Homeownership Program.** Establish a Missing Middle Homeownership Program in the target markets, to be administered by IHDA, that directly covers the development and affordability capital gaps for housing units serving households 80-140% AMI following construction. The subsidy, expected to range from $75,000 to $100,000 per unit, would be delivered to the buyer following construction at the closing table and structured to address a variety of gaps in a single transaction. To qualify for the program, a developer's construction budget and sales price would be pre-approved prior to construction, which essentially serves as a guarantee for the construction loan. The approach directly addresses builders' concerns that the ultimate purchase price will not cover construction costs alongside a standard return. As part of the initiative, the State could work with local employers, CDFIs, HUD-certified housing counseling agencies and municipalities to identify and prepare a buyer pipeline and market the homes. The Fund could operate in connection with a State-Land Bank Partnership (Solution #10) or directly with a cohort of active developers in target markets.
    - *The City of Chicago offers $60K-$100K / buyer through its Building Neighborhoods and Affordable Homes to cover an appraisal gap (difference between sales price and appraised value), closing costs, down payment, senior loan principal reduction in a single transaction.*

3. **Establish/Pilot a Missing Middle Homeownership Tax Credit.** The homeownership tax credit would encourage acquisition and rehab of single-family homes for sale to homebuyers and can be defined for specific target communities, census tracts, and income tiers. To be implemented by IHDA, tax credits could be sold to a variety of purchasers including employers, with the allocated credit used to offset the taxpayer's income taxes. Proceeds from the sale work as an upfront equity injection to the developer that subsequently fills the gap between the cost of acquiring/rehabbing a house and the amount a family making less than 140% AMI can afford to pay. It bridges the difference in costs incurred by the developer plus a reasonable profit, while ensuring the sales price is affordable for a household spending no more than 30% of gross income on housing. The incentive ultimately benefits the homeowner, but the tax credit is allocated to the developer for efficiencies. The credit should be structured to work alongside existing IHDA homeownership programs and incentives. Various parties across the housing industry have advocated for this incentive on a national level; rather than wait for federal action, the State of Illinois can create a statewide version of the incentive.
    - *Based on a proposed federal tax credit, the Neighborhood Homes Investment Act (NHIA), originally part of the Biden Administration's Build Back Better legislation.*

De-Risk and Leverage Private Capital for Missing Middle Housing
Access to construction financing is increasingly tight or prohibitively expensive for many residential developers, keeping hundreds of housing units on the sidelines. Many lenders are reluctant to lend in today's market and reportedly skeptical of projected housing demand, even in target markets that are experiencing business growth. The following approaches are designed for the State to take steps to de-risk private capital, with the goal of lowering a developer's equity requirement to 10% or below.

4. **State Missing Middle Guarantee Program.** A State guarantee on construction loans in target markets would help facilitate access to capital for housing construction by lowering the cost of capital to the developer. The program could be modeled in a similar way as DCEO's Advantage Illinois Loan Guarantee Program. To qualify for the Missing Middle Guarantee, projects must result in housing units for households up to 140% AMI, whether the units included a tract of single-family units or multi-unit rentals. If advanced, the State should identify and collaborate with participating regional and community banks on how to best structure the offering.
   - *Philadelphia offers a Workforce Housing Credit Enhancement with a partial loan guarantee on construction financing for missing middle; Kansas offers a guarantee to address development gaps in rural communities.*

5. **Support Existing or Create New Low-Interest Housing Construction Loan Funds via a State Credit Enhancement.** Facilitating access to low-cost construction financing can provide access to more flexible, affordable financing than what is available from private lenders, while allowing private investors, employers, and financial institutions to participate in developing more affordable housing for households up to 140% AMI. State funds could be used as a credit enhancement in localized low-interest loan funds capitalized and administered by local banks, Community Development Financial Institutions (CDFIs) and local/regional Community Foundations who regularly manage similar credit-enhanced loan facilities. The local partners could use the credit enhancement to leverage dollars from local investors and donors, including area employers. Residential housing developers would apply directly to the administrator for construction financing, and funds would be recycled over time. The model could also be paired with interventions such as the Homeownership Program (Recommendation #2). State operational grants should be provided to the administrator in conjunction with the capital for implementation.
   - *Low-cost construction funds for the missing middle, some with additional targeting criteria, have been launched in jurisdictions including but not limited to Georgia, Kansas, Massachusetts, Minnesota, Oklahoma, Rhode Island, Montgomery County (MD), Los Angeles (CA).*
   - *The Los Angeles' New Generation Fund uses public dollars as a credit enhancement to leverage private capital through a CDFI-administered fund.*
   - *In addition to CDFIs, community foundations have served as housing fund administrators, leveraging capital from area employers or impact investors, such as the Evergreen Impact Housing Fund in Seattle and GoATL Affordable Housing Fund in Atlanta.*

Attract Equity and Fill Capital Gaps for Multi-Unit Missing Middle Rental Developments
Multi-unit rental properties that benefit the missing middle also face capital gaps and/or increased costs that put pressure on rent levels. The solutions below are designed to address such gaps to advance multi-family rental developments.

6. **Establish/Pilot a Missing Middle Tax Credit for Multi-Unit Rental Housing.** Similar to the Low-Income Housing Tax Credit (LIHTC), this proposed tax credit program would provide an upfront equity injection to support multi-family workforce rental housing for households up to 140% AMI with a 15-to 20-year affordability period. To be implemented by IHDA, tax credits could be sold to a variety of purchasers including employers, with the allocated credit used to offset the taxpayer's income taxes, beginning in the year that the development is placed in service. Rent-controlled multi-unit housing would allow residents to live in quality affordable housing near their employer and would stretch farther than LIHTC projects due to the ability to charge slightly higher rents. The credit could possibly be structured so that it could be combined with LIHTC for mixed-income developments.

- *Colorado recently became the first state to pass legislation for a Missing Middle Tax Credit, to be implemented in 2025; the U.S. Senate Finance Committee has considered a similar strategy that has not yet moved forward.*

7. **Establish/Pilot a Missing Middle Rental Housing Subsidy Fund that can be paired with Tax-Exempt Bonds.** Each year, IHDA and the City of Chicago use Tax Exempt Bonds as a central funding mechanism for affordable rental developments. The issuance of Tax-Exempt Bonds creates 4% Low Income Housing Tax Credits (LIHTCs) if affordability is restricted to 60% AMI or below, generating an additional source of equity for the project. Tax Exempt Bond issuances that are not generating LIHTCs only require that 20% of a project's units be affordable to low-income households. Because of the 20% affordability requirement, Tax Exempt Bonds are an existing financing tool that can be used for developments offering a mix of units affordable to low-income (up to 60% AMI) as well as moderate and missing middle (up to 140% AMI) income tiers. Unlike LIHTCs, however, Tax Exempt Bonds generate less equity, resulting in projects with larger gaps in their capital stack, limiting the ultimate size and number of projects financed each year. To address the gap, the State could establish a Missing Middle Rental Housing Subsidy Fund to fill gaps in such projects, as well as for other prospective missing middle rental housing developments that have a gap in their capital stack.

Land and Site Prep

Site preparation is a critical first step in the construction process for housing development, and without it, no construction project can move forward. Cleaning and preparing sites for development can be approximately 15-20% of costs and is a cost born mainly by private developers. Uncertainty in the land and site preparation process creates additional risk and pre-development costs for builders. Subsidizing site preparation is an efficient way to reduce overall development costs for the missing middle.

8. **Inventory and Market State Land for Housing Development.** Every State agency could conduct an evaluation of land and/or property they currently hold that could potentially be made available at low- to no-cost for housing development. The inventory could begin with target markets and then expand statewide. Some Ad-Hoc Committee members encouraged taking this a step further to not only identify the land but to invest in making it development-ready, such as handling environmental remediation prior to transfer.

9. **Housing Site and Infrastructure Matching Grant Program.** Although some municipalities have lots ready to go for housing development, the majority do not, particularly in rural locations. In an approach similar to DCEO's Site Readiness program, a Housing Site and Infrastructure Matching Grant would subsidize site prep costs. The State could offer matching grants for housing projects built to serve households 80-140% of AMI in target geographies. State funding could match the local municipality's contribution.
   - *The State of Georgia offers a Missing Middle infrastructure grant program for rural municipalities that can be paired with a separate low-interest construction loan fund.*

10. **State-Land Bank Partnership.** The State could partner with existing regional Land Banks via Intergovernmental Agreements to accelerate land acquisition, reduce pre-development risk, and hold strategic parcels of land for home construction and rehab in target geographies of Rockford (Northern Illinois Land Bank) and Decatur (Central Illinois Land Bank Authority). IHDA currently funds land banks solely for Technical Assistance. In this instance, the State could donate its own parcels of land and provide funding via a forgivable loan agreement for local Land Banks to facilitate property acquisition, aggregation, and disposition. The Land Banks would work with local and regional planning groups to strategically identify parcels for housing development and gain site

control by utilizing governmental authority (e.g. tax foreclosure, declarations of abandonment) and direct purchases. The Land Banks would then market and convey acquired parcels to approved home builders, subject to terms such as income tiers or geographic areas imposed by the State's forgivable loan agreement. The Land Bank would put restrictions on all parcels purchased with State funds, allowing the State to recoup money or land if houses are not built and sold as directed. The partnership could be implemented in tandem with a Missing Middle Homeownership Program, as outlined in Solution #2, which provides a fund to directly cover any further development and affordability capital gaps. By clearing title, aggregating parcels, and providing certainty in the pre-development process, Land Banks reduce costs and eliminate barriers that prevent developers from building in challenging market conditions.

Land Banks in the target geographies are currently engaged in these operations and offer an existing mechanism through which to quickly connect funding directly to local housing projects via a trusted local partner. To address the scale of need, however, the participating Land Banks would require additional capacity building grant funding to A) ensure additional staff are hired and infrastructure is in place to direct the initiative, and B) invest in an important long-term housing and economic development tool within the state.

Sales Tax Relief

Prices for residential construction building materials have continued to accelerate since the beginning of 2024, representing one of the fastest growing costs of housing development.

11. **Leverage and Expand Existing Infrastructure to Offer Sales Tax Relief for Residential Construction Materials in Defined Geographies.** The State of Illinois currently offers a sales tax exemption or rebate on building materials for commercial properties located in Enterprise Zones. The program is administered by the Department of Revenue and DCEO; the Enterprise Zone Administrator provides a certification to the developer for a specific project within the geographic area; the developer then presents the certificate to the retailer to receive the sales tax exemption or rebate. To reduce the cost of housing construction in defined geographies, the State could explore leveraging the existing system by expanding the exemption or rebate program for residential construction projects in identified geographies.

Capacity Building Strategies

12. **Invest in Modular Homes and the Expanded Capacity of the Modular Construction Industry.** Modular building offers an additional pathway to help alleviate the lack of housing inventory. Because the entirety of the modular building is fabricated at an off-site factory, and then transported to be assembled on site into residential properties, the strategy offers a shorter development timeline and expands the construction season to be inclusive of all 12-months in Illinois. Although the development capital gap is currently equal to non-modular developments, investment in expansion of modular construction factories can help address the need for scale, particularly in markets with a lack of builders. Ad-Hoc Committee members underscore the importance of not compromising on design quality while exploring modular housing as a potential solution.
    - *Cook County has recently advanced a Modular Homes Pilot Program for those up to 120% AMI in target geographies. San Francisco and New York City have also invested in modular housing to bring affordable homes to the market more quickly.*

13. **Continue to Build Capacity of Local and Regional Land Banks.** Land banks help empower local and regional housing efforts and can support development of missing middle housing by facilitating the acquisition and holding of land and property for future development. The State should continue to fund IHDA's existing land bank capacity building efforts and consider it to be a tool to help address the missing middle.

14. **Provide Grants and Low-Cost Capital for CDFI Mortgage Lending.** By providing grants, low-cost capital, and/or liquidity to CDFIs, the State could invest in partners to increase their capacity to offer more affordable mortgages to today's homebuyers. At today's interest rates and private mortgage insurance requirements, middle income families can afford less house, while home prices remain high. CDFIs offer affordable mortgages with low down payments, low interest rates and no private mortgage insurance to keep mortgages and homes affordable. Providing CDFIs with mortgage origination capital and liquidity best positions their ability to lend to middle-income homebuyers. Because the two non-profit CDFIs that offer single family mortgage financing in Illinois primarily serve Cook County, it is recommended that CDFI credit unions and CDFI banks be eligible for this funding to best serve other parts of the state.

Enhance the Enabling Environment for Housing Production

Although the majority of Ad-Hoc Committee members expressed that financing gaps are the greatest barrier to attracting builders and advancing housing production for the missing middle, they also noted that government itself can also serve as a barrier to housing development. Specifically, restrictive zoning and land use policies at the local level, long entitlement and permitting timelines and fees that differ across the State's myriad local taxing bodies, and Not-In-My-Backyard (NIMBY-ism)-driven opposition from local residents to increased density or affordability prevent affordable housing and additional housing opportunities for the missing middle from coming to fruition.

Within the current environment, housing development is at a standstill. The public sector has an opportunity to begin changing the rules of the game to create more natural incentives for builders to help advance the critical need for affordable and missing middle housing in communities across the state. The solutions for consideration outlined below are intended to enhance the enabling environment by addressing restrictive policies or barriers, providing incentives for local change.

The State seeks to be a partner to municipalities, providing them with the tools needed to advance local housing solutions and working together to address the critical housing shortage faced statewide. Given the extremely localized nature of housing development, and recognition that Illinois is a home rule state, Ad-Hoc Committee members discussed a variety of approaches that the State could take to address restrictive policies and practices and/or enhance requirements to plan for a wider variety of housing needs in a way that will be impactful at the local level. Although full consensus may not exist on all solutions outlined below, agreement does exist that an incentives-only approach – without any mandates or penalties – will ultimately fail to be successful in advancing local change.

Goals

A. Incentivize and/or require local municipalities to address restrictive policies, processes and timelines.

B. Eliminate State governmental barriers to housing production.

Solutions for Consideration

Incentivize and/or Require Local Municipalities to Address Restrictive Policy, Processes and Timelines

Local governments use zoning to control land use decisions, yet much has been written about how most zoning and land use policies are outdated tools that have been used to hinder progress towards more inclusive communities. Reforms to zoning can be made to allow for greater density, decrease the cost of certain requirements, and help pave the way for a greater set of housing choices in local communities.

State-Mandated Zoning Reform

15. **Eliminate Bans on Accessory Dwelling Units (ADUs).** Amend the Municipal and County codes to prohibit outright bans on ADUs while ensuring municipalities regulate the dwellings for health and safety purposes. An ADU is a residential unit that shares the same lot as an existing residential property, often known as an accessory apartment, coach house, basement or attic unit, or granny flat. Most municipal zoning codes forbid the construction of ADUs, yet they offer a simple step to

create more inventory, offer a wider range of housing options within a community, increase housing affordability for owners and tenants, and enable seniors to stay near family as they age.

- *Arizona, California, Connecticut, Florida, Idaho, Maine, Montana, Washington and Utah have legalized and/or reduced restrictions on ADUs to expand housing supply. The City of Chicago has also successfully implemented an ADU pilot program since 2020.*

16. **Mitigate the Cost of Mandatory Parking Minimums.** Amend the Municipal and County codes to establish parking space maximums, rather than minimums, in specific zoning districts, such as multi-family zones and within a certain number of feet of a commercial corridor. Mandatory minimum parking requirements add to the cost of construction, making new housing expensive to build, while taking up limited space for additional housing units on the development site. Parking minimums also perpetuate a car-centric culture, even in urban or suburban areas, where public transportation including high-speed bus routes is readily available. Many jurisdictions that have executed a similar strategy have set maximums to one space per dwelling unit, rather than the more common two spaces per unit.
    - *Arizona, Colorado, Maine, Maryland, Montana, New Jersey, New York, Oklahoma, Vermont have reduced or eliminated minimum parking requirements for new residential developments, especially near transit hubs and in urban areas. The City of Chicago's 2022 Transit-Oriented Development (TOD) ordinance can also serve as a model.*

17. **Require Large Lot Sizes to Allow for Multi-Unit Development.** Amend the Municipal and County codes to state that for any parcel for which there is a minimum lot size requirement in excess of 5,000 sq. ft., some version of a multi-family dwelling, such as a duplex, triplex, or quadruplex, must be a permitted use. The policy would take important steps to increase density on large lots, enabling more efficient land use and increased housing affordability in local jurisdictions. The State could tailor this potential solution to only apply to municipalities with a certain population (e.g., over 10,000 people).
    - *Montana, Vermont, and Washington have taken steps to relax minimum lot size requirements to allow for more compact and efficient land use. States that have advanced the legalization of duplex, triplex, and fourplex housing in single-family zones include Montana, Oregon, Vermont, Washington, and California (for duplexes).*

State Planning and Development Mandates

18. **Expand the Affordable Housing Planning and Appeals Act (AHPAA) into a more inclusive mandate for planning and housing development.** The State can strengthen the existing Affordable Housing Planning and Appeals Act (AHPAA) (310 ILCS 67), administered by IHDA, to emphasize housing needs across a greater range of income tiers. AHPAA currently requires that 10% of a community's local housing stock be affordable to homebuyers at 80% AMI and renters at 60% AMI in the applicable jurisdiction. The State could build upon this existing requirement by establishing additional minimum benchmarks through legislation designed to ensure that jurisdictions across the state have housing available to serve additional income tiers (such as the Missing Middle) and/or have a greater diversity of housing stock (e.g. 5+ unit multi-unit, 2-4 unit multi-family). If, in its analysis, IHDA finds that a community is deficient in a certain tier, the expanded AHPAA would trigger a planning requirement for the income tier or housing type in question. The jurisdiction would then be required to bring forth an action plan that outlines specific processes and/or incentives to address the deficiency. As a result, local governments will be directed to consider new housing models, remove existing roadblocks, and make changes to existing local processes to help them realize the greater diversity of housing types that are locally needed. In the enhanced AHPAA, the role of the State Housing Appeals Board would shift to be responsible for considering and approving

the responding forward-looking action plans, rather than adjudicating appeals on individual projects that have failed to move forward. Expanding the breadth of AHPAA to become a more holistic tool and include the missing middle will require municipalities to consider a broader range of housing needs and extend IHDA's ability to match funding to local needs for the missing middle.

IHDA has had great success in linking State funding streams for affordable housing with local housing plans that identify needs; the local plans make the municipality more competitive for funding, leading to tangible local outcomes. Although the State seeks to be a partner to municipalities in this work, establishing penalties for localities that do not comply with the requirement, such as withholding certain State economic development, transportation, and infrastructure funds for non-compliance, could be more a motivating factor to compel all municipalities to take action.

- *California's Housing Element Law requires all local governments to adopt housing plans and regulatory systems that provide opportunities for and do not unduly constrain housing development; certain State funding programs require compliance to access funding.*

19. **Limit the Ability of Local Governments to Deny Housing Consistent with Local Standards.** Despite the need for housing in communities across the State, housing developments often fail to win approvals at the local and community level or undergo multiple levels of review that have prevented, delayed, or increased the cost of the development, exacerbating the lack of housing. In this proposed new legislative action, the State would establish a policy that a local government may not deny, reduce the density of, or make infeasible housing development projects or emergency shelters that are consistent with objective local development standards. If the development complies with the existing general plan, zoning ordinance, subdivision ordinance, and design standards, the local government must approve it, unless it is proven to have an adverse impact on public health or safety. Additional measures may be incorporated for certain levels of affordability. If such a policy were advanced, the State is cautioned that the devil is in the details, and development of guidelines must be carefully designed. It is also recommended that this strategy be advanced in partnership with Solution #18 to ensure that municipalities seeking to undertake a comprehensive zoning code update have the capacity to do so before this were to become effective.
    - *California's Housing Accountability Act (Government Code Section 65589.5) has been in place since 1982 for affordable housing and was expanded in 2013 to incorporate market-rate units.*

Incentives and Penalties

20. **"Pro-Housing Jurisdiction" Designation for State Funding Awards.** In this new policy, municipalities that have adopted local policies to facilitate creation of new housing for households up to 140% AMI would be awarded a designation by IHDA that allows for additional points in scoring of applications for State housing, business development, transportation, and/or infrastructure funding for an established time period. Examples of such policies could include recently updating zoning codes and land use policies that remove restrictive barriers and allow for a range of densities and housing types; advancing local policies, processes, and incentives to expedite housing construction; and/or or having an updated housing plan. Local governments would apply for the designation on an established schedule.

    Alternatively, this policy could be advanced as a penalty, rather than an incentive, establishing authority for the State to withhold certain funding streams from jurisdictions for failure to comply with affordable housing or other housing development requirements.

- *California and New York have implemented versions of this policy.*

21. **Competitive "Pro-Housing" Grant Program.** Advance a competitive grant program, to be administered by IHDA, that supports the local efforts of municipalities or multi-jurisdictional regional partnerships to develop and adopt new housing-forward actions. Actions can include but not be limited to: develop or update housing plans; evaluate and update comprehensive local zoning codes; develop and adopt land use policies that reduce barriers to development such as minimum lot sizes, density restrictions and/or certain parking requirements; streamline timelines and fees for entitlement and permitting, and more. The grant program would allow such actions to be driven by local or regional entities.
    - *The Biden Administration offered PRO Housing grants in 2024. (No awards were made in IL.)*

Eliminate State Governmental Barriers to Housing Production
Although most of the governmental barriers to housing production lie at the local level, the State should continue to ensure that its own policies and practices do not become a barrier to housing production.

22. **Address State Regulatory Barriers.** Ask the State's Affordable Housing Task Force to advance efforts to identify areas for potential regulatory relief that can reduce costs of housing development. Key areas for consideration raised by Ad-Hoc Committee members included addressing costs or extending timelines for implementation of the 2021 Energy Code and expediting environmental review timelines for affordable and missing middle housing. Although Ad-Hoc Committee members recognize the Governor's leadership on clean energy policy, they note that the rapid adoption of the 2021 Energy Code has had an adverse impact on residential construction. The added cost per unit is a disincentive to builders who may choose to develop in areas where it is not required. Some jurisdictions have also noted uneven Energy Code enforcement within Illinois makes competition for developers across towns additionally challenging, as some builders choose to develop where the Code is not being implemented to avoid added costs.

Foster an Ecosystem for Private Investment

To advance housing development strategies at the scale needed in Illinois requires a significant injection of private capital investment that does not currently flow to the state. An opportunity exists for Illinois Pension Funds to take a leading role in increasing investments in Illinois real estate, and in the longer-term, stimulating conditions to attract more institutional investors to Illinois for development.

Today, Illinois Pension Funds, including the State Employees' Retirement System (SERS), State Universities Retirement System (SURS), Judges' Retirement System (JRS), General Assembly Retirement System (GARS) and Teachers' Retirement System (TRS), which hold a total of $187.2 billion in assets, are allocating $21.5 billion in real estate assets to managers who are primarily investing the funds outside of Illinois. Asset managers invest in construction projects around the country, depending on where they see the opportunity for high returns. The result is that their investments are creating jobs, increasing tax revenues, and building housing options in other cities and states with Illinoisians pension dollars. A portion of those institutional dollars should be redirected to Illinois housing developments to contribute to the state's economic growth, thereby expanding the tax base, increasing real estate tax revenues, generating union jobs, and seeding an environment for additional institutional investment.

Goals

A. Short-term: Require Illinois Pension Funds to invest in missing middle housing development.

B. Longer-term: Stimulate a landscape of money managers seeking to invest capital in residential construction in Illinois.

<u>Solutions for Consideration</u>

23. **Require Illinois Pension Funds to Invest 10% of their Real Estate Allocations to be for Housing in Illinois.** Directing these resources to invest in Illinois is a step forward in improving the housing stock for middle-income and working families: A 10% real estate allocation requirement could result in approximately $2.1 billion of equity capital and $5 billion in debt capital for Illinois residential projects. Policy language can specify target income brackets (e.g., affordable, missing middle income tiers) and include a target percentage of funding for projects in specific geographies to ensure that the benefits are distributed statewide.

    Because construction in Illinois is costly and may not yield the same returns as in other markets, Pension Funds might object, given their fiduciary responsibility to seek the highest possible return for members. To uphold expected return levels, the policy change must be paired with additional components such as those outlined in this report to reduce the cost of construction and increase the return profile, thereby helping it pass the fiduciary responsibility test. Specifically, it should be paired with an initiative that offers access to shovel-ready land and/or buildings that have been contributed by the State, Counties and/or municipalities, as well as access to low-cost debt financing for construction. In the short-term, the policy change will redirect institutional resources to Illinois; in the longer-term, returns will become more competitive, projects will attract new investors, and money managers will more naturally look to Illinois as a place to invest in housing.
    - *A similar policy was advanced in California via the California Public Employees Retirement System (CalPERS) and CalPERS' California Urban Real Estate (CURE) Program, which invests in in-state housing and community redevelopment opportunities.*

Align and Invest in Regional Business and Housing Planning

Ad-Hoc Committee members, particularly those active in central and downstate markets, highlighted the critical importance and impact of better aligning regional communication and planning to ensure that communities advance their economic development and housing strategies in a coordinated way.

As the State experiences unprecedented economic development, it needs a corresponding supply of safe, quality, housing that is accessible to a range of incomes. Housing and economic development is extremely intertwined, yet the professionals advancing the work are in specialized fields that do not always connect during what can be extremely long planning and development timelines. Proactively planning for and coordinating housing development to align with business and population growth – and doing so at a sub-regional level - can save costs and time at all levels of government. Further, it can avoid duplication of efforts and allow local leaders to pursue a variety of objectives in a unified way.

Local developers and employers participating in the Ad-Hoc Committee point out that having the State identify and convene relevant parties as part of its broader business development efforts can increase the overall impact of a business expansion in sub-regions of the state. Further, having a housing plan can add to the collection of business attraction tools, demonstrating efforts underway to enhance quality-of-life for existing or prospective employees.

Goals

A. Facilitate information sharing and local and regional coordination on shared issues of housing and economic development.

B. Provide technical assistance to local municipalities to advance housing goals.

C. Engage employers in helping to advance and invest in local solutions.

Solutions for Consideration

24. **Facilitate a Regional Development Planning Series.** A regional housing plan can act as a business attraction tool while advancing a blueprint for local action, yet steps need to be taken to convene parties and support planning. The State could directly facilitate or develop a funding stream for Regional Development Councils, Metropolitan Planning Organizations, or a collection of local jurisdictions to convene a Regional Development Planning series, resulting in a regional housing plan aligned with economic growth. Convening partners to share information will open lines of communication, provide housing developers and lenders with insight into projected demand, and allow for development of a proactive regional strategy.

    During an initial convening, leaders could outline regional economic growth projections and allow employers to share information regarding employee household demographics and projected housing needs (e.g., unit types, price range). Attendees would develop a plan by building on such data and engaging with developers and lenders regarding specific projects and financing needs. Target attendees would include mayors and municipal staff of Metropolitan Planning Organizations (MPOs), Economic Development Councils (EDCs) and Housing, Community Development, and Infrastructure departments and entities; local employers, particularly those experiencing growth; residential real estate developers; and capital providers serving the region. The resulting plan can add to the collection of business attraction tools for individual companies and regions across the state.

25. **Intentionally Align Land and Site Selection Processes.** When economic development organizations are working with an existing or potential employer to identify state-owned or other local land as part of a site selection process, simultaneously identify parcels that could be available for residential housing development. As economic development organizations like Intersect Illinois work with prospective employers to assess prospective sites and infrastructure needs, these entities can ask IHDA to assess the housing needs of the projected labor force associated with the project and consider if any of the sites would be feasible for housing development to advance on a similar timeline. This may not be required on all projects, but including IHDA in the conversation early will allow for insight into housing conditions in the region.

26. **Develop Housing Development Toolbox and Technical Assistance (TA) Program**. Ad-Hoc Committee members note that in many jurisdictions, local elected or appointed officials and municipal staff are unfamiliar with existing tools that can be used to advance housing strategies locally. Having the State take an active role in outreach, education, and technical assistance is critical to maximizing use of existing tools and policies and building capacity on the ground for local change. Through policy toolkits and a Technical Assistance grant program, the State could advance efforts to help municipalities identify and better understand a full toolbox of solutions to their housing challenges. The toolbox, to be designed and implemented by IHDA and/or outside consultants, would be a resource for Mayors, municipal employees, City Councils, and Zoning Boards, covering a variety of topics to guide them in understanding and maximizing the use of new or existing policies. For example: financing tools that can be used for housing development (e.g. TIF, CDBG); regulations to incentivize production (e.g., 2021 Illinois Affordable Housing Special Assessment Program, Donations Tax Credit); best practices in local interventions (e.g., Rockford's Property Tax incentive); model local zoning ordinances; and/or "missing middle" design and development standards for housing types with increased density, such as duplexes, triplexes, fourplexes, and cottage courts or courtyard buildings. A companion technical assistance grant program could support municipalities seeking to hire outside assistance in customizing templates or strategies for local use.
    - *The State of Washington passed legislation directing its Department of Commerce to offer a TA program to support implementation of its middle housing legislation, including a user guide with model ordinances and zoning overlays specifically for missing middle housing standards*.

27. **Share a Menu of Opportunities for Employer Engagement and Investment.** Given the employee recruitment and retention challenges faced by employers due to local housing challenges, opportunities exist to engage area employers in taking a more active role in local solutions. As part of its business planning and engagement toolkit, DCEO can underscore the importance of investing in housing for employees and share a menu of opportunities and best practices for employer engagement and investment. For example, a menu of solutions can include**:**

    - *Information Sharing/Employee Surveys:* To inform interested developers about business growth and employee housing needs, employers can conduct employee surveys regarding housing needs and share results alongside demographic profiles with local developers and lenders. Developers can use the data to build housing for which there is expressed market demand.

    - *State-Facilitated Guarantee from Area Employers:* Employers could consider providing a financial guarantee on a portion of units in a new multi-unit housing development; the guaranteed units would ultimately be leased by a portion of their employees. Depending on the size of the property and the employer, the guarantee could be made with one primary employer or a collection of area employers, each guaranteeing a portion of units. Employers could survey employees to validate information before entering an agreement. The State or local municipality could serve as facilitator, leveraging networks to make introductions, but the partnership would result in an agreement between the housing developer, lender, and one or more area employers.

- *Direct Assistance via Employer Assisted Housing (EAH) Grant Programs:* EAH programs provide a way for employers to help employees with the cost of owning or renting a home, typically in communities close to the workplace. Assistance can be provided directly via grants or forgivable loans for down payment assistance and closing costs or assistance with a rental security deposit. In Illinois, an employer's charitable contribution to a program such as EAH makes them eligible to benefit from the Illinois Affordable Housing Tax Credit (a.k.a. Donations Tax Credit).
  - *The University of Chicago funds housing counseling and offers $5,000 to $20,000 EAH grants to employees purchasing a home in one of nine designated neighborhoods near campus.*

- *Direct Development:* Employers across the country are increasingly taking steps to invest directly in housing development by partnering with developers to build and/or manage workforce housing. Examples include employers who purchase and donate land, invest in a specific development, as well as those who keep the property on their books as an asset and outsource management until it is interested in sale of the property.
  - *Examples include but are not limited to Whirlpool in Benton Harbor, MI; Cook Medical in Owen County, Indiana; Cargill, Inc. in Fort Morgan, CO and more.*

- *Company Town Development Model* In a company town model, the employer can partner with developers and municipalities on housing development directly adjacent to a business expansion site. Although this model will only work for certain types of sites, employers could set aside a certain amount of acreage on the edge of or adjacent to the site, donate the land for housing development, and lay infrastructure for both sites simultaneously. The developer could then build the type of housing informed by an employee survey.

Conclusion: A Package of Solutions is Urgently Needed

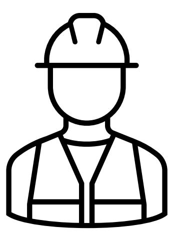
The Ad-Hoc Committee members recognize that the State seeks to take action to increase housing supply in a way that is aligned with today's unprecedented economic growth and advances opportunities for local communities and residents of all incomes. In addition to State action, Ad-Hoc Committee members recognize that increased housing development in local communities relies on action from many other parties: local municipalities, housing developers, capital providers and more.

To move the needle on local housing development, a mix of incentives, mandates, and technical support must be packaged together to address the multiple complexities of the challenge. As outlined in Figure 8, a residential developer will have the greatest interest and capacity to build if the solutions are meaningful and spark action from the various players in the landscape – including local governments and lenders in addition to the developers themselves. Further, it is important to act now, before the challenge continues to grow, potentially impacting an even greater number of Illinois residents.

Figure 8: Developer Point of View (In 2-5 Years)

Single-Family Developer (for-sale)

⇒ Understands market demand through partnerships with local employers and a regional housing plan that outlines housing needs of local communities
⇒ Access to affordable construction capital and/or financial incentives that reduce costs, address pre-development risk, and close capital gaps between cost of construction and affordable sales price
⇒ Local regulations that allow for smaller footprints or more flexibility in design features
⇒ Ability to market sale of home(s) with local partners, resulting in seamless exit



Multi-Unit Developer (rental or multi-phase site with for-sale and rental)

⇒ Understands market demand through partnerships with local employers and a regional housing plan that outlines housing needs of local communities
⇒ Working within a local municipality that is empowered to approve higher density projects and housing types
⇒ Local regulatory changes and development process improvements have reduced red tape, pre-development holding costs, and associated costs and fees
⇒ Ability to access affordable capital allows project financing to proceed
⇒ Financial returns are sufficient to entice private fund managers for future investments

By taking bold actions now to address today's needs, the State will be well-positioned to launch what can be a multi-year, sustained effort to align its housing market with economic growth, and as a result, offer a diverse range of safe, quality, housing types accessible to a range of incomes for residents.

Appendix A. Index of Housing Solutions

Index of Housing Solutions Ad-Hoc Missing Middle Housing Solutions Committee		
Spark the Market	1	Extend Authority and Promote Adoption of the Statewide Affordable Illinois Special Assessment Program
	2	State Missing Middle Homeownership Program
	3	Establish/Pilot a Missing Middle Homeownership Tax Credit
	4	State Missing Middle Guarantee Program
	5	Support Existing or Create New Low-Interest Construction Loan Funds via a State Credit Enhancement
	6	Establish/Pilot a Missing Middle Tax Credit for Multi-Unit Rental Housing
	7	Establish/Pilot a Missing Middle Rental Housing Subsidy Fund that can be paired with Tax Exempt Bonds
	8	Inventory and Market State Land for Housing Development
	9	Housing Site and Infrastructure Matching Grant Program
	10	State-Land Bank Partnership
	11	Leverage and Expand Existing Infrastructure to Offer Sales Tax Relief for Residential Construction Materials in Defined Geographies
	12	Invest in Modular Homes and the Expanded Capacity of the Modular Construction Industry
	13	Continue to Build Capacity of Local and Regional Land Banks
	14	Provide Grants and Low-Cost Capital for CDFI Mortgage Lending
Enhance the Enabling Environment	15	Eliminate Bans on Accessory Dwelling Units (ADUs)
	16	Mitigate the Cost of Mandatory Parking Minimums
	17	Require Large Lot Sizes to Allow for Multi-Unit Development
	18	Expand the Affordable Housing Planning and Appeals Act (AHPAA) into a more inclusive mandate for planning and housing development
	19	Limit the Ability of Local Governments to Deny Housing Consistent with Local Standards
	20	“Pro-Housing Jurisdiction” Designation for State Funds
	21	Competitive “Pro-Housing” Grant Program
	22	Address State Regulatory Barriers
Foster an Ecosystem for Private Investment	23	Ask Illinois Pension Funds to Require 10% of their Real Estate Allocations for Housing in Illinois
Align and Invest in Regional Housing and Business Planning	24	Facilitate a Regional Development Planning Series
	25	Intentionally Align Land and Site Selection Processes
	26	Develop Housing Development Toolbox and Technical Assistance Program
	27	Share a Menu of Opportunities for Employer Engagement and Investment

Appendix B.

Backgrounders on Target Geographies

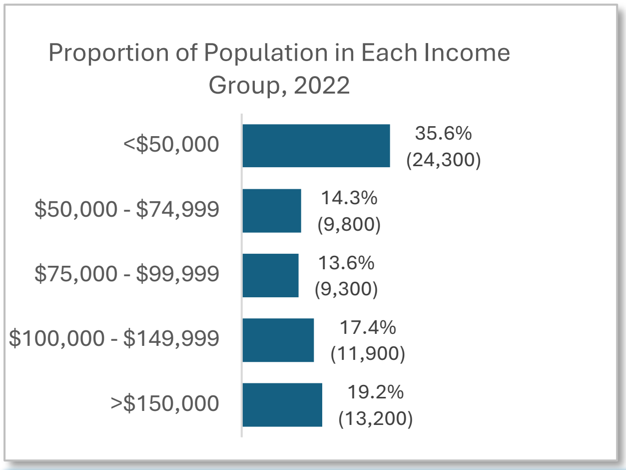
Bloomington-Normal (Bloomington Region and Peoria Region)

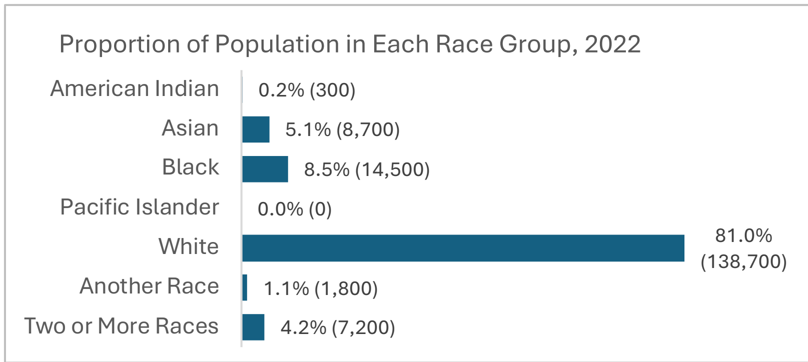
Decatur (Central Springfield Region)

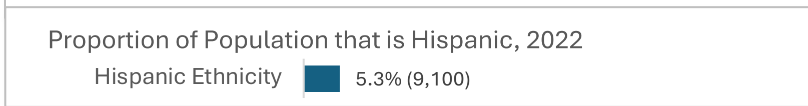
Rockford (Rockford DeKalb Region)

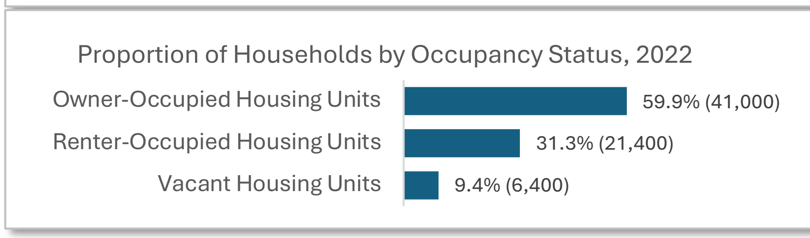
Demographics and High-Level Market Information[22,23,24,25,26]

2022 Population: *171,300*
2022 Households: *68,500*
2022 Average Household Size: *2.4*
2010 – 2020 Population Change: *1%*
2022 Median Household Income: *$70,700*
2024 Median Rent: *$1,325/month*
2022 Median Home Value: *$190,900*









24% of households, or about 16,500 households, have incomes between 80 – 140% AMI in Bloomington-Normal.

HUD Income Guidelines	Household Size							
	1 Person	2 Person	3 Person	4 Person	5 Person	6 Person	7 Person	8 Person
80% AMI	$61,250	$70,000	$78,750	$87,500	$94,500	$101,500	$108,500	$115,500
140% AMI	$107,200	$122,500	$137,800	$153,100	$165,400	$177,650	$189,900	$202,150

Bloomington-Normal Business Growth Insights[27,28]

- Growth driven by manufacturing; fueled by Rivian in Normal and Ferrero in Bloomington.
- Interest growing around the electric vehicle supply chain.
- Rivian investing $1.5B and creating 559 new jobs in Normal by 2030.
- Ferrero investing $103.5M and creating 75 new jobs by 2025.
- Growing businesses have hired outside of Bloomington-Normal due to lack of available housing stock.
- New jobs have starting salaries around $55,000 - $65,000 (not enough to afford new housing stock with price points around $400,000).

Top 3 Regional Employers

Existing Housing Strategy and Initiatives[29,30]

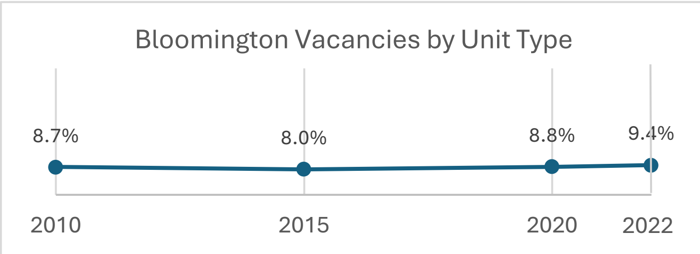
2024 key Bloomington-Normal housing strategies:

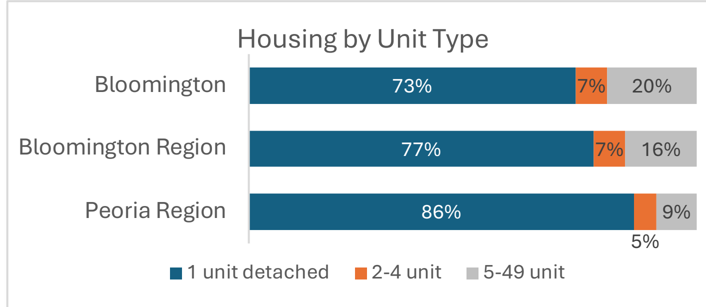
- Held a June 2024 Housing Symposium of developers, contractors, lenders, and other stakeholders to discuss barriers and solutions with an emerging set of local recommendations.
- Regional Housing Initiative identifies and promotes housing solutions serving various income levels; enhances availability of affordable housing through regional collaboration.

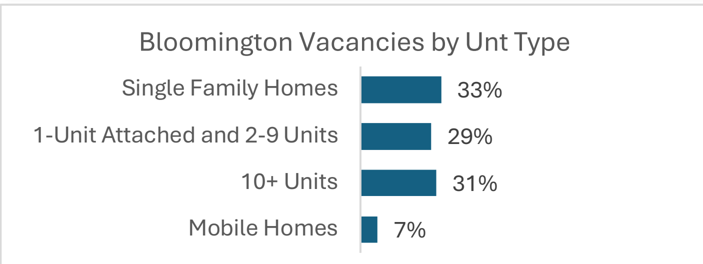
Selected Emerging Recommendations
- Develop a standardized housing incentive program
- Review Subdivision and Zoning Codes to reduce "red tape" for developers

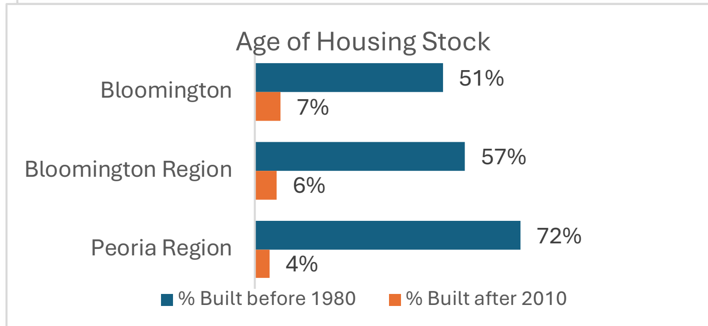
Local Market Conditions: Bloomington, Bloomington Region, and Peoria Region[31][32]

Bloomington Median Sale Price: $247,666 *(June 30, 2024)*
Bloomington Median Days to Pending: 4 *(June 30, 2024)*
Bloomington For Sale Inventory: 193 *(June 30, 2024)*

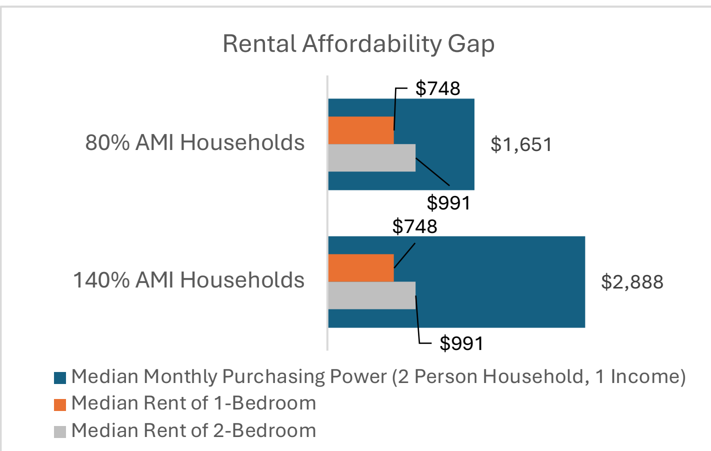


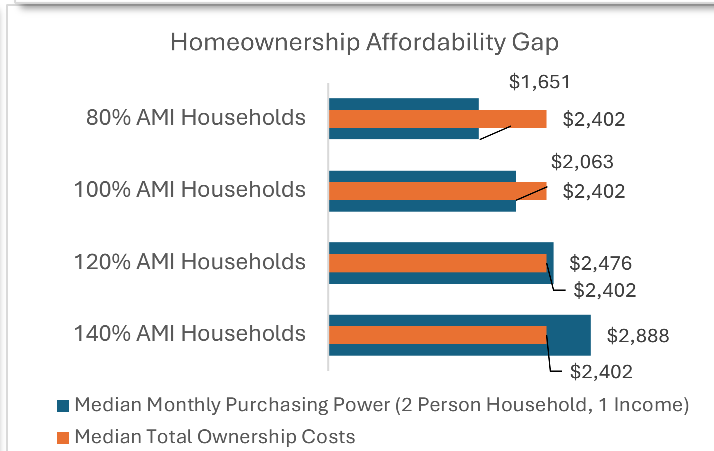






Affordability Gap[33]





*Note: Median homeownership cost calculated based on 30-year fixed mortgage at 7.5% interest, plus median real estate tax and insurance.

Indicators suggest a strained rental housing market is a greater challenge than affordability for renters between 80-140% AMI in Bloomington-Normal:

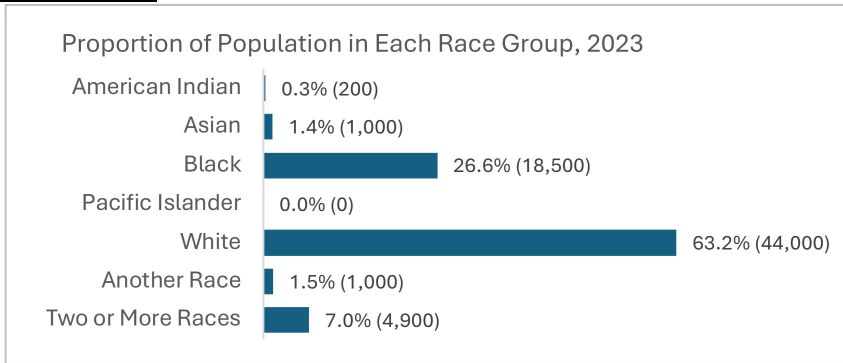
- **44%** of renter-occupied units are paying >30% of their incomes for housing. This signifies high cost burden for renters under 80% AMI.

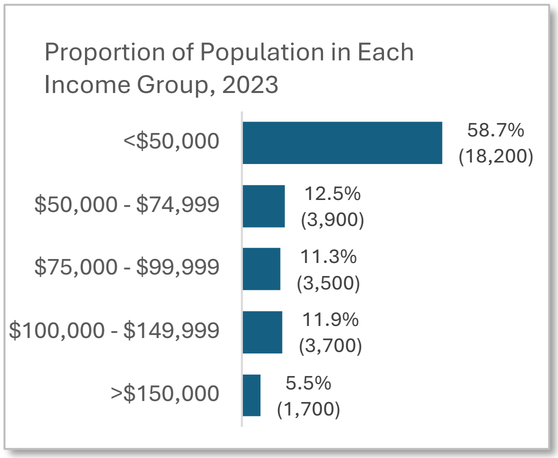
There is a homeownership affordability gap for households at 80% and 100% AMI in Bloomington-Normal.

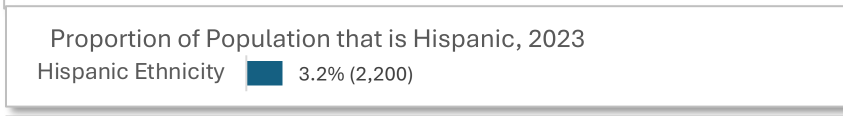
Limited housing supply is contributing to higher home prices. Higher prices, alongside high interest rates, continue to increase housing costs which have already outpaced wage growth over the past two years.

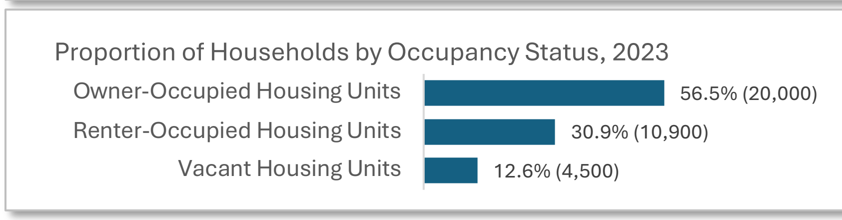
Demographics and High-Level Market Information[34][35][36][37][38]

2023 Population: *69,700*
2023 Households: *30,900*
2023 Average Household Size: *2.16*
2010 – 2020 Population Change: *-8%*
2023 Median Household Income: *$42,000*
2024 Median Rent: *$850/month*
2023 Median Home Value: *$97,800*









<u>24% of households, or about 7,400 households, have incomes between 80 – 140% AMI in Decatur.</u>

HUD Income Guidelines	Household Size							
	1 Person	2 Person	3 Person	4 Person	5 Person	6 Person	7 Person	8 Person
80% AMI	$48,650	$55,600	$62,550	$69,500	$75,100	$80,650	$86,200	$91,750
140% AMI	$85,150	$97,300	$109,450	$121,650	$131,450	$141,150	$150,850	$160,550

Decatur Business Growth Insights[39][40]

- Growth focused on advanced manufacturing, biotechnology, food and agriculture, and electric vehicle and clean energy sectors (recent location and expansion projects include TCCI, Tillamook, and ADM companies).
- Manufacturing is Decatur's largest sector with 11,000 employees (59% make a living wage); the sector is forecasted to add 4,000 jobs by 2027.
- Recent iFAB Tech Hub announcement and associated grant commitment from EDA is providing investment and job creation in the region.
- Expected to add a significant number of jobs with salaries from $55,000 - $100,000+; housing stock needs to reflect affordability for salary range.
- Decatur could support the development of 680 new apartment units.

<u>Top 3 Regional Employers</u>

ADM

CAT

Decatur Memorial Hospital

Existing Housing Strategy and Initiatives[41][42][43]

2022 key Decatur housing strategies:

- Preserve existing housing.
- Create home repair and rehabilitation program.
- Create a property abandonment to rehab program.
- Assemble land for new development.
- Identify target neighborhoods for housing repair and revitalization efforts.

<u>Owner-Occupied Home Rehabilitation Program</u>

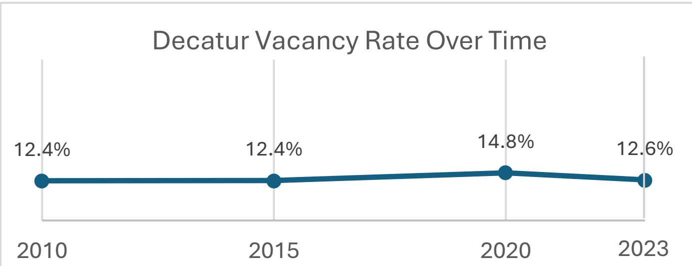
- Preserves existing housing, removes dangerous conditions, and increases property values
- $6 million in ARPA funding to rehab 150-300 homes
- Targets low- and moderate-income areas

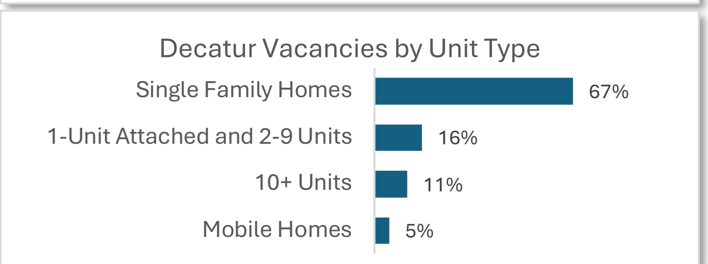
<u>Assemble Land for New Development</u>

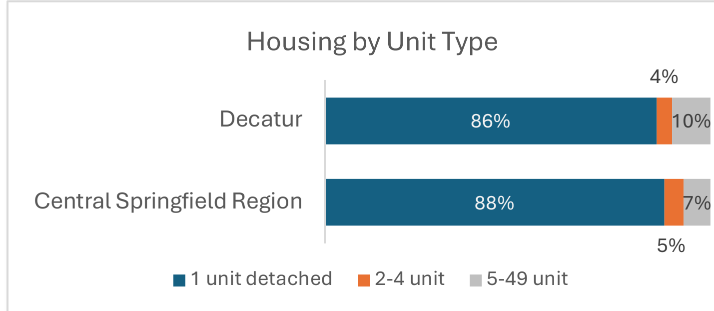
- Acquires properties for new development
- Assembles land and/or buildings to provide investment in target neighborhoods

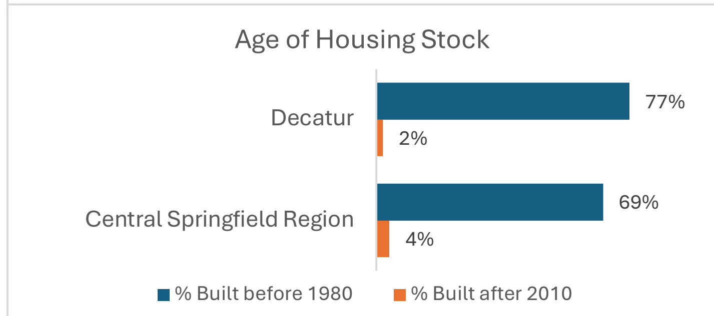
Local Market Conditions: Decatur and Central Springfield Region[44,45]

Decatur Median Sale Price: $100,083 *(May 31, 2024)*
Decatur Median Days to Pending: 6 *(June 30, 2024)*
Decatur For Sale Inventory: 219 *(June 30, 2024)*

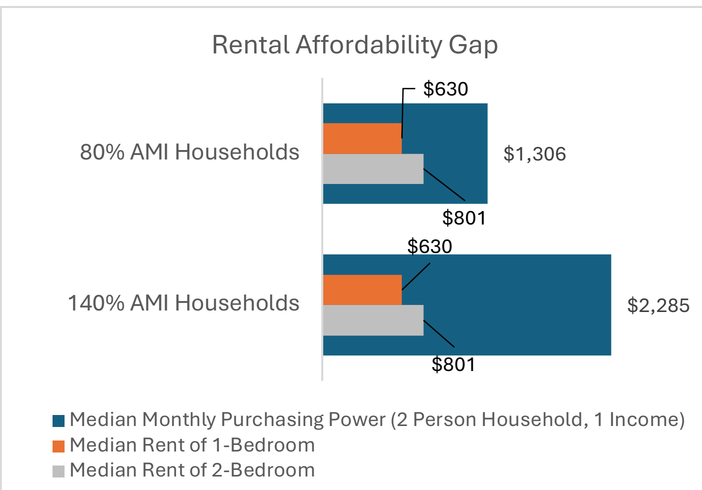


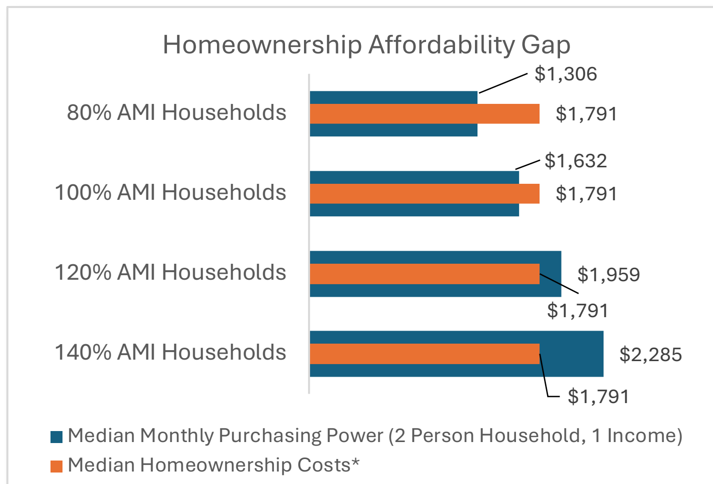






Affordability Gap[46]





*Note: Median homeownership cost calculated based on 30-year fixed mortgage at 7.5% interest, plus median real estate tax and insurance.

Indicators suggest a strained rental housing market is a greater challenge than affordability for renters between 80-140% AMI in Decatur:

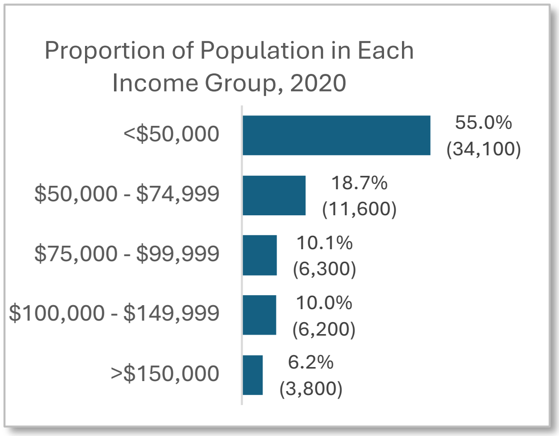
- **43%** of renter-occupied units are paying >30% of their incomes for housing. This signifies high cost burden for renters under 80% AMI.

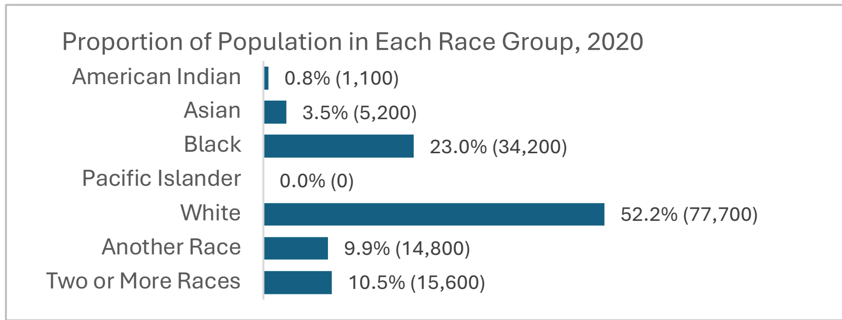
There is a homeownership affordability gap for households at 80% and 100% AMI in Decatur.

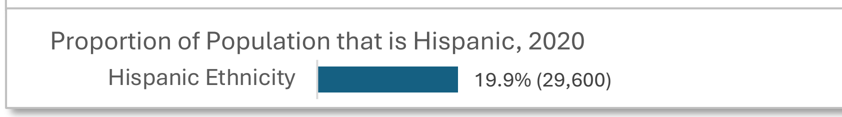
Limited housing supply is contributing to higher home prices. Higher prices, alongside high interest rates, continue to increase housing costs which have already outpaced wage growth over the past two years.

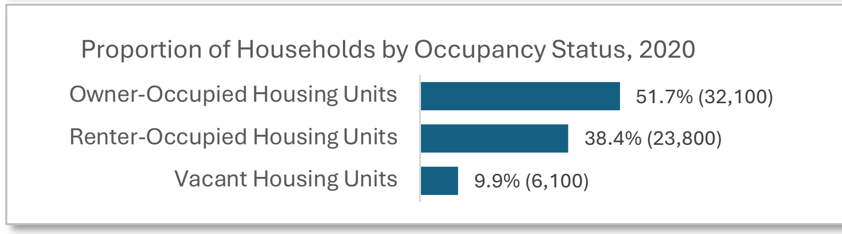
Demographics and High-Level Market Information[47,48,49,50,51,52]

2020 Population: *148,700*
2020 Households: *62,000*
2020 Average Household Size: *2.36*
2010 – 2020 Population Change: *-3%*
2020 Median Household Income: *$54,000*
2024 Median Rent: *$1,049/month*
2020 Median Home Value: *$114,100*









24% of households, or about 15,100 households, have incomes between 80 – 140% AMI in Rockford.

HUD Income Guidelines	Household Size							
	1 Person	2 Person	3 Person	4 Person	5 Person	6 Person	7 Person	8 Person
80% AMI	$49,850	$57,000	$64,100	$71,200	$76,900	$82,600	$88,300	$94,000
140% AMI	$87,250	$99,750	$112,200	$124,600	$134,600	$144,550	$154,500	$164,500

Rockford Business Growth Insights[53,54,55]

- Presence of high performing industry clusters in aerospace, automotive, logistics, healthcare, and advanced manufacturing.
- Over 20,000 acres of green space, $442 million in recent public investments and $350 million in private investments in the city center.
- Added 400 jobs in March 2024 and unemployment rates decreased about 0.5% compared to March 2023.
- Hard Rock adding more than 400 full-time jobs to support its casino (bringing total employment to more than 800).
- Named the nation's top housing market of 2024.

Top 3 Regional Employers

Rockford Public Schools
UWHealth
Mercyhealth

Existing Housing Strategy and Initiatives[56,57,58]

FY2020 and 2023 key Rockford housing strategies:

- Encourage new home construction.
- Increase number of affordable housing units.
- Rehabilitate existing affordable housing units.
- Enable a range of housing affordability within new and existing neighborhoods.
- Demolish abandoned properties that are past the point of rehab.

Property Tax Rebate Program

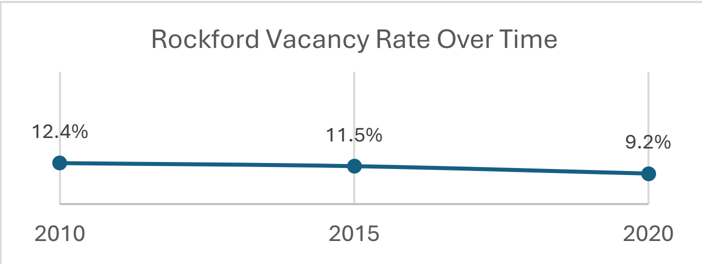
- Developers of a single family (and owner-occupied), townhome, or multi-family structure can receive a 3-year tax rebate (construction must start before 12/31/24)

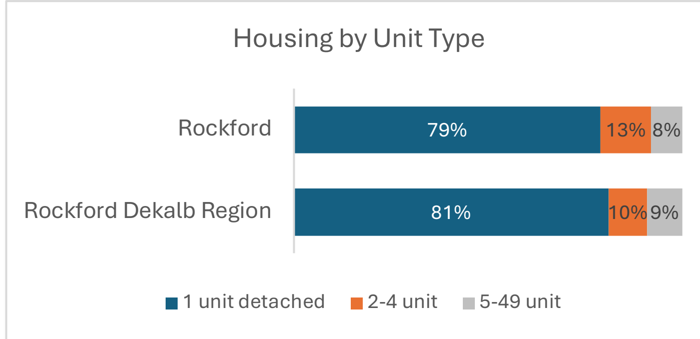
Development Fee Waivers

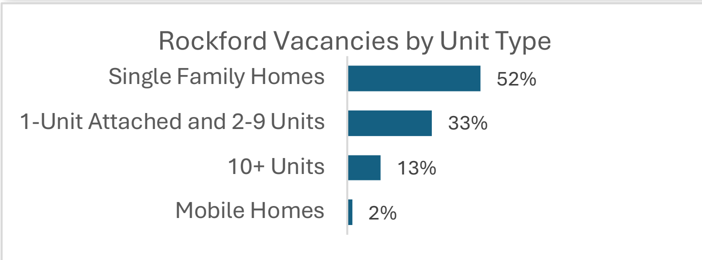
- Eligible new residential construction projects can have various development fees waived if they obtain a permit (before 12/31/24), start construction, and pursue construction to completion

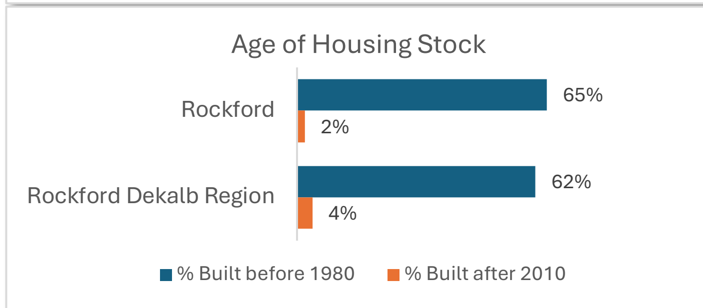
Local Market Conditions: Rockford and Rockford Dekalb Region[59,60]

Rockford Median Sale Price: $160,242 *(June 30, 2024)*
Rockford Median Days to Pending: 5 *(June 30, 2024)*
Rockford For Sale Inventory: 335 *(June 30, 2024)*

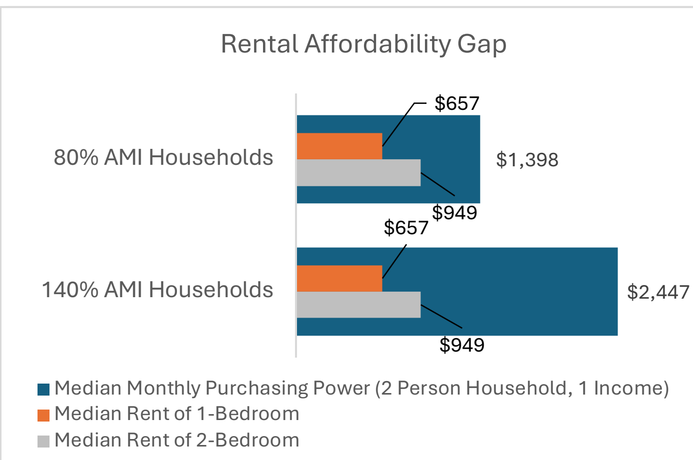


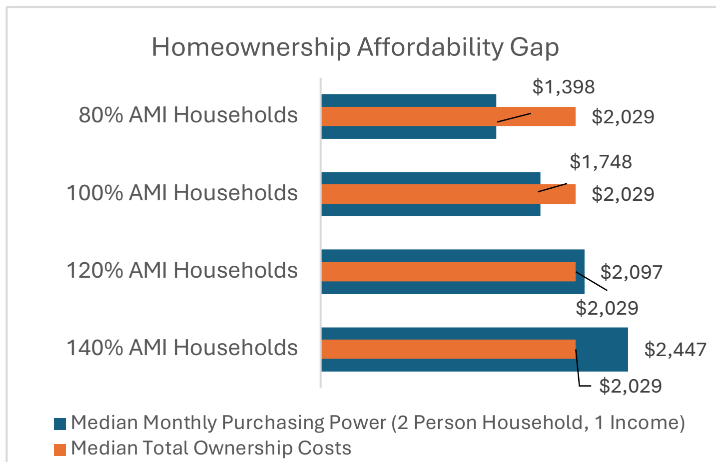






Affordability Gap[61]





*Note: Median homeownership cost calculated based on 30-year fixed mortgage at 7.5% interest, plus median real estate tax and insurance.

Indicators suggest a strained rental housing market is a greater challenge than affordability for renters between 80-140% AMI in Rockford:

- **49%** of renter-occupied units are paying >30% of their incomes for housing. This signifies high cost burden for renters under 80% AMI.

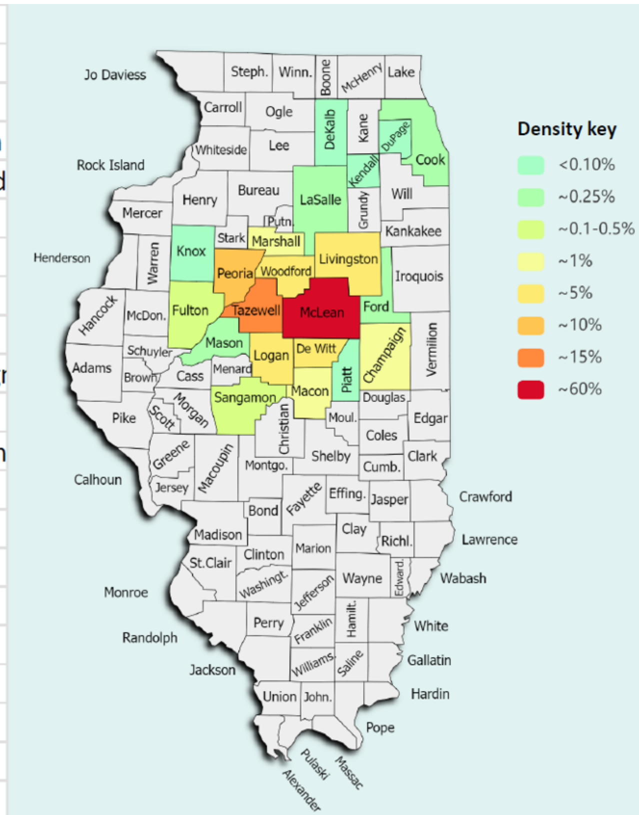
There is a homeownership affordability gap for households at 80% and 100% AMI in Rockford.

Limited housing supply is contributing to higher home prices. Higher prices, alongside high interest rates, continue to increase housing costs which have already outpaced wage growth over the past two years.

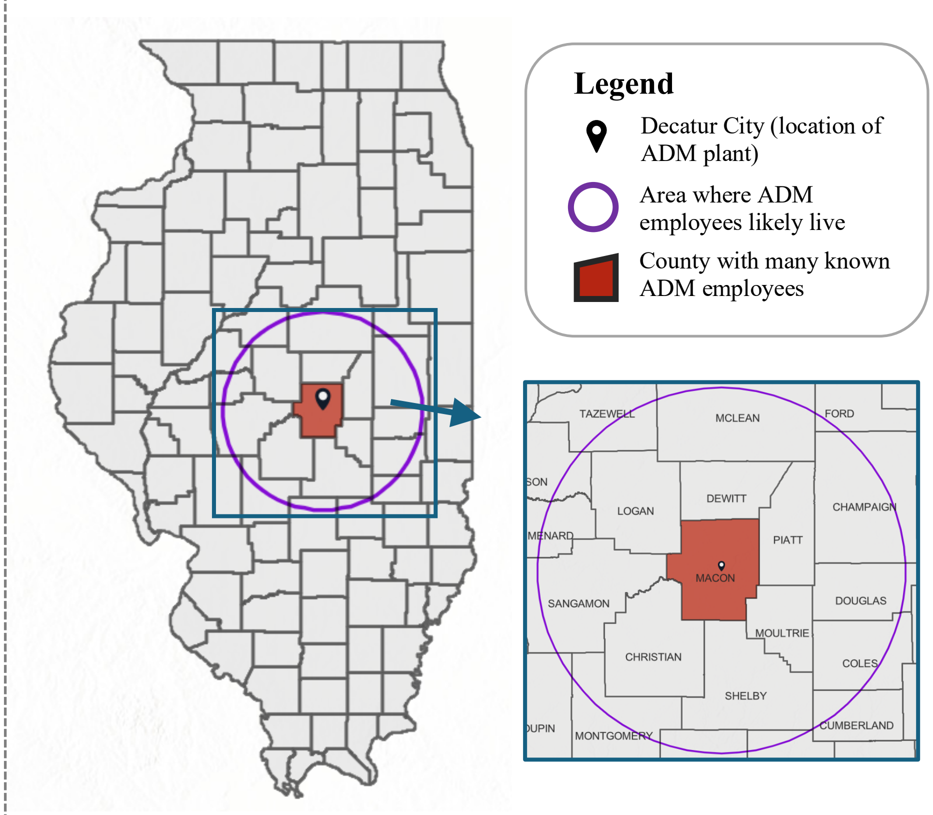
Appendix C:
Illustrating the Need for Regional Coordination

2024 Rivian Workforce Density (IL)

57.80%	McLean
13.90%	Tazewell
11.20%	Peoria
3.60%	Livingston
3.20%	Woodford
2.70%	DeWitt
2.20%	Logan
1.20%	Macon
1%	Marshall
0.70%	Champaign
0.40%	Fulton
0.37%	Sangamon
0.30%	Cook
0.20%	Ford
0.20%	La Salle
0.10%	Mason
<0.001%	DeKalb
<0.001%	DuPage
<0.001%	Kendall
<0.001%	Knox
<0.001%	Piatt



2024 ADM Workforce Density (IL)



Top 10 Communities for Rivian Team Members, by population:

1. Bloomington
2. Normal
3. Peoria
4. Pekin
5. Clinton
6. Washington
7. East Peoria
8. Lincoln
9. Pontiac
10. Morton

Additional Location Details:

- Over half of ADM's Decatur-based workforce live in Decatur (>2,000)
- Other large populations live in Mount Zion and Forsyth (~300 total)
- Others live in surrounding rural areas including Clinton, Nokomis, Mount Pulaski, Sullivan, and Niantic

Appendix D. List of Ad-Hoc Missing Middle Housing Solutions Advisory Committee

The Governor's Office would like to acknowledge the members of the Ad-Hoc Missing Middle Housing Solutions Advisory Committee who contributed their time and shared important reflections, perspectives, and insights in developing the enclosed set of potential solutions to address missing middle housing in the State of Illinois.

Grace Hou, Deputy Governor for Health and Human Services (Co-Chair)

Andy Manar, Deputy Governor for Budget and Economy (Co-Chair)

Rita Ali, Mayor, City of Peoria

Curt Bailey, President, Related Midwest

Jeff Baker, CEO, Illinois Realtors

Martin Cabrera, CEO/Founder, Cabrera Capital Markets

Jennifer Cunningham, Vice President of Human Resources, ADM

Brent Denzin, Attorney/Partner, Denzin Soltanzadeh LLC

Maura Freeman, Illinois Public Policy Lead, Rivian

Tom McNamara, Mayor, City of Rockford

Mike Niehaus, President/Owner, Windsor Homes, Inc.

Marisa Novara, Vice President of Community Impact, The Chicago Community Trust

Alex Pleasant, President/CEO, Southeastern Illinois Community Foundation

Raul Raymundo, CEO/Co-Founder, The Resurrection Project

David Reifman, Attorney/Partner, Croke Fairchild Duarte & Beres

Matt Reilein, President/CEO, National Equity Fund, Inc.

Mike Royse, Investor/Developer/Property Manager, Royse Holdings, LLC

Anthony Simpkins, President/CEO, Neighborhood Housing Services of Chicago

Tony Smith, Senior Vice President and Territory Executive, PNC

Cole Tyrell, Division President, D.R. Horton

Stacie Young, President/CEO, Community Investment Corporation

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