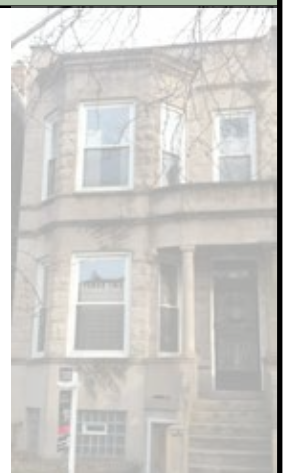
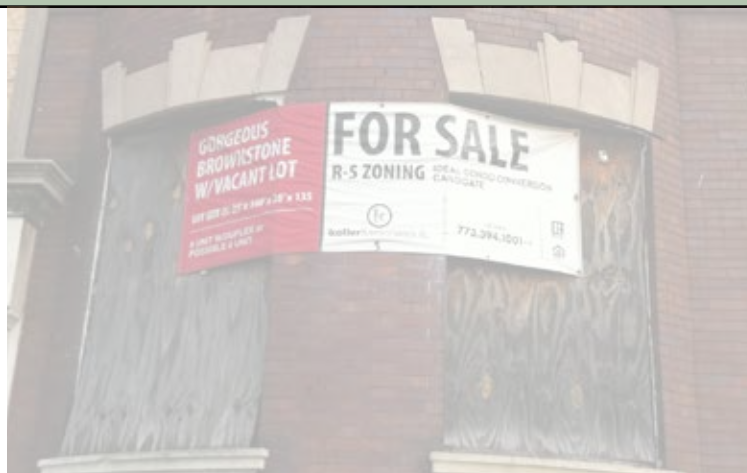


The Social Ecosystem for Revitalizing Two- to Four-Unit Buildings in Woodlawn

A Case Study and Strategic Plan
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Chapter 3 The "Players"



Chapter 3: The “Players”—Individuals and Organizations

Introduction

This chapter is the second component of a three-part presentation that reports the results of my findings in a qualitative case study of the market for two- to four-unit buildings in Woodlawn, including both vacant and occupied buildings. Whereas Chapter 2—“The Development Process” — focuses on the process stretching from acquisition, renovation to leasing & sale of two- to four-unit buildings (or parts within), including the availability of financing, Chapter 3 and 4 collectively present the social ecosystem surrounding the development process. They are inspired by the work of Bloom and Dees (2008) and how the community development financial institution Self-Help Credit Union effectively cultivated it’s social ecosystem in re-shaping the home mortgage market. This chapter, in particular, focuses on the web of interrelated individuals and organizations that are involved in the two- to four-unit market, including the resource providers, partners, alternative providers of housing, customers, problem makers and bystanders. The following Chapter 4—“Environmental Conditions”—focuses on the environmental conditions that shape what players can do and their relationship with each other, including the economy, laws & regulations, demographics, culture and geography.

Framework

This chapter presupposes six types of players within Woodlawn’s ecosystem—individuals and organizations that participate or simply influence the development and operation of two- to four-unit buildings. The categories are loosely anchored around the Small Building Initiative, a neighborhood planning initiative within the larger Choice Neighborhoods Initiative, but also include individuals and organizations generally involved in the neighborhood’s real estate market.

The first category, resource providers, includes the range of individuals and organizations that provide resources to other individuals and organizations taking a direct role in the real estate development of two- to four-unit buildings. “Resources” is not simply a financial category, however. Bloom and Dees (2008) include “financial, human, knowledge, networking and technological resources” as the types of resources that can be provided. Thus, the providers of home mortgage finance as well as the Cook County Tax Assessor that provides details on tax delinquent properties are both included.

The second category, complementary organizations and allies, includes players that facilitate the development and community processes surrounding two- to four-unit buildings. They do more than provide resources as they actively support the social cause or provide complementary services. Bloom and Dees (2008) describe this category as including “partners who perform critical steps in the social entrepreneur’s theory of change.” Given the framework I have selected to analyze a process in order to develop a theory of change and recommendations, I have included players that perform parts of the real estate development process and organizations whose advocacy is aligned with the outcome of reducing vacancy in the market.

The third category, beneficiaries and customers, extends beyond the development process. It includes the eventual homeowners, their tenants as well as tenants of investor-owned properties. However, I have also included the beneficiaries of the development activity created by market transactions, as well as investor owners of two- to four-unit buildings

The fourth category, competitors, includes both players who compete for resources and those that compete to serve the same set of beneficiaries and customers. The former would include, for example, developers vying for investors while the latter would include single family housing outside of Chicago, larger multifamily apartments in Hyde Park and newer condominiums comparable to two- to four-unit buildings in Woodlawn.

The fifth category, opponents and problem-makers, are players who directly cause negative aspects of the two- to four-unit ecosystem, indirectly undermine their revitalization and that generate political opposition.

The final category, affected and influential bystanders, is a loose category for players who don’t appear to have an active involvement in the two- to four-unit ecosystem, those who are impacted and inactive or those who are capable of providing additional resources, assistance or other forms of support.

Resource Providers

This section includes players who provide different resources to those taking a direct role in the real estate development of two- to four-unit buildings. In addition to financial resources, those with information, technical skills and human capacity constitute resource providers. Important here, too are those intermediaries who serve to connect resource providers with resource users.

For-Profit Financial Institutions

Traditional for-profit lenders include Bank of America, Wells Fargo and PNC. They provide single family and multi-family loans, which will generally encompass two- to four-unit buildings. They also provide mortgages for investors, construction lending and working capital loans that can be used for acquisition and renovation.

Lending to Investors

In contrast to the single-family market, conventional loans are the only option for investor lending.¹ Lenders prefer portfolio-based loans with 6 or more properties with a personal guarantee for security.² The loan to value ratio is likely to be around 70%, down from previous reports of 110% during the height of the housing bubble.³ To obtain mortgage financing from a bank, relationships are also important. Down payments of 25% apply to larger multifamily properties as well as investors of two- to four-unit properties. Other sources of funding include higher cost loans from “hard money” lenders who charge greater upfront costs and higher interest rates.⁴

¹ Interview with Informant #16, 1/25/2013

² Interview with Informant #6, 1/18/2013

³ Interview with Informant #6, 1/18/2013; Interview with Informant #13, 1/23/2013

⁴ Interview with Informant #13, 1/23/2013

Prior to the financial crisis, mortgage fraud was understood to be the chief causal factor limiting the availability of loans from banks. Combined with the housing crash, fraud fueled major financial challenges for banks and led to changes in loan terms.⁵ Today, this requires developers to re-establish many relationships with a seemingly different set of banks.⁶ Lines of credit were also considered opportunities for building these relationships, securing a source of working capital in the process.

As an example of lenders treating rental income for commercial property, one bank would only consider rental income on an investor's tax return for two-years prior. This effectively requires one to have a previous rental property or to have already stabilized a property prior to obtaining a mortgage.⁷

Lending to Homeowners

Lenders tend to be more favorable to owner-occupied two- to four-unit properties.⁸ Options include conventional mortgages with higher than 20% down payments and FHA-backed mortgage with a down payment as low as 3.5%. These loans also provide more flexibility on credit requirements. With additional units in the building, lenders will generally approximate the anticipated revenue subject to appraised market rents, adjust for vacancy and augment the income of the purchaser.⁹ As discussed in the previous chapter, lenders also allow a homeowner to use gifts to decrease the required down payment.

Institutional Investors

Institutional-class investors, those who pool together and manage money for others, are systematically and historically averse to investing in two- to four-unit buildings. The multifamily (5+ unit) capital market is considered more attractive to them given the proliferation of government-backed products, investment from insurance companies and active support from traditional lenders.¹⁰ The reluctance also comes from the scale of capital that such investors need to place in service, which is well above the 100,000 or even \$1 million that is appropriate for two- to four-unit properties (and even smaller portfolios).¹¹

Non-Institutional Investors

A two- to four-unit developer may also mature, have portfolios of smaller (two- to four-unit) as well as larger properties, and become attractive to smaller equity investors based on the strength of their performance and delivery of financial returns above 15%. The investment is likened to a type of preferred stock, with no guarantee of any return, but with a partial repayment during the construction and lease-up period and then a negotiated share of ongoing revenues.¹²

⁵ Interview with Informant #6, 1/18/2013

⁶ Interview with Informant #6, 1/18/2013

⁷ Interview with Informant #16, 1/25/2013

⁸ Interview with Informant #13, 1/23/2013

⁹ Interview with Informant #16, 1/25/2013

¹⁰ Interview with Informant #13, 1/23/2013

¹¹ Interview with Informant #13, 1/23/2013

¹² Interview with Informant #6, 1/18/2013

Another type of investor in two- to four-unit properties is the “turn-key” investor. Professional management firms attract these types of investors to purchase properties and provide comprehensive management expenses on their behalf for a fee. The company Profits From Rentals is a prototypical example (2010). Their website showcases models for two- to four-unit buildings based on a 25% down payment and bank financing that provide an initial return on investment above 23% (Profit From Rentals, 2010). The company attracts investors from outside of Chicago to purchase two- to four-unit buildings in Chicago. It also specifically argues that the size of the Housing Choice Voucher program provides an opportunity for strengthening property cash flows of two- to four-unit buildings and receiving high financial returns (Profit From Rentals, 2010):

Chicago has the second largest public housing program in the U.S. with the administration of over 36,000 Housing Choice Vouchers that allow low-income families to rent in the private market. HUD's Section 8 housing voucher program encourages the disadvantaged to seek safe, decent, affordable housing in the general community where they are from.

The advantage to landlords with Section 8 tenants is that the rent subsidies are paid directly to the landlord, not to the tenant, so there is virtually no risk of non-payment of rent. There are certain unique HUD standards that properties must meet to qualify under Section 8. Some of PFR's properties have been leased to Section 8 tenants, and we can specifically seek such tenants upon request. PFR always ensures homes sold with or for HUD tenants have passed or will pass all HUD requirements.

Community Development Financial Institutions (CDFIs)

Until recently there were four non-profit lenders of relevance to Woodlawn, with varying degrees of involvement in single-family, multifamily and commercial lending. Three of them are still active lenders: Community Investment Corporation, Chicago Community Loan Fund and Neighborhood Housing Services of Chicago (NHS). The fourth, ShoreBank, fell victim to the financial crisis.

Neighborhood Lending Services is an affiliate of NHS and is state's largest single-family lender (NHS of Chicago, 2013a). They are an active lender in the two- to four-unit building market across Chicago. From its downtown office, it offers home mortgages, renovation loans, acquisition and rehab loans and other lending services to all communities in Chicago. It is coordinating the CityLIFT program to provide Wells Fargo-funded down payment assistance as part of a foreclosure settlement (Podmolik, 2012).

Community Investment Corporation is, in many respects, the most active CDFI operating in Woodlawn yet does not provide single-family loans. It is a community development loan fund, composed of investments from banks looking for Community Reinvestment Act credit, which lends primarily to commercial multifamily buildings with either 5+ or mixed-use units.¹³ As a consequence, they do not directly lend to two- to four-unit buildings.

Chicago Community Loan Fund is also a community development loan fund that aggregates investments from many of the city's private lenders. They lend for the purposes of affordable housing and community development. Woodlawn is currently one of their four “focus”

¹³ Interview with Informant #15, 1/25/2013

communities, and as a result is promised “more intense concentration of effort and resources to see a measurable change over time” (CCLF, 2013). However, CCLF’s lending portfolio consists of multifamily rental housing and community facilities and would not naturally extend to two- to four-unit properties (Fannie Mae Foundation, 2001).

Along with CIC, CCLF was a participating lender in the Chicago Neighborhood Stabilization Program (NSP), financing and overseeing the construction process. On behalf of the city, they received reimbursements in exchange for allowing the city to fund the endeavor without having to serve as a direct lender.¹⁴ CCLF participated in NSP primarily for the buildings that were one to two units.¹⁵

ShoreBank, for several decades, was among the most prominent community development lenders in the country, operating out of the South Shore neighborhood just beyond the southeast boundary of Woodlawn. During its growth period, its lending portfolio included other South Side communities, including Woodlawn (Taub, 1988). The Office of the Comptroller of the Currency declared ShoreBank insolvent in 2010, and Urban Partnership acquired its assets. Its demise was attributed directly to the mortgage fraud discussed previously: large groups of developers received loans for multifamily buildings only to disappear once the money had been exchanged.¹⁶ Before it went bankrupt, Shore bank was a major source of lending for two- to four-unit buildings in Woodlawn and other communities on the South Side, but Urban Partnership Bank was not expected to be anywhere near as prominent in the two- to four-unit market anytime soon.¹⁷

Department of Housing & Urban Development (HUD)

At the federal level, the primary resource provider for two- to four-unit buildings and the larger revitalization of Woodlawn is the Department of Housing & Urban Development. By awarding grants, funding states and municipalities and providing mortgage insurance, the Department makes funding available that can be used for two- to four-unit buildings.

Office of Public and Indian Housing (PIH)

The Office of Public and Indian Housing oversees the bulk of HUD’s rental housing programs. They oversee the Choice Neighborhoods program, and as a result are the grant maker for the \$30.5 Choice Neighborhoods Implementation grant that was received by lead-grantee Preservation of Affordable Housing for revitalizing Woodlawn.

PIH is also the original source of housing assistance vouchers administered by the Chicago Housing Authority, and as such issues the rules and regulations that govern these programs. The high concentration of subsidized vouchers in Woodlawn is an acknowledged fact—the Department receives calls for a moratorium on additional vouchers as well—but they are committed to abiding by Fair Housing laws and upholding housing “choice” that drives the Housing Choice Voucher

¹⁴ Interview with Informant #14, 1/24/2013

¹⁵ Interview with Informant #14, 1/24/2013

¹⁶ Interview with Informant #6, 1/18/2013

¹⁷ Interview with Informant #13, 1/23/2013

Program. In other words, HUD is not allowed to tell people with housing choice vouchers what neighborhoods they can and cannot go to.¹⁸

Federal Housing Administration (FHA)

FHA administers the Department’s programs that promote homeownership, mainly through insuring loans provided by private (and non-profit) lenders. They insure loans that allow participants to purchase a home with a smaller down payment. FHA administers the 203(b) Home Mortgage Loan and the 203(k) Rehabilitation Mortgage programs, which insures loans for homebuyers of one- to four-unit buildings (HUD, 2013a). The 203(k) program, in particular, is an ideal tool for homeowner acquisition and rehabilitation of two- to four-unit buildings.¹⁹

By pairing a prospective owner with a 203(k) consultant and a 203(k) lender, that homeowner is able to identify a vacant property, design a home to their needs, manage the construction process (with assistance), receive construction disbursements and receive the agreed-upon mortgage at the conclusion of the construction period. Just as any other home mortgage, the success of this approach depends on the ability to find prospective homeowners who qualify for mortgages, are interested in investing in Woodlawn as well as the extent to which private lenders are committed to the loan program.

Office of Community Planning and Development (CPD)

The Office of Community Planning and Development provides HOME Investment Partnership formula grants and Community Development Block Grants (CDBG) to state and local governments for affordable housing. State and local governments use these grants in a variety of affordable housing programs, including rental and sale properties. Both programs are very flexible and allow states and localities to decide how they can be used (HUD, 2013b; HUD, 2013c).

The Neighborhood Stabilization Program (NSP), the Obama Administration’s marquee initiative for addressing foreclosures, is administered through the CDBG program (HUD, 2013d). A combination of CDBG and HOME funds are often the source of funding for providing grants to first-time or income-qualified homeowners and subordinate lending in low to moderate income communities where low appraised values or low personal assets present barriers.²⁰

These grant monies, particularly NSP, are executed by local housing and economic development departments, and thus significant variation exists in how they are used. In Chicago, the NSP program, as discussed in the next chapter, shifted away from one- to four-unit buildings in favor of larger buildings.

Local Government Agencies

Chicago Department of Housing and Economic Development (DHED)

The Department of Housing and Economic Development (DHED) is responsible not only for the implementation of the city’s housing, community and economic development policies and programs,

¹⁸ Interview with Informant #4, 1/17/2013

¹⁹ Interview with Informant #16, 1/25/2013

²⁰ Interview with Informant #4, 1/17/2013

but also administers the city's land use planning and zoning efforts. DHED's Neighborhood Stabilization Program provided funding for vacant and foreclosed property in several target neighborhoods, including West Woodlawn during the first and second rounds of NSP. The program was funded by DHED, but administered by Mercy Portfolio Services as a contract partner. DHED also administers the Tax Increment Financing program, where there is funding available for neighborhood improvements for two- to four-unit buildings and serves as an official partner in the Choice Neighborhoods Initiatives. DHED's outsized role blurs the boundary between resource provider and complementary organization/ally.

Chicago Housing Authority (CHA)

The Chicago Housing Authority is the public housing authority for the City of Chicago, and provides homes to more than 50,000 families and individuals through maintaining rental housing, providing project-based vouchers and administering the Housing Choice Voucher Program. It also served as an NSP partner and provided additional funding and project-based vouchers to landlords in order to create long-term, affordable rental housing (Chicago DHED, 2009). Much of NSP's activity in Woodlawn was multifamily development in West Woodlawn assisted by project-based vouchers.²¹

Local Institutions

University of Chicago

The University of Chicago provides up to \$7500 in forgivable loans to its employees who fall below 120% of Area Median Income and who purchase housing in communities surrounding the campus. Woodlawn is considered a "primary area" and thus a family opting to live there can earn \$3,000 more and still qualify for the program (University of Chicago, 2013). Two-to-four unit buildings in Woodlawn would qualify for this program, and thus represent a population-specific resource for purchasing homes.

Properties

Because of the challenge associated with acquiring properties, organizations in possession of real estate owned (REO) two- to four-unit buildings and those that aggregate listings are also important resources providers. Among the primary sellers of foreclosed properties are lenders such as Wells Fargo, Chase and Bank of America. They often donate properties that can be renovated in the neighborhood, something that may be possible for two- to four-unit properties in Woodlawn.²² In addition, mortgage insurers and government-sponsored enterprises (GSEs) actively market their REO properties through online databases: Federal Housing Administration (HUDHomeStore.com), FannieMae (HomePath.com) and FreddieMac (HomeSteps.com). Mercy Portfolio Services, as the administrator of the NSP program, also markets properties on the program's website (ChicagoNSP.org).

The standard property listing service is the Multiple Listing Service (MLS), a collaborative network in which realtors offer up properties for sale or identify others to be purchased, in exchange for compensation from their clients (National Association of Realtors, 2013). Many REO properties,

²¹ Interview with Informant #14, 1/24/2013

²² Interview with Informant #2, 1/10/2013

however, don’t go through these channels it seems.²³ An example of a proprietary source for identifying REO listings includes RealtyTrac, which offers listings to its paid members.²⁴ Many of these proprietary sources of foreclosure data are maintained by the County Sheriff, Recorder of Deeds and Tax Assessor, but only made available as bulk lists at a cost. The County Government does make detailed property tax and deed information available for property-level searches with a Parcel Identification Number (Cook County Government, 2013).

The National Community Stabilization Trust has partnered with a number of financial institutions to provide local governments and community-based organizations an opportunity to get a “first look” at REO properties held by banks and at a discount. These properties are aggregated and made available through the Trust’s REOMatch program to eligible buyers (National Community Stabilization Trust, 2013).

Complementary Organizations and Allies

This section describes both players that facilitate the development and community processes surrounding two- to four-unit buildings in a manner more involved than the provision of resources, those that support the same cause and those that provide complementary services. I have included players that perform parts of the real estate development process as well as organizations whose advocacy is aligned with the outcome of reducing vacancy in the market.

Housing & Community Development Organizations

Preservation of Affordable Housing (POAH)

Central to the ecosystem of two- to four-unit buildings in Woodlawn is Preservation of Affordable Housing, the non-profit housing developer that is the lead implementation entity for the Choice Neighborhoods Initiative. Headquartered in Boston, POAH became active in the Woodlawn community in 2007 with its takeover of the Grove Parc Plaza Apartments. It subsequently began the redevelopment of apartment complex and then expanded its efforts to include the entire neighborhood with the help of a \$30.5 million Choice Neighborhoods Implementation grant. The Small Building Initiative is a component of the Woodlawn Choice Neighborhoods Initiative intended to address the pervasiveness of distressed two- to four-unit buildings in the neighborhood.

Mercy Portfolio Services

Mercy Portfolio Services is an affiliate of non-profit housing developer Mercy Housing, created in response to the foreclosure crisis. They provide a range of related services, including a fund that purchases and modifies home mortgages, a database platform for asset management and the administration of Chicago’s NSP program, where they act on behalf of city in acquiring and rehabilitating properties in NSP areas, including Woodlawn due west of Cottage Grove Ave (Mercy Housing, 2013). They are likely candidates for spearheading work around small buildings in Woodlawn.

²³ Interview with Informant #15, 1/25/2013

²⁴ RealtyTrac Foreclosure Listings, <http://www.realtytrac.com/>

Community Investment Corporation

CIC plays an additional role in Woodlawn beyond being a multifamily lender for multifamily properties. Under its affiliate Community Investment Initiatives, they serve as Woodlawn site coordinators of the Micro-Markets Recovery Program. They work with the Trouble Buildings Initiative to compel better building maintenance, accept properties through receivership and evaluate the costs of renovation. Through their policy arm, the Preservation Compact, they are also actively exploring ways to finance portfolios of two- to four-unit buildings.²⁵

City & County Agencies

Several city and county agencies play critical roles in the two- to four-unit building market, aside from providing resources. The DHED Housing Bureau has initiated several programs that generally focus on West Woodlawn. These include the Neighborhood Stabilization Program, Micro-Markets Recovery Program and the Troubled Building Initiative. The County Land Bank, approved this year, is expected to stabilize neighborhoods by removing properties from the market and preparing others for renovation. Lastly, the County Board of Review is an advocate for homeowners looking to reduce their property taxes.

Cook County Land Bank

After several months of planning, The County Board of Supervisors voted in January 2013 to create what will be the largest Land Bank in the country. The proposal for the Land Bank focuses on neighborhood stabilization, building on the best practices of other Land Banks such as the Michigan Land Bank to address blighted buildings and the communities around them. It will both accept and seek to acquire properties through various means. The programmatic uses for the properties it obtains include demolition and long-term land banking, creation of scattered site rental housing to stabilize housing prices, and funding innovative maintenance programs that develop alternative community uses (Gainer, 2013). Though it is still too early to say much definitively about the program, its creation was cited often as an improvement to dealing with vacant two- to four-unit buildings in Woodlawn. For example, it could provide a mechanism for removing back property taxes and municipal liens on a property without demolition.²⁶

Cook County Board of Review

The Cook County Board of Review is a quasi-judicial agency that allows property owners to appeal their property tax assessment. Appealing an assessment, for example, would allow a homeowner to maintain lower property taxes in the face of speculation if property prices are over-valued. Commissioner Larry B. Rogers, on the Board since 2004, was commended for doing an effective job of hosting seminars to inform property owners how to appeal their assessment so that they can reduce their property tax burden.²⁷

Real Estate Professionals

These include the developers and landlords of two- to four-unit properties who often renovate and operate properties. It also includes architects and other design professionals who help businesses and homeowners to envision and carry out renovations. Lastly, it includes professional property

²⁵ Interview with Informant #15, 1/25/2013

²⁶ Interview with Informant #15, 1/25/2013; Interview with Informant #2, 1/10/2013

²⁷ Interview with Informant #3, 1/16/2013

managers who act on behalf of many landlords and appraisers who are critical to the financing of two- to four-unit properties.

Two- to Four-unit Developers & Landlords

The Metropolitan Planning Council (2013) describes three types of (for-profit) investors in one- to four-unit buildings who actively manage properties. The first, investors with significant amounts of capital, typically focus on middle-income neighborhoods. The second, a “mid-range” investor, will typically purchase portfolios using cash and “does not invest in the property as an asset manager, but treats it as a source of cash flow.” Beyond these larger entities, “small scale” investors may have a portfolio of 2 to 15 smaller properties and have significantly less professional management capacity.

This is accurate for Woodlawn. Developers may focus on providing rental, homeownership, or a combination of both. They may be small to medium-sized, but generally their survival depends on being “vertically-integrated” and performing most of the development and management functions internally. They are often minority-owned and see particular opportunities for investing in urban neighborhoods that others might avoid.

A subset of landlords described their marketing approach as something others might call “gentrification”: seeking to serve relatively higher income tenants. For rental apartments, they target a demographic that would fall above the area median income for a family of four, in census tracts where the median income (like those in Woodlawn) is much lower, i.e. between 30% and 60% AMI. Their apartments often invoke the marketing mantra of “condo-quality” as they provide amenity-rich, spacious, and relatively cost-effective apartments to African-American professionals who are not dissuaded by the neighborhood’s challenges or who are in fact compelled by a sense of community solidarity.²⁸

Others may not develop buildings as luxuriously, but the unifying characteristic of these developers is that they seem to separate themselves from less sophisticated developers and landlords in their pursuit of high-road property management.²⁹ They stress their positive reputations and provide amenities in the hopes of attracting a stronger tenant mix and fewer vacancies. In dealing with Housing Choice Voucher recipients, they hope that clear standards and quality management filter out the proverbial bad apples.³⁰

These developers may also acquire properties in order to sell them to home owners and to other landlords, landlords whose business strategy involves renting primarily to voucher holders.³¹

Design and Build Services

Providing design services was considered valuable by one multi-service real estate organization because it had observed a need for design capacity in investors of smaller buildings and homeowners who were looking to “invest back in their community.”³²

²⁸ Interview with Informant #13, 1/23/2013

²⁹ Interview with Informant #13, 1/23/2013, Interview with Informant #6, 1/18/2013

³⁰ Interview with Informant #6, 1/18/2013

³¹ Interview with Informant #6, 1/18/2013

A second professional illustrates the role of a 203(k) consultant in aiding a homeowner successfully execute an acquisition and rehabilitation loans. The 203(k) program structures the consulting process in a user-friendly manner, and the Department of Housing and Urban Development maintains a certification process as a form of quality control (HUD, 2013e). These consultants work to prepare a professional cost estimate and develop a scope of work for the construction, and then help oversee the construction process. The terms of the loan product spell out the compensation that the 203(k) consultants will receive in the form of a development fee that is added to the mortgage amount.³³ Neighborhood Housing Services performs many of these functions through its own efforts. As of January 2013, there were 17 active 203(k) consultants in the City of Chicago, and one had an address listed in Woodlawn (HUD, 2013e).

Professional Property Managers

Property management services were available for two- to four-unit buildings, as well as condos that might fall in a two- to four-unit building, with property management fees that for one firm in Woodlawn annualized at approximately 17.5%.³⁴ A larger, more specialized, property management firm like My Property Management may charge \$100 per unit monthly management fee per unit in two- to four-unit buildings (My Property Management, 2013).

Appraisers

Appraisers determine the market value of homes that forms the basis for how much mortgage financing will be granted for an owner-occupied home and an investment property. Weak market neighborhoods often have appraised values that are less than the cost of acquisition and the cost of renovation. Regardless of whether a property is acquired and renovated with cash or with a construction loan, they often don't support the renovation needed.³⁵

Neighborhood Organizations

The Network of Woodlawn

The Network of Woodlawn is a burgeoning LISC-supported community organization addressing a range of issues in the neighborhood. During the early 2000s, LISC included Woodlawn in a long-term effort to support comprehensive community development in 16 neighborhoods across Woodlawn, the New Communities Program. This involved the creation of a Quality of Life plan that has in many respects served as a roadmap for the work that has transpired in Woodlawn. The Network of Woodlawn was a direct result of the community development work, intended on addressing the systemic needs of Woodlawn including social services, public safety, economic development and housing. The Network consists of both a “network organization”—individual non-profits focused on Economic Development, Safety, Education and Health & Human Services—as well as a distinct central organization.³⁶

The Economic Development pillar addresses the neighborhood's retail needs and is also responsible for the organization's work around housing, but as of January 2013 there was no executive director

³² Interview with Informant #1, 1/9/2013

³³ Interview with Informant #16, 1/25/2013

³⁴ Interview with Informant #1, 1/9/2013

³⁵ Interview with Informant #2, 1/10/2013

³⁶ Interview with Informant #17, 1/25/2013

for this work. The organization supports efforts to reclaim vacant two- to four-unit buildings as owner-occupied buildings.³⁷

The Chair of the Board for NOW is Dr. Byron Brazier, son of the late community leader Bishop Arthur Brazier and Pastor of Apostolic Church of God. Though this is a new organization, it was very evident in several interviews that the organization was still very closely related with Brazier’s leadership, too much in the eyes of some.³⁸ Also on the Board is Mattie Butler, the founder of Woodlawn Community and Neighbors.

The Woodlawn Public Safety Alliance, a component of the Network of Woodlawn, seeks to proactively deter violence in the community. They work to provide a continuum of services throughout the school year for youth, working with school-aged kids, teenagers and young adults. The Alliance active collaborates with the School District to support each other’s strategies. Its leader, Cortez Trotter, talks directly to gang leaders recruiting young men and asks for a chance to persuade them against the decision to join a gang.³⁹

Woodlawn Preservation and Investment Company

Woodlawn Preservation and Investment Company is a community development corporation, started in 1989 in order to bring financial investment into the community, including an earlier acquisition and renovation of Grove Park Plaza apartments. It is associated with Bishop Arthur Brazier, reflecting a subtle pattern over time where different neighborhood leaders become associated with their respective community organization (Schuler, 2000). In recent years they have been staunch community advocates for developing housing to attract middle-class families back into the neighborhood. In late 2007, they worked with Woodlawn Community Development Corporation (a part of The Woodlawn Organization) and were on the verge of developing a 13.8-acre site in a 200-unit mixed-income community called Columbia Point II, which has not materialized (Chicago Agent, 2007). The first phase that was completed, Columbia Point I, is credited with improving housing values in the surrounding area.⁴⁰ In addition, WPIC was the lead agency in the Woodlawn New Communities Program that led to the creation of the Network of Woodlawn (NOW).

The Woodlawn Organization (TWO)

The Woodlawn Organization is a neighborhood organization started in 1960-1961 based on the community organizing model established by Saul Alinsky (WTTW, 2013). It was co-founded by the late Bishop Arthur Brazier and Rev. Leon Finney Jr. and noted for its successful opposition to an Urban Renewal project by the University of Chicago. It was the lead agency for a Model Cities project in the 1970s, and today it is a network of non-profits with a real estate arm, Woodlawn Community Development Corporation (WCDC), that manages 4,600 Chicago Housing Authority apartments. WCDC’s property management activities have grown beyond the neighborhood of Woodlawn, extending as far as Gary, Indiana. As of this writing, WCDC and its current director Rev. Finney are under legal and financial duress. As it pertains to two- to four-unit buildings, Rev. Finney

³⁷ Interview with Informant #17, 1/25/2013

³⁸ Interview with Informant #12, 1/23/2013, Interview with Informant #3, 1/16/2013, Interview with Informant #17, 1/25/2013

³⁹ Interview with Informant #17, 1/25/2013

⁴⁰ Interview with Informant #6, 1/18/2013

has spoken publicly about investing in foreclosed properties (Olivo, 2012). WCDC was part of Columbia Point joint venture to develop new housing prior to the recession.

TWO was criticized in some quarters for its lack of focus on the important issues and lack of effectiveness in advocating for the community. Even if only because of its close personal association with Rev. Finney and his personal legal travails, some felt that the organization would not be able to restore its credibility.⁴¹

Woodlawn East Community and Neighbors (WECAN)

Woodlawn East Community and Neighbors is an organization affiliated with resident/activist Mattie Butler.⁴² Their focus is largely on ensuring that economic revitalization of the neighborhood does not displace long-term and low-income residents in the neighborhood.⁴³ They assisted Grove Parc Plaza tenants in a preserving the development as affordable housing and bringing POAH to Woodlawn to own and redevelop the property.⁴⁴

Butler and WECAN, in their role on the Housing Committee for the Network of Woodlawn, are committed to preserving Woodlawn for low to moderate-income households, regardless of tenure. They actively work to ensure that gentrification does not push such residents out and believe that the city's efforts in pursuing fast-track demolition, leading to the demolition of many two- to four-unit properties, abandons homes that could be renovated by developers and made available as properties for sale and for rent.⁴⁵

The Developers of Woodlawn

There were reports of a group of developers of 4-12 unit properties who met informally on a monthly basis under this loose affiliation. They were motivated by the collective desire to be better neighbors and active property owners, to pool strategies for screening tenants better (to prevent "problem tenants" from jumping from property to property) and to work with the Alderman to implement a nuisance ordinance around certain businesses.⁴⁶

Southside Together Organizing for Power (STOP)

The Student Tenant Organizing Project was originally started in 2004 as a partnership between University of Chicago students and Woodlawn East Community and Neighbors to prevent displacement through gentrification in Woodlawn caused by demolition development of vacant land (Ginsberg-Jaeckle, 2013). Under their new name, today they are affiliated with the citywide Anti-Eviction Campaign that advances the "right to housing" in order to stop economically motivated evictions that diminish humanitarian concerns.⁴⁷ The larger campaign was born out of efforts to prevent the demolition of public housing projects like Cabrini-Green.⁴⁸

⁴¹ Interview with Informant #3, 1/16/2013

⁴² Interview with Informant #17, 1/25/2013

⁴³ Interview with Informant #17, 1/25/2013

⁴⁴ Interview with Informant #12, 1/23/2013

⁴⁵ Interview with Informant #17, 1/25/2013

⁴⁶ Interview with Informant #17, 1/25/2013

⁴⁷ Interview with Informant #12, 1/23/2013

⁴⁸ Interview with Informant #11, 1/23/2013

STOP places an emphasis on grassroots organizing and advocacy for tenants, many who face displacement when their building goes into foreclosure, but increasingly they have advocated for homeowners facing foreclosure.⁴⁹

Homeownership-Supporting Groups

A series of complementary organizations in and outside Woodlawn promote homeownership and support existing homeowners. They include block clubs, the homeowner association in Woodlawn and homeownership counseling organizations.

Block Clubs

Block clubs are social organizations that form at the scale of one or more blocks. They are the base unit of organizing and focused on improving the quality of life in the neighborhood (Chicago CAPS, 2008). They were part of the grassroots organizing strategy of The Woodlawn Organizations during its well-documented struggle against the University of Chicago’s urban renewal efforts (Arthur M. Brazier Foundation, 2013). Block clubs are an undisputed asset for strengthening the neighborhood, fostering distributed leadership and cleaning up the trash. However, Woodlawn was not known for having a particularly robust block club infrastructure.⁵⁰ The Chicago alternative policing program (CAPS) maintains records of active block clubs. My research as recently as January 2013 only located three block clubs in Woodlawn:

Block Club	Block Covered	Primary Contact
6100 South Rhodes Block Club	6100 - 6199 S Rhodes Ave	Norma Clark
6100 Block of St Lawrence Block Club	6100 - 6199 S St Lawrence Ave	Corey Howard
6600 University-Greenwood Block Club	6600 - 6699 S University Ave	Charemi Jones

Woodlawn Homeowners Association

The Homeowners Association exists to promote homeownership in the neighborhood and develop skills that will support the neighborhood’s stability. Their activities include a Facebook page, fencing vacant lots next to people’s homes, a neighborhood watch program, working with Chicago Alternative Policing Program and encouraging members to get involved with the local school council.⁵¹

Homeownership Counseling Organizations

The Neighborhood Stabilization Program required prospective homeowners to go through pre-purchase counseling, providing an easily accessible infrastructure of housing counseling organizations. Several are located on the South Side near to Woodlawn, including Agora Community Services, Genesis Housing Development and Greater Southwest Development Corporation. In addition, downtown-based Neighborhood Housing Services of Chicago also provides housing counseling services (Mercy Portfolio Services, 2011). These counselors go over fundamental aspects of mortgages, the process, family budgeting and the range of services and benefits for which households may be eligible.

⁴⁹ Interview with Informant #11, 1/23/2013

⁵⁰ Interview with Informant #3, 1/16/2013

⁵¹ Interview with Informant #3, 1/16/2013

Sunshine Gospel Ministries

Sunshine Ministries is an urban ministry working in Woodlawn with a community development orientation. Their activities include youth outreach programs, business incubation and a Bridge Builders program that partners with rural and suburban church members to educate through membership exchange and to “engage the Gospel issues of race, class and poverty” (Sunshine Gospel Ministries, 2013). They are particularly interested in improving the community by promoting local homeownership among its congregation.⁵²

Political Leadership

Active political leadership for the district (whether formally or informally) included the local Alderman and a State Representative.

Alderman Willie Cochran

Alderman Willie Cochran represents Woodlawn in City Council. Chicago Aldermen, generally, were described as particularly influential in the city government. One resident noted that they can make requests of city agencies through their mobile devices.⁵³ Aldermen have also been known to work actively with NHS to inform homeowners of ways to reduce their property tax assessment. This was not prevalent in Woodlawn due to a combination of a lack of organizational presence and a lack of outreach on the part of the Alderman.⁵⁴

State Representative Ken Dunkin

State Representative Ken Dunkin was also identified as an official who had taken an active interest in the neighborhood despite jurisdictional boundaries. He had even sought to broker conversations between homeowners and the Chicago Housing Authority.⁵⁵

Beneficiaries and Customers

This section includes customers beyond the development process. It includes the eventual homeowners, their tenants and tenants of investor-owned properties. Moreover, it also includes the beneficiaries of the development activity created by renovations as well as investor owners of two- to four-unit buildings.

Apartment Tenants

Woodlawn is a heavily renter-community, with 75% of the housing units occupied by tenants (U.S. Census Bureau, 2012a). 45% of rental units located outside of single-family homes are in two- to four-unit buildings (IHS, 2012a). Two important trends for tenants were the number of people receiving Housing Choice Vouchers and the apparent differences in the East and West parts of the neighborhood.

HUD-Assisted Tenants

Tenants receiving Housing Choice and other subsidies are a controversial topic in the neighborhood. Many believe that 50% of the neighborhood’s residents are recipients of these vouchers. The

⁵² Interview with Informant #2, 1/10/2013

⁵³ Interview with Informant #3, 1/16/2013

⁵⁴ Interview with Informant #3, 1/16/2013

⁵⁵ Interview with Informant #3, 1/16/2013; Interview with Informant #1, 1/9/2013

proportion of occupied units that are assisted by HUD has grown from 20% in 2004 to 31% in 2012, driven largely by a 37% increase between 2008 and 2012 (HUD, 2013f).

As mentioned in the previous chapter, there seemed to be a forming consensus that voucher recipients would be more costly, though not necessarily more difficult, to manage. Voucher recipients were more likely to be families with children, and tenants with children lead to harmless (but notable) additional maintenance, like the painting of common areas. Kids can also cause more noise and lead to greater conflict with other tenants, requiring more mediation (and time) on the part of a landlord. Because voucher recipients have utility allowances and don’t face incremental costs in their usage, they are more liberal in the use of the heater which leads to greater wear on the buildings mechanical systems.⁵⁶ As tenants, voucher recipients make more service requests for repairs, which also translate into greater costs.⁵⁷

It is a widely believed that being a participating landlord in the program brought added costs. Part of this burden appeared to be in the administrative aspect of the Housing Choice Voucher program, such as the challenge in leasing or the policy design of the program.⁵⁸ Leasing through the program required a landlord to have an empty unit for several months, and when a complaint is issued against a participating landlord, CHA isn’t perceived as fair and expedient in its treatment of the landlord, withholding rent payments and making follow-up appointments.⁵⁹

One trend indicated is that the more severe property-level and neighborhood challenges associated with HCV assisted tenants often come from individuals in their extended networks and from neighborhood residents who don’t receive the vouchers. On one occasion, a voucher recipient’s apartment was invaded by a group of non-residents in order to attack her son, prompted by a seemingly petty disagreement. The issue of social networks is one that would certainly not be addressed by a moratorium on Section vouchers.⁶⁰

Tenants On Both Sides of Cottage Grove

As perceived by local real estate developers, Noticeable differences exist among the rental tenants on the two sides of Cottage Grove. Though 95% of the community is African American, tenants east of Cottage Grove are more often single female professionals (nurses, data entry specialists, customer service representatives), earning above \$70,000 with 1-2 children. In addition, many of these couples have exited foreclosure and were looking to rent higher-amenity apartments while their credit prevented them from purchasing a home. These tenants were willing to pay above \$1500 in rent,⁶¹ leading to a perception that many landlords east of Cottage Grove used both explicit and subtle means to avoid renting to Housing Choice Voucher recipients.⁶²

⁵⁶ Interview with Informant #6, 1/18/2013

⁵⁷ Interview with Informant #7, 1/22/2013

⁵⁸ Interview with Informant #7, 1/22/2013 and Interview with Informant #6, 1/18/2013

⁵⁹ Interview with Informant #6, 1/18/2013

⁶⁰ Interview with Informant #12, 1/23/2013, Interview with Informant #7, 1/22/2013

⁶¹ Interview with Informant #13, 1/23/2013; Interview with Informant #6, 1/18/2013

⁶² Interview with Informant #6, 1/18/2013

In contrast, tenants west of Cottage Grove are more often housing choice voucher holders with incomes between \$25,000 and \$30,000.⁶³ Though racial differences were not highlighted, the dividing line of Cottage Grove Avenue bears a striking resemblance to the neighborhood during 1920s-1940s, when Cottage Grove served as a the racial dividing line between the growing black (and poor) residents on the West and white residents on the East (*Chicago Fact Book Consortium*, 1984).

Homeowners

Typically two- to four-unit buildings house owner-occupants, who rent out the additional units. The additional revenue supplements their personal income, positioning the homes as both good starter homes or enabling the acquisition of a more expensive home than a single-family home. One of the unique characteristics is that two- to four-unit buildings historically and currently have a dual investment purpose when purchased. They are both assets that can grow in value and revenue-generating properties. Homebuyers may consider remodeling them into larger single-family residences, but they are more likely to rent the extra unit(s).⁶⁴

In Woodlawn, only 28% of all the units in smaller (one- to four-unit) buildings are owner-occupied, which reflects the fact that even a neighborhood of owner-occupied 4-unit properties (four-flats) would only be 25% owner-occupied when considering additional rental units (U.S. Census Bureau, 2012b). Current and prospective homeowners in Chicago are considered highly mobile, and are able to choose among many different communities.⁶⁵ They are interested in purchasing on blocks that are well kept, which serves as a proxy for the level of desired social organization.⁶⁶ The injection of middle class homeowners earning between 80% and 120% still falls under the DHED's income limit.⁶⁷

Construction Workers

Another indirect beneficiary of renovating two- to four-unit buildings is the cadre of workers who gain jobs from the resulting economic activity. One community organizer suggested this as a local economic development initiative, which could employ low-income neighborhood residents.⁶⁸

County Government

A second indirect beneficiary of more development of two- to four-unit buildings in Woodlawn is the local government, who would receive more property taxes when tax delinquent, unoccupied properties become occupied and income producing. The decision to forgive taxes is a complicated consideration for the municipal government. Oftentimes property taxes become delinquent but are eventually paid off after 1-2 years if markets improve. In many cases, then, there is a strong possibility of recapturing the taxes.⁶⁹

⁶³ Interview with Informant #6, 1/18/2013

⁶⁴ Interview with Informant #2, 1/10/2013

⁶⁵ Interview with Informant #2, 1/10/2013

⁶⁶ Interview with Informant #3, 1/16/2013

⁶⁷ Interview with Informant #2, 1/10/2013

⁶⁸ Interview with Informant #12, 1/23/2013

⁶⁹ Interview with Informant #15, 1/25/2013

Competitors

This section describes both players that compete for resources and those who compete to serve the same set of beneficiaries and customers. With a few exceptions, competitors are developers of other properties who compete with two- to four-unit buildings for tenants, homeowners, developer interest and capital. Resource competitors would include, for example, other multifamily apartment developers while competitors for customer could include larger condominium developments whose residents may increasingly forgo both single-family and two- to four-unit homes. In practice, both sources of competition are connected.

“Urban” Multifamily Developers

One type of competitor of a two- to four-unit building is that developer of multifamily rental housing that actively invests in neighborhoods similar to Woodlawn that other developers may avoid. An example of this prototype is Pangea LLC. Their tenant-base is particularly similar to the tenants in parts of Woodlawn:

They come from the check cashing business...you know currency solutions. And their tenants are the same profile as the customers for the check cashing business. They're looking at the [low-end] of twenty-one to thirty thousand dollars, who can afford that \$875-\$850, two bedroom, one bath rent. I think they have five thousand units on the south side now. Three thousand on the West Side. Maybe a thousand [in the] South Suburbs....They have a lot.⁷⁰

However, the nature of their business model and the building stock in Woodlawn causes them to have very little business in the neighborhood:

Woodlawn has a lot of two-units and four-units [...] They're not doing two- to four-units, they're doing multifamily buildings. They're doing big buildings, [e.g.] thirty-flats. They also have a lot of six-flats, but they're typically doing much larger buildings.⁷¹

Though Pangea's tenant mix is not the high-amenity type that some developers and landlords target, they have a positive and stabilizing impact in the communities where they invest because of effective property management, selectivity in tenant screening and “kicking out the undesirables.”⁷² Pangea, however, does actively welcome housing choice voucher recipients.⁷³

From a business standpoint, Pangea is an investment fund and will eventually have investors looking to exit the investments after several years. One potential concern is whether the ownership and management changes in ways that will destabilize the community when the fund reaches this point.

⁷⁰ Interview with Informant #6, 1/18/2013

⁷¹ Interview with Informant #6, 1/18/2013

⁷² Interview with Informant #6, 1/18/2013

⁷³ Visiting the Pangea Real Estate website <http://www.pangeare.com>, one has to look no further than the title of the home page (“Apartments in Chicago | Section 8 Housing | Indianapolis Apartments”) to see that they embrace voucher recipients in their properties.

This was the case for Midway Gardens, one of the few large Section 8 family complexes in the neighborhood (aside from Grove Parc Plaza), according to one informant⁷⁴

“Upscale” Multifamily Developers

This type of rental landlord relies more on higher income tenants who pay premium prices for increased amenities and employs a more restrictive standard for selecting neighborhoods in which to invest. This could include developers in the downtown area, but more directly those with portfolios on the South Side of Chicago. One prototype relies greatly on management and locational efficiencies that makes buildings as small as 4 units infeasible.⁷⁵ This type of developer may have a tenant base consisting of a mix of professionals, students and families. Rental development in Woodlawn may not be attractive because of the belief that the neighborhood does not have sufficient appeal and competitive advantage—when compared to other neighborhoods—outside of being a low-price community. The trap of “competing on price” is a dangerous proposition for an upscale developer.⁷⁶

Greater Capital Access for Multifamily Developers

It is abundantly clear that multifamily properties (5 + units) are more highly sought out by investors than smaller properties. This is the case historically because multifamily properties have “government-backed products”, life insurance companies are willing to invest in them, and large commercial lenders like Chase will support them. There is a high degree of “sophistication” in these asset classes, whether one is talking about properties in low to moderate-income communities or in high-income communities given that they have been financed for several decades. In contrast, the one- to four-unit market “is not viewed institutionally.”⁷⁷

A pattern develops as a consequence of the more favorable investor climate of larger buildings: developers start off with two- to four-unit buildings, making the numbers work under capital constraints, mature, and increasingly shift to larger multifamily properties.⁷⁸

Financing for multifamily properties has become much more difficult after the Great Recession, posing significant questions for the viability of less attractive two- to four-unit product types:

It's inevitable that now there are fewer competitors that have the capital that's required to finance multifamily particularly in low to moderate income areas than was required seven to seven years ago. You could get financing with five to ten percent down on the deal, and if you were buying right now, you've have to really put thirty, maybe in some cases forty or even fifty percent. If it's a deal on multifamily, and on smaller properties, there aren't really even a lot of lenders who would want to finance it.⁷⁹

The difference in capital availability was partially explained by the structure of the developer. Banks were described as more willing to provide commercial loans to a Limited Liability Company or a

⁷⁴ Interview with Informant #6, 1/18/2013

⁷⁵ Interview with Informant #6, 1/18/2013

⁷⁶ Interview with Informant #6, 1/18/2013

⁷⁷ Interview with Informant #13, 1/23/2013

⁷⁸ Interview with Informant #13, 1/23/2013; Interview with Informant #6, 1/18/2013

⁷⁹ Interview with Informant #13, 1/23/2013

private equity fund than they were to provide a mortgage on a one- to four-unit building.⁸⁰ Bank financing and equity capital both require investments of a scale that is larger than even a small portfolio of smaller properties:

When you have an institutional investment structure, it’s a lot harder, because you have to place more capital work, but if it’s just you and you’ve got a hundred thousand, or a couple hundred thousand, or up to a million, it’s not difficult. Right now you need a lot more equity. If you’re going to buy a property for fifty grand and it needs fifty [in renovation costs], you’re probably going to have to put a majority if not all of that in as cash and then try to finance it once it’s stabilized, meaning the rehab is done and the property has cash flow. That’s eliminated a lot of people that compete in this space because there just isn’t a robust financing market right now. So if you don’t have cash to buy, whether the price is 20 and you gotta put 70 or 80 in, um, it’s difficult. The barriers to entry are much higher.⁸¹

Single-Family Homes & Larger Condominium Buildings

Two- to four-unit properties must compete with single-family homes in other communities. For the price of \$150,000, a reasonable cost of a completed renovation property in Woodlawn, a homeowner could find a single family homes in many other neighborhoods that do not face as many challenges as Woodlawn (Greenline Development, Inc., 2011).

Condos in larger buildings present greater competition for condos in two- to four-unit buildings. In addition to the structural features that make renovating (and maintaining) larger buildings more cost effective, the foreclosure crisis has shown that larger buildings would not be as sensitive to foreclosures as a building with only 1 to 3 other units.⁸² Institutional capital would be easier to attract for higher-volume developments.

Opponents and problem makers

This section describes players that directly cause negative aspects of the ecosystem and development process, indirectly undermine the efforts in Woodlawn and serve as political opponents. An attempt has been made to relay the information provided by informants, and labels will inevitably be subject to differing opinions.

Criminal Perpetrators

Offenders of Violent and Quality of Life Crime

Between June 2012 and June 2013, Woodlawn saw an average of one homicide every 45 days. For period from May 23 to June 22, 2013 Woodlawn ranked 10th in most violent crimes and 12th in most quality-of-life crimes out of the 77 community areas of Chicago (*Chicago Tribune*, 2013). Though criminal incidents are declining, the offenders present a key source of problems for the neighborhood and the strength of the market. There is an impunity with which criminals feel free to

⁸⁰ Interview with Informant #13, 1/23/2013

⁸¹ Interview with Informant #13, 1/23/2013

⁸² Interview with Informant #2, 1/10/2013

“pull out a gun and shoot for a significant amount a time.” Residents have been known to abandon their property out of concern for their safety.⁸³

Recent Crime in Woodlawn

	Violent Crime	Property Crime	Quality of Life Crime
First 6 Months of 2011	279	679	720
First 6 Months of 2012	268	607	655
First 6 Months of 2013	202	461	426

Source: Chicago Tribune, 2013

Some informants reject the notion that would associate all such offenders with the neighborhood’s Section 8 population and the logic that fewer Section 8 tenants would reduce crime. They contend both that (1) at best it would just move offenders to other neighborhoods and (2) many of the offenders are not from families that receive housing assistance.⁸⁴

Past Perpetrators of Condominium Fraud

Two types of illegal activity pertain to condominiums. First are the illegal conversions where developers completed construction without proper permits and often failed to abide by zoning laws. The consequence might be additional units in the basement, or substandard quality apartments.⁸⁵

More damaging activities are the conspiracies involving mortgage fraud, orchestrated so that developers could pocket mortgage funds for over-priced condos. An attorney described how these crimes would include an appraiser, mortgage broker, contractor, buyer and the buyer’s references.⁸⁶ Some people apparently did this to 20-30 buildings. Developers allegedly formed conspiracies to overstate the value of apartment buildings and the ability of borrowers to qualify for financing and subsequently took out a fraudulent loan.⁸⁷ If these properties were under-renovated, a bank might demolish them once it realizes their actual worth.⁸⁸

Bad Tenants & Enabling Property Management

Not surprisingly, not all tenants uphold the highest standards in rental apartments; however, there was a readily apparent role that enabling property managers played in translating problem tenants into neighborhood-level challenges.

This trend is evident when looking at the experience of stronger property managers. One landlord remarked that many tenants “jump from unit to unit” and are effectively dissuaded from seeking apartments with landlords (like himself) who communicated a clear set of standards prior to a rental application being submitted. In his eyes, they preferred to “find someone else that suits their agenda.”⁸⁹

⁸³ Interview with Informant #3, 1/16/2013

⁸⁴ Interview with Informant #12, 1/23/2013

⁸⁵ Interview with Informant #15, 1/25/2013; Interview with Informant #3, 1/16/2013

⁸⁶ Interview with Informant #15, 1/25/2013

⁸⁷ Interview with Informant #15, 1/25/2013

⁸⁸ Interview with Informant #3, 1/16/2013; Interview with Informant #15, 1/25/2013

⁸⁹ Interview with Informant #6, 1/18/2013

There are anecdotes, like an enabling landlord that allowed their tenants to throw highly disruptive parties with impunity. Neighborhood groups tried to intervene in a public manner by reporting the disturbances to the police, only to receive not-so- subtle threats from the tenants. On another occasion, a porch was used for an open-air drug market, while the landlord repeatedly ignored complaints from other residents as well as the larger implications of his decision. The landlords criticized were at times professional firms, community-based organizations and smaller investors. Identification and essentially “shaming” these landlords was cited as a strategy for improvement.⁹⁰

Anti-Section 8 Advocates

One constituency is especially vocal about the (real but often overstated) concentration of subsidized housing in the neighborhood, and it is evident that these anti-Section 8 advocates have a chilling effect on any rental use of two- to four-unit properties. The perception is that these advocates would rather see buildings remain vacant than filled with additional voucher recipients, thus subjecting all types of rental housing to blanket criticism for the concentration of voucher holders.⁹¹ Calls for a moratorium on housing choice voucher recipients were criticized as using a broad-brush stroke to blame crime on voucher recipients versus the more nuanced issues identified in other sections of this work.⁹²

Investors & Developers

Specific actions of investors and developers were criticized as creating problems in the two- to four-unit market. Many investors who brought property in the hopes of developing condominiums during the housing boom but who then lost their capital source for renovations when the market declined. They have been inclined to pursue Section 8 tenants as a source of cash flow, in some cases to even support development efforts in other communities. These investors, as a result of changes in the market, changed from managing assets to generating cash flow only. Another example of a problem-creating developer behavior is illegal dumping and improper trash storage and disposal in garages and streetside trash cans. These strategies represent ways to cut development costs at the expense of the neighborhood.⁹³

Secondly, absentee investors (who might even be former residents) were seen as using tax delinquency as a hedge in the process of land speculation. An owner may retire a mortgage and wait for market changes to improve the prospect of selling or developing the land. If an owner stops paying the property taxes on the property during this holding period, the County allows two years before taking action. The bet may pay off, in which case the owner pays off taxes with minimal interest. If the market does not come around, the property will continue to deteriorate and taxes will continue to accumulate.⁹⁴

⁹⁰ Interview with Informant #17, 1/25/2013; Interview with Informant #3, 1/16/2013; Interview with Informant #1, 1/9/2013

⁹¹ Interview with Informant #2, 1/10/2013

⁹² Interview with Informant #17, 1/25/2013

⁹³ Interview with Informant #3, 1/16/2013

⁹⁴ Interview with Informant #15, 1/25/2013

Lastly, absentee landlords whose properties go into foreclosures were also harmful to tenants. When the large number of rental two- to four-unit properties go into foreclosures in Chicago, this often uproots tenants as well.⁹⁵

Banks

Banks were described as sources of problem with respect to their takeover of REO properties and their aforementioned restrictive lending practices. Financial institutions often find themselves in possession of a property with existing residential tenants in Woodlawn with conflicting underlying interests. They may need to clear out a foreclosed property in order to receive payment from their insurer. The firms hired to manage REO properties often do not try to maintain an occupied building; instead they are paid based on their ability to do the opposite. Tactics include “cash for keys” approaches where managers provided financial incentives and simply pursued evictions.⁹⁶ As a lender, even in situations where NSP had identified cooperative lending institutions that had reviewed the terms for the program’s second mortgage, there were still occasions when interested home-purchasers didn’t qualify.⁹⁷

University of Chicago

University of Chicago has a long history with Woodlawn. Most recently their role has been more that of a community partner. However, it was alleged that affiliates of the University, formally or informally, discouraged employees from living south of 61st (the boundary between their South Campus and Woodlawn).⁹⁸

City Agencies

Several city agencies were identified as presenting challenges for improving the neighborhood’s housing market. The departments of Police, Buildings and Streets & Sanitation, in addition to the Housing Authority, were described as providing poor customer service, selective enforcement and undertaking other actions harmful to the neighborhood’s improvement.

Chicago Housing Authority

The Housing Authority is known for almost reflexively taking the side of the tenant in disputes when the recourse requires stopping rental payments. This appears to discourage new landlords from entering the program.⁹⁹

Police Department

Tactical officers received praise, with much more criticism directed at dispatch officers. In the eyes of residents, the police seemed not to be interested in enforcing property or quality of life crimes just as they seem to discourage resident involvement in the neighborhood.¹⁰⁰ Anecdotes suggest a level of service in Woodlawn that is comparatively worse than other neighborhoods. In one example, dispatched officers would take several hours to respond to a break-in in Woodlawn and show little interest in collecting evidence in order to capture the culprit. A burglary in a popular neighborhood

⁹⁵ Interview with Informant #12, 1/23/2013; Interview with Informant #11, 1/23/2013

⁹⁶ Interview with Informant #11, 1/23/2013; Interview with Informant #12, 1/23/2013

⁹⁷ Interview with Informant #14, 1/24/2013

⁹⁸ Interview with Informant #1, 1/9/2013

⁹⁹ Interview with Informant #1, 1/9/2013

¹⁰⁰ Interview with Informant #3, 1/16/2013

on the North Side is responded to promptly by officers, who collect fingerprints copiously and successfully apprehended a suspect—a rare occurrence for any type of crime in Woodlawn.¹⁰¹

In Woodlawn, the notion that residents in minority communities aren’t reporting things to the police was disputed, one informant claiming that there are more calls made to 3-1-1 in Woodlawn from any neighborhood, but that the multiple requests are not responded to.¹⁰² This, however, does not appear to be the case when looking at several representative requests to 3-1-1 and the Police Department:

Request Type	Number of Requests/Complaints	Woodlawn’s Rank Among Community Areas
311 - Sanitation Code Complaints (2011 to present)	582	35/77
311 - Graffiti Removal (2011 to present)	407	61/77
Police - Narcotics (2013)	293	20/77
Police - Weapons Violation (2013)	45	20/77
Police - Theft (2013)	445	29/77
Police - Battery (2013)	592	21/77
Overall Crime Reported (2013)	2688	29/77

Source: City of Chicago, Data Portal, 2013

Department of Buildings

Several brokers interviewed stated that, during the housing bubble, the Department of Buildings had been extremely lapse in requiring permits for developers looking to fix up two- to four-unit buildings and sell them as condos.¹⁰³ After the recession, the Building Department put much greater restrictions on renovations, by either imposing stiffer rules or simply enforcing them more stringently. Such changes increase construction costs in neighborhoods like Woodlawn.¹⁰⁴ In sum, these administrative rules increased the costs for individuals already holding property and hurt the potential returns from appreciation of the property at sale, pushing them towards a rental strategy.¹⁰⁵

One administrative change that preceded the recession concerned porches. In 2003, the Department of Buildings and the City of Chicago suffered considerable public criticism after the tragic deaths associated with a fallen porch in Wrigleyville. Motivated by ensuing liability, the Department shifted to being overly-proactive in identifying porches that needed to be fixed. A developer might have meticulously planned for construction costs, and a Building Inspector may deliberately check the deck and deem it out of code, even if it is unrelated to the inspection. As a new practice by the

¹⁰¹ Interview with Informant #3, 1/16/2013

¹⁰² Chicago encourages residents with non-urgent needs to call 3-1-1 instead of 9-1-1. For example, a robbery that is no longer in progress should be directed to the former.

¹⁰³ Interview with Informant #3, 1/16/2013; Interview with Informant #1, 1/9/2013

¹⁰⁴ Interview with Informant #3, 1/16/2013

¹⁰⁵ Interview with Informant #1, 1/9/2013

Department, it increased the overall development costs of two- to four-unit buildings due to the cost of a single deck¹⁰⁶

In addition, the City's Fast-Tract Abatement process leads the Department to identify vacant and occupied properties that are considered nuisances to crime, often demolishing them without giving consideration to managing the newly created land. In the eyes of some, the city hasn't offered compelling evidence to support the claim that massive building demolition will actually curb crime.¹⁰⁷ There is growing community concern over the demolition of architecturally-rich buildings, one of the neighborhood's assets.¹⁰⁸

Department of Streets and Sanitation

Similar to the descriptions of the police department, residents feel that the Department of Streets & Sanitation provides poor service to Woodlawn, with major consequences for housing demand. The failure to maintain trash on the streets attracted animals, and contributes to an image that prevents prospective homeowners with an abundance of choices from considering Woodlawn as a viable option.¹⁰⁹ Without the concentrated action on the part of city agencies, including police, streets & sanitation, and the fire department, any neighborhood improvement will be challenging.¹¹⁰

Affected and Influential Bystanders

This final category is a loose category for players who don't appear to have an active involvement in the two- to four-unit building market in Woodlawn, but who are impacted or capable of providing resources, assistance or other forms of support. Noteworthy groups and organizations in this category are inactive neighbors, NHS of Chicago, and Mercy Portfolio Services.

Inactive Neighbors

Many residents could be more proactive in enforcing community norms that improve public safety and improve the quality of life. Evident in the alleged impunity with which violence is committed, active residents feel that too many of their fellow community members do not sufficiently get involved in disrupting or merely reporting criminal activities that they saw. There was also a notion that more residents need to take ownership of the community and be willing to pick up trash in the neighborhood even if they did not create the trash.¹¹¹

Neighborhood Housing Services of Chicago (NHS)

NHS's consists of several components. It is a lender and a charter member of the Neighborworks America and provides several complementary services to two- to four-unit buildings in Chicago. It does neighborhood-specific community development through a series of site-based offices. In several capacities, under the Micro-Markets Recovery Program, NHS works with Housing Court as a receiver and site coordinator in the same manner as CIC. It serves as a realtor and property manager, in addition to providing home-ownership education through "Neighborworks Home Ownership

¹⁰⁶ Interview with Informant #1, 1/9/2013

¹⁰⁷ Interview with Informant #17, 1/25/2013

¹⁰⁸ Interview with Informant #1, 1/9/2013; Interview with Informant #17, 1/25/2013; Interview with Informant #3, 1/16/2013

¹⁰⁹ Interview with Informant #3, 1/16/2013

¹¹⁰ Interview with Informant #10, 1/23/2013

¹¹¹ Interview with Informant #3, 1/16/2013

Centers,” charged with helping homeowners obtain affordable financing. It has a redevelopment affiliate that develops properties (which includes multi-unit properties). Lastly, they also do research & development around issues facing neighborhood revitalization and homeownership (NHS of Chicago, 2013a).

Though extremely important to the city’s broader homeownership infrastructure, as of January 2013 their particular presence in Woodlawn has been much more limited. This was manifested in interviews that discussed the inability for their homeownership education about the reduction of property taxes for seniors to reach Woodlawn residents and the impressions shared by many that NHS may just not be interested in playing a role in Woodlawn.¹¹² The 9 target neighborhoods in which they focus their community development work does not include Woodlawn (NHS of Chicago, 2013b).

Mercy Housing Lakefront & Mercy Portfolio Services

Mercy Housing is a non-profit affordable housing development and management company. Mercy Housing Lakefront is their Wisconsin and Illinois regional office. Mercy Portfolio Services is the basis of their work around foreclosure remediation, which involves managing the City of Chicago’s entire NSP program. Along with the Cara Program, they are participants in the 180 Properties joint venture that trains and employs hard-to-employ populations (ex-offenders, low-income, etc.) in the maintenance of smaller residential properties (Cleanslate, 2013). Outside of Mercy Portfolio Services’ role as NSP coordinator (their primary initiative for smaller buildings), Mercy is not active in Woodlawn’s two- to four-unit market.

Chapter Summary

This chapter has described the six categories of individuals and organizations involved in the ecosystem of two- to four-unit properties, including resource providers, complementary organizations & allies, customers and other beneficiaries, competitors, opponents & problem makers and bystanders. These players are generally described in relationship to the Small Building Initiative, a neighborhood planning initiative that is part of the Choice Neighborhoods Initiative, but also include around individual or organization taking an active role in the real estate development of two- to four-unit buildings.

Resource Providers

Resource providers include large, national for-profit financial institutions like Bank of America, Wells Fargo and PNC Bank that provide single-family homeowner loans to one- to two- or four-unit properties. They occasionally provide loans for investor portfolios of smaller building, but are more active in multi-family lending. These investor loans require a personal guarantee, and considerable down payments, an obstacle that affects less capitalized developers. Other financial products include a line of credit that provides a developer a limited amount of capital with which to pursue development. The banks have changed many practices as a result of their exposure to mortgage fraud prior to the recession.

Lenders are more favorable to lending to owner-occupied homes, and are more lenient in treating rental income associated with two- to four-unit properties than pure investment income.

¹¹² Interview with Informant #3, 1/16/2013, Interview with Informant #2, 1/10/2013

Institutional investors that pool together funds are not as apt to invest in two- to four-unit properties given the lack of interest in these properties by the capital market and because they have large amounts of capital to put into service, much more than even a small portfolio. In comparison, non-institutional investors are more likely sources of investment for two- to four-unit properties, with "turn-key" investing enabling absentee or less involved owners to get professional asset and property management and additional investors supporting mid-range developers with portfolios that are transitioning away from using their own funds.

Non-profit lenders are important resource providers in the neighborhood, but to a lesser extent are resource providers for two- to four-unit properties. The most active in Woodlawn, Community Investment Corporation and Chicago Community Loan Fund, don't invest in two- to four-unit properties. NHS of Chicago does provide traditional lending, rehabilitation loans and acquisition/rehab loans to two- to four-unit properties; however, they are most active in other neighborhoods. There remains a gap left by the dissolution of Shore Bank that covered the neighborhood and the particular product type.

HUD is an important resource provider for how the City of Chicago, banks, homeowners and investors improve smaller buildings. The Woodlawn Choice Neighborhoods funding will support the Small Building Fund. Vouchers provide rental revenues that many landlords rely on. FHA's insurance supports homeownership loans, but the 203(k) renovation mortgage allows a homeowner to renovate a building with funds guaranteed prior to construction when a mortgage is signed. In addition, CDBG and HOME funds enable the city and state to put together reduced-rate loans, forgivable second mortgages, down payment assistance for homeowners and comprehensive NSP programs. The Department of Housing and Economic Development and the Chicago Housing Authority are the local face for implementing these funds.

Another class of important resource providers is the various institutions selling REO properties and the information about where they are from traditional MLS and increasingly proprietary lists. These players are critical to the acquisition of two- to four-unit properties, given that they are historically owner-occupied buildings that might be caught up in foreclosure.

Complementary Organizations and Allies

POAH, a non-profit developer of multifamily housing, is the lead implementer of the Choice Neighborhoods and is leading the revitalization effort. They have started the conversation on the Small Building Initiative along with the City. There are a series of non-profits that are active in community development and addressing vacant properties. Mercy Portfolio Services, Mercy's foreclosure response affiliate, manages the city's NSP program in which many properties (though few two- to four-unit buildings) are purchased, transferred or renovated for sale or for rent. CIC is also the local partner for the city's Micro-Markets Recovery Program and its staff researches and takes action to preserve smaller buildings.

Allies at the city and county level include the DHED Housing Bureau that actively address this issue of two- to four-unit buildings city-wide, the newly-formed County Land Bank that could clear properties of municipal liens and remove housing units from the market in interest of stabilization and the County Board of Review that helps homeowners keep property taxes low and avoid being displaced by increasing property values.

Complementary players in the two- to four-unit ecosystem include real estate professionals such as developers and landlords, design and build contractors and consultants and professional property managers that execute the main functions of real estate. Landlords range from small scale to well-capitalized investors, but generally the largest investors focus on middle-income communities while the smaller investors are more inclined to pursue the "low-road" strategies described in Chapter 2 or simply not possess adequate management capacity. Homeowners and small investors often need to rely on architectural and design consultants for renovating properties. The consultants employed under the 203(k) loan program help homeowners draw plans for the scope of work and oversee the construction process for a fee that is regulated by FHA. Property managers may take on condos in two- to four-unit buildings; they may lease the entire building or even a portfolio of buildings. The greater number of units that are managed, the lower the average cost. Appraisers determine the value of properties, which lenders will use as the basis for determining the appropriately sized loan.

The Network of Woodlawn is a 10-year-old organization filling the role of a comprehensive neighborhood planning organization, but has yet to develop the necessary capacity and may not be as much of a fresh start as some neighborhood observers would like. Several other organizations have not been as active in recent years, including The Woodlawn Organization, Woodlawn East Community and Neighborhoods and the Woodlawn Preservation & Investment Corporation. Several mid-size apartment building owners have been meeting regularly, and these developers could likely positively impact landlords of smaller buildings, even if not counting them among their membership. Organizations that support homeowners and homeownership include the few neighborhood block clubs, the local homeowners association, homeownership counseling agencies and Sunshine Ministries, an urban ministry that focuses on community development. Though the particular efforts in these regards leaves much to be desired in Woodlawn, in other communities Alderman actively request city services using their mobile devices and work with homeowners to inform them of options for keeping their property taxes from rising. These efforts can help prevent disinvestment and the property tax delinquency that accompanies speculation and gentrification.

Beneficiaries and Customers

There were several classes of customers and beneficiaries for two- to four-unit buildings identified. There is a significant tenant population in Woodlawn, and that extends to these properties because even the owner-occupied buildings have 1-3 rental units. Among these tenants, just over 30% are subsidized by HUD, which has grown considerably since 2008. Despite a fairly even population in East and West Woodlawn, Section 8 tenants face more resistance east of Cottage Grove where more professionals reside and where the housing market is stronger. 28% of the units in one- to four-unit properties are owner-occupied. Two- to four-unit buildings have a unique advantage for homeowners because they bring in rental revenue, enabling households to afford a larger home than is otherwise possible. Other beneficiaries of rehabilitating two- to four-unit properties are construction workers, who could be local residents, and the local government that benefits from increased payment of property taxes.

Competitors

Competitors are those players competing for resources that two- to four-unit properties need, or for the customers that they serve. One source of competition is urban multifamily developers, who are actively developing in neighborhoods like Woodlawn, but focus on larger buildings. Because smaller

buildings are so prevalent in Woodlawn, these developers focus more elsewhere and take much of the limited capital with them. Upscale multifamily developers, even if they were active on the South Side, would generally avoid Woodlawn because of the neighborhood challenges. Both of these product types can more easily attract attention from capital markets and obtain bank financing, as described in Chapter 2. Multifamily also presents a growth opportunity for smaller developers of two- to four-unit buildings, potentially leaving the less promising developers behind. When compared with single-family homes, many of the two- to four-unit buildings have sale prices that aren't too different from single-family homes in stronger neighborhoods, making competition for buyers more difficult.

Opponents and Problem Makers

Problem makers include the criminal offenders who make residents feel unsafe and likely to move, and who deter prospective residents from even coming to Woodlawn. These offenders are often known to community members, and resources could be more effectively targeted. Past perpetrators of mortgage fraud have contributed to the difficulty rental housing developers and condominium developers have with obtaining financing. A subset of bad tenants are enabled by equally blameworthy landlords, which has led to blanket criticism of Section 8 tenants and that creates major obstacles to developing additional rental housing in the neighborhood. Some developers create problems as well, for example, when they pursue cash flow from rental units versus proactively managing assets for long-term value. The speculative actions in the neighborhoods have proven harmful as well.

Several additional institutions are also sources of problems. Banks, in taking over REO two- to four-unit properties, often clear out tenants to receive insurance payouts. Through their inflexibility in lending, they prevent households at 80% AMI from entering homeownership. The University of Chicago is historically seen as discouraging its affiliates from moving into the neighborhood, reducing an important source of neighborhood demand. CHA policies for managing tenant disputes in the voucher program discourage newer landlords from participating. Police officers provide a lower quality of service in Woodlawn than other neighborhoods. The Department of Buildings relies too heavily on demolition with little concern for additional vacant land, and its enforcement of building code is lax with regard to maintaining neighborhood standards and overly restrictive in high-profile situations that bring it bad publicity (like one major deck collapse). Finally, the Department of Streets & Sanitation is believed to provide trash accumulation that reduces the appeal of Woodlawn's blocks to prospective homeowners.

Affected and Influential Bystanders

Bystanders in the social ecosystem of two- to four-unit buildings include, quite literally, neighbors that don't inhibit the level of social capital to reduce the impunity with which crimes are committed. NHS has the set of skills and resources that could benefit Woodlawn tremendously, but focuses elsewhere. Lastly, Mercy Housing, through their Portfolio Services and their workforce partnership 180 Properties, is also an influential player that could increase their level of involvement in two- to four-unit properties in Woodlawn.

Conclusion

Whereas the previous chapter introduced the development process, this chapter centered on the individuals and organizations that occupy various steps in that process, that consume the products

of the process, and that impact the process from a more removed position. Many of the same issues crop up in both chapters, but with a different perspective. Capital availability is an issue that faces a developer or homeowner, but it pertains to interaction with resource providers. Property management is a requirement of all two- to four-unit properties because even homeowners have rental units. The extent to which homeowners have the necessary capacity to provide property management on par with larger landlords and the business strategies employed by mid-range managers that often fall short on the quality of property management are examples of how additional insight that comes from analyzing the social ecosystem’s players. The next chapter takes an even broader step away from the perspective of development, individuals and organizations in order to provide a comprehensive picture of the factors that influence these previous perspectives. These include the policies and politics that influence how public resources are used and the population dynamics that are important drivers of the real estate market. Relying on individuals and organizations and a concerted effort to change environmental conditions are important keys to making broad-based changes to the social ecosystem.