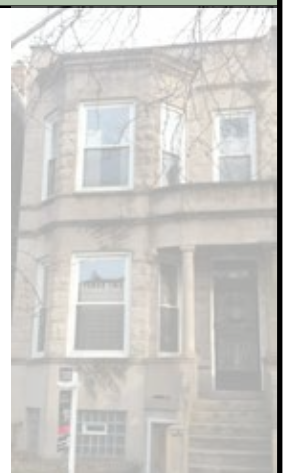
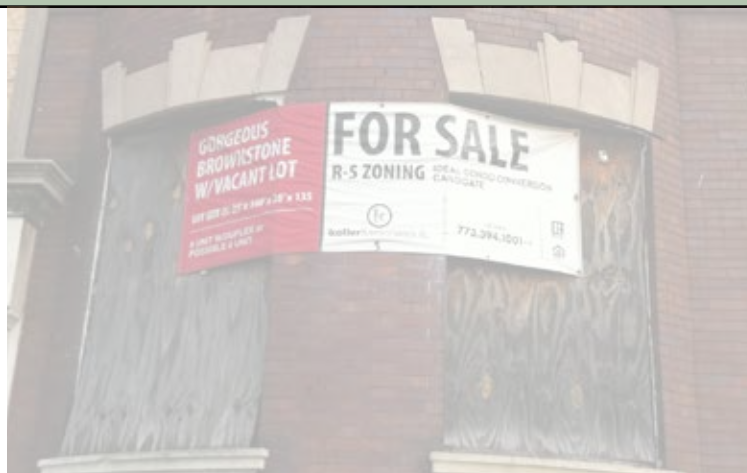


# The Social Ecosystem for Revitalizing Two- to Four-Unit Buildings in Woodlawn

A Case Study and Strategic Plan  
By: Rance Graham-Bailey

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## Chapter 4 *Environmental Conditions*



## Chapter 4: Environmental Conditions

### **Introduction**

This chapter is the final 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. In this chapter, I am concerned with 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 is organized by four environmental factors that shape both the process of residential real estate development and the individuals and organizations that take part in it.

The first factor, economics and markets, encompasses the robustness and breadth of transactions associated with the purchase, sale and lease of two- to four-unit buildings. It also includes the neighborhood’s distribution of wealth, prospects for economic revitalization and secondary markets. For example, the property values of two- to four-unit buildings have fallen precipitously after a time of tremendous rise in the early 2000s that is closely identified with rampant land speculation.

The second factor, politics and administrative structures, includes both the formal rules and regulations that bind the ecosystem. Examples would be the Neighborhood Stabilization Program as well as the political dynamics and informal processes like the opposition to increased housing choice voucher recipients in a neighborhood, something that can bleed over into opposition against additional investment in rental housing.

The third factor, geography and infrastructure, includes not only the physical terrain and location--three parks surround Woodlawn and its location in Southside Chicago--but also the transportation, communication and organizational infrastructure that support two- to four-unit buildings and the rest of the real estate market in the area: the “El” stop at 63<sup>rd</sup> and Cottage Grove and the two METRA stations. While economics and markets would include spatial implications for economic vitality, non-economic drivers of demand such as proximity to downtown, green space and transportation access also fall in this category.

The final factor, the cultural and social fabric, includes the relevant cultural norms and values, demographic trends and social networks of the neighborhood. For example, if in today’s culture if a smaller proportion of families are more inclined to purchase homes in suburbs, while a greater

proportion of childless professionals and empty nesters seek out condos in the city limits, this may have implications for the traditional role of two- to four-unit buildings as starter homes.

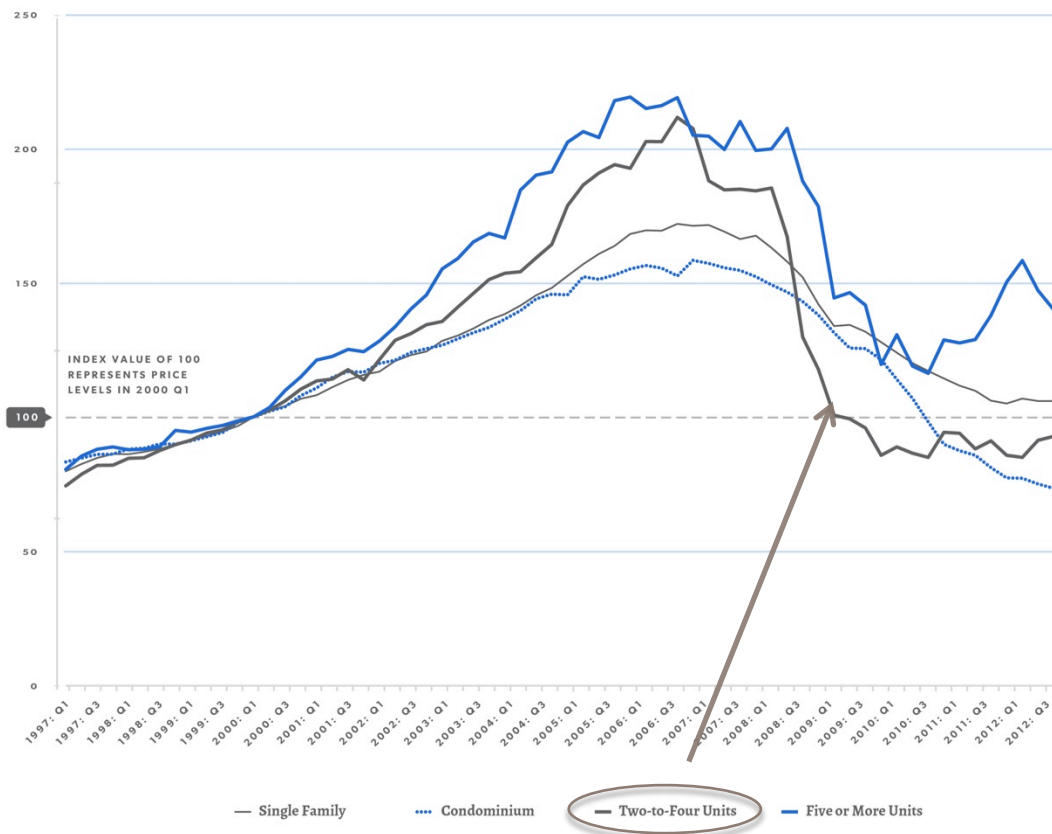
**Economics and Markets**

Two- to four-unit buildings are part of both the homeownership market and the rental housing market. There are series of market failures identified, including the speculative impact of Chicago’s Olympic bid, the transaction costs imposed by tax delinquency, genuinely and artificially depressed property appraisals and a sizeable number of vacant lots that could be developed into brand new properties.

**Homeownership Market**

The Institute for Housing Studies (2013) provides a quarterly price index for Cook County showing that property values of two- to four-unit buildings suffered much more than any other housing typology.

Chicago House Price Index for Fourth Quarter of 2012 (by property type)



Source: Institute for Housing Studies Quarterly Price, Index DePaul University, 2013

**Condominium Market**

During the height of the housing bubble, a vibrant condominium market in Woodlawn fueled conversions and new construction. A developer could increase his revenue by selling individual units of a two- to four-unit building as a condominium versus selling the whole building, in some cases

by a factor of two.<sup>1</sup> This was attributed to the low property values of Woodlawn. The “condo craze” did not apply to neighboring Hyde Park because the high and stable property values make it much less attractive than both Woodlawn and Bronzeville.<sup>2</sup>

Median Value of Owner-Occupied Unit in Surrounding Neighborhoods

| Community Area                | 1980     | 1990      | 2000      | 2010      |
|-------------------------------|----------|-----------|-----------|-----------|
| Woodlawn                      | \$26,600 | \$53,300  | \$84,160  | \$183,085 |
| Grand Boulevard (Bronzeville) | \$23,400 | \$49,700  | \$179,849 | \$257,137 |
| Hyde Park                     | \$98,000 | \$218,500 | \$271,020 | \$341,416 |

Source: Voorhees Center, 2013

Condos were more numerous in the part of the neighborhood east of Cottage Grove. Though the numbers began to decrease with the Great Recession, there is still a perception of demand on the part of developers. The condo market was previously and remains noticeably absent on the other side of Cottage Grove. The reasons informants gave for the difference were the larger size of rental apartment buildings on the Westside and the prominence of bungalow-style housing deemed less suitable to condominium conversion.<sup>3</sup>

### *Mortgage Fraud and Illegal Condo Conversion*

Different types of fraud associated with condominiums were tied directly to the challenges of the market. As described previously, the strength of the market led some entrepreneurs to ignore permit requirements in order to capitalize on the demand, and others to sell over-valued condominiums to complicit buyers overstating their qualifications, only to disappear with the profit received from the mortgage. What is unique about the environment is how the appraisal process inadvertently fueled the growth of the latter practice. Geographic concentrations of these activities led to higher comparable sales in the neighborhood, which made it even more attractive to pursue fraudulent mortgages.<sup>4</sup> While this was not limited to two- to four-unit buildings, an apparent chain effect of foreclosures in smaller buildings led to disastrous consequences.

A related issue was illegally converted condominiums. The Department of Buildings was notorious for showing a lack of concern for communities in South Side Chicago, where construction frequently took place without permits. These illicit efforts to develop condominiums, fueled by the burgeoning condo market, were highly lucrative.<sup>5</sup> Both the unregulated condo conversions and fraudulent sales were linked to the speculative rise in property values, an under-renovated housing supply and a chain effect of foreclosures.

### **Rental Market**

Several sources and informants identify two- to four-unit buildings as critical to the neighborhood’s rental housing market and the larger neighborhood revitalization. Stakeholders identified Woodlawn

<sup>1</sup> Interview with Informant #15, 1/25/2013

<sup>2</sup> Interview with Informant #1, 1/9/2013

<sup>3</sup> Interview with Informant #6, 1/18/2013

<sup>4</sup> Interview with Informant #15, 1/25/2013

<sup>5</sup> Interview with Informant #15, 1/25/2013

as having a significant portion of vacant smaller buildings.<sup>6</sup> According to the Institute of Housing Studies (2012a), 44.6% of the units in multi-family buildings in Woodlawn were located in two- to four-unit buildings, and 40.9% of these buildings were impacted by foreclosure.

This characteristic varies widely across Chicago, with some neighborhoods having as high as 90% of their units in two- to four-unit buildings and others as low as 0.1% (Downtown). However, few neighborhoods other than Woodlawn had as many as two- to four-unit buildings affected by foreclosure. Woodlawn stands with West Englewood, Englewood and Burnside only in surpassing the 40% mark. To show the extent to which place matters, in Hyde Park—the neighborhood on the other side of the University Chicago—one finds only 5.8% of multifamily units in two- to four-unit buildings (IHS, 2012a). As a result, Woodlawn is unique in relying on two- to four-unit buildings for rental housing at the same time that much of its rental housing stock has experienced foreclosure.

In addition, there is an increased rental housing demand stemming from families who have exited homeownership with damaged credit and those experiencing difficulty in obtaining financing for homes in a tight financing market.<sup>7</sup> As a result, having a strong-homeownership market in the context of a devastated rental market would have a destabilizing effect on the community.<sup>8</sup> Some perceive that past efforts have focused too much on homeownership in Woodlawn and believe that “homeownership has been over-sold.”<sup>9</sup>

### Market Failures

A recurring theme in the interviews was the belief that, without government intervention, buildings in Woodlawn would not be developed in the current market. The reasons that were identified include the degree of tax delinquency, the stock of vacant land and comparatively low property appraisals.

#### *Imperfect Information: “Olympic Dreams”*

Another key market observation was the speculative effect of the 2016 Olympic Bid on housing prices, centered in nearby Bronzeville. The likelihood of a successful Olympic bid was a decisive factor in the move of many households to Woodlawn.<sup>10</sup> Speculation fueled purchases and land banking of homes.<sup>11</sup> By October 2009 when Chicago was no longer being considered, a 20 month period had passed that included both the early softening and the precipitous fall in housing prices (Federal Housing Finance Agency, 2013). The combination of collapse of the housing market and the failure of Chicago’s bid was blamed on the extensive decline in Woodlawn’s property market.<sup>12</sup>

#### *Tax Delinquent Properties*

Tax delinquency adds to development cost in a manner that makes it no longer feasible for profit-driven developers to acquire and renovate properties. Absent any type of action by a municipal

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<sup>6</sup> Interview with Informant #4, 1/17/2013

<sup>7</sup> Interview with Informant #13, 1/23/2013

<sup>8</sup> Interview with Informant #10, 1/23/2013

<sup>9</sup> Interview with Informant #12, 1/23/2013

<sup>10</sup> Interview with Informant #3, 1/16/2013

<sup>11</sup> Interview with Informant #15, 1/25/2013

<sup>12</sup> Interview with Informant #15, 1/25/2013

agency, various liens for utilities, taxes and fees would be transferred to the new owner. More vacancy was attributed to long-term tax delinquency than to recent foreclosure.<sup>13</sup>

### *Vacant Lots*

The amount of vacant land amounts to a deterrent for initial investors. The potential for new construction threatens to negatively impact the re-sale value of older, even rehabilitated, properties.<sup>14</sup> Indeed, despite the weakness of the existing market demand, redeveloping vacant land into more housing is still actively being considered by community planners.<sup>15</sup>

### *Low Property Appraisals*

The appraisal process dictates and limits the amount of capital available for renovation in Woodlawn. Financial institutions rely heavily on market appraisals to identify the value of collateral, the basis for the upward threshold for the amount of financing to be provided.<sup>16</sup> The appraisals take place according to a standard methodology of identifying sales of comparable buildings in the nearby vicinity. They look at properties with similar physical amenities, but consciously use the distressed sales of foreclosed homes as a source of credible market data. These homes then compete with non-foreclosed homes to be purchased.<sup>17</sup>

Though lenders may occasionally challenge low appraisals in a low to moderate-income community, many informants believe low property values are a major reason why developers and homeowners in Woodlawn struggle to obtain financing.<sup>18</sup>

### **Market Changes and Investor Behavior**

Market changes that have occurred as a consequence of the Great Recession have had an apparent impact on investor behavior. Prior to the recession, two- to four-unit buildings were selling at \$250,000 at times above \$400,000. After the crash, larger houses were available for \$20,000.<sup>19</sup> As a consequence, cash purchases have become more popular (63.2% in Woodlawn, as reported in Chapter 2) as an easier way to purchase buildings.<sup>20</sup>

After the recession, landlords were often not adequately renovating properties that they had purchased and only rent the properties out in order to obtain cash flow.<sup>21</sup> Rental housing was advantageous with the potential to target housing choice voucher recipients, given the higher and more reliable revenue sources these provided.<sup>22</sup> As will be discussed later in the chapter, when comparing the maximum Fair Market Rents approved by HUD for Chicago with apparent market rents, the rents received by Housing Choice Voucher landlords appears to be higher.

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<sup>13</sup> Interview with Informant #15, 1/25/2013

<sup>14</sup> Interview with Informant #7, 1/22/2013

<sup>15</sup> Interview with Informant #17, 1/25/2013

<sup>16</sup> Interview with Informant #16, 1/25/2013

<sup>17</sup> Interview with Informant #16, 1/25/2013

<sup>18</sup> Interview with Informant #13, 1/23/2013

<sup>19</sup> Interview with Informant #3, 1/16/2013

<sup>20</sup> Interview with Informant #2, 1/10/2013

<sup>21</sup> Interview with Informant #3, 1/16/2013

<sup>22</sup> Interview with Informant #9, 1/22/2013

## Politics & Administrative Structures

The section includes both the formal rules and regulations that bind the ecosystem. It also includes the political dynamics that place demands and limitations on the administrative infrastructure, as well as informal processes and procedures. These primarily include the nature of tension along different types of tenure, spatial differences in resource allocation and market demand and the structure and design of various public policy initiatives that have implications for the success of improving the market for two- to four-unit buildings.

### Tension Between Renters and Owners

#### *Opposition to Rental Housing*

Tension exists between some in the homeowner community in Woodlawn and the beneficiaries and providers of the subsidized housing. There is rising political opposition in the neighborhood to an approach to renovating two- to four-unit buildings that would produce increased subsidized rental housing.<sup>23</sup>

This, it appears, applies not only to subsidized rental housing but also to all rental housing. A common refrain on one community organization's website is that 50% of the units in the neighborhood are subsidized, leading to a negative impact on the real estate market (Williams, n.d.). Informants identify project-based and housing choice vouchers in their reports and arguments. The opposition to subsidized housing is partially fueled by greater turnover among households and the resulting instability.<sup>24</sup> However, others counter this view by pointing out that some tenants have lived in Woodlawn for generations, and tenant advocates want to ensure that long-term tenants can remain in the neighborhood.<sup>25</sup> With so much emphasis placed on housing choice vouchers and secondarily on project-based vouchers, political pressure easily shifts from government officials to developers and landlords.<sup>26</sup>

Increasingly, Chicago's Neighborhood Stabilization Program (NSP) has been implicitly criticized for supporting the rehabilitation of buildings purchased by landlords and rented overwhelmingly to HCV tenants who were subsequently blamed for public safety issues in the neighborhood (West Woodlawn Coalition, 2011).<sup>27</sup>

#### *Caveats to the Anti-Rental Sentiment*

Despite how convinced various officials and developers are of these pressing concerns, their sentiments may actually represent only a vocal minority of the neighborhood. If a framework of social services and other neighborhood investments accompanied affordable rental housing, many feel might be more politically palatable.<sup>28</sup> Often, the focus on the surface level topic of housing choice vouchers gives way to a focus on the actions of landlords, i.e., whether or not they secure

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<sup>23</sup> Interview with Informant #2, 1/10/2013

<sup>24</sup> Interview with Informant #3, 1/16/2013; Meeting Minutes from 20th Ward Housing Committee, 9/27/12

<sup>25</sup> Interview with Informant #12, 1/23/2013

<sup>26</sup> Meeting Minutes from 20th Ward Housing Committee, 9/27/12

<sup>27</sup> Meeting Minutes from 20th Ward Housing Committee, 9/27/12

<sup>28</sup> Interview with Informant #12, 1/23/2013

their property, perform credit checks on tenants and are not adding a problem property to the neighborhood.<sup>29</sup>

A second caveat to the tensions surrounding affordable housing lies in the execution of past political/policy agreements. In the planning of the Grove Parc redevelopment, there was intense debate about whether to do “one-for-one” replacement of the existing Section 8 units. Tenants and their advocates were successful in achieving this, and they in turn agreed to a plan for building units outside of the existing footprint.<sup>30</sup> Some properties at the heart of the controversy, like those developed by POAH under the NSP program, are often if not mainly the replacement units that were the result of these earlier neighborhood-planning agreements.<sup>31</sup>

### **East vs. West**

As noted in Chapter 3, notable political and class divisions characterize the areas East and West of Cottage Grove Ave. These play out in the social, cultural, economic, resource-driven and typological differences that distinguish these two parts of the Woodlawn neighborhood. To even the casual observer visiting the real estate site Zillow.com (2013), a search for Woodlawn will only include the part of the neighborhood east of Cottage Grove, while one must search for “West Woodlawn” to find listings in the area west of Cottage Grove. In addition, during the period of racial turnover (1920s-1940s), Cottage Grove was the racial boundary between largely African Americans on the West and whites on the East.

Several similar distinctions exist in the formal administrative structure. The areas have two different active tax-increment financing districts with the City’s Department of Housing and Economic Development (Chicago DHED, 2013a, 2013b). The NSP program is also limited to the area west of Cottage Grove as a result of the federal regulations. There is both an acknowledgement that the city aims to concentrate more resources in western portion of the neighborhood and that the neighborhood should have a unified image. Some organizations routinely “push[...] back on the mention of West Woodlawn vs. East Woodlawn.”<sup>32</sup>

### **Choice Neighborhoods Support of Small Buildings**

The Choice Neighborhoods Initiative is based on the 20-year HOPE VI program, which sought to eradicate distressed public housing and achieve comprehensive, but housing-centered, neighborhood revitalization. Whereas HOPE VI had allowed projects to spend 15% of the award on supportive services and the remainder on public housing, Choice Neighborhoods saw 15% of the budgetary allocations go toward neighborhood improvements and the remaining 70% available for use beyond the targeted housing development. As part of the Choice grant, POAH has already committed to using a portion of the Housing funds to support smaller buildings.<sup>33</sup> As is the case with much publicly funded development, Choice Neighborhoods monies must be used to employ higher wage

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<sup>29</sup> Meeting Minutes from 20th Ward Housing Committee, 9/27/12

<sup>30</sup> Interview with Informant #12, 1/23/2013

<sup>31</sup> Interview with Informant #14, 1/24/2013

<sup>32</sup> Interview with Informant #17, 1/25/2013

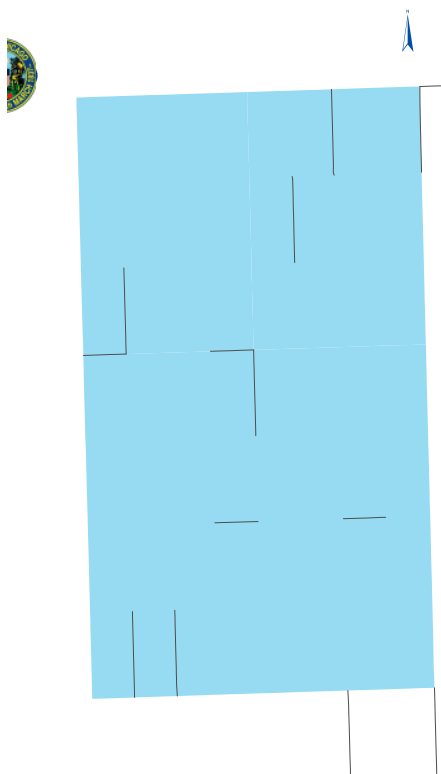
<sup>33</sup> Interview with Informant #2, 1/10/2013; Interview with Informant #4, 1/17/2013

labor complying with prevailing wage legislation in the construction and renovation of two- to four-unit buildings.<sup>34</sup>

## Neighborhood Stabilization Program

### *Background*

The Neighborhood Stabilization Program was a program of the City’s Department of Housing and Economic Development. In three consecutive rounds of funding that states and municipalities received, the program stated its purpose “of stabilizing communities that have suffered from foreclosures and abandonment” (HUD, 2013d). DHED’s three rounds of NSP funding totaling \$169 million, to be used for financing acquisition and redevelopment of “foreclosed homes and residential properties,” to directly acquire and rehabilitate residential properties, to land bank homes, perform demolition and redevelop both properties and cleared land (Ludwig, 2012). Beneficiaries of the funds had income restrictions: 120% of AMI for any portion of funding (\$90,100 for a family of four) and below 50% AMI for at least 25% of the funds (\$37,550 for a family of four) (HUD, 2013d).



### *Geographic Focus*

Not only was the program to benefit families qualifying as low to moderate income, but recipients of the program were also to prioritize areas of greatest need, illustrated by the greatest percentage of foreclosures, sub-prime loans and the likelihood of additional foreclosures (Chicago DHED, 2013c). In NSP1 and NSP2, Woodlawn’s census tracts of 4205, 4206 and 4207 were eligible census tracts. In NSP3, none of the tracts in Woodlawn were eligible (Chicago DCD, 2010). The map to the left shows that NSP investments were thus limited to the area that is west of Cottage Grove.

### *NSP and Single Family Properties*

Although the program included single family (one- to four-unit buildings), these were far fewer among the funded activities than larger buildings. Throughout the program, only three single family properties were acquired: one single-family home sold and a two two-flats buildings listed for sale in Woodlawn (Chicago NSP, 2013a).

Source: Chicago DCD, 2010

Several reasons explain the focus away from smaller single-family properties. Selling homes to owner occupants (the likely consumers of one- to four-unit properties) presented important market risk to

<sup>34</sup> Interview with Informant #7, 1/22/2013; Interview with Informant #2, 1/10/2013

DHED (Gross, 2012). As such, the city was described as having been “burned” by this process and not wanting to hold onto properties.<sup>35</sup> In addition to the difficulty of selling smaller properties, the need to meet strict HUD guidelines in the disbursement of funds was a major factor. There were tight timelines for committing and disbursing NSP funds and DHED deemed it necessary to focus on properties that were ideally above \$500k. This strategy differs from many other NSP programs. Planners and policymakers also believed that focusing on larger buildings would have more impact as an intervention in Chicago’s neighborhood (Miripol, 2012):

They serve as gateway or marquee buildings for blocks of one- to four-unit houses, and therefore generate a large enough revitalizing effect that it’s even worth pursuing getting those that are vacant but not yet REO into REO status and eligible for acquisition.

The program’s other efforts to fund single-family homes included renovations in other neighborhoods, homebuyer assistance in the form of rehabilitation loan, and a purchase assistance forgivable loan (Chicago NSP, 2013b). While there was no an extensive program evaluation at the point when this research was collected, it was confirmed that all but a few units rehabilitated in Woodlawn were, in fact, large multifamily rental buildings, and most of them were replacement units for former residents of Grove Parc Plaza.<sup>36</sup>

As of January 2013, there was discussion of a partnership with financial institutions to provide loans using the structure of the 203(k) loan. The program uses NSP funds to provide second mortgages to write down the cost of loans originated by traditional lenders if they are not low enough.<sup>37</sup>

### *Limitations in Eligible Activities*

A key characteristic of the program was that some beneficial activities in stabilizing communities were forbidden by the NSP rules and regulations. Although the program funded research & development in order to figure out what was working, the program’s restrictions prevented funding from going to and therefore meeting some of these needs. For instance, the program could only aid properties that had already gone through foreclosure, not the neighbors that were on the verge of doing the same.<sup>38</sup> Even with a retroactive regulatory change in the second round of NSP, properties had to be tax delinquent for 90-days or 60-days delinquent on the mortgage prior to becoming eligible for NSP purposes. Properties still couldn’t be assisted under the program prior to a short sale (ICF International, 2010; NeighborWorks America, 2013).

## **Additional Department of Housing & Economic Development Programs**

### *Troubled-Building Initiative*

A second initiative of Department of Housing & Economic Development is the Troubled-Building Initiative, an interdepartmental initiative coordinated by DHED. Its focus is on the following: issues (Chicago DHED, 2013d):

- “Neighborhood gang and drug activity

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<sup>35</sup> Interview with Informant #2, 1/10/2013

<sup>36</sup> Interview with Informant #14, 1/24/2013

<sup>37</sup> Interview with Informant #16, 1/25/2013; Interview with Informant #14, 1/24/2013

<sup>38</sup> Interview with Informant #10, 1/23/2013

- Disconnection of utilities that place residents at risk
- Lack of maintenance or repairs that creates dangerous conditions for residents.”

The program assesses fines and other economic incentives for problem properties that are not abandoned, seeks to prevent their deterioration by collaboration across city agencies, and enlists the help of financial institutions if buildings are vacant and abandoned (Chicago DHED, 2013d). Some dissatisfaction was expressed because of the mixed messages the program sends. When it is juxtaposed with the Department of Building’s Fast Track Abatement program that often leads to demolition, the city’s commitment to preserving buildings in disinvested communities seems inconsistent<sup>39</sup> This invokes the general sentiment that increased vacant land can be a barrier to neighborhood improvement rather than aiding in rehabilitation.

### *Micro-Market Recovery Program*

The Micro-Market Recovery Program is largely an extension of the NSP program, intended to focus additional efforts on turning around certain weak markets with potential. It began in August 2011, and it has NSP’s same West Woodlawn geographic focus. Because of the perceived challenge in addressing 19,000 to 20,000 vacant buildings, DHED opted to enlist community partners to organize residents and blocks of 8-9 different “micro-markets”, to conduct inventories of buildings and the refer clients for services.<sup>40</sup> These are highly structured contractual relationships, where partners agree to key deliverables. The partners were selected on the basis of prior activity in the neighborhood.<sup>41</sup> The partner for Woodlawn is an affiliate of Community Investment Corporation, that CDFI that focuses on multifamily affordable rental and has the best track record of active lenders in the neighborhood. Although this work isn’t exclusively focused on two- to four-unit buildings, surveys of the targeted area showed **that 95% of the vacant buildings were in this building typology** so they are a major focus.<sup>42</sup> Part of the work done by CIC in Woodlawn includes referring buildings to building court, helping to resolve questions of ownership, taking buildings into receivership, securing and cleaning buildings, and preparing feasibility studies for properties.<sup>43</sup>

### *Tax-Increment Financing-Neighborhood Improvement Program*

Tax-Increment Financing (TIF) program is also overseen by DHED. TIF is a program that uses future flows of property tax revenue to make investments in the present period. Funds are available for area redevelopment when either a “blighted area” or a “conversation area” has been demonstrated through the designation of a series of factors including dilapidation, obsolescence, deterioration, excessive vacancies, and lack of community planning (Laube Consulting Group, 2010).

There are two TIF districts in Woodlawn, one east of Cottage Grove that was created in 1999 and one west of Cottage Grove that was created in 2010 (Chicago DHED, 2013a, Chicago DHED, 2013b). The strategies of the two districts include public improvements, park and open space improvements, incentives for private investment and building rehabilitation, incentives for homeowner improvements, land assembly, and development of vacant land (S. B. Friedman &

<sup>39</sup> Interview with Informant #17, 1/25/2013

<sup>40</sup> Interview with Informant #8, 1/22/2013

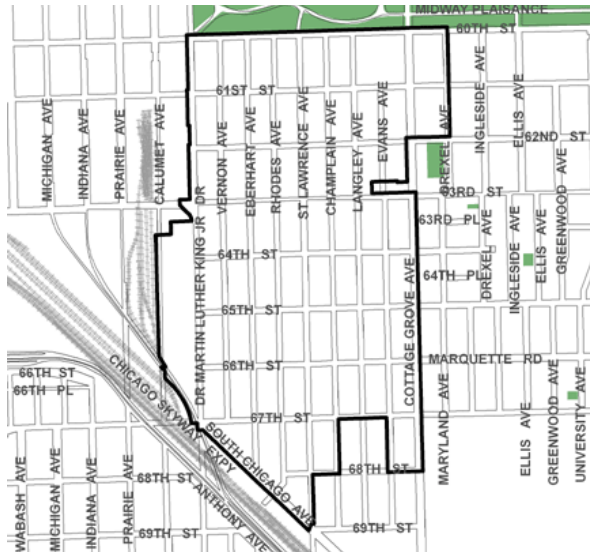
<sup>41</sup> Interview with Informant #8, 1/22/2013

<sup>42</sup> Interview with Informant #8, 1/22/2013

<sup>43</sup> Interview with Informant #15, 1/25/2013

Company, 1998, Laube Consulting Group, 2010). The program was identified as a potential source of support for homeownership, but had proven difficult up as of January 2013, when the research for this study took place.<sup>44</sup> The TIF Neighborhood Improvement Program, created to give access to homeowners to the program, allows for exterior and interior improvements to single family and multifamily buildings.

West Woodlawn TIF District



Woodlawn TIF District



### Public Housing and Section 8 Vouchers

Guided by the Plan for Transformation and earlier desegregation decrees, the Chicago Housing Authority has shifted its housing footprint away from high-rise public housing to mixed-income housing communities and over the past fourteen years, to Section 8 vouchers. Since 1995, the Chicago Housing Authority has been undertaking this massive effort to replace 25,000 units of the former and also to build new communities on the footprint of the previous housing that will be evenly split between market-rate, affordable and public housing. During this time, they have increased the amount vouchers and that has led to concentration of voucher-assisted tenants in neighborhoods that are already distressed (Moore, 2013).

### *Scattered Site Rental Program*

Approximately 2,500 of the 18,000 remaining public housing units are part of a scattered site rental program containing units that are smaller than typical multifamily apartments and housing complexes (CHA, 2012).<sup>45</sup> One of these developments is in Woodlawn, managed by the Woodlawn Community Development Corporation (CHA, 2013a). A remnant of the Gautreaux court case where the Chicago Housing Authority faced a court injunction to desegregate, the program's explicit goal has been to obtain smaller buildings (many two- to four-unit properties) in areas with little or no concentration of public housing and other forms of subsidy. These units were to be outside of

<sup>44</sup> Interview with Informant #2, 1/10/2013

<sup>45</sup> Interview with Informant #5, 1/18/2013

the City's South and West Side (where the earlier high-rises were most prevalent). Unfortunately, the Authority has not purchased additional units over the past 8 years.<sup>46</sup>

#### *Property Rental Assistance Program (PRA)*

Under the Property Rental Assistance Program (PRA) A , CHA provides more traditional project-based vouchers to private landlords. The vouchers do not follow the tenant, as they do in the Housing Choice Voucher Program, but a landlord agrees to a longer 5 to 30-year contract. The ideal size of the portfolio is at least 8 units, allowing a landlord with a portfolio of two- to four-unit buildings to be competitive. CHA is currently pushing to get more private owners into this program.<sup>47</sup> In deciding which landlords will participate in the program, the Authority considers whether the buildings are in opportunity areas, accessibility of transportation, the level of retail amenities and public safety. This program reflects the Housing Authority's objective to identify partners to help reduce the concentration of low-income residents and subsidized housing. In addition, both a committee and the CHA Board of Commissioners have to approve every landlord's application to participate in the program; the Authority has staff to ensure successful property management.<sup>48</sup> Notably, there is a 25% statutory limit on the number of assisted units in one property; CHA has the flexibility to waive the 25% statutory limit on the number of assisted units in one property. In addition, the CHA application (2013b) states a preference for low-income areas:

As part of the Plan for Transformation, CHA aims to provide opportunities for low - income families to live in areas with a mix of incomes and backgrounds. Therefore preference for PRA assistance will be given to properties in census tracts that have low concentrations of poverty (20% or less). (p. 20)

A sub-set of this program focuses on providing supportive housing for various target populations in need of comprehensive social services.

#### *Housing Choice Voucher Program (HCV)*

In 2013 CHA will authorize over 38,000 Housing Choice Vouchers, representing over half of its total beneficiaries (CHA, 2012). These portable subsidies enable a recipient to identify private housing and that household must meet the set of threshold requirements known as Housing Quality Standards (HQS) that applies to the programs described above.<sup>49</sup> Unlike Scattered Site housing and Project Rental Assistance where a general sense of selectivity drives the choice of landlords and properties and where neighborhood factors are explicitly considered, all any Housing Authority can do to effect de-concentration is proactively inform HCV recipients about housing opportunities in non-traditional communities.<sup>50</sup>

The process for entering a HCV contract dissuades many developers from participation. There is requirement that property be taken off the market for 90 days prior to a landlord's receipt of a rent

<sup>46</sup> Interview with Informant #5, 1/18/2013

<sup>47</sup> Interview with Informant #5, 1/18/2013

<sup>48</sup> Interview with Informant #5, 1/18/2013

<sup>49</sup> To be precise, HQS applies to all private landlords participating in Housing Authority programs, including the Program Rental Assistance but with Housing Choice Vouchers the requirement to meet HQS is presumably imposed at the beginning of a tenant's lease with a landlord.

<sup>50</sup> Interview with Informant #4, 1/17/2013

check.<sup>51</sup> This requirement can create upfront costs for new participants in the program. As a consequence, landlords with a lot of HCV residents knew how to work the system, but those with few or none seek to avoid the program.<sup>52</sup> Though brokers are bound by professional ethics that prevent their discrimination on the basis of income, they nevertheless witness landlords using creative approaches to weed out voucher holders.<sup>53</sup> Many screening protocols, such as the use of credit checks, income verification, etc., are difficult for fair housing-minded officials to bar if they are applied uniformly.<sup>54</sup>

### *Tenant and Neighborhood Relations*

If tenants have complaints about their properties, they can pursue a remedy through CHA's regular inspections or request immediate assistance for a set of emergencies that may arise (CHA, 2013c). If neighbors have questions about properties in their neighborhood, they can also report problem properties to the Housing Authority. It is up to both the CHA and the partnering landlord to ensure that tenants abide by the rules and regulations.<sup>55</sup>

### *Concentration in Woodlawn*

HUD data on the number of assisted households in Woodlawn reveal an overall increase of assisted homes in Woodlawn, nearly 1300 between 2004 and 2012. The most recent year's data saw the percentage of all assisted housing units surpass 30%, a trend that validates many of the assertions from community members about increases but not about the extent of the increases:

HUD-Assisted Housing in Woodlawn (2004 to 2012)

| Year                                | 2004   | 2008  | 2012  |
|-------------------------------------|--------|-------|-------|
| All Residential Units (2000 Census) | 11,941 |       |       |
| Housing Choice Voucher Units        | 1,049  | 999   | 1,775 |
| <i>% of All Units</i>               | 9%     | 8%    | 15%   |
| <i>% of HUD-Assisted Units</i>      | 45%    | 37%   | 48%   |
| All HUD-Assisted Units              | 2,356  | 2,716 | 3,712 |
| <i>% of All Units</i>               | 20%    | 23%   | 31%   |

Source: Federal Financial Institutions Examination Council, 2013; HUD, 2013f

### *Housing Quality Standards*

As mentioned above, all housing that is rented under Housing Choice Voucher Program or Property Rental Assistance must first be inspected and meet HUD's Housing Quality Standards (HQS).<sup>56</sup> If a unit is not in compliance with HQS, it is unable to be leased through the HCV program until the building has passed a subsequent inspection. If it is already leased, after a documented period of non-repair the landlord ceases to receive payment from the Housing Authority (HUD, 2001). The regulatory structure can be rather difficult for private landlords to manage because of the length of

<sup>51</sup> Interview with Informant #1, 1/9/2013

<sup>52</sup> Interview with Informant #1, 1/9/2013

<sup>53</sup> Interview with Informant #1, 1/9/2013

<sup>54</sup> Interview with Informant #4, 1/17/2013

<sup>55</sup> Interview with Informant #5, 1/18/2013

<sup>56</sup> Interview with Informant #4, 1/17/2013

time it takes to schedule a CHA appointment. If a landlord is deemed in violation, after completed the necessary repairs, he or she must make a second appointment for re-inspection and approval.<sup>57</sup>

Most of the HQS standards listed in the Housing Choice Voucher Guidebook pertain to the state of the structure and its condition, yet one does concern the neighborhood: “The site and neighborhood must be reasonably free from disturbing noises and reverberations or other dangers to the health, safety, and general welfare of the occupants” (HUD, 2001). This might suggest the HCV Program incorporates de-concentration in a similar manner as other housing programs; however, the goal of “housing choice” for tenants is central to the implementation of this provision: “PHAs should be careful not to restrict housing choice in deciding acceptability. Failing a unit because the neighborhood is considered “bad” is not appropriate” (ibid). This would appear to cover concentrations of other voucher recipients.

### *Fair Housing*

The Housing Choice Voucher program is obligated to meet Fair Housing requirements in dealing with concentration of housing choice voucher recipients. The phenomenon could be due to “pull” factors—tenants have deeply rooted networks in the area that are highly valuable—or “push” factors—they are subject to indirect or subtle discrimination when they try to lease an apartment neighborhoods beyond Woodlawn that offer much more economic opportunity.<sup>58</sup> The same Fair Housing policies that prevent CHA from entertaining a moratorium of housing choice vouchers facilitate investigating and eliminating illegal “push” factors. In addition, the approach to HCV de-concentration that Housing Authorities are able to take essentially counter-balances the “pull” factors highlighting those non-traditional areas where voucher holders can move. They cannot dictate neighborhoods that are off-limits.<sup>59</sup>

### *Leasing & Rent Levels*

HUD sets Fair Market Rents for each metropolitan area in the Country, which applies to assisted housing within the region. As a result, the same method of calculating rent subsidy would apply downtown that would apply to Woodlawn.<sup>60</sup> Currently, HUD is conducting a demonstration of Small Area Fair Market Rents that adjusts maximum rents for each zip code within a larger metropolitan area. The study seeks to prevent both over-subsidy in weaker market areas while it allows the payment of greater subsidy in higher-rent areas typically inaccessible to certain populations (HUD, 2012).

The Small Area rents for Woodlawn (zip code 60637) are consistently closer to the neighborhood’s median rent than the original Fair Market Rent.

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<sup>57</sup> Interview with Informant #1, 1/9/2013

<sup>58</sup> Interview with Informant #12, 1/23/2013

<sup>59</sup> Interview with Informant #4, 1/17/2013

<sup>60</sup> Interview with Informant #4, 1/17/2013

## Simulated Comparison of Section 8, Market-Rate and Small Area Rents

|            | Chicago Fair Market Rent <sup>61</sup> | Median Rent in Woodlawn <sup>62</sup> | Woodlawn Small Area Rents |
|------------|--|---------------------------------------|---------------------------|
| Efficiency | \$717                                  | \$700                                 | \$690                     |
| 1BR        | \$815                                  | \$650                                 | \$780                     |
| 2BR        | \$966                                  | \$850                                 | \$930                     |
| 3BR        | \$1,231                                | \$1,150                               | \$1,190                   |
| 4BR        | \$1,436                                | \$1,350                               | \$1,380                   |

Source: Novogradac & Company LLP, Hotpads.com & HUD

The Small Area project is a demonstration, but HUD regulations already speak to rent levels under the “Rent Reasonableness” requirement that governs its assisted housing. The requirement is intended to prevent voucher recipients from paying rents that are higher than the market rent, and to prevent rents that are lower than the market rent and thus less attractive to better quality or landlords. Thus, the requirement is intended to prevent a situation where the Housing Choice Voucher program encourages any action on the part of a landlord outside of providing safe, quality housing when a tenant is receiving an income subsidy (HUD, 2001):

By accepting each monthly housing assistance payment from the PHA, the owner certifies that the rent to owner is not more than rent charged by the owner for comparable unassisted units on the premises. The owner must provide information requested by the PHA on rents charged by the owner for other units on the premises. The language of the HAP contract states this requirement. (p. 9-3)

### Cook County Property Taxes & Utilities

Tax delinquency is potentially the most significant barrier to addressing the problem of vacant buildings. When a building has municipal liens from unpaid water, utilities, and property taxes, the law does not allow any option to completely forgive the liens other than abandonment and turning over the property to the City (or County). Without this, a developer who purchases the property will assume responsibility for these liens. This is noticeably different than foreclosed properties, where the city can obtain title through a lower legal hurdle.<sup>63</sup>

In addition, property taxes are an important aspect of the pressures that lead to vacancy. Speculative rises in home prices in Woodlawn (that surely resulted, in part, from condo fraud over-heating the market) led to higher property tax assessment for local residents. For fixed-income tenants (the elderly, for example), this present more hurdles. Seniors were not fully informed about their rights to lower their property taxes by appealing to the County, and if they were, the process has to repeated annually to maintain the reduced rates.<sup>64</sup>

<sup>61</sup> Includes utilities

<sup>62</sup> The median rent comes from the apartment listings reported by Hotpads.com

<sup>63</sup> Interview with Informant #15, 1/25/2013

<sup>64</sup> Interview with Informant #3, 1/16/2013

**Building Hearings & Demolition**

Building demolition is completed by the Department of Buildings, while the Buildings Hearing Division of the Chicago Department of Administrative Hearings facilitates the judicial process. In the absence of a formal program to clear the title and municipal liens in two- to four-unit properties, demolition tends to be the only viable option for getting control of properties. First, it is often simpler to “knock a building down than it is to settle title issues,” given the challenge of pursuing abandonment cases in the Administrative Hearings.<sup>65</sup> In addition, without a pre-approved program, every building must be approved by City Council before it is disposed of, something that would be politically perilous.<sup>66</sup>

Past demolition appears connected to some of the market improvements in the neighborhood. A demolition program decades prior in East Woodlawn appears to have facilitated newer construction that, even with the recession, provides a strong infrastructure for developers to renovate homes.<sup>67</sup> These past demolition efforts seem, interestingly enough, correlated with the portion of the neighborhood that many consider more desirable. Many blocks of the eastern part of the neighborhood show evidence of housing that, from visible inspection, seems newly constructed.

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<sup>65</sup> Interview with Informant #15, 1/25/2013

<sup>66</sup> Interview with Informant #15, 1/25/2013

<sup>67</sup> Interview with Informant #7, 1/22/2013; Interview with Informant #6, 1/18/2013

New Construction in East Woodlawn



Source: Photographs Taken by Author

**Dynamics of Community and Political Leadership**

Local leadership has been the target of fairly pointed criticism. . Many prominent organizations were known to attract various financial and grant monies while having minimal impact on or actual interest in improving the community and being generally out of touch with the community’s real needs. These organizations have leaders as the community “gatekeepers” serving for outside actors, and who have authority to veto the neighborhood’s participation in initiatives that they don’t

support. Some other stakeholders feel that the status and confidence placed on the existing leadership is misplaced.<sup>68</sup>

The state of community leadership was in a rather fluid state, or in the words of one non-profit leader, the community has a “leadership void.” More locally established organizations may have credibility issues, and the organizations that drew the most positive comments were a crop of newer players, upon which the responsibility of leadership was consistently conferred<sup>69</sup> The more that newer organizations were independent of the older organizations and their leaders, the more some stakeholders see them as breaking with “business as usual.”<sup>70</sup>

### **Geography and Infrastructure**

This section includes the physical terrain and locational features associated with the larger neighborhood and the individual two- to four-unit buildings, as well as the transportation and communication infrastructure that support two- to four-unit buildings in Woodlawn. Woodlawn has key neighborhood strengths in its park and transportation infrastructure, as well as proximity to cultural amenities. However, the weak retail infrastructure is most problematic for attracting households to the neighborhood.

#### *Parks and Green Space as a Neighborhood Strength*

Woodlawn is surrounded on three sides by parks, Washington Park, Midway Plaisance and Jackson Park. These are crucial neighborhood assets that homeowners consider when deciding to move to the neighborhood. Washington Park, for example, is the 3<sup>rd</sup> largest in the city, complete with baseball diamonds and golf courses.<sup>71</sup> A second asset is the lake front to the East. One broker pointed out that land that was closer to Lake Michigan was much better for condominium development prior to the housing crash.<sup>72</sup>

#### *Transportation Infrastructure as a Neighborhood Strength*

Transportation infrastructure is yet another strength of Woodlawn. The neighborhood provides convenient access to major Interstates 90 and 94, as well as Lake Shore Drive, a 15-mile expressway bounding the South- and North-Side of Chicago from Lake Michigan. Further, Woodlawn is both the terminal point of the Green Line El and has two stops on the commuter-focused Metra train.

However, key challenges exist for the transportation infrastructure. Many feel the urban design created by the elevated Green line tracts running West on 63<sup>rd</sup> Street from Martin Luther King Drive make improvements to the community difficult<sup>73</sup> The tracks block much of the sunlight, a situation that is uninviting for businesses. As a result, some have successfully called for the deconstruction of parts of the tracks in the past (Washburn, 1994):

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<sup>68</sup> Interview with Informant #12, 1/23/2013; Interview with Informant #17, 1/25/2013; Interview with Informant #3, 1/16/2013

<sup>69</sup> Interview with Informant #17, 1/25/2013,

<sup>70</sup> Interview with Informant #12, 1/23/2013

<sup>71</sup> Interview with Informant #3, 1/16/2013

<sup>72</sup> Interview with Informant #1, 1/9/2013

<sup>73</sup> Interview with Informant #10, 1/23/2013

Demolition supporters contend that the line produces noise pollution, darkens the street underneath, and contributes to a perception of crime and a lack of security. They also say that ridership is low and that few people would be inconvenienced if the Jackson Park leg terminated at Cottage Grove.

Amid public outcry and after two decades of debate, in 1996 the CTA board approved plans to deconstruct the portion of the line that ran from Cottage Grove to Dorchester (Washburn, 1996). The area that was cleared continues to be vacant.

East 63<sup>rd</sup>/Cottage Grove Green line Station



Source: Photo by Jeff Zoline

#### *Source of Weak Demand: Lack of Key Neighborhood Amenities*

Consensus forms around another weakness in the neighborhood's infrastructure: the availability of retail amenities, notably restaurants and grocery stores and other convenience-oriented retail. The Cottage Grove retail corridor has been in decline since 1940 (Chicago Fact Book Consortium, 1984). Important comparisons were made with Bronzeville, a nearby community that is relatively similar to Woodlawn but had a stronger condominium market. Bronzeville is also underserved by retail and yet real estate professionals and residents both bought into the idea of continued revitalization of the market and the inevitable development of an infrastructure. Unfortunately, the financial crisis dashed these dreams, and residents seem less likely to believe that these investments would take place in retail-starved communities like Bronzeville and Woodlawn.<sup>74</sup>

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<sup>74</sup> Interview with Informant #1, 1/9/2013

Retail attraction is no simple task as it invites a chicken or egg dilemma. Retail wouldn't come naturally without more population growth and specifically more middle class residents. There was no simple answer to what must come first.<sup>75</sup>

### *Potential Neighborhood Strength: Proximity to Cultural & Economic Institutions*

The accessibility of a rich cultural infrastructure was identified as a possible source of improved demand for the neighborhood. Proximity to the University of Chicago is a source of strength, as well as the proximity of museums, theater and musical venues that are either associated with the University of Chicago or simply located in nearby Hyde Park.<sup>76</sup> The University is also among the largest employers on the South Side of Chicago.<sup>77</sup> Thus, there are potential job opportunities that residents, if matching the skill profiles, have access to.

### **Social and Cultural Factors**

This section includes the relevant cultural norms and values, demographic trends and social networks of the neighborhood. Sharp demographic trends have born a lot of the blame for the softening homeownership market, extenuated by past and continuing public safety challenges. As a primarily African American community on Chicago's South Side, in the shadow of one of the most elite education institutions in the world, issues of race and class are never too far away. Social factors pertaining to maintenance of the public realm also present important challenges and opportunities. With respect to two- to four-unit properties, homeownership has does not only represent an economic component, but also a social and cultural one as well. Lastly, there is also clear evidence of broader neighborhood change and firmly held beliefs about the possibility of a very different future.

### *The Effect of Population Loss on Weak Demand*

Woodlawn has experienced long and consistent population loss since 1968, and this is among the root causes of the neighborhood's housing vacancies. It is an even more significant source of vacancy than foreclosures and REO properties resulting from the Great Recession.<sup>78</sup> Much of the population loss derives from middle-class families (who often are owner-occupants) moving out of the community.<sup>79</sup>

Woodlawn Decennial Census Population Changes Since 1940

| Year | Population | Black % | Total Housing Units | Overall Vacancy Rate | Ownership Rate |
|------|------------|---------|---------------------|----------------------|----------------|
| 1940 | 71,685     | 17%     | 23,444              | 5.6%                 | 7.9%           |
| 1950 | 80,699     | 39%     | 27,624              | 3.4%                 | 10%            |
| 1960 | 81,279     | 90%     | 29,616              | 6.6%                 | 8.8%           |
| 1970 | 53,814     | 96%     | 22,261              | 15%                  | 10%            |
| 1980 | 36,323     | 96%     | 15,747              | 11%                  | 13%            |
| 1990 | 27,473     | 96%     | 13,109              | 20%                  | 17%            |

<sup>75</sup> Interview with Informant #12, 1/23/2013

<sup>76</sup> Interview with Informant #3, 1/16/2013

<sup>77</sup> Interview with Informant #13, 1/23/2013

<sup>78</sup> Interview with Informant #15, 1/25/2013

<sup>79</sup> Interview with Informant #2, 1/10/2013

|      |        |     |        |     |     |
|------|--------|-----|--------|-----|-----|
| 2000 | 27,086 | 94% | 11,941 | 15% | 18% |
| 2010 | 24,483 | 93% | 14,127 | 20% | 25% |

The Decennial Census shows the population peaking in the 1960s and falling precipitously until 2010, when it was approximately 30% of the 1960 population level. Further, the bulk of the population loss was concentrated in the three decades after the 1968, with much smaller reductions since 1990. The amount of housing units has fallen as well, but not to the same degree.

### *Public Safety, Social Capital and Community Cleanliness*

Public safety overrides all other positive aspects of the neighborhood in depressing the residential demand. Residents are “so concerned with their safety, they don’t mind leaving their home,”<sup>80</sup> one informant noted. As public safety issues have increased, many homeowners not forced out by foreclosure have still left. One Latino resident, who eventually walked away from his home, suffered racially motivated harassment and property damage. A nuanced view of crime suggests that the strength of social networks in Woodlawn (whether they are familial, or gang-related given the legacy of gangs such as the Blackstone Rangers that originated in the 1960s) attract visitors and residents of the neighborhood who are seeking to benefit from these networks (Taub, 1988).<sup>81</sup> Ultimately, the effect of the violence is to override all other considerations of homeowners as they consider whether or not to remain in the neighborhood: “safety is starting to trump everything.”<sup>82</sup>

Related to the extent of public safety is another consequence of low social capital, the tendency of residents not to take collective ownership in the physical appearance of the neighborhood streets. The attractiveness of a block and whether trash is picked up are important signals potential residents observe that point to the level of social organization they would enjoy if deciding to purchase on a block. The lack of cleanliness also manifests itself in the proliferation of illegal dumping of materials, but the lack of social capital received much blame since it makes residents, for example, unlikely to pick up a piece of trash they walk past. These neighborhood norms are an explicit component of what the block clubs and the homeowner association in the neighborhood are supposed to do. As noted earlier, Woodlawn has far fewer block clubs than other communities.<sup>83</sup>

### *Housing and Neighborhood Change*

A direct correlation was drawn between the ease of obtaining housing choice vouchers and the strength of the neighborhood. Many believe that growth in the program’s size and the waiting list has been associated with inadequate screening of participants for criminal records.<sup>84</sup> While some feel there are concentrations of voucher holders in the neighborhood, within the neighborhood there has actually been de-concentration of low-income residents. Previously, most low-income residents lived in Grove Parc Plaza and Parkway Gardens; now this is much less of the case. The demolition of public housing in the State Street corridor has led to the dispersal of lower-income residents

<sup>80</sup> Interview with Informant #3, 1/16/2013

<sup>81</sup> Interview with Informant #12, 1/23/2013; Interview with Informant #12, 1/23/2013;

<sup>82</sup> Interview with Informant #3, 1/16/2013

<sup>83</sup> Interview with Informant #3, 1/16/2013

<sup>84</sup> Interview with Informant #3, 1/16/2013

throughout Woodlawn in a less isolated manner than previously.<sup>85</sup> Another consequence of the changes related to public housing concerns the complication of gang territory, a change that has been suggested as contributing to an increase in neighborhood-area violence (Babwin, 2012). Gentrification started in Woodlawn in 1999, but has been generally limited the eastern part of the Cottage Grove.<sup>86</sup>

### **Race, Class and Ownership**

Increasing the share of homeowners in Woodlawn is an important approach of stakeholders to strengthen the market. With this attempt to bring additional people to the neighborhood, to many success would simply be the addition of families falling between 100% and 120% AMI, earning at least \$60,000. Even these middle class families are characteristically mobile, having significant choices for where to live.<sup>87</sup>

Increasing the concentration of owner-occupants on particular blocks is often suggested as an effective strategy for addressing crime.<sup>88</sup> However, as many informants pointed out, since the increased concern over public safety leads homeowners to sell or even abandon their homes, it's not clear in what direction the causality can actually flow.<sup>89</sup>

Neighborhoods on the South Side are also noticeably more segregated than other major cities in the country.<sup>90</sup> Since the racial turnover of 1940s, Woodlawn has been overwhelmingly African American. As it pertains to new residents, some developers (who happen to be African American) contend that mainly moderate-income individuals who are African American would consider living in a neighborhood like Woodlawn, where they can have greater residential amenities at a more affordable price.<sup>91</sup> Other real estate professionals are adamant about Woodlawn needing to be more consciously integrated racially.<sup>92</sup>

In any case, most Woodlawn residents—regardless of housing tenure—are African American. Debates around housing choice voucher recipients often reveal class-based tensions between moderate-income residents and lower-income tenants. Often the criticism is not just directed at low-income tenants but also at the landlords, who are accused of ruthlessly attacking the way of life in middle-class black communities in ways that do not happen in largely non-African American neighborhoods<sup>93</sup>

### **Summary**

This chapter presented a comprehensive picture of the environmental conditions that shape what players can exist and their relationship with each other, with a substantial focus on the economy, laws & regulations, demographics, culture and geography.

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<sup>85</sup> Interview with Informant #3, 1/16/2013

<sup>86</sup> Interview with Informant #1, 1/9/2013

<sup>87</sup> Interview with Informant #2, 1/10/2013

<sup>88</sup> Interview with Informant #2, 1/10/2013

<sup>89</sup> Interview with Informant #3, 1/16/2013

<sup>90</sup> Interview with Informant #1, 1/9/2013

<sup>91</sup> Interview with Informant #6, 1/18/2013; Interview with Informant #13, 1/23/2013

<sup>92</sup> Interview with Informant #1, 1/9/2013

<sup>93</sup> Interview with Informant #3, 1/16/2013

### **Economics and Markets**

Two- to four-unit buildings are fixtures in both the homeownership and rental markets. Housing values have fallen precipitously within this housing typology, more than single-family homes, condos and multifamily buildings. Condos in Woodlawn, many of which are in two- to four-unit buildings, have fallen off as a result of the recession, in contrast to a previous period when selling two- to four-unit buildings as condos was more lucrative than sale of the entire building. One of the causes for this was speculation and mortgage fraud, which fed off each other to put unsustainable pressure on Woodlawn's market. Woodlawn is also a heavy renter community: more than 40% of the rental units are located in two- to four-unit buildings. An improved rental housing market, therefore, is critically important to the neighborhood's improvement.

A series of market failures illustrate the economic factors that pose challenges in the neighborhood. The 2016 Olympic Bid by the City set off a storm of rampant speculation that coincided with recession and worsened vacancy with the higher-than-average fall in demand. Tax delinquencies and liens for municipal services make physical renovation cost prohibitive. Vacant lots that could be developed make renovated buildings less than resilient to investors. Low property appraisals reduce the financing available for renovation. In addition, falling property values have caused landlords, instead of selling, to pursue cash flow from renting out two- to four-unit properties, often with Section 8 vouchers that fetch higher rents than the market.

### **Politics & Administrative Structures**

Formal rules and informal political dynamics both influence the social ecosystem. Tensions result from homeowners who are alarmed by the perceived (but not unsupported) concentration of subsidized housing, and view additional investment decisions as feeding a harmful trend. This translates to opposition for all rental housing given the portable nature of vouchers. There is also a complex dynamic between the politics of East and West Woodlawn, as the areas are markedly different in social, cultural, economic, building typology and public investment, yet the commitment to being unified can seemingly ignore these differences that point to different fates.

Support exists for targeting smaller buildings in the administrative structures. This was a fundamental part of the Choice Neighborhoods application. Another city program, the Troubled-Buildings Initiative, uses economic incentives and further legal action to address gangs and drugs, and resident safety that often accompanies poorly managed properties. The city's Micro-Market Recovery Program targets West Woodlawn and empowers CIC to take responsibility and organize the community in order to remedy vacant two- to four-unit buildings.

Though Neighborhood Stabilization Programs often express a goal to target single-family foreclosure, in Chicago the implementation has focused on much larger apartments in general and only a handful of two- to four-unit properties in Woodlawn. This reflects efforts to meet HUD funding requirements and supports the consensus that larger apartment buildings have greater impact on advancing community improvement. These properties are less common in Woodlawn. In addition, funds couldn't be used to prevent foreclosure early on; only properties that have completed the process. The two tax increment financing districts separate East and West Woodlawn, and they include a neighborhood-focused program that allows homeowners to make mainly exterior improvements.

The Chicago Housing Authority has shifted its strategy decidedly towards Section 8 vouchers under the Plan for Transformation, which by design doesn't discourage neighborhood concentration of program participants. Other programs, such as Scattered Site Rental and Property Rental Assistance, are more direct in their efforts to prevent the outcomes of concentration for which many neighborhood residents have criticized the Housing Choice Voucher program. In addition, the Housing Quality Standards that are designed to ensure housing standards for participating tenants seem to primarily dissuade new and unfamiliar developers from entering the program. Potentially as a response to the concerns over partnering landlords, CHA has protocols for both tenants and neighbors to complain about problem landlords. Though it has yet to be implemented by CHA, HUD is running a demonstration program that reduces the maximum rent for voucher-assisted apartments in weaker markets (and increases it in more expensive markets), which would undercut an important incentive currently motivating landlords exclusively pursue voucher-holders exclusively.

Property taxes also have important rules to consider. Unpaid property taxes and municipal service fees cannot easily be forgiven by standard municipal efforts, even if properties can be transferred to new owners. In addition, when speculative pressures push housing values up, all homeowners (even fixed-income residents for whom moving is not feasible) will see higher property taxes which can lead to tax delinquency and vacancy. The Building Department often finds it easier to demolish buildings that have become so complicated between title issues, foreclosure, tax delinquency, municipal services and code enforcement, than to undertake the massive legal efforts that may be just as much work for a 20-unit building as it is for a 2-unit building. Though criticized heavily in the current setting, massive demolition does appear to have allowed the eastern part of the neighborhood to achieve a newer housing stock more appealing to building developers than the western part of the neighborhood.

Lastly, there is an apparent leadership void as more questions are raised about the credibility and effectiveness of long-time leaders and "gatekeepers" while new players continue to establish themselves.

### **Geography and Infrastructure**

The neighborhood has key strengths in the amount of parks, transportation infrastructure, but it suffers in having a lack of retail infrastructure with seemingly little hope for improvement given the economy. Proximity to the University of Chicago is also a source of strength for the neighborhood.

### **Social and Cultural Factors**

Social and cultural factors round out the environmental factors of the social ecosystem for two- to four-unit properties. Woodlawn has experienced dramatic population loss since the 1960s.

The lack of social capital that manifests in ineffective social control over crime and neighborhood upkeep is a cue that strikes at the core of decisions made by prospective homeowners and any residents capable of moving to other neighborhoods. In addition, inadequate screening of tenants for criminal records, dispersal of low-income residents into neighborhoods that were previously in high-rise housing and gentrification in East Woodlawn are also considered key social challenges for the neighborhood.

Many place the hope for Woodlawn in increasing the share and involvement of middle-income homeowners, itself an acknowledgement of the flight of this class of residents since the 1960s when

the neighborhood became predominantly black and the population peaked. Along with the racial composition of the neighborhood, debates over housing seem more impacted by class dynamics than by racial dynamics alone.

### **Conclusion**

This chapter concluded the analysis of the social ecosystem on two- to four-unit buildings in Woodlawn. Economic factors influence various aspects of the development process and influence the actions of individuals and organizations. They represent the aggregation of all the individual acquisitions, renovations, leases and other parts of the real estate process. Given the extensive role of public resources in neighborhood revitalization, and also the general role that urban governments play in housing, it is easy to understand how a range of administrative rules and regulations have important implications for development decisions, individual incentives and collective challenges. Equally important are the political dynamics, which interact with the formal rules to shape this environment. The perch of real estate and housing finance emphasizes economic and policy perspective, subordinating geography and infrastructure; yet these factors are no less important to the residential decisions and to the future of the neighborhood's two- to four-unit buildings. Social and cultural factors are also undoubtedly important to the rest of the social ecosystem. They represent the patterns of interactions between players, bring attention to important issues like population and class, and they (even if not explicitly in this analysis) approximate the less tangible parts of the real estate process, such as desirable tenants and neighborhood characteristics..

Given the practical nature of planning, the next chapters collectively answer the question of "So what?" Chapter 5 takes stock of the rich descriptive detail present in the social ecosystem analysis and identifies key findings and implications for the research questions that have motivated my research. The final chapter converts these findings into a strategic plan that proposes actions, objectives and high-level outcomes for guiding neighborhood planners of two- to four-unit properties.

