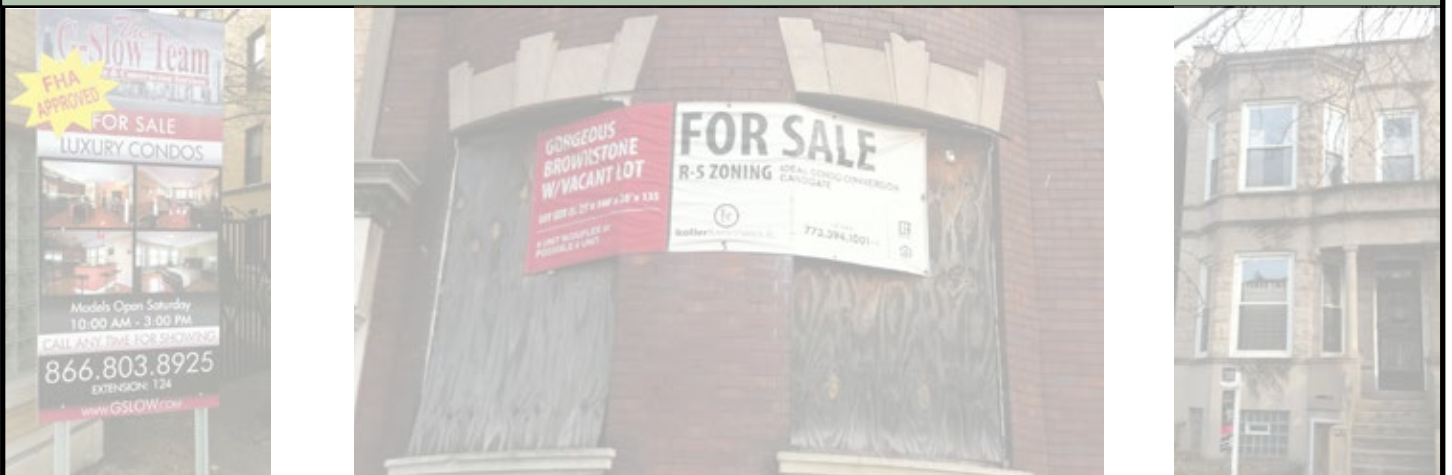


The Social Ecosystem for Revitalizing Two- to Four-Unit Buildings in Woodlawn

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

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The Social Ecosystem for Revitalizing Two- to Four-Unit Buildings in Woodlawn: A Case Study and Strategic Plan

By

Rance G.D. Graham-Bailey

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ABSTRACT

The social ecosystem approach explores the individuals and organizations that help effect a particular social outcome and the factors within their environment that contribute to or hinder their success. When applied to the particular housing and community development challenge facing 2-4 unit properties in the Chicago neighborhood of Woodlawn, the standard social ecosystem model is augmented by an explicit incorporation of a development process to emphasize the importance of the entrepreneurial, financial, technical and undeniably social aspects of real estate in revitalizing urban communities. The research sets out to explore the historical causes and processes that led to vacancy and market decline; the current condition of the market and neighborhood; lessons learned from previous efforts; and the parameters of action imposed by important stakeholder interests.

This analysis reveals how population loss, speculation fueled by unrealized hopes of gentrification and accumulated property-level delinquencies combine to sustain high vacancies in Woodlawn. Recent declines in homeownership, depressed property values, a shortage of local amenities and structural barriers lowering investor margins also inhibit sustainable building uses in favor of landlords who “milk” properties and target Housing Choice Voucher Recipients. Due to the lack of social capital, the neighborhood struggles to control violence and maintain the public realm. The consequence is a diminished ability to attract prospective residents despite considerable local assets.

The proposed response advances five strategic outcomes: stabilization of the market; advocacy for both better policy and internal structure; expansion of loans and financial assistance for homeowners; expansion of technical assistance and counseling for homeowners; and the prioritization of local development approaches that spread benefits more equitably than is typical of gentrification. The associated recommendations, which broadly consider policy, planning and community development, seek to create a synergy capable of addressing the challenges identified by the social ecosystem framework and build on existing strengths and opportunities in Woodlawn.

Thesis Supervisor: Karl F. Seidman

Title: Senior Lecturer in Economic Development

To My Late & Brilliant Sister:

I am truly saddened that this idea became a reality, but I know that you are looking down, smiling and just as critical of the finished product.

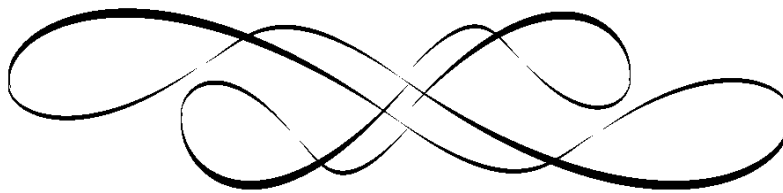
You will always be the better researcher: You told me not to deny my natural inclinations toward scholarship, and I intend to do so on my own terms in similar fashion to you. And yet, your unfinished efforts at reshaping how we understand multiple identities and their implications for social justice, on top of your earlier track record of research on auto-ethnographic journalism among other topics, are towering examples of what I could spend a lifetime trying to measure up to.

You will always be the better advocate: You pointed out that I lead by example. So inconsequentially stated, yet in this regard it causes me to hold you in even higher esteem. You were always an unabashed believer in humanity and stood up boldly for what is right. My efforts amount to mere platitudes in comparison, although knowing that I will also continue to grow.

You will always be the better fighter: You battled cancer with grace and won. Of course, I wish that was the end of your cancer story. You entered another bout, more at ease than everyone else, and then faced death with the same courage as the demonstrators at Edmund Pettus Bridge in 1965. In your final days, you taught everyone around you about death and about life. I guess the most courageous fighters are the ones most comfortable with peace. Peace, however, never meant acquiescence.

In short, you will always be my inspiration and the brightest Mississippi- and January-born star of the family.

Marona Amandla (1985-2013)



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Chapter 1: Introduction

Introduction

This thesis analyzes a range of market, policy, and neighborhood challenges associated with a particular housing typology—the two- to four-unit buildings in the Chicago neighborhood of Woodlawn—with the hope of developing a credible plan for contributing to the neighborhood’s health. This is accomplished through a descriptive case study of the real estate development process and supporting social ecosystem. The thesis then formulates a set of strategic options for stabilizing the local market, pursuing specific policy and community development improvements, expanding access to financial resources, improving technical and professional services for homeowners, and investing in a manner consistent with promoting improved circumstances for the widest swatch of neighborhood residents and stakeholders.

Smaller buildings in Chicago are a very important part of the housing stock, with two- to four-unit properties accounting for approximately one-third of the entire stock in Cook County (IHS, 2012a). In Woodlawn, the proportion of rental housing units in this building typology is slightly higher (IHS, 2012b). Much of this housing was negatively impacted by Great Recession, with 41% of the 2-4 buildings in Woodlawn having been impacted by foreclosure in 2005-2011 (IHS, 2012a). Because of both their ubiquitous and dispersed presence in the neighborhood, these buildings are critical to the health of the neighborhood.

Since 2007, an exciting revitalization endeavor has been taking place in Woodlawn. As the lead grantee in the \$30.5 million Woodlawn Choice Neighborhoods, non-profit developer Preservation of Affordable Housing (POAH), has undertaken an ambitious plan centered on redeveloping a large, distressed apartment complex in the center of the neighborhood. Under the Choice Neighborhoods initiative, POAH has been partnering with stakeholders to take on broader neighborhood-level improvements and formulate a Small Building Initiative since 2012. This research and planning endeavor is directly motivated by this Initiative, yet it intends to identify generalizable challenges, lessons, and insights that can be valuable to a range of neighborhood planners and actors.

Woodlawn

Located on the Chicago’s South Side, Woodlawn is a neighborhood with a rich cultural and historical legacy. Lorraine Hansberry’s play “A Raisin in the Sun” depicts the Younger Family struggling to break the walls of entrenched racial segregation in Chicago. Hansberry based the play on her family’s own personal and legal struggle to purchase a home in Washington Park, known then as West Woodlawn, in 1937. Woodlawn was a neighborhood where racial covenants would have legally prevented them from purchasing a home. Yet, by the premiere of the play in 1959, Woodlawn had essentially undergone the process of racial and socioeconomic upheaval (Taub, 1988).

Just across the Midway from the University of Chicago, Woodlawn has a strong legacy of community organizations such as The Woodlawn Organization (TWO). Unfortunately, it has become an unfortunate tragic tale of racial change in South Side Chicago. For several decades, much of Woodlawn has been plagued by social duress.

The recent push to improve smaller buildings in Woodlawn has grown out of efforts to redevelop Grove Parc, one of the neighborhood's Section 8-assisted properties that was notorious for its state of deterioration for several years. Having grown out of the efforts to organize against University of Chicago's Urban Renewal project, it has provided long-term affordable housing for low-income residents and an informal commitment from the University to forego expansion opportunities below 61st Street that is still in effect today. Grove Parc is the center of the Choice Neighborhoods revitalization initiative in Woodlawn.

Choice Neighborhoods

The *Choice Neighborhoods* program is a centerpiece of the Obama Administration's *Neighborhood Revitalization Initiative*. Conceived as a replacement of the two-decade *HOPE VI* program, the program focuses on redeveloping both public and privately-owned affordable housing and has four goals as stipulated by the 2010 Notice of Funding (HUD, 2010):

1. **Neighborhoods.** Transforming neighborhoods with concentrated poverty and distressed housing into mixed-income neighborhoods with greater economic opportunity and better public amenities;
2. **People.** Resident-focused improvements in education achievements and economic self-sufficiency;
3. **Housing.** Providing current residents a choice between (redeveloped) affordable housing in the community as well as the opportunity to move to affordable housing in other neighborhood of opportunity; and
4. Use of concentration, leverage and coordination of various types of funding for community and metropolitan growth.

The program reflects the all-too-often binary goals of balancing people and place-based policies, supporting locality-based initiatives while ensuring that outcomes for current residents are just as important. It actively encourages grantees to leverage the public funds with other public funds (notably the Promise Neighborhoods Grants and Byrne Justice Innovation Grants) as well as private and philanthropic sources.

Preservation of Affordable Housing

Preservation of Affordable Housing (POAH), a 10-year old national non-profit developer specializing in housing preservation, became active in the City of Chicago in 2007 at the request of tenants of Grove Parc Plaza housing development in the Woodlawn neighborhood. Taking over the financially troubled complex, POAH initiated a multi-phase project for housing redevelopment and formulated a plan for comprehensive neighborhood revitalization. After the redevelopment process was underway, POAH received a Choice Neighborhoods grant of \$30 million from HUD that is associated with a total direct investment of \$272 million (which excludes some of the first phase's investment due to timing).

Choice Neighborhoods Initiative, POAH and the City committed not only to improving housing outcomes for the existing residents, but also to implementing case management and addressing broader neighborhood needs. Part of the "Neighborhood" component calls for the creation of a Small Building Fund to promote home-ownership and address the stock of vacant buildings in the neighborhood.

Research Questions

The motivation for this research project stems from the fact that vacant buildings pose a risk to the ability of POAH and its partners to maximize the benefits of the \$30.5 million in Choice funding and the various other financial and non-financial resources.

Despite its close proximity to the University of Chicago, Woodlawn shows many signs of a distressed neighborhood. The presence of vacant housing was noticeably high before the recession, and even more foreclosures have come about due to the onset of housing crisis. Housing demand is weak in Woodlawn, in part because of safety issues and other quality of life factors. While existing efforts have sought to rehabilitate smaller buildings, either through investment from community development financial institutions, Neighborhood Stabilization Program and other governmental funds, they have not solved all the problems and, indeed, may serve as focal points for opposition from homeowners concerned about the amount of tenants with housing vouchers in the neighborhood. Though POAH owns and manages over 8,000 multifamily units, their portfolio consists of larger (50+ unit) properties and they have neither the capacity (nor the desire) to add scattered site rental housing to its portfolio. A smaller building is a noticeably different development endeavor than 5+ unit properties, much less a large multifamily property. Smaller buildings provide much better opportunities to smaller entrepreneurs who are vertically integrated, performing construction management in-house. In addition, two- to four-unit buildings can be sold to homeowners to occupy the property and rent out additional units, just as they can be maintained entirely as investment properties.

This thesis analyzes the community and economic context around two- to four-unit properties and recommends a series of strategies to revitalization that will credibly reduce building vacancies and complement the larger investment in the neighborhood. It is the hope that this will yield helpful analysis and recommendations for POAH and other stakeholders in their long-term efforts at improving the neighborhood. In this spirit, the following questions have guided this research endeavor:

1. What are the causes of vacancy in smaller buildings in Woodlawn?
2. What challenges face the market for two- to four-unit buildings in Woodlawn?
3. What existing efforts to address vacancy have existed and how have they fared?
4. What community goals and most promising recommendations should be factored as a part of the Small Building Initiative to advance broader neighborhood improvement?

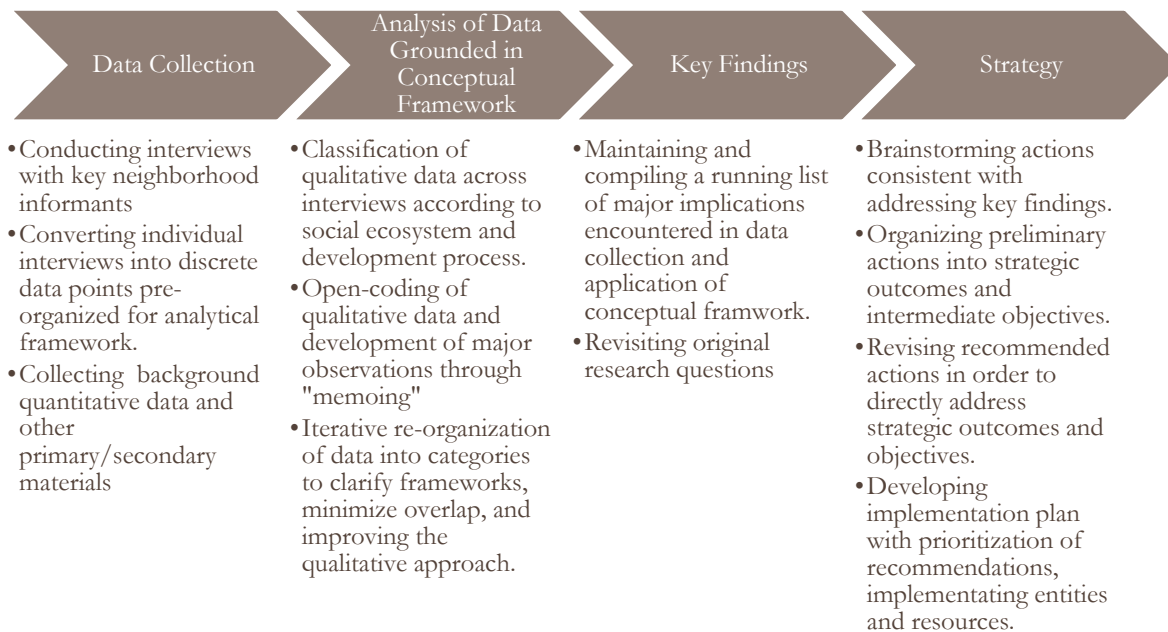
Methodology

Framework

Overall, the methodological approach employed included the development of a qualitative case study and a conceptual framework that explores the social ecosystem surrounding real estate development. In many respects, it borrows from the approach of grounded theory inferring conclusions from the accumulation of data, rather than seeking to validate specific pre-set hypotheses (Creswell, 2007). The research questions are addressed from the findings of the descriptive case study, and a planning strategy is formulated that attempts to improve the market for two- to four-unit properties in light of the findings. That strategy provides a deliberate set of actions, directly related objectives that are believed to contribute to a set of outcomes that are both beneficial for a stronger two- to four-unit market in Woodlawn and derived directly from my research.

I will employ a methodology consisting of several core functions: collect mostly qualitative data on the contextual environment, analyze the context using the social ecosystem and two- to four-unit building development framework, identify a set of strategic outcomes, and describe specific actions that can effectively achieve the outcomes.

The methodological framework employed is illustrated visually below



Data Collection

Interviews

During January 2013, I conducted over 12 hours of formal and informal interviews with approximately 20 persons over the course of three weeks in Chicago. Using prior contacts and contextual knowledge during my time as an intern at POAH, I developed a list of approximately 50 individuals and organizations that I contacted through a combination of emails and phone calls. My intended goal was to create a list of informants that included residents (home-owners and tenants), advocates, developers, government officials, landlords, non-profits program officers and executive staff and various types of community leaders. Unless I encountered them inadvertently in another capacity, I did not directly interview a tenant. However many of their concerns surfaced indirectly, confirming that my list of informants was fairly representative and consistent with my initial goals.¹

¹ It deserves noting that I was intentional in finding advocates for low-income tenants to include this important perspective in my research.

The interviews were 30 to 60 minute semi-structured interviews; I developed a fixed set of questions that covered the topics of interest, but with the help of audio-recording technology, I was able to let the interviews take a natural progression, revisit my original topics and questions in the moment, follow up on additional topics as needed and then rely on recordings for getting sufficient detail afterwards.

Thematic Approach to Interview Questions

In developing questions for the interviews, I began with questions based on an informant's general relationship to the research topic (developer, resident, government official, etc.), customizing those questions to fit the particular background of each informant. For example, developers with direct experience renovating two- to four-unit buildings were asked questions about smaller units which were different from those put to developers of larger multifamily properties.

There were 6 particular themes that guided both the questions and the list of informants I sought:

Component	Approach/Research Objectives
Historical Context	Using interviews and primarily secondary sources, to develop a historical narrative of the circumstances that create the existing environment in Woodlawn.
Neighborhood Politics	Through interview questions about political engagement, identify the political climate in which the Small Building Initiative enters. What political issues are linked to the issue of Small Buildings? What is perceived as feasible and not, and why is this the case?
Housing Stock	Assess the housing stock in two parts: (1) stakeholder interviews with developers, residents, and government officials for qualitative information; and 2) analyze data on vacant buildings (which are easily available), rental and for-sale listings (available with subscriptions) and tax and parcel data (much more difficult to compile, but possibly available from secondary sources). This also involves systematically dividing up the housing into categories of occupancy, foreclosure status, sale/rental price, building condition and number of household units.
Housing Demand	Use secondary information from a market study commission by POAH in addition to conversations with developers and brokers to understand market prices for sale and for rent.
Capital Availability	Through interviews with private/non-profit lenders, developers and government officials; assess whether there are identifiable limitations in capital availability for small building redevelopment, explanations, the particular loan products needed and the primary sources of capital in the neighborhood.
Renovation & Management	Gather information on other aspects of the housing delivery system that might include renovation of small building, obtaining a title, general landlord issues and scattered site rental management.

Additional Sources

For the purpose of generating additional insights for the case study, I relied on both primary and secondary sources to assist the interviews. Newspapers and news radio coverage were helpful for gaining information on historic context, and online websites such as the (now defunct) site Everyblock.com and Facebook served as a way of aggregating attitudes and opinions of residents. I

also relied on administrative data from the City of Chicago, Decennial Census, American Community Survey, and Federal Financial Institutions Examination Council for background and additional evidence on the neighborhood, social and economic changes and physical features.

Analytical Framework: Social Ecosystem and Development Process

The workhorse of this research thesis has been an analytical framework that analyzes the social ecosystem and development process of two- to four-unit buildings. The framework was inspired by Bloom and Dees whose work on community development financial institution Self-Help Credit Unions effectively analyzed its social ecosystem and re-shaped the home mortgage market and prospects for low-wealth borrowers and clients (Bloom & Dees, 2008). The first component of the social ecosystem are the “players” (individuals and organizations): a web of interrelated individuals and organizations who are capable of exhibiting some form of agency that is pertinent to two- to four-unit building market, including resource providers, partners, alternative providers of housing, customers, problem makers and bystanders. The environmental conditions represent a second component that shapes which players can exist and their relationship with each other, including the economy, laws and regulations, demographics, culture and geography. I augmented this framework by explicitly incorporating the process components of real estate development: the acquisition, renovation, disposition and management of two- to four-unit properties.

The analytical process transformed many qualitative insights into a detailed examination of the social ecosystem. Though I recorded (with permission) all but a few of my interviews, I opted not to transcribe the majority of the interviews. I developed a 35-column database to organize the following background information for each informant, including detailed notes from the interview, and to perform a quick check about the important implications.

Category	Informant Database Columns
Source Background	Information Type Name of Source Stakeholder Category Date Conducted Title & Affiliation Contact Information Permissions Granted
General	Causes of Vacancy Choice Neighborhoods Efforts
Environmental Conditions	Economics and Markets Politics Public Policy and Administrative Structures Geography and Infrastructure Social and Cultural Factors Historical Factors
Players	Resource Providers Competitors Complementary Organizations and allies Beneficiaries and customers Opponents and problem makers

	Affected and influential bystanders
Development Processes	Acquisition Renovation Sales, Leasing and Disposition of Buildings & Property Management Capital Availability
Preliminary Analysis	What people, event or situations were involved? What were the main themes or issues in the contact? Which research questions and which variables in the initial framework did the contact bear on most centrally? What new hypotheses, speculations, or hunches about the field situations were suggested by the contact? Where should the field-worker place most energy during the next contact, and what kinds of information should be sought?

The primary reason for constructing a database was to translate hours of interviews into passages of written text (short of transcription) that could be re-organized and sorted by question as opposed to informant. Generating summaries of each question allowed them to be coded for the themes, conflicts, anecdotes and patterns. The classification scheme was employed through the discretion of the author according to criteria based on social ecosystem literature. Through an iterative process, I clarified the meaning of the categories, whether information was pertinent and where it falls in the analytical frame.

Development of Key Findings

The next stage of my research was identifying the most important findings and implications of the data collected and analyzed along the analytical frame. First, using a traditional strategy of qualitative research, I kept a journal of emerging patterns throughout the process. This journal was most active throughout the several months of translating interviews into the detailed a case study using the aforementioned analytical frame. When each interview was entered in the database, I often summarized emerging themes that would only become more prominent. These preliminary findings were grouped in evolving categories of real estate development, community development and public policy. My intention was to recognize the multi-faceted nature of two- to four-unit properties and consider different approaches in developing recommendations. To systematically uncover additional findings not readily apparently during earlier parts of the research process, I performed a SWOT analysis within these categories, considering existing “strengths” and “weaknesses” specific to Woodlawn or two- to four-unit properties, as well as “opportunities” and “threats” originating elsewhere. With a comprehensive list of important findings, the last two steps were revisiting the four research questions as a means for selecting the findings that were relevant, organizing them, and isolating each finding into an observation and its implication.

Development of Strategic Plan

The final part of the research process was developing a strategic plan for two- to four-unit buildings, addressing the challenges identified in the key findings and building on the opportunities. The strategic plan was created through a fairly informal process. Many of the recommendations were recorded in a journal during various parts of the research process. Juxtaposing both the key findings and the recommendations, strategic outcomes were selected that met the criteria as visions. The

recommendations were organized into more direct and measurable objectives. Final implementation steps revolved around prioritizing each recommendation by the perceived amount of effort required and a grouping of general priority attached to each.

The Strategic Outcomes are listed below:

- I. Stabilization - A stabilized, well-functioning property market for two- to four-unit properties
- II. Advocacy - Policies and organizational infrastructures better aligned for addressing the unique challenges of two- to four-unit properties
- III. Loan Fund and Financial Assistance - Interested and current homeowners in Woodlawn have adequate financial resources to invest into two- to four-unit properties
- IV. Assistance and Counseling - Interested and current homeowners in Woodlawn have adequate technical assistance and counseling to invest into two- to four-unit properties
- V. Responsible Development - Current residents have pathways to build wealth through local economic development and pathways to homeownership, while diverse rental products and necessary amenities attract newer (moderate income) residents.

Literature Review

My research, while centered on the development of a case study, is not without its hypotheses. Urban neighborhoods such as Woodlawn are often beset with a myriad of challenges, and the particular improvement of single-family properties (one- to four-unit) is part of the broader effort to revitalize them.

Methodological Concerns

This thesis doesn't test a particular hypothesis, yet the literature review is an important aspect of any process. At times incidentally and other times explicitly, my research has been motivated by the methodological approach of **grounded theory**. Grounded theory requires a researcher to develop categories from empirical data, identifies additional data along the categories and tells a story around a "central phenomenon" being investigated (Creswell, 2007). As described by Dunne (2011), there is a robust debate over the role of literature among researchers who employ grounded theory. In this approach, theories generated from empirical data are privileged over existing theoretical frameworks, and such a literature review can prevent an unfettered discovery process (Glaser & Strauss, 2012). In conducting my research, I have continued to review literature after the initial research proposal. This allows my research to have a non-trivial degree of breadth, and the expectation of comprehensiveness when conducting research in community development where economics, public policy, psychology, building systems and demography may all bear on the subject at hand.

Causes of Neighborhood Decline

I consider, next, the historical circumstances that led to the conditions that exist in communities like Woodlawn. Many authors attribute neighborhood decline to factors external to the boundaries, as opposed to those that are purely self-contained. In addition, the role of race is always explicitly or implicitly a factor. Hirsch's (1998) striking examination of further concentration of urban renewal in Chicago highlights the extent of segregated housing markets in the 1950-1960s, which subjected

rural black Southerners often to higher-cost, sub-divided housing in Chicago and white residents to block-busting and social and economic pressures to move to the suburbs. Hirsch's work stops decade before the start of this research, but conditions he described in his work continued into the 1980s as described by Taub (1988) in the case of South Shore. Gangs took over Woodlawn, as they did in several neighborhoods, putting further pressure on middle-class residents to move.

Further, as many home-owning and middle-class (and white) families left inner-city communities, so did the commercial retailer on whom all families depended (Bright, 2000). The disappearance of employment opportunities in the city and the movement of many households away from inner black neighborhoods left black communities racially and economically isolated (Wilson, 1996). Beyond these social and economic pressures, public policy had a significant role in causing neighborhood decline: FHA and VA codification of racial bias, locational bias in mortgage lenders, federal tax deductions that privileged homeowners rather than renters, and highway construction that fueled the suburbanization of job opportunities (Massey & Denton, 1993).

Neighborhood Revitalization

After neighborhood decline has set in, whether complete or still in process, much of the existing literature defines and refines how the revitalization will take place. Though external factors are to blame for decline, revitalization will not take place without the alignment of a supporting internal environment.

There is a significant role for strong local institutions in mitigating revitalization. The examples of the Chicago neighborhoods of North Lawndale and Englewood show that while both neighborhoods suffered because of increasing competition for residents from suburban neighborhoods with greater amenities, West Lawndale has gained noticeably because as a direct result of various local institutions and influential organizations that remained committed to redeveloping the area (Zielenbach, 2000).

Increasingly, there is consensus around the need for public actors who can improve demand in revitalizing neighborhoods. A series of successful efforts to create Healthy Neighborhoods have relied on resident-led and demand-focused. This approach views the revitalizing challenge as a loss of resident and investor confidence, and demands the involvement of homeowner groups and the creation of a positive image of the community in order to compete for residents (Boehlke, 2010).

Suggesting another set of players that contribute to neighborhood improvements, the series of successful efforts to create Healthy Neighborhoods have relied on resident-led leadership that focuses on the neighborhood's residential demand, noticeably among homeowners. Under such terms, it would be hard to imagine a successful revitalization effort in Woodlawn that was not fully supported by the residents (Boehlke, 2010). In Woodlawn, there is a practical source of tension between the notion of focusing on residential demand and enhancing supply for low-income residents. Opponents of gentrification make normative claims in favor of using public funds to improve the outcomes of low-income residents as opposed to appealing to higher-income residents, who may eventually price current residents out.

The Role of Housing

Particularly with the onset of the Great Recession, housing foreclosures began to contribute to neighborhood decline. Mortgage brokers and banks targeted high-minority neighborhoods like

Woodlawn with a considerable amount of single-family and multifamily homes for sub-prime loans and home equity loans in the high-risk boom leading up to the Crisis (Immergluck, 2011). Immergluck and Smith's analysis of Chicago foreclosures demonstrates not only that each additional single-family (one- to four-unit) foreclosure decreases surrounding property values, but that properties in low to moderate income communities experience an even more dramatic fall in property values when they are in proximity to a foreclosure (2005). Lastly, when property values fall, obtaining financing for surrounding properties becomes more difficult given the loan to value ratios of lenders and the lower rental income in low to moderate income communities (Seidman, 2005).

The filtering hypothesis posits that older housing structures provide a source of housing for newer migrants, as well as great value in understanding that neighborhoods do not have static populations (Kennedy, 1987). However, it assumes a much simpler housing market than one impacted by racial discrimination, school quality and a different bundle of services across municipalities. It also begs the question of how the filtering of black neighborhoods—when residents are bound by a similar ethnicity and solidarity that often cuts across economic lines—will impact these sociopolitical identities if they “filter up” to a newer housing stock. In other words, what about when residents resist mobility in favor of stability. The “natural” filtering process thus poses great challenge for acknowledging but refusing to accept the inevitable consequences of a subpar housing stock.

Though mixed-income development, the explicit attempt to use housing to create communities with more economic diversity has been advanced as the solution to concentrated poverty. Its primary empirical advantages revolve around the benefits of informal social control and higher quality services that are associated with higher-income residents. The former happens through strong social capital and participation in voluntary neighborhood organizations, whereas the latter happens through the greater political leverage that more affluent residents are able to exert on city services (Joseph, Chaskin, & Webber, 2007).

Many argue that subsidized housing is another cause of neighborhood distress, but there is sufficient evidence to cast doubt on many of these assertions. Through the rigorous use of neighborhood-level data, Ellen et al make a compelling case that the introduction of housing vouchers recipients into neighborhoods does not lead itself to additional crime. Growth in housing vouchers may in fact be a consequence of increasing crime, as landlords turn to the voucher program as other challenges arise (Ellen, Lens, & O'Regan, 2011). In Woodlawn, the observation that voucher holders track crime would suggest that the Housing Choice Voucher Program is less than effective in expanding housing choice; voucher recipients should be moving to “opportunity areas” not declining neighborhoods. Susin (2002) demonstrates that formula-allocated housing choice vouchers increase the price of housing for non-subsidized housing as much as 16%, both for low-income, middle and upper-income residents. This also conflicts with the hypothesis of vouchers as leading to decline for neighborhoods, since across the board increases in housing revenues should support more production. This, however, does not fully consider the question of quality versus quantity.

Pendall's (2000) study of why Section 8 participants live in more distressed area suggests a neighborhood like Woodlawn will be in high demand because it has so much available rental units yet it is not as distressed as other neighborhoods. The implication of this literature would be to acknowledge the reality of voucher concentration, to dispel the causal relationship with neighborhood decline and raise the prospect of ensuring housing and neighborhood quality amidst a seemingly market-driven (though government-assisted) phenomenon.

Organization of Thesis

This thesis is composed of six chapters. The first, the introduction, provides an overview of the research topic and the literature. The next chapter presents the findings pertaining to the development process that stretches from acquisition, renovation to leasing/sale of two- to four-unit buildings (or parts within), and includes the availability of financing. The next two chapters present the social ecosystem that surrounds the development process. The third chapter focuses on the web of interrelated individuals and organizations that are capable of exhibiting agency with respect to the two- to four-unit building market, including the resource providers, partners, alternative providers of housing, customers, problem makers and bystanders. The fourth chapter focuses on the environmental conditions that shape what players can exist and their relationship with each other, including the economy, laws & regulations, demographics, culture and geography. The fifth chapter presents key findings and their implications. The final chapter presents the strategic plan that was developed in line with the findings.

Chapter 2: Development Process

Introduction

This chapter is the first component of a three-part presentation of the results of a qualitative case study of the market for two- to four-unit buildings in Woodlawn, including both the numerous vacant buildings as well as the occupied buildings. Here I focus on the development process stretching from acquisition, renovation to leasing & sale of two- to four-unit buildings (or parts within), and also including the availability of financing and other forms of capital. The next two chapters present the social ecosystem surrounding the development process inspired by the work of Bloom and Dees (2008) who demonstrated how community development financial institution Self-Help Credit Union effectively cultivated its social ecosystem in re-shaping the home mortgage market. Chapter 2 focuses on the web interrelated individuals and organizations that are involved in the two- to four- market, including the resource providers, partners, alternative providers of housing, customers, problem makers and bystanders. Chapter 3 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

The first chapter, in presenting the findings associated with the real estate development process, serves as the setting for the remaining presentation of the case study that forms a social ecosystem around the development of two- to four-unit buildings.

As it applies to this chapter, the process of real estate development of existing two- to four-unit buildings involves acquisition of the assets, renovation, sale or leasing to another, property management and financing. The sections of this chapter are organized into these process elements. The first section presents the collection of findings concerning the acquisition of two- to four-unit buildings in the neighborhood. The second section presents the collection of findings about the rehabilitation of buildings in Woodlawn, particularly the properties that have lay vacant for a significant period of time. The third section organizes the findings concerning the sale, leasing and ongoing property management of the entire property or individual units. The final section addresses the availability of capital, a critical part of the entire process.

Acquisition

This section presents observations concerning the acquisition of two- to four-unit buildings in Woodlawn. There are a significant number of vacant properties, especially two- to four-unit buildings. Relevant to all efforts to alleviate building vacancies, there are particular idiosyncrasies in a one's ability to legally obtain smaller buildings and doing so is often cost prohibitive.

In the neighborhood, vacant one- to four-unit buildings are estimated at 200-300.¹ Vacant units in a study of Chicago neighborhoods similar to and including Woodlawn are overwhelmingly located in two- to four-unit buildings, reportedly as high as 95%.²

Despite the quantity, actual availability of the buildings depends on the ability to purchase them. The process for acquiring small buildings is considered to be particularly laborious.³ Many properties are in “foreclosure limbo status,” such that the home may be vacant but because the foreclosure process has started the home could not be purchased through the city’s Neighborhood Stabilization Program (NSP) efforts. Homes could be tracked for several months, but it would still be uncertain as to when they might become available for purchase.⁴

In addition, information on available REO properties is often neither available publicly nor through the common databases of property listings. There is a tendency for REO properties to be listed on proprietary databases, not the Mortgage Listing Service that is the industry standard for realtors.⁵

Many buildings become difficult to acquire because of the amount of research required to determine official ownership of the property as well as potentially special legal action needed to resolve these complexities. This is an issue with REO properties where ownership is complicated by the secondary market and derivatives.⁶

From a financial standpoint, unpaid property taxes and payments for municipal services pose another significant barrier to the purchase of smaller buildings for potential developers. They must be settled or removed (the latter is rare) before they can be sold or else they transfer to the new owner. One six-unit apartment building, for example, had \$130,000 worth of back-taxes.⁷

Renovation

This section presents observations about the rehabilitation of buildings in Woodlawn, which is particularly relevant for properties that lay vacant for a significant period of time. Faced with the existing building conditions and the market demand, developers face several renovation options and limitations in Woodlawn.

Current Building Conditions and Renovation Costs

There is significant variation in the building conditions and associated construction costs for vacant smaller buildings in Woodlawn. Some have more neglect, deterioration and expensive roof repairs that need to be addressed; others have attracted squatters who have created additional damage.⁸ The nature of these repairs (plumbing, roof repairs and seepage) requires a significant amount of

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

² Interview with Informant #8, 1/22/2013

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

⁴ Interview with Informant #14, 1/24/2013

⁵ Interview with Informant #15, 1/25/2013

⁶ Interview with Informant #14, 1/24/2013; Interview with Informant #15, 1/25/2013

⁷ Interview with Informant #15, 1/25/2013

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

construction expertise that is generally greater than that of typical homeowners who might buy and upgrade their future home.⁹

Many two- to four- properties require \$100,000 to \$150,000 to renovate excluding the cost of paying back taxes and water bills.¹⁰ For a homeowner, there are additional costs (and risk) associated with managing a contracting process and waiting for the project to be completed before move-in.¹¹ Not only is there imperfect information in assessing the renovation costs, but these overall cost outlays are also comparable to the cost of completed homes in other communities (Greenline Development, Inc., 2011).

An additional cost factor is labor, with a split between development with union labor and/or prevailing wages and development with lower costs.¹² The requirement of prevailing wages effectively eliminates the possibility of renovating smaller buildings without excessive financial cost.¹³ This shapes the strategies with which developers consider the use of public subsidies that may invoke this requirement.¹⁴

Renovation Options

Developers may consider a range of renovation approaches for two- to four- properties. These do not represent the extent of renovation schemes, but the distinctions speak to a number of implied business strategies outlined below.

Subpar Renovations

Before and after the onset of the financial crisis, inadequate renovations had already taken place in two- to four-unit buildings. Investors in Woodlawn and surrounding communities often completed minor renovations very quickly without permits and with little concern for quality in order to meet the market demand (for condominiums mainly).¹⁵ When such homes went into foreclosure and banks realized how insufficient the renovations were, sometimes they just tore the buildings down.¹⁶ This practice did not stop with the recession, as landlords still may take shortcuts in renovation or deliberately under-renovate properties with a rental strategy in mind.¹⁷

Upscale Finish

On the other side of the spectrum, many rental housing developers consistently pursue high-quality renovations with finishes that are marketed as “condo-quality” given their resemblance to the

⁹ Interview with Informant #15, 1/25/2013

¹⁰ Interview with Informant #15, 1/25/2013; Interview with Informant #13, 1/23/2013

¹¹ Interview with Informant #15, 1/25/2013

¹² Prevailing wages are minimum wages that are set by local regulatory agencies, in this case the Illinois Department of Labor, that seek to prevent public expenditures from going to contractors that pay less than mandated. They may become attached to a development project with the provision of public funds, and are often highly consistent with the wages paid to a unionized workforce.

¹³ Interview with Informant #7, 1/22/2013

¹⁴ Interview with Informant #2, 1/10/2013

¹⁵ Interview with Informant #1, 1/9/2013

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

¹⁷ Interview with Informant #3, 1/16/2013; Interview with Informant #13, 1/23/2013

amenities and level of finish found in condominiums. In addition to a general high-quality of construction, this scheme includes a consistent set of architectural features and amenities: hardwood floors; nicer cabinets, windows that provide more sunlight, expanded unit footprints, in-unit washer and dryer, granite or natural stone kitchen counters, kitchens overlooking larger dining/common rooms with bedrooms in back of the unit, higher-quality light fixtures, more expensive bathroom finishes, enforced HVAC controlled within unit and other utilities that are also controlled by tenants.¹⁸ This was put in contrast to units that have one-color paint, carpeted, have less cabinet space and (subsequently) cost less.¹⁹

Though much of the so-called “condo-style” approach focuses on amenities, it also emphasizes construction quality. In addition, there is an apparent middle ground that foregoes marble countertops, premium bathrooms, but still emphasizes a commitment to quality that appeals to more selective tenants.

Conversion to/from Single-Family Housing

Conversion between one- to four-unit and two- to four- properties has a long history in Woodlawn. Subdividing single-family units began in 1930s, which was considered a significant downgrade in the quality of the housing stock. The Chicago Fact Book Consortium (1984) notes that this “began an era of substandard housing in in Woodlawn.” Buildings that were originally constructed as single-family homes were converted to multifamily buildings after their wealthier inhabitants moved out and numerous, less wealthy inhabitants replaced them. Chicago saw “thousands of illegal conversions of dwelling units” during post-WWII era (ASPO, 1949). As a potential reversal of trend, planners have considered the viability of converting two-unit buildings into larger single-family homes.²⁰

Professional and Building Services

While many developers are vertically integrated and have the necessary construction experience, smaller-scale investors and homeowners generally do not. They must rely on various forms of professional and building services in dealing with renovation of buildings.

Construction Contractors

When dealing with general contractors, it is important to appropriately structure incentives given the appearance of a principal-agent problem. Providing all the funds to contractors upfront is not advised as the contractor will “get lazy with it” and presumably complete the work in more time and with less precision leading to a greater probability of cost overruns.²¹ However, smaller contractors will often not have the working capital to pre-pay the cost of labor and materials and are, thus, unable to get the job done without upfront payment.²² Thus, the ability of smaller entrepreneurs to compete for construction contracts depends on finding this balance.

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

¹⁹ Interview with Informant #6, 1/18/2013

²⁰ Interview with Informant #6, 1/18/2013

²¹ Interview with Informant #16, 1/25/2013

²² Interview with Informant #16, 1/25/2013

Design Services

Architectural services are necessary because the homebuyers and smaller investors generally do not have the capacity to draft work scopes that general contractors will follow without an architect or the benefit of interior designers. These services have presented an acute need for smaller buildings that contractors have responded to.²³

Local Economic Development

In several respects, small building development was described as an opportunity to promote local economic development. If contracting is put out for bid, local developers have the opportunity to compete.²⁴ Small building redevelopment could serve as an opportunity to hire young, unemployed and under-employed workers who, consequently, are the same group associated with the neighborhood's public safety challenges.²⁵ In the eyes of sum, this would represent an improvement on the on-going Grove Parc redevelopment where there is a perception that few residents (of both the neighborhood and the development) have been involved in this work.²⁶

Role of Scale in Renovation

Issues of scale for the multifamily building with two to four units are significant when compared to the 5+ unit building. Larger projects are considered a more impactful use of resources, both in the case of public resources such as the design of NSP and also with developers who are deploying institutional capital.²⁷ The process of renovating both is similar, but depending on the mix of fixed costs (wiring, roofing) and variable costs (labor, other basic materials), the buildings may cost very similar despite how much more revenue larger buildings will generate.²⁸ For investors, larger buildings spread fix costs across more units.²⁹ To complicate the matter further, properties with a third and fourth unit (because they translate to additional floors), can add extensive construction costs when compared to a two-flat and were described as less desirous unless acquired at a considerably below-market price.³⁰

Sale, Leasing and Management

This section offers observations concerning both the disposition of properties and units through sale and leasing and their ongoing property management. Properties may be sold prior to (or without) renovation, they may be sold as finished buildings, and they may be sold individually as condominium units. Property management is required for both investor properties and for owner-occupied homes with one to three additional rental units.

²³ Interview with Informant #1, 1/9/2013

²⁴ Interview with Informant #17, 1/25/2013

²⁵ Interview with Informant #12, 1/23/2013

²⁶ Interview with Informant #12, 1/23/2013

²⁷ Interview with Informant #13, 1/23/2013

²⁸ Interview with Informant #6, 1/18/2013

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

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

Rental Properties

The combination of families who have exited foreclosure and cannot obtain bank financing has been causally associated with a generally stronger rental market.³¹ There is some precedent for professionally managed rental housing in two- to four-unit buildings, with one property management provider describing a conscious effort to increase such buildings in their portfolio.³² Portfolios of scattered site properties are associated with higher maintenance costs given the challenge of geography, but also the diversity of building types of fixtures.³³ Condos are also rented out with professional management, either as a cash flow strategy while an entire portfolio is being sold in a difficult market, or while a private owner holds on to a unit and waits for property values to increase.³⁴

In spite of the challenges, there are two- to four-unit buildings maintained as rental properties, they are just not considered ideal candidates for this type of investment. The margins are low when compared to buildings with 6 or more units. Moreover, owner-occupants generally depend on self-management and subsidized mortgages.³⁵

Tenant Selection

Methods of tenant selection further uncover varying philosophies and business strategies with different implications for neighborhood considerations, which I will address in later chapters. Many successful, mid-range, developers rely on active property management and the previously detailed high-quality amenities in order to maintain a desired tenant base. Both the reputation of a landlord and the intangible, outward signals of property management style were important in tenant selection.³⁶ For those interviewed, wanting “good” tenants did not imply being dubious about Housing Choice Voucher recipients and discriminating against poor people, but recognizing that having clear and consistent expectations that apply to all tenants would deter the subset of tenants who move often, are relatively destructive to the property and consistently disruptive.³⁷

Both the quality of property management and physical renovation were instruments of a value-driven business strategy. Informants believed getting a “better tenant make-up” was valuable for maintaining (and increasing) the value of the real estate asset.³⁸ Performing management internally was also important for quality management.³⁹ These strategies (combining the amenities with particular property management philosophies) were associated with mid-range or larger investors and not as common among the smaller “mom and pop” operators of housing.⁴⁰

Though other developers consider Woodlawn unable to compete off the basis of amenities, local developers are confident that property management is the key to doing just that: “If you've got a

³¹ Interview with Informant #13, 1/23/2013; Interview with Informant #6, 1/18/2013

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

³³ Interview with Informant #1, 1/9/2013

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

³⁵ Interview with Informant #17, 1/25/2013

³⁶ Interview with Informant #6, 1/18/2013

³⁷ Interview with Informant #6, 1/18/2013

³⁸ Interview with Informant #6, 1/18/2013

³⁹ Interview with Informant #13, 1/23/2013

⁴⁰ Interview with Informant #13, 1/23/2013

quality rental unit that people find attractive, meaning the construction is well done, the finishes are very nice and you are priced competitively then I think you're going to be ok,” one informant noted.⁴¹

Management of Housing Choice Voucher Recipients

The Housing Choice Voucher (HCV) program is a demand-side subsidy for low-income persons, who can use them to secure housing in the private market. As part of the program, CHA enters a contract with the landlord and serves an intermediary between the landlord and tenant. While there are greater maintenance costs associated with HCV tenants, the underlying factors for this phenomenon appeared to be disproportionate representation of families with children, incentives for utility usage and the troubling effects of social networks (chosen and not).⁴² In particular, instability was not a uniform characteristic of all participants in the program.⁴³

Some are doubtful that pursuing voucher holders is a prevalent business strategy given the perception of higher management costs and hassles associated with the program; however, landlords do charge housing choice voucher tenants higher rents than those they could collect from the average market-rent tenants.⁴⁴ Additionally, the Metropolitan Planning Council (2013) describes how HCV recipients factor into the rental strategy for one- to four-unit buildings, with an emphasis on their ability to counteract high neighborhood vacancies:

Single-family rental owner-operators are using housing vouchers to achieve adequate cash flow on properties where rental vacancies may be higher. Many CDCs, such as nationally recognized Beyond Housing in St. Louis, rely on HCV payments to effectively manage their single-family rental home portfolio. (p. 12)

This strategy seems to be most applicable to West Woodlawn. Building landlords on the other side of the neighborhood are especially un-interested in voucher holders, showing a preference for young professionals who are looking for higher amenity buildings that subsequently cost more.⁴⁵

For Sale Properties

Entire two- to four-unit buildings were sold primarily to homeowners, but also occasionally to investors. Identifying potential buyers includes reaching through existing organizational infrastructures because these connections demonstrate an existing investment in the neighborhood.⁴⁶ When found, it was likely that buyers would need technical assistance on the construction process (in the case of buying homes in need of renovation) and also homeownership counseling.⁴⁷ The particular case for two- to four-unit properties for homeowners is their supplemental income that can make homeownership possible at the margin or support a more

⁴¹ Interview with Informant #13, 1/23/2013

⁴² Interview with Informant #7, 1/22/2013; Interview with Informant #6, 1/18/2013

⁴³ Interview with Informant #6, 1/18/2013

⁴⁴ Interview with Informant #4, 1/17/2013; Interview with Informant #6, 1/18/2013

⁴⁵ Interview with Informant #6, 1/18/2013

⁴⁶ Interview with Informant #2, 1/10/2013

⁴⁷ Interview with Informant #2, 1/10/2013

expensive home; that is, assuming that the added responsibilities of being a landlord are not overly burdensome.⁴⁸

Buildings are not only sold to homeowners. Two- to four-unit properties may also be developed and sold to other landlords looking to maintain the property as rental housing.⁴⁹ Portions of Woodlawn have had an active market for condominiums in smaller buildings. Yet, selling condominiums in two- to four-unit buildings pose unique challenges because of the smaller number of owners involved in a fundamentally collaborative venture. The stability of condominiums in two- to four-unit buildings is jeopardized once a single unit becomes vacant due to foreclosure. The chain effect of vacant condo units in smaller buildings has proven to be a critical challenge citywide. As described by one informant, “When half the units are vacant, then it's a real mess. Hard to sustain a condo when nobody is paying the bills.”⁵⁰ One or two foreclosures would leave a large portion of the condominium fees, such as insurance, unpaid. This can and has often led to foreclosure for remaining payments as well.⁵¹

Furthermore, the legal structure of a foreclosed building consisting of condominiums cannot be sold to a single homeowner or another entity without costly legal work to re-assemble the property. The City of Chicago has had to develop a special program to do so, as part of the Troubled Building Initiative that will be described in later chapter.

Financing Two-to-Four Unit Buildings

This section describes the general structure and availability of capital for various parts of the development and management of two- to four-unit buildings. The use of permanent financing, if sought, is split unevenly between owner-occupants and investors. There are also financing needs for rehabilitation, which are typically different in the commercial real estate world. Capital availability has decreased as a result of the appraisal process and the reaction of banks to the large-scale fraud during the height of the housing boom.

To consider the availability of financing for two- to four-unit buildings, one must consider the prevalence of cash purchases. There were 76 recorded sales of two- to four-unit buildings in Woodlawn in 2011, approximately 63.2% of which were purchased with cash, slightly higher than the citywide average of 56.5%. Just less than half of the buildings were purchased out of REO status (IHS, 2012a). Cash buyers have an easier time acquiring properties compared to those investors who must gather financing.⁵² They also have a much easier time participating in business strategies that are not in the best interests of the neighborhood's revitalization.

Investment Properties

Investor financing for two- to four-unit buildings is rare and difficult to achieve, but not entirely impossible. There is a growing consensus among community and policy leaders that inadequate funding exists for investor owners of smaller buildings. Even in the case of someone wanting to purchase more than a single two-flat on the same block, developers have great difficulty obtaining

⁴⁸ Interview with Informant #3, 1/16/2013

⁴⁹ Interview with Informant #6, 1/18/2013

⁵⁰ Interview with Informant #2, 1/10/2013

⁵¹ Interview with Informant #2, 1/10/2013

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

loans from the banks that purportedly engage in this type of lending.⁵³ Those developers who successfully obtain this type of financing have consciously cultivated a relationship with a bank that understands their business model, have self-financed much of their earlier projects and seek mortgages on portfolios of at least 6 or more properties.⁵⁴ Barriers for developers include the requirement for personal guarantees for loans or the 25% down payment, general tightening of lending by banks for new developers, and bank failures (such as Shore Bank who was once a major lender in this niche).⁵⁵

Recent changes in the lending environment include the discontinuation of more lenient down payment requirements and loans to ordinary working professionals for up to 110% loan-to-value of the property.⁵⁶ Appraised values were much higher prior to the recession, which raises the possibility that terms are similar and that appraised values are the primary reason for differences in the availability of capital.

Another prominent reason for difficulty in financing individual two- to four-unit rental properties is the volatility of the associated revenue stream. Banks find it difficult to “justify” lending \$100,000 for a two-flat, given how much of a percentage of the monthly revenue is lost with just a single vacancy. The same bank would be much more apt to loan \$110,000 for a six-unit apartment building.⁵⁷

One alternative source of financing for two- to four-unit buildings is the working capital loan. These business loans may need to be settled every 6 months and also require personal guarantees, but can be easier to obtain from banks than permanent financing. They allow the ease of purchasing properties with cash, paying for construction and also building a fruitful business relationship with a lender.⁵⁸

There is also the possibility of raising equity for portfolios of smaller buildings, specifically diversified portfolios of both two- to four-unit and larger properties. In one example, investors do not have guaranteed returns, get back the majority of their investment during the construction and lease-up phase, and then share ongoing revenues.⁵⁹

Owner-Occupants

Although financing for homeowners is so limited in low to moderate-income communities like Woodlawn, it remains the predominant type of financing available for two- to four- properties. The former is attributed to skepticism on the part of banks given concerns about the future of home

⁵³ Interview with Informant #15, 1/25/2013

⁵⁴ Interview with Informant #1, 1/9/2013

⁵⁵ Interview with Informant #6, 1/18/2013; Interview with Informant #1, 1/9/2013; Interview with Informant #13, 1/23/2013

⁵⁶ Interview with Informant #13, 1/23/2013

⁵⁷ Interview with Informant #6, 1/18/2013

⁵⁸ Interview with Informant #6, 1/18/2013

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

values.⁶⁰ The prospect of falling home values, presumably, raises the specter of additional foreclosures.

Informants provided countless examples of the difficulties prospective homeowners experience in obtaining home mortgages. One particular NSP property saw a slew of potential buyers get denied for a loan.⁶¹ After the housing crisis, someone earning as high as 80% AMI is generally unable to qualify for a loan.⁶²

Federal Housing Administration-insured loans have the primary advantage of allowing a homeowner to put less money down (as low as 3.5%), and they are more flexible on credit scoring. There was at least one example of a homeowner of a two- to four-unit building who put down 20% to buy his property.⁶³

One lender acknowledged that his industry had utilized the discretion offered in FHA-guidelines to be more restrictive. The guidelines have not changed dramatically, such as qualifying ratios that compare income and debt. The FHA still allows a homeowner to have weaker credit and put less money down. However, while banks were previously allowed to exceed the guidelines, now they have been given authority to exceed the guidelines even further.⁶⁴

Sharing anecdotes about difficulties that consumers have, lenders will readily point out that every loan is different, from the credit score, qualifying income to the actual home for sale. They may also point to the steps they take to expand homeownership opportunities, including allowing future homeowners to receive gifts that can go towards reducing their down payment. For three- to four-unit buildings they require the homeowner to directly fund a 3-month reserve for payments, interest, taxes and insurance, as well as mortgage interest premium.⁶⁵

Acquisition and Rehabilitation Financing

Distinguished from the traditional home purchase loans, acquisition and rehabilitation financing allows an investor or a homeowner to apply for permanent financing that incorporates yet-to-be-completed renovations to the property. Once approved for the loan, a portion of the funds are disbursed in a similar manner as a construction loan to be used for the same purpose.

Standard construction loans are also available for the purchase of two- to four-unit buildings, but they can be more difficult to access. Organizations like Neighborhood Housing Services of Chicago are known to work with buyers to draw out the scope of work and manage the construction process.⁶⁶ They also provide acquisition and rehabilitation loans through their lending arm. These type of loans are much more difficult for investors to obtain.⁶⁷

⁶⁰ Interview with Informant #13, 1/23/2013

⁶¹ Interview with Informant #14, 1/24/2013

⁶² Interview with Informant #4, 1/17/2013

⁶³ Interview with Informant #3, 1/16/2013

⁶⁴ Interview with Informant #16, 1/25/2013

⁶⁵ Interview with Informant #16, 1/25/2013

⁶⁶ Interview with Informant #2, 1/10/2013

⁶⁷ Interview with Informant #16, 1/25/2013

For homeowners, the most advantageous opportunity for obtaining an acquisition and rehabilitation loan is through HUD's 203(k) program. This FHA-backed loan lends on the post-renovated property. It allows a purchaser to submit construction plans to an appraiser, and take out financing on the property for the after-improved value. The program allows a bank to increase the loan value up to 110% of the appraised property value, which could give special consideration to neighborhoods where property values are low. However, not all banks exercise this option.⁶⁸

Appraisal Processes

Appraisals are central to the process for obtaining financing. Professional appraisers conduct a review of the comparable sales in a 1-mile radius over the past 12 months to determine a home's appraised value. Banks use these appraised values rather strictly as the upper limit on the value of a loan.⁶⁹

Appraised values are considered by many to limit the availability of mortgage financing. As real estate declines, so will the amount of mortgage a bank will provide.⁷⁰ In addition, sales of distressed properties that are foreclosed or sold through short sales are included in appraisals. Banks use this practice, justifying it with arguments that such properties (of comparable condition) represent available properties on the market.⁷¹

Many banks do not appear to be visibly proactive in their lending in low to moderate-income communities, but they do make some effort towards improving capital access. Unfortunately for Woodlawn, they do not take into consideration ongoing public investment that has yet to be observed in property values.⁷² However, on occasion a loan officer may react to an appraisal that is perceived as unfairly low and proactively fight for a higher value.⁷³ As mentioned, the HUD 203(k) loan program allows banks to loan at up to 110% of the appraised value for acquisition and rehab loans.⁷⁴

Chapter Summary

While there are a sizeable number of vacant two- to four-unit buildings that appear to be on the market, it is also difficult for developers to obtain access to them because of a combination of factors: the cost of information, foreclosure status, title issues and back taxes, and utility services that would have to be paid as well.

The renovation of two- to four-unit buildings presents a scenario in Woodlawn, where the building condition is a significant unknown that must be assessed on a case-by-case basis. Renovation often requires assistance of a professional and can cost well over \$100k. Labor costs are a major cost driver for renovations, one that can make or break a project. Beyond labor costs, developers can choose to pursue a more luxurious finish that helps in attracting higher-income tenants or pursue a less luxurious finish or even a subpar renovation. The market appears to tolerate lower quality

⁶⁸ Interview with Informant #16, 1/25/2013

⁶⁹ Interview with Informant #16, 1/25/2013

⁷⁰ Interview with Informant #13, 1/23/2013; Interview with Informant #2, 1/10/2013

⁷¹ Interview with Informant #16, 1/25/2013

⁷² Interview with Informant #16, 1/25/2013

⁷³ Interview with Informant #16, 1/25/2013

⁷⁴ Interview with Informant #16, 1/25/2013

renovations. The history of the building stock reflects that two- to four-unit properties are often converted to single-family homes, and re-conversion presents a possible option in today's climate. Renovating two- to four-unit buildings are difficult for investors because the fixed costs are considerable and are only spread across a few units. Ideally, the renovation activity presents a source of economic development for the neighborhood's residents.

As simple as it may be to name different steps in the real estate process, in reality they are interlinked from the perspective of its application to buildings. The sale and leasing of two- to four-unit buildings requires property management that both investors and homeowners alike (unless they purchased a condominium) must perform this task. Property management is, in many respects, the key to interventions in the two- to four-unit market, as there is much variation in approaches and business strategies with important implications for the market. There are both landlords providing high-quality rental units with impressive management standards (the "high-road") as well as landlords that pursue a strategy of cost cutting (the "low-road"). Voucher holders can present an attractive strategy for bolstering revenues for all landlords and it would appear on the face of it to apply equally to "low-road" landlords as it does to "high-road" landlords, though landlords in East Woodlawn seek to avoid many such tenants altogether.

Scattered site rental is accompanied by greater maintenance and renovation costs, however aggregating portfolios presents an opportunity for successfully vying for investor financing. Other factors limiting the availability of capital include low property appraisals (for homeowners and investors alike), the requirement of 20-25% equity for investor financing and the difficulty of establishing relationships amid the transition and tightening of the financial industry. As with the entire single-family market, homeowners have a distinct advantage over investors with FHA loans that allow smaller down payments and easier access to acquisition and rehabilitation financing, yet other factors make it difficult to apply these lessons to Woodlawn.

Conclusion

The real estate process around two- to four-unit buildings raises important questions about the relationship between real estate and the larger social ecosystem. Whether it is the unique circumstances of financing renovation for two- to four-unit buildings, the capital availability for homeownership, or the challenges of acquiring ready-to-develop properties, it is easy to begin to see how the environmental conditions in Woodlawn contribute to perpetuating vacancy in the neighborhood. In addition, one can also see how the transactions, decisions and relationships undertaken by various players in the real estate process, such as the tenant selection strategy, the renovation strategy, prior relationship with lenders, and others, all have implications for the well-functioning of the two- to four-unit building market that would potential welcome additional housing stock in the form of renovated buildings. In the two chapters that follow, I turn to the discussion of the social ecosystem and its effects on the development process.

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 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.

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 63rd 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.

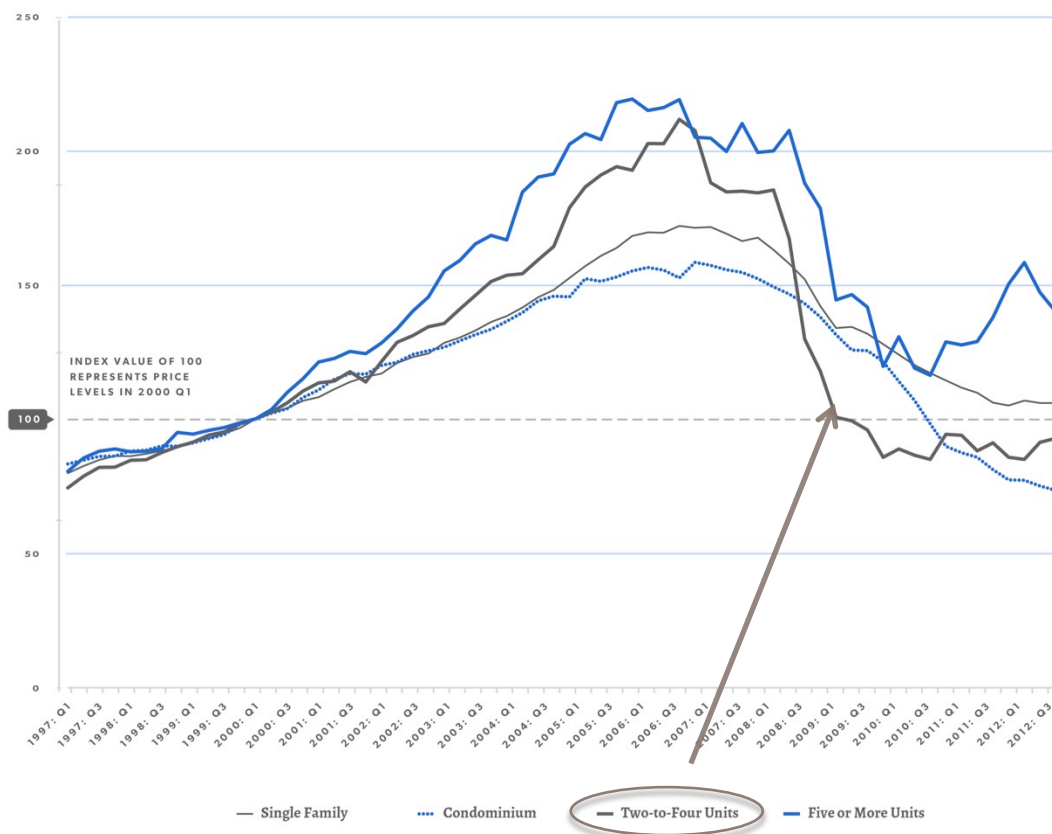
Economics and Markets

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.¹ 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.²

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.³

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.⁴ 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.⁵ 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

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

² Interview with Informant #1, 1/9/2013

³ Interview with Informant #6, 1/18/2013

⁴ Interview with Informant #15, 1/25/2013

⁵ Interview with Informant #15, 1/25/2013

as having a significant portion of vacant smaller buildings.⁶ 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.⁷ As a result, having a strong-homeownership market in the context of a devastated rental market would have a destabilizing effect on the community.⁸ Some perceive that past efforts have focused too much on homeownership in Woodlawn and believe that “homeownership has been over-sold.”⁹

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.¹⁰ Speculation fueled purchases and land banking of homes.¹¹ 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.¹²

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

⁶ Interview with Informant #4, 1/17/2013

⁷ Interview with Informant #13, 1/23/2013

⁸ Interview with Informant #10, 1/23/2013

⁹ Interview with Informant #12, 1/23/2013

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

¹¹ Interview with Informant #15, 1/25/2013

¹² 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.¹³

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.¹⁴ Indeed, despite the weakness of the existing market demand, redeveloping vacant land into more housing is still actively being considered by community planners.¹⁵

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.¹⁶ 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.¹⁷

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.¹⁸

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 \$20,000.¹⁹ 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.²⁰

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.²¹ Rental housing was advantageous with the potential to target housing choice voucher recipients, given the higher and more reliable revenue sources these provided.²² 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.

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

¹⁴ Interview with Informant #7, 1/22/2013

¹⁵ Interview with Informant #17, 1/25/2013

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

¹⁷ Interview with Informant #16, 1/25/2013

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

¹⁹ Interview with Informant #3, 1/16/2013

²⁰ Interview with Informant #2, 1/10/2013

²¹ Interview with Informant #3, 1/16/2013

²² 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.²³

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.²⁴ 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.²⁵ 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.²⁶

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).²⁷

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.²⁸ 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

²³ Interview with Informant #2, 1/10/2013

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

²⁵ Interview with Informant #12, 1/23/2013

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

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

²⁸ Interview with Informant #12, 1/23/2013

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

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.³⁰ 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.³¹

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.”³²

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.³³ As is the case with much publicly funded development, Choice Neighborhoods monies must be used to employ higher wage

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

³⁰ Interview with Informant #12, 1/23/2013

³¹ Interview with Informant #14, 1/24/2013

³² Interview with Informant #17, 1/25/2013

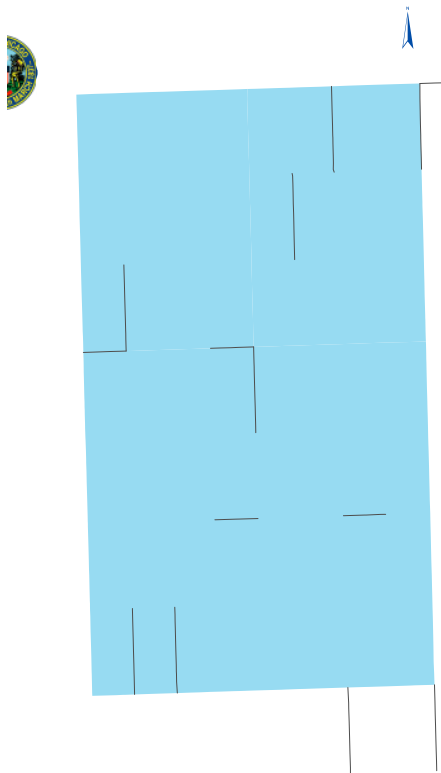
³³ Interview with Informant #2, 1/10/2013; Interview with Informant #4, 1/17/2013

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

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

³⁴ 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.³⁵ 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.³⁶

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.³⁷

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.³⁸ 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

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

³⁶ Interview with Informant #14, 1/24/2013

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

³⁸ 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 inconsistent³⁹ 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.⁴⁰ 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.⁴¹ 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.⁴² 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.⁴³

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 &

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

⁴⁰ Interview with Informant #8, 1/22/2013

⁴¹ Interview with Informant #8, 1/22/2013

⁴² Interview with Informant #8, 1/22/2013

⁴³ Interview with Informant #15, 1/25/2013

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).

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).⁴⁵ 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

⁴⁵ 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.⁴⁶

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.⁴⁷ 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.⁴⁸ 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.⁴⁹ 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.⁵⁰

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

⁴⁶ Interview with Informant #5, 1/18/2013

⁴⁷ Interview with Informant #5, 1/18/2013

⁴⁸ Interview with Informant #5, 1/18/2013

⁴⁹ 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.

⁵⁰ Interview with Informant #4, 1/17/2013

check.⁵¹ 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.⁵² 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.⁵³ 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.⁵⁴

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.⁵⁵

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
% of All Units	9%	8%	15%
% of HUD-Assisted Units	45%	37%	48%
All HUD-Assisted Units	2,356	2,716	3,712
% of All Units	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).⁵⁶ 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

⁵¹ Interview with Informant #1, 1/9/2013

⁵² Interview with Informant #1, 1/9/2013

⁵³ Interview with Informant #1, 1/9/2013

⁵⁴ Interview with Informant #4, 1/17/2013

⁵⁵ Interview with Informant #5, 1/18/2013

⁵⁶ 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.⁵⁷

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.⁵⁸ 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.⁵⁹

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.⁶⁰ 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.

⁵⁷ Interview with Informant #1, 1/9/2013

⁵⁸ Interview with Informant #12, 1/23/2013

⁵⁹ Interview with Informant #4, 1/17/2013

⁶⁰ Interview with Informant #4, 1/17/2013

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

	Chicago Fair Market Rent ⁶¹	Median Rent in Woodlawn ⁶²	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.⁶³

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.⁶⁴

⁶¹ Includes utilities

⁶² The median rent comes from the apartment listings reported by Hotpads.com

⁶³ Interview with Informant #15, 1/25/2013

⁶⁴ 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.⁶⁵ 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.⁶⁶

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.⁶⁷ 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.

⁶⁵ Interview with Informant #15, 1/25/2013

⁶⁶ Interview with Informant #15, 1/25/2013

⁶⁷ 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.⁶⁸

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 conferred⁶⁹ 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.”⁷⁰

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 3rd largest in the city, complete with baseball diamonds and golf courses.⁷¹ 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.⁷²

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 63rd Street from Martin Luther King Drive make improvements to the community difficult⁷³ 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):

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

⁶⁹ Interview with Informant #17, 1/25/2013,

⁷⁰ Interview with Informant #12, 1/23/2013

⁷¹ Interview with Informant #3, 1/16/2013

⁷² Interview with Informant #1, 1/9/2013

⁷³ 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 63rd/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.⁷⁴

⁷⁴ 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.⁷⁵

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.⁷⁶ The University is also among the largest employers on the South Side of Chicago.⁷⁷ 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.⁷⁸ Much of the population loss derives from middle-class families (who often are owner-occupants) moving out of the community.⁷⁹

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%

⁷⁵ Interview with Informant #12, 1/23/2013

⁷⁶ Interview with Informant #3, 1/16/2013

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

⁷⁸ Interview with Informant #15, 1/25/2013

⁷⁹ 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,”⁸⁰ 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).⁸¹ 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.”⁸²

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.⁸³

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.⁸⁴ 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

⁸⁰ Interview with Informant #3, 1/16/2013

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

⁸² Interview with Informant #3, 1/16/2013

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

⁸⁴ Interview with Informant #3, 1/16/2013

throughout Woodlawn in a less isolated manner than previously.⁸⁵ 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.⁸⁶

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.⁸⁷

Increasing the concentration of owner-occupants on particular blocks is often suggested as an effective strategy for addressing crime.⁸⁸ 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.⁸⁹

Neighborhoods on the South Side are also noticeably more segregated than other major cities in the country.⁹⁰ 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.⁹¹ Other real estate professionals are adamant about Woodlawn needing to be more consciously integrated racially.⁹²

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 neighborhoods⁹³

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.

⁸⁵ Interview with Informant #3, 1/16/2013

⁸⁶ Interview with Informant #1, 1/9/2013

⁸⁷ Interview with Informant #2, 1/10/2013

⁸⁸ Interview with Informant #2, 1/10/2013

⁸⁹ Interview with Informant #3, 1/16/2013

⁹⁰ Interview with Informant #1, 1/9/2013

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

⁹² Interview with Informant #1, 1/9/2013

⁹³ 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.

Chapter 5: Discussion and Key Findings

Introduction

The following research questions have guided the development of my original research proposal, collection of data, analysis and reported findings with only minor modifications to better focus on the “existing conditions” of the ecosystem surrounding the market for two- to four-unit buildings :

1. What are the causes of vacancy in smaller buildings in Woodlawn?
2. What challenges face the market for two- to four-unit buildings in Woodlawn?
3. What strategies to address vacancy have been employed and how have they fared?
4. What community goals and most promising recommendations should be factored as a part of the Small Building Initiative and broader neighborhood planning?

These questions model an planning exercise as it pertains to two- to four-unit properties. One must understand the historical contributors of vacancy to prevent history from replaying itself. Root causes of current obstacles must be ascertained as well, lest our efforts concentrate on mere symptoms. Existing strategies and policies must be acknowledged, and provide insight into what might work, what hasn't worked, and what hasn't been tried. Lastly, stakeholder interests must be identified and considered when developing recommendations for actions.¹ Interviews with stakeholders may very well lead to strategic considerations and recommended actions themselves that simply need to be expanded.

Within the framework of analyzing existing conditions, I have identified the key findings along with the categories of real estate, community development, public policy, and planning. These categories serve to formalize the requirement of viewing two- to four-unit buildings as real estate assets operating in a neighborhood subject to policies and planning decisions for which additional actors may be responsible. The findings draw on the three previous chapters describing the development process and analysis of the social ecosystem analysis (Chapters 2-4), drawing implications from the observations and respondent interviews.

Causes of Vacancy and Market Decline

Historically, vacancy in Woodlawn had several triggers: delinquency in property taxes, municipal services and other municipally-related debts resulting from population loss after 1960, lower demand for homeownership and declining property values. The neighborhood, which had seen greater density among a similarly sized housing stock before 1960, has retained a fairly stable housing footprint structure despite demographic changes afterwards. Middle-class residents represented a major component of population loss (both black and white), taking the retail infrastructure with them thus making it even less likely they would return today. Speculation plays a pernicious role in the recent history, as Woodlawn's potential as a hot market put pressure on property taxes that have drastic consequences even after the pressure subsides. The path of neighborhood decline extends

from speculation to the housing crash and tightening of housing finance, more tax delinquency, and depressed housing values, opening the door for two- to four-unit investors with management practices that reinforce community decline.

Though the recent foreclosure crisis is a factor, much of the vacancy in two- to four-unit buildings is indicative of longer-term building vacancy in the neighborhood that triggered cycles of non-payment of property taxes, water bills and other municipal bills. The implication is that increasing the development potential of building stock requires a mechanism for resolving title issues and clearing municipal liens on the property.

As such, it appears that vacancy in two- to four-unit buildings appears to be due to the inability of the housing stock to adjust to massive demographic shifts.. Woodlawn is a neighborhood of large single-family homes originally inhabited by wealthy families. The conversion of these homes into multi-unit buildings occurred as wealthier households left, accommodating the many (lower-income) households who entered the neighborhood in the post-WWII period. These new homes facilitated greater access to homeownership and generated housing units. Yet, in response to the significant population loss following the 1960s, there have been no systematic efforts to plan for a logical reduction in housing units. Some degree of adjustment, therefore, either by deliberate demolition or building renovation, is likely necessary to “right-size” the neighborhood to the meet the population levels for the foreseeable future. The fact that the urban core is experiencing a renaissance in American cities further suggests that a flexible short-term strategy for reducing housing units would be best if resurgence in demand for housing units occurs.

As a driver for the general population loss, departing middle class residents enabled the communities to become dominated by lower-income families with less political economic clout to vie for important city services, and less household capital to retain the once-dominant retail infrastructure. All these factors then become cruel barriers for attracting mobile middle-income households to return to the neighborhood. African American residents, for whom living in South Side Chicago has traditionally has appeal oftentimes as a sociopolitical statement, are more sensitive to quality of life factors such as the lack of various retail categories. The conclusion is that the neighborhood has an even more difficult time competing as a neighborhood of choice in today’s environment than it did before.

In addition, the role that speculation has played in heightening the effect of the recent foreclosure crisis has made any real transformation impossible. The speculative rise in property values in Woodlawn, aided by the general housing bubble and the potential bid for the Olympics, proved extremely unsustainable in the long run. Leading to increases in property taxes for existing homeowners, this speculation made it more difficult for existing homeowners to benefit from the increase in housing prices by selling their homes. Those who may have benefited (at least temporarily) from the increased asset value through re-financing (in addition to new homeowners who simply purchased at the inflated values) would easily find themselves with underwater mortgages once the market corrected. Speculation, more pronounced in Woodlawn for the variety of reasons including the sheer potential of the neighborhood, has left a clear mark.

Process of Neighborhood Decline in Woodlawn

Based on a summary of the data, we can identify the following stages of decline that have taken place in Woodlawn.



Existing Conditions

Real Estate

Several factors make development and/or operation of two- to four-unit buildings too expensive for both homeowners and investors. Tax delinquencies and municipal debts can't be easily removed, adding to costs for development. Two-to-four unit properties have a volatile revenue stream, and owners get relatively smaller margins than they would if they had more units. Foreclosures and vacant land are chief among the market destabilizers. While there are a series of "best practices" that enable healthy two- to four-unit building redevelopment, less healthy investment strategies have taken hold. .

Market demand prospects are strongest with rental housing, with unrealized assets lying dormant for a future resurgence in homeownership demand. Demand for rental housing is up because loans are so difficult to get and because of households exiting foreclosure. For the homeowners who can get loans, Woodlawn would have to compete in a much more difficult environment. While the parks, transit and employment proximity are major assets, these are still overshadowed by other neighborhood challenges, making homeownership still a tough sell.

Capital is a barrier with major implications, providing more reason for the influence of low-road developers having greater opportunity with the two- to four-unit market. Borrower credit and tightened standards are both at fault. Given all the work involved for investors in financing two- to four-unit properties, they see clear advantages in investing in larger buildings. Investment structure is important as well because securing bank financing and investors are much easier for a limited liability corporation or investor with a portfolio than it is for an entrepreneur with one property.

Supply-Side

Among the most significant challenges for re-positioning the housing stock are the large tax delinquencies and municipal liens. These are simply added development costs for potential investors (or homeowners) in a neighborhood beset by many other challenges. Much of the literature around housing development argues that oftentimes the construction costs of housing in weak market neighborhoods are too great for the post-construction value. In the case of Chicago, developers must also contend with the municipal liens that come with tax delinquency and non-payment of municipal services. Because many of the problem buildings do not have mortgages, land speculation is easier to pursue without bank payments. Pursuit of property abandonment in courts appears to be the only mechanism for removing all of the municipal liens and back-taxes, yet a homeowner can easily dispute the charges. If they actively fight the effort, it is much harder to obtain the property cleared of back property taxes and liens.

Smaller buildings are suited for owner-occupants, with little historical, physical and financial characteristics to support a healthy shift to rental products. Scattered-site rental is complex. Although it is a growing rental market, it is consistently more expensive to manage. The focus on two- to four-unit buildings doesn't appear to change how professional management considers them, with the exception of geographic concentration that lends itself to a similar management afforded to low-rise apartment complexes. As a standalone financial investment, the revenue generated by an apartment falls instantly to 25-50% as the result of one vacancy.

Two- to four-unit buildings in Woodlawn serve as a path to homeownership and facilitate additional rental housing. To the extent that a homeowner can successfully get a loan, lenders count rental income (set at appraised values) of additional units as qualifying income for the homebuyer. This is the result of the fall in homeownership having led to a stronger demand for rental apartments, meaning that landlords are able to anticipate less vacancy even in a weaker neighborhood like Woodlawn. Because of the lower property values, and historically low interest rates, homes can be purchased at values lower than those in competing neighborhoods.

Several market factors lead to destabilization in Woodlawn's two- to four-unit market. First, the foreclosure crisis continues to depress property values. Though the sale of buildings that are evidently blighted and foreclosure are discounted when considering the appraisal of newer homes, every short sale or below-market cash-purchase of a foreclosed home that is inarguably a depressed sale is considered if the property is comparable. Thus, the ability to finance all homes in the neighborhood is limited by the continuing disposition of foreclosures.

A second existing market destabilizing factor is vacant land in the neighborhood. The threat of new construction in the neighborhood of newer two- to four-unit buildings lowers the long-term investment value of the initial rehabber. Indeed, the more successful revitalization efforts (Columbia Pointe I, redevelopment east of Cottage Grove) have actively promoted demolition and new construction over renovation. In more indirect ways, the lack of effective vacant land management adds to neighborhood issues and can be counterproductive to development such as increasing more space that is actively owned or managed by a local presence.

A third, less observable destabilizing factor, is the extent to which lower property values lower the barrier to entry for investors interested more in generating cash flow at the lowest cost than generating long-term asset appreciation. Endemic to this is the use of cash purchases that both

disqualifies homes for future FHA insurance and eliminates the role of financial intermediaries who are more interested in the long-term value of the collateral. These business strategies are highly susceptible to the low-vacancy strategy of targeting captive Housing Choice Voucher recipients that has little concern for market-driven standards that exceed the bare Housing Quality Standards governing the voucher program.

From a commercial development standpoint, two- to four-unit buildings tend to be economically viable only under particular conditions. This means controlling the cost of labor by avoiding union , wages, obtaining the property at a significant discount out of foreclosure or with cash purchase and clearing municipal liens; otherwise the development budget is too expensive. In order to reduce the volatility of the revenue stream and be considered for financing, properties must be part of a portfolio. Without these considerations, landlords are forced to identify other means for reducing construction or operating costs which may include an inadequate renovation plan for the property, under-maintaining, relying on tenant subsidies that exceed market-rate rents, or some combination of these strategies. The hope for improvement of the market lies in ensuring that initial conditions are met, while making it more difficult to under-maintain and under-improve the properties.

Demand-Side

Increased demand for rental housing that has taken place across all economic spectrums includes Woodlawn. This is a market consequence of fewer home purchases, but also a consequence of families exiting foreclosure. Households exiting foreclosure like to live in similar neighborhoods and in similar houses, which helps explain the growth in rental of single family housing in the suburbs, which could present a potential opportunity for two- to four-unit homes in Woodlawn.

Though the housing stock is more inclined to owner-occupants, a combination of personal financial difficulties and tightened lending standards make purchasing two- to four-unit buildings very difficult. Those families who have exited foreclosure often rent the more premium-quality apartments in the neighborhood, the general inability for households at 80% AMI to qualify for a loan means that these vacant properties are less likely to be replaced by new tenants. Many other households earn too little to be a candidate for home purchase or lack the ability to save enough for the down payments.

Within the context of a weaker market, often described as a “buyer’s market,” qualifying homeowners face expanded options. Woodlawn’s lack of residential amenities, presence of quality of life and public safety concerns place it in a poor position to vie for more homeowners. Relying on the traditional pursuit of homeowners is unlikely to be a panacea as a result.

Woodlawn has clear infrastructural and physical assets. This includes three surrounding parks, including Washington Park, Jackson Park and Midway Plaisance the second largest park in the City of Chicago. In addition, it is accessible to Downtown Chicago on the Green Line, the commuter-focused Metra, and by Lake Shore Drive by car. It is also adjacent to the largest employer on the South Side of Chicago, the University of Chicago. These assets make it both an ideal location for both middle-class households with cars, lower-income households dependent on public transportation, and University employers hoping to live near work.

Capital Access

Private capital availability is a particular barrier to more two- to four-unit homes being purchased and renovated by investors and homeowners. Many homes sit vacant because interested buyers cannot qualify for a mortgage, even with income levels at or greater than \$50,000. All lenders don't seem to be as enthusiastic in their support of the HUD 203(k) loan program as others, and inconsistency could easily be a barrier to broader adoption. Even though the NSP program got pre-commitments from participating lenders who supported the terms and conditions of the program, the lenders still denied loans to many seemingly qualified borrowers. As a result, the combination of borrower credit and lender standards jointly explains the difficulty in securing financing.

The situation is similar for investors, who must develop a sufficient relationship with a lender and sufficient scale before they can successfully finance a portfolio of two- to four-unit buildings. At this level of sophistication, there are plenty of advantages in purchasing larger multifamily buildings (that are less common in Woodlawn). By doing so, they gain the advantage of institutional investors and other financing that do not historically cater to smaller buildings. The consequence is that the investors purchasing two- to four-unit buildings have little financing, must rely on cash purchases, purchase at below-market values, appear unconstrained by the standards imposed by financial institutions, and have more pressure to pursue properties that generate cash flow. These are all consequences of the lack of availability of capital.

Part of the financing outlook for investors has to do with different prospects for obtaining financing for two- to four-unit and 5+ unit properties as a single investor and as a Limited Liability Corporation (LLC). LLCs can more easily obtain bank financing and investor financing, yet they require a larger portfolio (either through larger buildings or several smaller buildings). Single investors would also need to pool properties into a portfolio to attract the interest of banks, and they would have requirements of 20-25% equity that, given low margins in two- to four-unit properties, would be unlikely to attract equity investors.

Community Development

The community development environment is characterized by diverging interests, divergent ideas on strategy and increasingly divergent fates of different parts of the neighborhood, with underperforming organizational infrastructure and no homeownership infrastructure. There are less than constructive debates over who the beneficiary of neighborhood improvement should be, which can serve to maintain the status quo through paralysis. The eastern part of the neighborhood is gentrifying, with the many primarily condo projects potentially disrupting the neighborhood with a less balanced development pattern that will lead to a less integrated community.

Organizations that forged their relationship through the opposition to Urban Renewal efforts of the University of Chicago find themselves in disagreement over whether to focus public investment on rental housing or homeownership. Not surprisingly, the University of Chicago, which has embraced its role as the primary local institution, has found its efforts (fairly or unfairly) met with resistance and suspicion that it hopes to radically transform the neighborhood community in a manner that would lead to significant displacement. Though the controversies had their crescendos in the early 2000s, when the market was "hot," there is not clear consensus about the neighborhood's planning. Homeowners are pitted against affordable housing advocates, community organizations are pitted against each other, and to some degree these divisions correspond to political coalitions.

Some residents are highly vocal in opposing strategies that would add Housing Choice Voucher recipients to the neighborhood, and their efforts are making it harder to pursue any rental strategy for two- to four-unit properties. Both affordable housing developers and government officials appear to be significantly concerned with these sentiments, all the while staying true to the requirement of non-discriminatory requirements of Housing Choice Vouchers. The desirability of voucher holders, however, does not extend to landlords in the stronger parts of the neighborhood (East of Cottage Grove). Further, these efforts dampen the efforts to build any rental housing, despite the argument by many that turning vacant homes into housing for the long waiting lists at the Chicago Housing Authority would be an improvement for the neighborhood.

Unfortunately, the “strength” of the area east of Cottage Grove indicates the onset of gentrification, a development pattern that contrasts sharply with the area west of Cottage Grove. The continued development on the East consists predominantly of condominium projects, which presents fundamentally different homeownership opportunities that serve certain homebuyers and not others. Condominiums don’t create complementary rental housing, they don’t facilitate home-ownership through the rental income, and they don’t create local landlords. It is not surprising that landlords on the East are relatively resistant to voucher recipients. That rental trends on the East are so categorically different from those to the west of Cottage makes a subtle point: refusing to refer to one part of the neighborhood as “East Woodlawn” and another part “West Woodlawn” is not sufficient to make them an integrated neighborhood. The socioeconomic differences in residents, concentration of NSP funds, boundaries in tax increment districts, and current major challenges all work against the actual unification of the community.

In addition, counter to the storied history of activism in Woodlawn, it is rather low in organizational capacity and doesn’t seem capable of executing any specific plans for dealing with two- to four-unit buildings without external support. This is manifested in the lack of agency among tenants, worse than just a decade prior. The organizational weakness manifests itself in all-consuming high-profile legal issues faced by local leaders, and the connection between the leadership challenges and organizational capabilities. The Network of Woodlawn, a promising decade-long initiative, of several individual non-profit organizations, as of January 2013 had no dedicated staff member in charge of the Economic Development pillar that would include management of two- to four-unit buildings. Without confidence in the more historically prominent organizations, POAH becomes the presumed organizational leader, having been active in Woodlawn for 6-7 years during which it owned, operated and undertaken the development of Grove Parc Plaza apartments.

Connected to capital availability and organizational capacity is the dearth of community development infrastructure promoting homeownership in Woodlawn. The homeownership association addresses this, in part, but from the standpoint of advocacy rather than the systemic nature one would expect from a community development corporation or another formal entity. The local Neighborworks affiliate is Neighborhood Housing Services of Chicago, and Woodlawn is not one of their target neighborhoods. The most active CDFI in Woodlawn, Community Investment Corporation, is explicitly a multi-family lender. There isn’t a clearly identifiable place for a Woodlawn resident to go to get homeownership counseling, though there are places in neighboring communities. Developing this infrastructure is critical for increasing homeownership in the neighborhood.

A gaping hole in the infrastructure is the loss of Shore Bank in nearby South Shore, which previously served Woodlawn's smaller building market. Shore Bank's failure, attributed to its inability to recover from a portfolio of fraudulent mortgages and the general housing crisis, was an unexpected but intuitive contributing factor to Woodlawn's struggles. The institution marketed loans for smaller buildings as well as for homeowners and investors, made investor loans that were designed to discourage slumlords, and invested in both multifamily buildings and nearby smaller buildings in order to geographically concentrate investments. Moreover, their actions were consistent with the full-sale development of South Side neighborhoods like Woodlawn, since they also provided lending for commercial real estate.

Public Policy & Planning

In the area of public policy and housing planning, there is qualified support for the notion that voucher concentration requires public intervention. The interaction of the Housing Choice Voucher's program design, neighborhood concentration, and two- to four-unit buildings creates unintended consequences in allowing landlords to depart from ordinary standards required by unassisted tenants. The program could be more deliberate in addressing building concentration, but it is important to recognize the major issue is landlord incentives and not indict voucher holders. Outside of housing policy, municipal services must be more consistent in Woodlawn if the neighborhood seeks to attract new residents.

Though the problem is not too many voucher holders in Woodlawn, the Housing Choice Voucher program design does create the conditions for poor management practices in smaller properties. When small properties occupy so much of the rental housing stock in a neighborhood with a high concentration of voucher holders, it is not hard to imagine that two- to four-unit properties could be 100% occupied. Moreover, there is a particular appeal of pursuing Section 8 tenants exclusively, whose above-market rents accommodate any financial hassles presented by the program. The ability and willingness to meet HUD's Housing Quality Standards is not an indication of high-quality management, but rather a checklist that familiar landlords can easily surpass. Less experienced landlords face a high barrier when entering subsidized housing, but once they understand how to navigate the system, there is no incentive for surpassing the minimum standards.

The design of the Housing Choice Voucher program creates some perplexing comparisons with other HUD-funded housing subsidies. Outside of traditional public housing, all other housing subsidies from the Chicago Housing Authority explicitly prevent concentration of both buildings and neighborhoods unless there is a mitigating resident-focused factor. The scattered site program is focused on opportunity areas for its acquisitions (granted there haven't been many). The Property Rental Assistance only allows 25% of a property's units to be assisted. Even Public Housing units are no longer in high-rises, but in mixed-income communities where they are on average one-third of a development. In contrast, developers and government officials were very open about the Housing Choice Voucher program attempting nothing of this nature. In maintaining fealty to the act of choice, yet taking a less active approach to providing better options to choose from (acquiring properties, contracting landlords beforehand, transforming entire neighborhoods), it is not surprising that the program concentrates in the manner than it does.

It is important to illustrate a particular model that suggests why landlords in the voucher program would act as they do. There is a unique relationship between socially responsible property management, market strength, and diversity of tenant mix. Subsidized housing residents, if subjected

to various forms of housing restrictions, are less sensitive to different management practices than non-subsidized tenants with more bargaining power. As a result, the lack of a market-rate tenant in small building poses risks to voucher-holding families. In weaker markets such as Woodlawn with lower rents and higher vacancy, landlords will rely heavily on voucher recipients for tenants. Because more of their tenants are less sensitive to property management, unscrupulous landlords can exploit these tenants by pursuing low-road strategies. This reflects the work of Ellen et al, showing that landlords in declining areas become more open to leasing to voucher holders. The risk here is that landlords “milk” properties for higher cash flow to the detriment of the families, rather than maintaining the property as an appreciating asset, when they feel the neighborhood is declining.

In stronger markets, the risk is that landlords will completely eschew voucher recipients in favor of tenants they see as more stable, who make fewer maintenance calls and have a consistent set of social norms. Pursuing a low-road strategy is much less attractive because the rent premium associated with providing higher quality property management services is higher in strong, urban markets. Ideally, landlords in stronger neighborhoods will pursue high-road strategies and opt for the more socially responsible course of action (often demanded by the politics of communities on the South Side of Chicago), which means actively leasing to voucher holders. However, this is not always the case. The importance of this model is that the locus of the problem is on the landlord, not the neighborhood concentration of voucher holders. The implication is that the appropriate intervention should be to affect landlord behavior and leasing and not the neighborhood location of voucher holders.

The allegations of inadequate public services in Woodlawn have implications for the neighborhood’s ability to attract homebuyers. This is one of the more substantiated benefits of mixed income housing. The presence of higher-income residents allows the neighborhood to vie for better public services. In Woodlawn, the lack of a critical mass of such residents is thus plausible as a reason behind the reports that dispatched police officers are less interested in doing police work for quality of life crimes, streets and sidewalks are not cleaned as many would like, and the Building Department is more tolerant of important code violations.

Previous Policy and Planning Efforts to Improve the Market

The city’s most prominent housing revitalization efforts (under NSP) didn’t focus on two- to four-unit properties, reflecting a revitalization strategy that neglected the diversity of housing stock across different neighborhoods. By focusing on larger buildings, neighborhoods like Woodlawn dominated by smaller buildings saw much of their housing stock ignored. In addition, a lot of public investment in the neighborhood has focused on low-income rental housing in the more disinvested portion of the neighborhood as opposed to focusing on homeownership, retail development, and a broader or block-based geographic focus. The 203(k) loan program and the Low-Income Housing Tax Credit represent major opportunities for obtaining financing for renovation for both home ownership or rental housing. Demolition by the Building Department is rightfully criticized for not considering the community impact of more vacant land, but in recent decades, much of the neighborhood has willingly prioritized demolition and new construction over more modest renovation.

Though the city has actively pursued housing improvements, the existing efforts appear to miss the mark on two critical aspects: dealing with small buildings and dealing with the issue of municipal liens. First, the strategic focus on large multifamily apartments has left two- to four-unit properties unaddressed. Even if the rationale that the larger buildings pose greater challenges to revitalizing neighborhoods is correct, because certain neighborhoods like Woodlawn have much fewer large multifamily buildings and many more two- to four-unit buildings, the strategy by design was likely to have less of an impact in Woodlawn than in other neighborhoods. It seems evident that the design of the NSP program, which seems heavily directed by logistical and administrative concerns over spending the money rather than the actual theory of catalytic change, was inflexible and did not match the diversity of housing stock across the entire City of Chicago. Out of the entire NSP budget of \$169 million, very little has benefited the two- to four-unit building market in Woodlawn.

Important to point out here is that the NSP program pursued a more capital intensive approach of renovating buildings with public monies in order to sell them, as opposed to using fewer resources to induce private lender participation through subordinate lending, loan guarantees, and other items in the economic development toolbox. This decision, combined with a focus on larger projects, left little program funds for two- to four-unit properties that might have been better suited for less capital-intensive approaches.

Taken as a whole, the concerns of certain stakeholders that more investment gets put in low-income rental housing is justified. Public investment has been both focused on providing affordable housing (multifamily housing often with CHA partnership such as redevelopment of Grove Parc) and largely restricted to the more disinvested portion of the neighborhood. The census tracts in the strongest portion of the neighborhood (East of Cottage Grove) did not qualify for any NSP funding. As a result, any NSP funds that Woodlawn received had to be directed to the area west of Cottage Grove.

There is a subtle point to be made about how past redevelopment efforts of the neighborhood have been based on demolition and new construction. Using the frame of the *Art of Revitalization*, the embrace of “gentrification” were redevelopment efforts designed to attract higher-income residents, and not an “incumbent upgrading” that prioritizes existing residents and owners. Moreover, the only prior strategy for smaller buildings were those that would get constructed on cleared land, with no efforts for more modest renovations.

One of the more significant findings is the under-utilization of existing financing mechanisms for the stock of two- to four-unit buildings. Most evident is the HUD 203(k) program whose focus on home ownership, combination of acquisition and renovating financing, structures a process for assisting a homebuyer in managing a construction process for a two- to four-unit property. Beyond homeownership, this program could serve as a vehicle for non-profits to create rental housing in two- to four-unit buildings that are currently vacant on a block-by-block basis. The under-utilization, however, may reflect inconsistency in the lending community’s willingness or lack of familiarity with the program. Because of its omission and overall significance in the production of affordable rental housing, another under-utilized financing mechanism are Low-Income Housing Tax Credits, which would provide a more shallow subsidy, often considered more politically and financially viable for funding renovation of scattered site buildings in weaker demand areas.

The extent to which the City of Chicago Buildings Department has relied on demolition of troubled buildings without clear plans for use is in direct conflict with the neighborhood’s desire to stabilize.

The Micro-Markets Recovery Program is a significant step in tasking a local entity with managing troubled buildings. However, local implementation entities like CIC in Woodlawn don't have the ability to remove all of the municipal liens on a property, one of the primary challenges to getting buildings renovated. There is not a robust vacant land management strategy. The choice between the lower cost approach of demolition and making a property developable doesn't appear to factor in their decision on demolition. As discussed, offering more vacant lots for sale and presenting more opportunities for new construction will continue to make it harder for the renovation market to succeed in its infancy. An important silver lining is the Cook County Land Bank that will present the opportunity to "land bank" and perform municipal action that will clear properties of liens and title issues.

Stakeholder Interests

Ever-present and sometimes partially-conflicting sets of stakeholder and policy goals for housing planning and development exist: producing affordable housing units sufficient to meet the enormous aggregate demand while making the most efficient use of various forms of below-market housing subsidies, avoiding the concentration of poverty and providing residential mobility through residential choice. One group of stakeholders interviewed, many of whom were tenant advocates, tended to prioritize the aggregate production and residential choice through non-displacement. They were concerned about macro-level declines in affordable housing, the relative desirability of Woodlawn, and were in opposition to those that believe the way to neighborhood improvement is through displacement of low-income residents. Another group, dominated by homeowners, is concerned with both concentrations of poor residents in the neighborhood as a contributor to the neighborhood's continued decline—implicitly unconcerned about the nature of their residential decisions—and the practices of landlords that destabilize their community. Different stakeholders have different perspectives on concentration, some believing that better social services is the solution with doubts about mixed-income communities, others believing the more moderate income residents are the solution. The most likely point of consensus is promoting true residential mobility across neighborhoods in a manner less subject to the whims of private landlords is the commitment to developing affordable rental housing that is managed well and provides effective services to residents. Responsibly providing paths to homeownership for current residents—merging the homeowners and tenants—would also be a point of consensus.

Conclusion

This chapter has discussed the implications of the social ecosystem and development process that supports two- to four-unit properties. One of the important takeaways is that the challenges facing the two- to four-unit buildings market in Woodlawn are not too different from the challenges facing the entire neighborhood in many respects. Woodlawn has significant work to do before becoming a "neighborhood of choice" as the aptly titled Choice Neighborhoods initiative seeks to do.

Market challenges are evident among the key findings identified. Homes values are artificially low, which prevents renovation. Tax delinquency and title issues add significant indirect costs given the legal and bureaucratic hassles and direct costs they may add to development costs. Addressing these market concerns is a big key to improving the market. The discussion about voucher-holders and two- to four-unit buildings in Woodlawn should not be interpreted as support for the notion that a moratorium on voucher holders in the neighborhood would be a positive development. It would

further restrict housing choices for voucher holders and likely increase the impunity with which landlords target them. When one looks at the organizational infrastructure surrounding two- to four-unit properties, it isn't surprising that home-ownership isn't particularly strong. In addition, too much hope has been placed on University-induced gentrification to lead to a full-scale change of the neighborhood. Also evident is that a better balance should be met between investing in the more challenged western part of the neighborhood, investing in the actual residents and supporting the stronger eastern part of the neighborhood in a more inclusive manner than has currently exists. The concentration of public resources in West Woodlawn does address a great need but it also, through omission, allows inequitable development in East Woodlawn.

Chapter 6: Strategy and Recommendations

Introduction

Having presented the social ecosystem and discussed key findings, I now propose a series of recommendations linked to a set of strategic outcomes and objectives. These recommendations address the social ecosystem of two- to four-unit buildings in Woodlawn, barriers to their acquisition and renovation, and the need to improve property management and expand access to capital. The strategy also builds upon the strengths and opportunities that I have identified and speaks to the interests of local stakeholders.

Acquisition

Despite the substantial number of vacant two- to four-unit buildings in Woodlawn, many languish and continue to physically deteriorate because of direct barriers to acquisition and indirect factors that discourage investment. Currently, properties whose owners have fallen behind on property taxes, municipal services and building code violations cannot be purchased and renovated without paying these debts. As a result, additional strategies for easier acquisition are needed.

Renovation

Renovation strategies must be flexible in order to accommodate the unknown and varied building conditions. Controlling labor costs and providing reliable technical assistance are necessary to enable middle-income homeowners and smaller, entrepreneurial developers to take an active role in renovating two- to four-unit buildings. To ensure that properties are renovated sufficiently, a holistic approach must be taken to prevent landlords from milking properties and weakening the strength of the housing stock. Lastly, the economic activity generated by this labor-intensive process is a potential source of wealth for neighborhood residents.

Leasing, Sale and Property Management

Many of the “soft” issues in real estate development remain important to consider in the development of the strategy. Homeownership is down nationally, and increased rental demand presents an opportunity that should only be ignored at the peril of housing planners. Property management, a task that concerns homeowners and investors alike with two- to four-unit properties, has specific challenges given the nature of smaller buildings in weak market neighborhoods with a concentration of voucher recipients. Care must be taken to avoid blaming the most vulnerable participants in the real estate process, i.e. low-income tenants, for environmental conditions over which they have no control. More support for the landlords pursuing “high-road” property management would upgrade the residential options for all residents and reduce the viability of short-term cash flow driven investors. Attracting homeowners as well as tenants requires being more resolute and strategic about improving quality of life and public safety challenges in the neighborhood. A second approach for increasing homeownership is to rely more on tenants with an existing connection to the neighborhood.

Capital Availability

Several general and more specific challenges in capital availability have significant ramifications for two- to four-unit properties in Woodlawn. Beyond the macroeconomic challenges that have reduced many families' earning capacity to purchase a home, homeownership is difficult because households cannot obtain financing in the same way they did prior to the recession. Because of the obstacles that would discourage many investors from renovating these properties, an important step is bolstering the ability of homeowners to obtain acquisition and rehabilitation financing. Much of the shortage in financing can be attributed to low property appraisals in the neighborhood, appraisals that are artificially low as a result of continued foreclosure, short sales and cash purchases. The community development institution in Woodlawn that historically filled this niche (ShoreBank) doesn't exist anymore, while the institutions that do target Woodlawn fill a different niche in their lending. Developers can follow a series of best practices for obtaining financing: they need track records and carefully cultivated relationships with lenders, they need scale in putting together portfolios, and they need either personal funds for down payment or investment capital. Ideally, this last condition would ensure that asset appreciation takes precedence over cash flow. As a consequence of the difficulty of obtaining traditional sources of capital, other business strategies that are less community-minded become less viable.

S.A.L.A.D. Strategy to Improving the Two- to Four-Unit Market in Woodlawn

Theory of Change

In order to address issues in both the homeownership and investor markets for two- to four-unit buildings, the Small Building Initiative should resist the urge to focus entirely on homeownership or rental housing. In fact, this is a false choice because a newly renovated two- to four-unit building adds rental housing even when bought by homeowners. By working to promote homeownership, namely addressing the market-oriented challenges that work against it, and supporting stronger and more neighborhood-minded developers and landlords through financial and non-financial means, Woodlawn can anticipate some material improvements in the housing values and vacancy associated with the market for two- to four-unit buildings. Pursuing changes to the non-vacant housing stock will also make important strides in improving the market for vacant properties.

Planners in Woodlawn should seek to revitalize through market-means, making actions that are directly tied to a stronger market where purchases, investment and leasing are more prevalent in the two- to four-unit building market. This is not to detract from the importance of demand-side (or supply-side) subsidies that facilitate income transfer and social welfare, but it stresses the importance of conditions that allow additional market transactions to take place. The targeting of efforts on specific blocks and the anchoring of work on existing strong blocks can create stronger sub-markets in surrounding areas. Successful development in tax increment districts will create future flows that can be leveraged for investment today.

In addition, paying close attention to the relationship between general neighborhood health and the two- to four-unit building market is important. Making Woodlawn an area where people desire to live for several reasons will improve the two- to four-unit building market. These are not entirely economic factors, but they are just as important to reducing vacancy in the building stock. Enhanced public safety, higher quality of life and retail amenities will highlight the neighborhood's various

assets, overcome the challenges, and reverse the population loss that contributed to neighborhood's decline.

Building neighborhood consensus around better rental housing within two- to four-unit buildings and local economic development that builds wealth for existing residents will facilitate an equitable strand of revitalization. For example, rental housing with shallow subsidies and effective property management, and potentially housing that actively transforms tenants into homeowners, can tie the income diversification goals of homeowners with the goals of maintaining housing affordability. Expanding efforts to target construction work to local residents generates wealth and can lead to incumbent upgrading that will alleviate poverty and lead to other gains by existing residents rather than simply pushing poor people into other communities, a common consequence of unbalanced gentrification.

Lastly, a multi-faceted approach is best for addressing the multitude of issues present in the two- to four-unit market, one that acknowledges the importance of synergy. Destabilizing factors in the market that artificially lower property values create gaps that must be filled by capital, gaps that are increased by the absence of homeownership education and counseling that enable households to adequately save and otherwise prepare for ownership. Incentives created by public policies may favor patterns of development that prompt community concern and opposition, and policies meant to improve urban markets may succeed in addressing one segment of challenges at the risk of neglecting others. This includes demolishing buildings to stem the drug trade, only to introduce more vacant land in the market that weakens the property values of nearby residents.

Strategic Framework

The thrust of the *S.A.L.A.D. Approach to Two- to Four-unit Building Revitalization* is combining disparate ingredients that come together in a healthy, mutually reinforcing and attractive neighborhood strategy. Those ingredients include the following: **S**tabilization, **A**dvocacy, **L**oan Fund and Financial Assistance, **A**ssistance and Counseling and **D**eveloping Responsibly. Removing the salad dressing makes the salad significantly less enjoyable, and less likely to be eaten. Similarly, there are five outcomes of the *S.A.L.A.D. Approach*, which, if met, can speak to the interests of a broad swath of stakeholders and accomplish revitalization through a mix of reinforcing objectives.

Goal I—Stabilization: A stabilized, well-functioning property market for two- to four-unit properties. This goal reflects the destabilizing influence of rampant speculation that can take hold in a high-vacancy neighborhood with under-realized potential, causing more harm than good when unaccompanied by a plan for actual improvements in quality of life. The goal goes beyond identifying the symptoms by seeking to treat the root causes of the unhealthy market of two- to four-unit properties.

Objectives:

- A. More stable property taxes
- B. Fewer short-sales
- C. Fewer lots and demolition for new construction
- D. Fewer multi-family housing units and new, spacious single family housing
- E. More ready-to-renovate two- to four-unit buildings

Goal II—Advocacy: Policies and organizational infrastructures in alignment with the unique challenges of two- to four-unit properties. This goal reflects the acknowledgement that changing policies and structures is important within and beyond the boundaries of Woodlawn. It envisions creative approaches to problems in the Housing Choice Voucher program, building organizational infrastructure, improving the factors that determine neighborhood appeal, and identifying supporting resources.

Objectives:

- A. More active organizations in Woodlawn that specialize in two- to four-unit buildings
- B. Fewer non-professionally managed two- to four-unit buildings that are 100% occupied by housing choice voucher recipients and/or that exhibit weak property management
- C. Higher quality of life and stronger market demand for housing in Woodlawn
- D. More sources of funding for the Small Building Initiative

Goal III—Loan Fund and Financial Assistance: Adequate financial resources for investing in two- to four-unit properties for interested and current homeowners in Woodlawn. This goal reflects the extent to which bank practices limit financing by homeowners and serve as a barrier to renovating two- to four-unit properties. It envisions the expanded use of acquisition and rehabilitation financing and more availability of down payment assistance and loans for exiting homeowners—not simply by providing additional money but by utilizing existing resources.

Objectives:

- A. More interest in and attainment of acquisition/rehab loans by for owner-occupant purchases
- B. More interest in, availability of, and attainment of down payment and subordinate loans for owner-occupant purchases of two- to four-unit buildings in Woodlawn
- C. Greater access to renovation loans for two- to four-unit buildings in Woodlawn

Goal IV—Assistance and Counseling: Adequate technical assistance and counseling for investing in two- to four-unit properties for interested and current homeowners in Woodlawn. This goal reflects that prospective homeowners have personal, financial and technical barriers to homeownership. It envisions the expansion of this infrastructure within the boundaries of Woodlawn for the benefit of new and future owners of two- to four-unit properties.

Objectives:

- A. Greater access to pre-purchase and consumer credit counseling in Woodlawn
- B. Greater access to technical assistance in the design-and-build process for two- to four-unit buildings
- C. More participation of both owner-occupant and investor owners of two- to four-unit buildings in landlord management training and certification

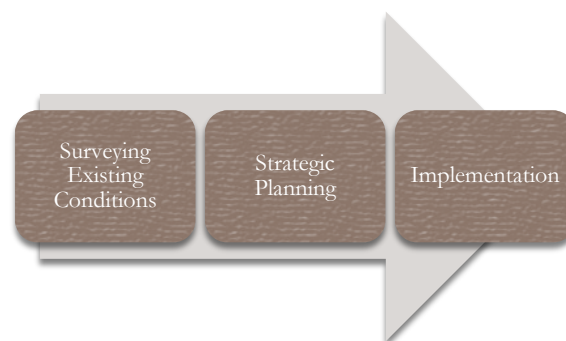
Goal V—Responsible Development: Current residents have pathways to build wealth through local economic development and pathways to homeownership, while diverse rental products and necessary amenities attract newer (moderate income) residents. This goal reflects, most directly, the importance of considering equity in planning for the neighborhood. Balance must be sought in attempting to compete for external residents as well as cultivating homeownership within the neighborhood.

Objectives:

- A. More steering of development jobs to residents and tenants
- B. More rental housing for low-income households (60-80% AMI) that incorporate pathways to homeownership
- C. More financial capital for strong developers of rental two- to four-unit buildings
- D. More retail amenities

The Small Building Initiative

Potentially the most important topic that has been largely unaddressed is who will be responsible for managing the temporary initiative that has been described, in this publication as well in official Choice Neighborhoods grant applications, as the Small Building Initiative. While the proposed strategic plan will rely on several partners to pursue initiatives that will positively impact the 2 to 4-unit market in Woodlawn, several initiatives must and will be undertaken by dedicated staff with programmatic resources. While the question of who should compose this entity is no less important, this thesis has instead focused on creating the road map that the organization, when chosen, may adopt. Taken as a whole, the recommendations illustrate what may be asked of potential partners and the content of a request for proposals to competitively select the Small Building Initiative administrator that is most capable and willing of fulfilling the role. In the typical framework of planning, this thesis could address the initial existing conditions and strategic planning in order to provide the foundation for actual implementation.

**Implementation Considerations**

The first implementation consideration is the basis for which political capital can be expected to enable the strategy's breadth and ambition. Among other recommendations, the strategic plan calls for changes to the Chicago Housing Authority's implementation of the Housing Choice Voucher program. This may, in turn, require changes to HUD rules governing the program, placing pressure on departments that provide core city services. It seeks the attention of the Land Bank Authority that has just created its governing board in January 2013. However, there is at least one reason why I believe that Woodlawn, one of 77 Community Areas in Chicago, should be able to attract a high level of political support: the Choice Neighborhoods Initiative. The City has committed to making a not insignificant financial investment and to transforming the neighborhood. Indeed the DHED is a co-implementation partner in the endeavor and reportedly the entity that pushed for the Small Building Initiative in the Choice Neighborhood's application. Moreover, given the City's well-documented reliance on HOPE VI funds, they are invested in ensuring success for the program's replacement and should support its component strategies that include a focus on two- to four-unit buildings. For these reasons, there is ample political support available for the various recommendations in the strategy.

Secondly, while this chapter serves to illustrate both existing ideas and new proposals to address the problems identified, Appendix I organizes the recommendations into primary and secondary sets of priorities. The primary category consists of recommendations from stakeholders and newly generated recommendations anticipated to have a high impact using relatively few resources.

Secondary priority recommendations may be more creative approaches, particularly difficult to implement or simply less promising for the respective objective. Next, the first priority recommendations are organized into low and high-effort, identifying those that are low-effort as “easy wins” which should precede tackling those deemed high-effort.

Strategic Plan

This section lays out a detailed set of actionable recommendations that advance the objectives that will bring about the five outcomes of the *S.A.L.A.D. Approach* and revitalize Woodlawn’s two- to four-unit building market.

Goal I: Stabilization

This component of the strategy involves taking directed action through new neighborhood programs and Land Banking to neutralize existing problems in the two- to four-unit building market and to prevent the negative side effects of speculation from misleading the market in Woodlawn.

Objective A. More Stable Property Taxes

Because of past speculative increases in property values that led to additional vacancies and tax delinquencies, anticipating the effects of a stronger market and create mechanisms that will work against its harmful consequences is a priority. This translates to creative approaches that allow fixed-income households (for example seniors) to cope with increasing property values, recognizing they may not simply be able to sell their home and move when property values increase.

One approach would build on existing Homeowner Association efforts to inform seniors of their ability to request both an exemption from increased valuation and a freeze on previous assessed values (Cook County Assessor, 2013). This effort requires more expansive community outreach, and because the two exemptions require re-applying each year, it should start immediately to build habits before property values increase. As an existing program of Metropolitan Family Services, the resident services provider under the Woodlawn Choice Neighborhoods Initiative, senior home counseling could be a collaborative effort of MFS in Woodlawn, the Cook County Tax Assessor and the local Alderman.

A second more creative approach would convert the incremental property taxes into a lien on the property that would be deferred each year the homeowner continues to occupy the residence, but paid in full upon the sale of the home or discontinued use as a primary residence. The lien would be assessed by Cook County and found in a basic title search. This would enable occupancy of an owner-occupied two- to four-unit home by the same owner-occupants and tenants despite increases in neighborhood’s property values. The deferred lien, by design, also serves as a hedge against purely speculative rises in property values. If a household benefits from the inflated prices in selling their home, they pay the associated property taxes. If the values are not sustainable, as they were prior to the housing bubble, a household that does not move will face a predictable amount of property taxes that will prevent speculation from fueling vacancy.

A final approach follows the approach associated with many land trusts. Homeowners could permanently sell the land associated with their property to a county-controlled land trust (perhaps the County Land Bank) in exchange for a long-term land lease and deed restrictions on the sale of their house. No longer owners of the land, they could continue to pay their property tax with a

nominal annual increase. Their house would be subjected to permanent affordability even under resale.

Objective B. Fewer Short-Sales

Stabilization efforts in the neighborhood, including NSP but also other DHED programs, lack the necessary tools to deal with the market disruptors that depress local property values. The newly established Cook County Land Bank is a promising opportunity to obtain properties through donations, tax delinquency, intergovernmental transfer and purchase. One important step is to actively seek the elimination of short sales that push down appraised values and make renovation harder. The Land Bank can accept these properties through donations or alternative arrangements to the short sale process.

Objective C. Fewer Vacant Lots and Demolition for New Construction

Because the presence of vacant land has harmful effects, the Land Bank should develop a next-door lot program that builds on the existing efforts of Block Clubs and the Homeowner Association. Building owners would be given long-term leases for property if they maintain them as yards or develop them into parking lots. This might even include an option to buy the lot at an agreed upon price after market conditions have improved significantly.

Another step, which is an explicit goal of the Land Bank, is to procure and hold land in Woodlawn and set clear signals to the market that the land will not be developed anytime soon. This prevents the threat of new construction from intimidating housing renovators. The Land Bank would serve as a much better manager of the land and buildings for the Building Department than when it undergoes demolition and city ownership, given that the Land Bank actively plans for how each vacant building or newly leveled lot will be used.

Objective D. Fewer housing units and new, spacious single family housing

By encouraging the conversion of two- to four-unit buildings back into fewer units, the neighborhood's housing stock would be "right-sized" (without demolition) to reflect the significant reduction in density that has resulted from population loss. This action reduces the total stock of housing units, reduces vacancy, all the while providing more spacious homes that are rare commodities in a dense city. As a result, this stabilizes the market through reduction of housing unit supply, but also creates a market-oriented commodity along with the potential of obtaining a next-door lot for long-term management. This action helps restore a sense of flexibility in the housing stock. If the neighborhood experiences significant growth in the future, not unlike it did post-WWII, and vacant land proves insufficient to meet the demand for housing, these homes may be converted back to two- to four-unit buildings.

Goal II: Advocacy

This component of the strategy involves pushing for policies that reform external policies that allow sub-market conditions to exist in Woodlawn and also to improve the neighborhood's organizational infrastructure.

Objective A. More active organizations in Woodlawn that specialize in two- to four-unit buildings

This recommendation involves the positioning of the Network of Woodlawn and its affiliates as the neighborhood's leading community organizations, making sure they are seen as representative of all

residents. This would require seeking stakeholders who may be less enthusiastic in their support for the organization and its base of support and directly speaking to their concerns. The most pressing complaint is the level of independence from Dr. Byron Brazier's leadership. A board that was sufficiently representative of the entire neighborhood and an organization that was guided by true consensus should provide an enhanced sense of legitimacy. In addition, the organization needs to be sufficiently staffed and resourced, including the hiring of a coordinator of Economic Development whose portfolio will include housing revitalization.

This recommendation also calls for the invitation and support of Neighborhood Housing Services of Chicago to develop a field presence in Woodlawn. As was discussed in Chapter 5, much of the missing home-ownership infrastructure stems from the fact that (in the void created by Shore Bank's demise) NHS only has a field presence in a subset of Chicago neighborhoods that does not include Woodlawn. Whether it is home-ownership counseling, marketing of home purchase and acquisition & rehabilitation loans, technical assistance for home renovation or housing preservation, NHS has a successful track record of providing these services for two- to four-unit buildings in other neighborhoods. The Small Building Initiative could enter a partnership with NHS whereby a NHS employee is subsidized by the Small Building Fund and spends 50% of their time working out of Woodlawn in space provided by POAH and eventually the Woodlawn Resource Center.

The last recommendation calls for a clear shift in the redevelopment strategy of demolition and new construction (embodied by the both of the Columbia Point phases) to renovating vacant buildings. With the removal of tax delinquencies and municipal liens, not only would it be environmentally more sustainable to renovate, but it would also be less expensive and keep housing costs lower and minimize displacement through the continued provision of modest housing.

Objective B. Fewer non-professionally managed two- to four-unit buildings that are 100% occupied by housing choice voucher recipients and/or exhibit weak property management

Advocacy around the apparent sub-market of landlords targeting Housing Choice Voucher recipients should affect the behavior of these landlords without restricting the residential mobility of households. There are three approaches to this that can be used in tandem or pursued separately.

Approach	Summary	Feasibility
#1: Argue for a lower "Reasonable Rent"	Argue that landlords must charge less rent to voucher-holders in order to abide by "Rent Reasonableness" requirements.	It is fully within the existing legal framework of HUD's Rules & Regulations, but relies on documenting that rents are charged are higher than market rents and protesting rents on a case-by-case basis.
#2: Small Area Demonstration Project	Systematically reform all HUD programs such that Fair Market Values vary by smaller areas.	Currently a promising demonstration project would need to be demonstrated as successful and implemented into HUD rules & regulations.
#3: One Market-Rent Unit Minimum	Add to the Housing Quality Standards that one unit of a two- to four-unit building must be maintained for owner-occupancy or market-rate	Requires change in CHA Rules & Regulations and likely enabling regulatory changes by HUD.

tenancy. Could include a waiver when a supportive services plan is filed with the CHA.

The **first approach** to reform responds to the documented observation that market rents in Woodlawn are, on average, lower than the rent received by Housing Choice Voucher landlords. The over-payment of subsidy creates an advantage for accepting vouchers in low-rent neighborhoods like Woodlawn over other neighborhoods. By reducing the rent that a landlord would receive, it would also reduce the profits of landlords providing lower-quality management in Woodlawn and assist more households. As discussed in Chapter 5, HUD has a requirement of “rent reasonableness” that is intended to prevent a landlord from charging a Housing Choice Voucher recipient more than they charge for un-assisted units in the same building (assuming they have unassisted units) and what identical unassisted units would receive on average in the market place.

Because of anecdotal evidence that tenant and CHA payments are more for units located in the same building, statistical evidence that assistance payments are higher than the market rate and the presence of clear regulations that forbid this, the natural solution would be better enforcement. This could include conducting a detailed study/inventory of current apartments rented by HCV residents along with non-assisted apartments that would provide clear evidence of unreasonable rents. It could be argued that this approach reduces the rent that “good” landlords receive in Woodlawn, which would have a depressing effect on housing options. However, these landlords provide a better service and have a credible case for charging more to Housing Choice Voucher recipients. Indeed, helping the market to better distinguish landlords on the basis of management quality would certainly be a positive side effect.

The **second approach** revolves around the Small Area Fair Market Rent demonstration discussed in Chapter 4. If adopted, this program would reduce the maximum rent any landlord could charge a Housing Choice Voucher recipient in Woodlawn. It would also increase the rent a landlord could charge in a higher-rent area within the region, creating more rental opportunities for assisted households. If successful, this program would work towards the same objective as the first approach. Unlike the first approach, however, it would not as effectively allow apartment and management quality to be a source of differences in rent, since the maximum rent will be reduced for all landlords regardless of quality. Less discretion would give way to a more uniform approach to reducing the incentives for targeting voucher holders.

The **third approach** to effecting change in the Housing Choice Voucher program disallows the business strategy of targeting voucher holders through administrative rules. It targets only the landlord that exclusively leases to voucher holder and by forcing the landlord to market at least one unit in a building to a non-subsidized tenant (or sustain the vacancy), it would reduce the profits associated with the business strategy. The rule could be added to the Housing Quality Standards enforced at the time of application through inclusion in the Request for Tenancy Approval form that each landlord must complete before a HCV contract is created (CHA, 2013d). The addition of a question about the number of units in a building would allow a queries of data to show the number of active housing assistance payment contracts at a particular address alongside the number of inhabitable units. Verifying the housing units in a two- to four-unit property could be an easily added inspection item.

The requirement could be narrowly tailored to address the particular problem-causing landlords. Landlords who develop and implement a supportive services plan could receive a waiver, releasing them from the marketing requirement since they should have already developed such a plan to qualify for CHA project-based housing vouchers. A unit that is owner-occupied would satisfy the one-unit minimum, further limiting the policy to investor-owned two- to four-unit buildings. Still, the policy would likely require changes in federal rules and regulations for the Housing Choice Voucher.

Another means for improving the entire rental market, including two- to four-unit buildings, is the adoption of a rental-licensing program. The program would require annual inspection and payment of \$40-\$140 per rental unit per year. It would convert the complaint-driven process typical of code enforcement to a compliance-driven process that has wider coverage.

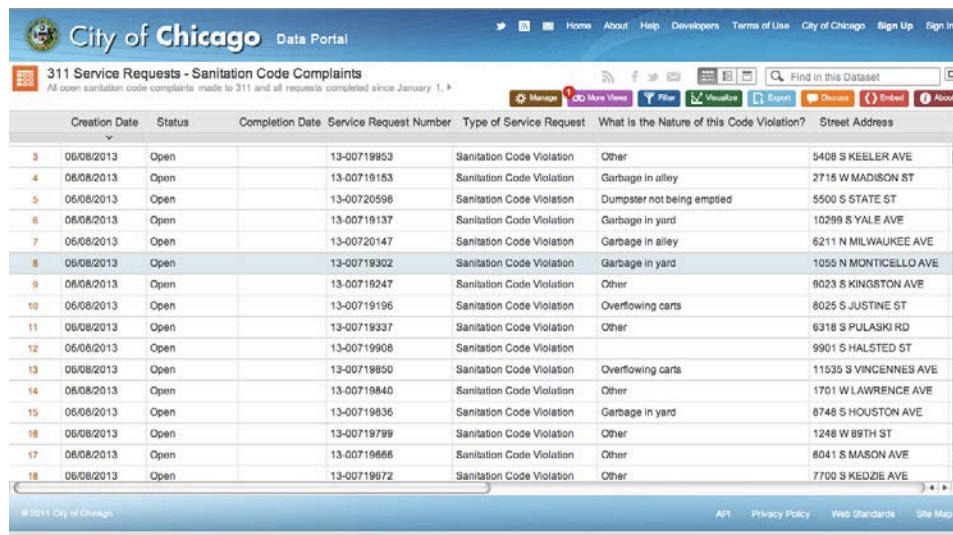
Objective C. Higher quality of life and stronger market demand for housing in Woodlawn
One recommendation, not specific to two- to four-unit buildings, involves continuing broad-based neighborhood efforts around improving public safety. These include the use of Interrupters to prevent escalation of interpersonal conflict into violence, prayer vigils to encourage neighborhood healing and discourage retaliatory violence, and training landlords about their role in preventing crime with the support of law enforcement. Improvements in public safety are critically important for improving the neighborhood's perception issues.

A second series of recommendations improves the quality of life by putting pressure on public agencies for better service, notably the Police Department, the Department of Streets and Sanitation, and the Department of Buildings.

The first recommendation involves continuing education for residents on Chicago's existing 3-1-1 infrastructures teaching how to make a host of non-emergency requests, namely filing a police report after a crime has occurred and the offender has gone, i.e. property theft, noise disturbances, and property/automobile damage (Chicago CAPS, 2013).

The second recommendation for improving public services involves tracking the requests and the performance metrics, which are open to the public on Chicago's Data Portal and likely available to the Alderman's office in more detail. The type and total number of requests to different departments can be analyzed across community areas, as well the percentage of service requests that have been completed, average number of days to complete and spatial clustering. This analysis can serve as important evidence for disparities that surface across neighborhoods, inspiring practices for creative improvement by agencies using a clear set of performance indicators (Behn, 2006). As an example, the Data Portal provides daily requests to the Sanitation department, included in the screen shot below, listing opening date of the request and the completion date (if applicable), which can be transformed into a new variable: "Days to Complete." This new variable can be analyzed across the community area with standard spreadsheet software.

Chicago Service Requests for Sanitation Complaints

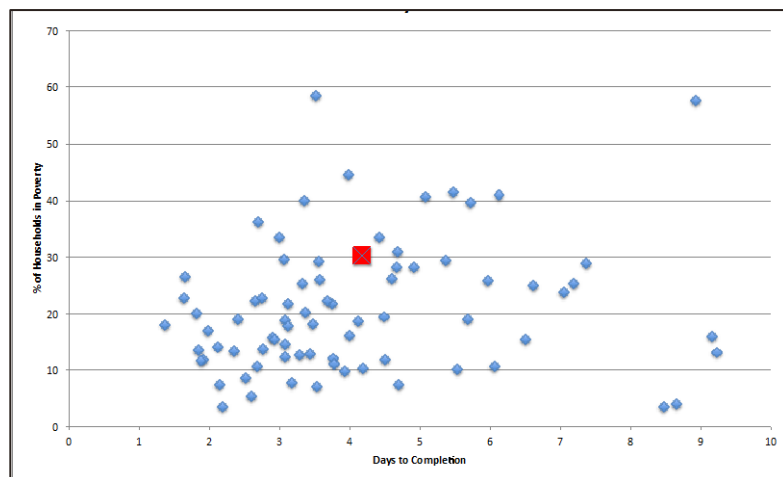


	Creation Date	Status	Completion Date	Service Request Number	Type of Service Request	What is the Nature of this Code Violation?	Street Address
3	06/08/2013	Open		13-00719953	Sanitation Code Violation	Other	5408 S KEELER AVE
4	06/08/2013	Open		13-00719153	Sanitation Code Violation	Garbage in alley	2715 W MADISON ST
5	06/08/2013	Open		13-00720596	Sanitation Code Violation	Dumpster not being emptied	5500 S STATE ST
6	06/08/2013	Open		13-00719137	Sanitation Code Violation	Garbage in yard	10299 S YALE AVE
7	06/08/2013	Open		13-00720147	Sanitation Code Violation	Garbage in alley	6211 N MILWAUKEE AVE
8	06/08/2013	Open		13-00719302	Sanitation Code Violation	Garbage in yard	1055 N MONTICELLO AVE
9	06/08/2013	Open		13-00719247	Sanitation Code Violation	Other	8023 S KINGSTON AVE
10	06/08/2013	Open		13-00719196	Sanitation Code Violation	Overflowing carts	8025 S JUSTINE ST
11	06/08/2013	Open		13-00719337	Sanitation Code Violation	Other	6318 S PULASKI RD
12	06/08/2013	Open		13-00719908	Sanitation Code Violation		9901 S HALSTED ST
13	06/08/2013	Open		13-00719850	Sanitation Code Violation	Overflowing carts	11535 S VINCENNES AVE
14	06/08/2013	Open		13-00719840	Sanitation Code Violation	Other	1701 W LAWRENCE AVE
15	06/08/2013	Open		13-00719836	Sanitation Code Violation	Garbage in yard	8748 S HOUSTON AVE
16	06/08/2013	Open		13-00719799	Sanitation Code Violation	Other	1248 W 89TH ST
17	06/08/2013	Open		13-00719666	Sanitation Code Violation	Other	8041 S MASON AVE
18	06/08/2013	Open		13-00719672	Sanitation Code Violation	Other	7700 S KEDZIE AVE

Source: City of Chicago, 2013

Comparing average days to complete a request and the level of poverty across community areas reveals there is no a clear relationship between the two factors. Woodlawn's average length of completed requests is longer than many other communities, but not much longer than communities with a comparable socioeconomic condition. This sample analysis could, for other factors, substantiate the anecdotal evidence of quality of municipal services. It may also support other explanations for the lack of satisfaction, such as the amount of service requests made per capita.

Average Days to Close 3-1-1 Sanitation Complaints (by Community Area and Poverty Rate)



Source: City of Chicago, 2013

The final part of improving public services concerns itself with cultural and behavioral concerns, which are generally beyond the scope of service requests and analyzing standard performance

metrics. These concerns are often best highlighted by anecdotes that highlight cultural practices that need to be changed and other examples of the ideal behavior (Behn, 2006). As such, identifying formal and informal channels for documenting “customer service”-oriented complaints and bringing them to the attention of decision makers capable of taking action (either disciplining employees or pursuing other efforts of redress) are extremely important. Each documented issue creates more momentum for change. Neighborhood actors who were more willing to pursue these alternative avenues were more successful in making their concerns held.

Informal and Formal Channels for “Customer Service” Complaints

Channel	Contact Information
Chicago Elected Officials	<p>Alderman Willie Cochran Office: 6357 S. Cottage Grove, Chicago, IL 60637 P: 773-955-5610; F: 773-955-5612 Email: ward20@cityofchicago.org</p> <p>Office of the Mayor 121 N LaSalle Street Chicago City Hall 4th Floor Chicago, IL 60602</p>
State Elected Officials	<p>State Senator Kwame Raoul 1509 East 53rd Street, 2nd Floor Chicago, IL 60615 P: 773-363-1996; F: 773-681-7166</p> <p>State Representative Barbara Flynn Currie 1303 E. 53rd Street Chicago, IL 60615 P: 773-667-0550; F: 773-667-3010</p> <p>State Representative Christian L. Mitchell 449 E. 35th Street Chicago, IL 60616 P: 773-924-1755; Fax: 773-924-1775 Email: MitchellDistrict26@att.net</p>
Police Department	Independent Police Review Authority http://ipraportal.iprachicago.org/pls/html/db/f?p=1503:12:2759055067321044
Department of Streets & Sanitation, Bureau of Sanitation	Bureau of Sanitation Ward 20 Office 6401 S. Evans, Chicago, IL 60637 Phone: 312-747-6017 Fax: 312-742-1318
Department of Buildings	General Email: buildings@cityofchicago.org Commissioner Phone: 312-743-9021
Chicago Housing	Problem Property Report Form http://www.thecha.org/filebin/hcv/Problem_Property_Report_Form.pdf

Authority Email: HCVIPI@thecha.org

Objective D. More sources of funding for the Small Building Initiative

In order to align the financing mechanisms with community interests in connecting the areas west and east of Cottage Grove, the two Tax Increment Districts should be merged into one. Continued (or past) gentrification of East Woodlawn would generate a source of funds for both financing affordable housing in the stronger eastern part and also for stabilizing investments West of Cottage Grove.

Goal III: Loan Fund and Financial Assistance for Homeowners

Since the inclusion of the Small Building Initiative in the Choice Neighborhoods Initiative, various types of financial assistance for homeowners have been considered. This part of the strategy seeks to provide financing and grants to support owners looking to renovate or otherwise improve two- to four-unit buildings.

Objective A. More interest in and attainment of acquisition/rehabilitation loans for two- to four-unit buildings by owner-occupants

The Small Building Initiative should build on the stabilization efforts and perform preliminary building inspections on vacant two- to four-unit buildings held by the Cook County Land Bank or buildings held by the City of Chicago that have already had their title and municipal liens cleared. In the interest of reducing further information costs for homeowners, a preliminary home inspection would identify the required renovations and any other major capital improvements in order to approximate the total renovation cost. This is consistent with the service that 203(k) consultants and MMRP coordinators provide for properties, and when done en masse it would reduce a key uncertainty in marketing properties. The cost of inspection (roughly \$5,000 for an individual property) would ideally be lower for an entire portfolio.

In addition, as part of the marketing of the Small Building Initiative, the marketing agent should establish relationships with Chicago lenders that provide acquisition and rehabilitation loans, as well as 203(k) lenders, to understand how to appropriately broker or otherwise prepare prospective buyers to successfully qualify for loans. Understanding and researching each individual lender requires consideration of the following elements:

- Is the lender a reliable entity and are their rates reasonable?
- How do they use the 203(k) program and other loans for two- to four-unit buildings?
- Do they exercise the 10% bonus on appraised property values?
- What protocols exist for how they count rental income in approving mortgages?
- Are there different reserve or down payment requirements specific to two- to four-unit buildings?
- How best can an intermediary support the rehabilitation/acquisition process?
- Do they loan to non-profits using the 203(k) program to create affordable rental housing?

Active 203(k) Lenders in Chicago

Lender	Address	Email	Phone
BANK OF AMERICA NA CHARLOTTE	4747 W IRVING PARK RD, CHICAGO, IL 60641	robert.black@bankofamerica.com	(773) 628-0331
	135 S LASALLE ST STE 140 CHICAGO, IL 60603	robert.black@bankofamerica.com	(312) 537-6886
EVERETT FINANCIAL INC	2551 N CLARK ST STE 300 CHICAGO, IL 60614	VICKY.GARDNER@supremelending.com	(312) 212-0903
GUARANTEED RATE INC	3940 N RAVENSWOOD AVE CHICAGO, IL 60613	victor@guaranteedrate.com	(773) 435-0638
	4621 N RAVENSWOOD AVE CHICAGO, IL 60640	raven@guaranteedrate.com	(773) 435-0900
	3317 W IRVING PARK RD CHICAGO, IL 60618	raven@guaranteedrate.com	(773) 539-5429
	320 W OHIO ST # 410 CHICAGO, IL 60654	raven@guaranteedrate.com	(773) 290-0505
PROSPECT MORTGAGE LLC	230 W SUPERIOR ST STE 300 CHICAGO, IL 60654	Jeremy.Rose@prospectmtg.com	(312) 577-5202
WELLS FARGO BANK NA	511 W NORTH AVE CHICAGO, IL 60610	rick.lapins@wellsfargo.com	(312) 274-4133

Source: HUD, 2013

There are several subordinate acquisition and rehab loans that are also available for consideration. These could be used in conjunction with a traditional mortgage, funding the renovation work that will be completed and some portion of the original acquisition.

Loan	Restrictions	Loan Amount
IHDA HOME Acquisition/Rehab Subordinate Loan	80% AMI. Must contribute \$1,000 to purchase. Forgivable over 5-10 years.	Up to \$40,000 (up to \$2,000 for closing costs)
NSP Acquisition/Rehab Subordinate Loan	Only west of Cottage Grove. 120% AMI. Not for closing costs. Must contribute 1% to purchase. Forgivable over 5-15 years.	Up to \$70,000

Objective B. More interest in, availability of and attainment of down payment and subordinate loans for owner-occupant purchases

The Small Building Initiative should leverage existing down payment assistance programs. A complex web of existing, temporary and restricted programs exist that would assist the purchase of two- to four-unit buildings. These represent strategic financial sources to be accessed by the efforts in Woodlawn. I propose that the Small Building Initiative provide down-payment assistance to two- to four-unit buildings that are moderately renovated and that are formerly vacant, in the form a 5 year forgivable loan for which households up to 120% AMI are eligible. This particular down-payment assistance is intended to fill the gap for households at 80-120% AMI, prioritize projects that renovate properties, and require continued residence consistent with existing programs. The focus of lending to two- to four-unit buildings (and not homes converted to single family homes) means that this effort will create additional rental housing as well.

Eligibility of Assistance by % of Area Median Income¹

Area Median Income	0-30%	31-50%	51-80%	80-120%	120%+
Permanent	AHTF Grant	n/a	n/a	n/a	n/a
	AHTF Subordinate	AHTF Subordinate	AHTF Subordinate	AHTF Subordinate	n/a
	FHLB DPP	FHLB DPP	FHLB DPP	n/a	n/a
Temporary or Significantly Limited	City Lift	City Lift	City Lift	City Lift	n/a
	Univ. of Chicago	Univ. of Chicago	Univ. of Chicago	Univ. of Chicago	n/a
	NSP	NSP	NSP	NSP	n/a

List of Down-Payment Assistance Programs

Loans	Restrictions	Amount
FHLB Down Payment Plus CityLift	First-Time Home Buyers. Issued by FLHB Member Banks. 80% AMI. Based on availability of funds from foreclosure settlement. 120% Area Median Income. Homeowner must stay in home for 5 years.	Up to \$6,000 \$15,000
University of Chicago Down payment Assistance	Only for U of Chicago Employees. 120% AMI.	Up to \$8,000
NSP Purchase Assistance Subordinate Loan	Only west of Cottage Grove. 120% AMI. Not for closing costs. Must contribute 1% to purchase. Forgiven over 5-15 years.	Up to \$70,000
IHDA/Affordable Housing Trust Fund Down payment Grant	Forgiven over 5 years. 0-30% AMI. Must contribute \$1,000 to purchase.	Up to \$3,000
IHDA/Affordable housing Trust Fund Subordinate Loan	Below 80% AMI. Must contribute \$1000 to the purchase. Must contribute \$1,000 to purchase.	Up to \$30,000 for 50% AMI; Up to \$20,000 for 51-80% AMI
Proposed Small Building Initiative Assistance	120% AMI. Only for two- to four-unit homes that were formerly vacant. Must contribute 2% to purchase. Forgiven over 5 years. Minimum of \$10,000 in construction	Up to \$8,000

¹ Programs represented: Affordable Housing Trust Fund Grant and Subordinate Loans (AHTF); NHS-administered City Lift program, University of Chicago down payment assistance; and Neighborhood Stabilization Program (NSP).

must be performed.

Objective C. Greater access to renovation loans for two- to four-unit buildings in Woodlawn

While supporting new homeowners is one focus, another focus must be allowing current owners to upgrade their homes. Supporting their ability to refinance allows them to invest in their buildings as well, further upgrading the neighborhood. Several options exist. First, homes can be refinanced through the 203(k) loan program. Second, the TIF-Neighborhood Improvement Program has begun or will soon begin to provide renovations for existing homeowners covered by the West Woodlawn TIF, up to \$22,500 for a 4-unit building, with up to 30% available for interior repairs that are health and safety related. Finally, NHS of Chicago also provides renovation loans. Facilitating greater access requires publicizing these existing opportunities, and possibly leveraging the TIF-NIP program with additional funds.

Goal IV: Assistance and Counseling

The Small Building Initiative should provide both homebuyer counseling, general credit counseling as well as design and build assistance for renovation work. These forms of technical assistance will enable households to repair their credit and qualify for loans for two- to four-unit buildings, as well as prepare them to partner in the renovation of two- to four-unit buildings and overall improvement of the community.

Objective A. Greater access to pre-purchase and consumer credit counseling in Woodlawn

The most basic assistance that prospective homeowners need is pre-purchase counseling, a requirement of the more effective first-time homeownership programs and an important method of reducing the incidence of foreclosure. A network of providers associated with NSP serves as a resource for this work, including Agora Community Services, Genesis Housing Development, Greater Southwest Development Corporation, and the downtown-based Neighborhood Housing Services of Chicago.

Because foreclosure and other financial obstacles have damaged consumer credit, pre-purchase counseling may not be sufficient. Many post-foreclosure households are renting in Woodlawn with the intention of purchasing in the future. Others have been unable to purchase homes in Woodlawn, similarly because of impairments to their credit. Both groups require long-term credit repair in order to (re)join the ranks of homeownership. The people-based approach of credit repair, combined with place-based efforts such as rent-to-own strategies discussed later in this chapter, will also be valuable local wealth-building efforts.

Consumer Credit Counseling

Source	Resource
US Department of Justice	Approved Credit Counseling Agencies for Northern District of Illinois http://www.justice.gov/ust/eo/bapcpa/ccde/CC_Files/CC_Approved_Agencies_HTML/cc_illinois/cc_illinois.htm
City of Chicago	10 Things Every Consumer Should Know About Credit http://www.cityofchicago.org/content/dam/city/depts/bacp/Consumer%20Information/10thingstoknowaboutcredit12611.pdf
Money Management	City of Chicago-Recommended Resource http://www.moneymanagement.org/

International

US Federal Trade Commission	Consumer Information – Credits and Loans http://www.consumer.ftc.gov/topics/credit-and-loans
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Objective B. Greater access to technical assistance in the design-an- build process for two- to four-unit buildings

Another critical form of technical assistance would help prospective homebuyers, who are not construction experts, but who are open to acquisition and renovation of two- to four-unit buildings. Low-cost finished homes in the market are in large supply, so acquisition and rehabilitation must provide value that cannot be found elsewhere with as little burden as possible. Hopefully, these homes are less costly than finished homes and provide a homebuyer the added value of being able to design a home to suit one's particular needs. This process, however, hinges on competent and trustworthy general contracting. There are three approaches considered that could provide this form of technical assistance to potential homeowners in Woodlawn.

- **Make.** The Small Building Initiative could hire a part- or full-time construction manager to provide in-housing consulting services to homeowners. This staff member should either already be a certified 203(k) consultant, or would do so upon hiring, which would allow him earn compensation for the Small Building Initiative in the form of the 203(k) consulting fee.
- **Buy.** As an alternative, The Small Building Initiative could retain a series of existing 203(k) consultants to perform services for homeowners under the program on behalf of the Initiative, with payments passing through to the Initiative. This could introduce more competition for the work, reduce the overhead of the Initiative and also spread the work among a series of consultants (not one salaried employee) in a manner that is more conducive to how they already operate, taking the amount of business they can handle at any time. This may also take the form of a revenue-sharing agreement whereby 203(k) consultants provide a portion of their fee to the Small Building Initiative for brokering the relationship.
- **Sponsor.** Finally, the Small Building Initiative could take on the role of passive intermediary (and perhaps incubator), taking no direct business interest in the 203(k) consulting process. The Initiative could host workshops for successful contractors to become 203(k) consultants and establish a list of “preferred consultants” based on quality control that it would use for directing homebuyers. This strategy does not involve a source of revenues for the Initiative, but it also involves very little financial expense and risk beyond administrative overhead.

Based on the expressed preferences for supporting local developers and the need for flexibility, it is advised that a construction manager be hired than can serve as a 203(k) consultant to assist several homes through the construction process during start-up phase. This manager will also perform general administrative functions and transition the Initiative to serving as a more indirect intermediary “sponsor” of local 203(k) consultants.

Objective C. More participation of both owner-occupant and investor owners of two- to four-unit buildings in landlord management training and certification

A third form of technical assistance is landlord education and training for landlords of two- to four-unit buildings in Woodlawn. This training is important because margins can be very tight with this

type of housing. Community Investment Corporation provides such landlord education and certification, which applies to landlords of both multifamily and two- to four-unit buildings. Certification for completing this program is required by the Neighborhood Housing Services of Chicago for their CityLIFT program to assist homeowners in purchasing two- to four-unit buildings (NHS of Chicago, 2013c). In line with this practice, the Initiative should have the blanket requirement that any homebuyer or landlord that is assisted with funds from the Small Building Initiative must successfully obtain a certificate of completion from CIC's landlord training.

Many other landlords will not be covered under these requirements and should be encouraged through other means. Free courses in Woodlawn with a proof of membership in the Homeowner Association or Block Club can be offered to those landlords who sign a code of conduct and/or participate in no-fee rental registration program with the Small Building Initiative. Despite the lack of explicit enforcement, this will create public information about available rental housing and provide standards for enforcing community norms.

Note on Implementation of Counseling and Training Activities

A host of providers for housing counseling, credit counseling and landlord training exist in Chicago, if not close to Woodlawn. As a result, the challenge of implementation rests on developing partnerships to bring the existing opportunities to beneficiaries in Woodlawn and those who may look to relocate Woodlawn. This can be done by advertising the counseling opportunities on Choice Neighborhoods materials and in those of supportive services coordinator Metropolitan Family Services. The Small Building Initiative could also develop an online presence or a regular distribution list of non-profit staff members, residents and officials. The message can be successfully distributed through existing organizational networks. Lastly, the Initiative could sponsor a series of "teaser" workshops with the Network of Woodlawn, Homeowners Association or the Metropolitan Planning Council that educate the community on issues such as repairing credit and landlord practices, but also introduce existing service providers to the community.

Goal V: Responsible Development

The final component of the *SALAD Approach* consists of supporting development in the neighborhood that does more than attract new residents and commits to building wealth among existing residents. It also intends to use partnerships and investments to support new models of rental housing and homeownership that would have a positive impact on the community.

Objective A. More steering of development jobs to residents and tenants

Local economic development initiatives are important mechanisms for channeling neighborhood improvements into enhanced opportunity for residents. As Woodlawn revitalizes, existing residents are more likely to create multiplier effects in spending and also to continue to live and invest in the neighborhood.

The first local economic development initiative calls on POAH to partner with a workforce development intermediary to successfully develop HUD Section 3 business concern in Woodlawn for performing work on all Choice Neighborhoods construction projects, including the redevelopment of Grove Parc Plaza, development of off-site replacement housing, planned commercial developments, and any development associated with the Small Building Initiative. This is, of course, already an interest of POAH, but the formation of a partnership with an intermediary or a firm would improve the effort. One such organization is 180 Properties, a joint venture between

the workforce intermediary Cara Program and Mercy Housing that provides intensive job training to hard-to-employ workers for inspecting and maintaining vacant properties. The Chicago Housing Authority also maintains a regularly updated list of businesses with contact information that claim to be Section 3 business concerns that are potential partners as well (CHA, 2013e). A Request for Qualifications and/or Request for Proposal could identify businesses and organizations that actively hire in Woodlawn and would be interested in the potential partnership.

A second more expansive local economic development initiative would develop for-sale housing with New Market Tax Credits that has been demonstrated in Ohio. Examples include the Columbus Housing Partnership that weathered the recession in 2008, and previous projects by Vintage Development Group and Zaremba, Inc., in Cleveland. By providing a construction loan to a business located in a qualifying low-income census tract, tax credits can be used to finance the development of for-sale housing (Anderson, 2008). Because of the necessity of having a large project to raise capital using tax credits, the focus would need to expand beyond the approximately 200 two- to four-unit homes in Woodlawn to include homes in additional communities. There would also need to be a qualifying developer located in Woodlawn with sufficient capacity to take on the construction loan, which presents an easy tie in with the expansion of local Section 3 business concerns. This would present a systematic way to leverage large amounts of capital at discounted rates and capture the economic development impacts for the benefit of residents.

Objective B. More rental housing for low-income households (60-80% AMI) that incorporates a pathway to homeownership

The first recommendation is to develop two- to four-unit buildings into scattered site affordable housing with shallow LIHTC subsidies, and offer up all for deed-restricted purchase after 15 years. Case studies show that the LIHTC subsidy is often very successful in renovating scattered site housing in weaker markets, partially because the shallow subsidy of LIHTC developments (50%-60% AMI) are received more positively than the deeper subsidy of Section 8 vouchers (Thomas & Dewar, 2013). Viewed not as a substitute but a complementary development strategy, LIHTC development could add income diversity to the neighborhood that hopefully would counteract the negative connotation that affordable housing has. Affordability would be viewed in relation to the resident. The opportunity to purchase houses (or individual units) through a limited-equity co-op would encourage greater resident stability and provide an opportunity for building wealth.

The second recommendation is to develop two- to four-unit buildings into scattered site affordable housing through the 203(k) loan program, and making them available for purchase. These units would be restricted to households at or below 80% AMI, and like the LIHTC program, would provide a more shallow (supply-side) subsidy that should be positioned as complementing existing affordable housing options. If the program allows, the units could also be sold as limited-equity co-ops. Use of the 203(k) program for rental housing is only available, however, to a non-profit developer.

Objective V. More financial capital for strong developers of rental two- to four-unit buildings

To address the gap in financing that exists for rental housing developers of two- to four-unit buildings, the Small Building Initiative should jointly participate in providing loans to non-profit developers, for-profit developers and joint ventures of the two. Identifying an experienced non-profit to develop homes under the 203(k) loan program would be difficult, potentially even more so

with the requirement that all homes are limited to 80% AMI. Rent-to-own strategies for 80% to 120% AMI would be eligible for these additional loans. Support of for-profit developers would be accompanied by safeguards that require effective property management and Fair Housing for Housing Choice Voucher recipients. The inclusion of joint ventures can allow non-profits to gain development experience in partnership with for-profit partners, a practice that was effective in Philadelphia (Kromer, 2000). Providing developers better access to financing will encourage the participation of more financial intermediaries, who are useful for shifting investment strategies from generating cash flow to creating long-term asset growth.

Objective D. More retail amenities

Beyond the scope of housing, retail amenities are an important determinant of quality of life for residents of all income levels. Investing in commercial retail at 63rd and Cottage Grove, including a grocery store, coffee shop, dry cleaners, bakery and restaurants, would appeal to current and prospective residents alike. These investments should be considered priorities in order to ensure that the “brand” of the revitalization efforts in Woodlawn represents the whole set of planned initiatives.

Conclusion

In closing, I reiterate the significance of each component of the *SALAD Approach*. Without stabilizing the market, planners in Woodlawn and similar communities risk using resources in ways that do not reflect best practices of reducing capital imperfections (not displacing private capital and making only the amount of investment necessary to create the desired impact). Without advocating for market-correcting reforms outside of neighborhoods and pushing for local institutions aligned with neighborhood goals, the neighborhood may remain stymied by policies dictated by actors uninterested or uninformed about their impact in a localized setting, by the advocacy of vocal but non-representative actors, and by crippling gaps in capacity. By not making loans and other financial assistance easily accessible and adequate, scarce resources are left on the table and gaps in capital availability continue the trend of disinvestment. Without assistance and counseling, homeowners will not be able to overcome financial and market-dictated challenges to homeownership, preventing them from becoming active partners in investing in the community, overseeing renovations and creating more quality housing. Lastly, without responsible development that both builds wealth and diversifies the type of housing tenure and tenants, revitalization will not translate to improvements in economic opportunity for all of the residents. In short, the divide between low-income tenants and middle-class residents and homeowners will continue and the victor will most surely not be Woodlawn.

I have sought to link a comprehensive set of actions and a broader strategy directly to my assessment of the two- to four-unit market’s strengths and opportunities in Woodlawn, based on informant interviews, field observations and professional exposure. Though this study speaks to the direct experience in the neighborhood of Woodlawn and provides a set of context-specific recommendations, many of the lessons are indeed applicable outside of Woodlawn. Housing markets must be addressed through market-means, but with appropriate attention for the role of effective and aligned institutions, evaluation of public policy and the consideration of equitable outcomes. Such approaches, I firmly believe, are more likely to bring broad community stakeholders together, to attract the assistance of necessary partners and to bring about positive neighborhood improvements that all can appreciate.

Appendix I: Implementation Plan

Goal	Objective	Low-Effort/High-Priority Recommendations	High-Effort/High-Priority Recommendations	Low-Priority Recommendations
I. Stabilization <i>A stabilized, well-functioning property market for two- to four-unit properties</i>	A. More Stable Property Taxes	1. Expand outreach to seniors for property tax exemptions	2. Offer sale to land trust in exchange for long-term land lease, stable property taxes and permanent affordability	3. Creation of deferred/forgivable loan program that freezes property taxes and comes due on sale of property.
	B. Fewer Short-Sales		1. Re-direct many or all properties to the Land Bank Authority so they aren't included in appraisals	
	C. Fewer Lots and Demolition for New Construction	1. Allow neighbors long-term management opportunity of neighboring lots	2. Perform long term land banking with Land Bank Authority; 3. Turn over vacant lots/buildings from Building Dept to Land Bank	
	D. Fewer housing units and new, spacious single family housing	1. Demonstrate and encourage the conversion of two- to four-unit buildings into single family housing and two-flats		
	E. More ready-to-renovate two- to four-unit buildings		1. Actively use Land Bank Authority to acquire vacant buildings and clear title and municipal liens	

II. Advocacy <i>Policies and organizational infrastructures better aligned to addressing the unique challenges of two- to four-unit properties</i>	A. More active organizations in Woodlawn that specialize in two- to four-unit buildings		1. Positioning the Network of Woodlawn and its pillars as the leading community organization. 2. Invite NHS to have field presence vis-à-vis a satellite staff member.	3. Develop community-wide consensus around prioritizing renovation over demolition and new construction.
	B. Fewer non-professionally managed two- to four-unit buildings that are 100% occupied by housing choice voucher recipients and/or exhibit weak property management	1. Lower HCV landlord rents through demonstrating non-compliance with "rent reasonableness" requirement. 2. Monitor and support Sub-Area FMR Demonstration.	3. Advocate for "one unit for market" requirement.	4. Pursue rental licensing for two- to four-unit buildings.
	C. Higher quality of life and stronger market demand for housing in Woodlawn	1. Support public safety efforts, including landlords of two- to four-unit buildings. 2. Promote 3-1-1 for requesting public services. 3. Analyze performance metrics for neighborhood disparities.	1. Pressure public agencies to improve quality/culture of customer service to the neighborhood through formal and informal means.	
	D. More sources of funding for Small Building Initiative			1. Merge the Woodlawn and West Woodlawn TIF districts.
III. Loan Fund and Financial Assistance <i>Interested and current home owners in Woodlawn have adequate financial resources to</i>	A. More interest in and attainment of acquisition/rehab loans by owner-occupant purchases of two- to four-unit buildings in Woodlawn	1. Establish relationships with local acquisition/rehab lenders and particular lenders of 203(k) loans. 2. Educate homeowners about publicly-provided acquisition/rehab loans from NSP and IDHA.		
	B. More interest in, availability of and attainment of down	1. Leverage existing down-payment and subordinate loan programs.	2. Create new down-payment assistance targeting rehab of Woodlawn two- to four-unit buildings.	

<i>invest into two- to four-unit properties</i>	payment and subordinate loans for owner-occupant purchases of two- to four-unit buildings in Woodlawn			
	C. Greater access to renovation loans for two- to four-unit buildings in Woodlawn	1. Expand TIF-NIP renovation lending in both TIF districts.	2. Augment TIF-NIP renovation financing through joint loan loss guarantee.	
IV. Assistance and Counseling <i>Interested and current home owners in Woodlawn have adequate technical assistance and counseling to invest into two- to four-unit properties</i>	A. Greater access to pre-purchase and consumer credit counseling in Woodlawn	1. Partner with NHS or other nearby pre-purchase assistance to advertise services in Woodlawn.	2. Develop monthly series of pre-purchase and credit counseling workshops to make marginal gains and introduce service-providers to residents.	
	B. Greater access to technical assistance in the design and build process for two- to four-unit buildings	1. Hire construction manager for start-up assistance to home-owners; 2. Develop approved list of 203(k) consultants, providing workshops to promote more capable consultants to become certified.	3. Retain several 203(k) consultants to provide services to home buyers on a fee basis or revenue-sharing agreement.	4. Hire construction manager to handle all construction advisory for two- to four-unit buildings.
	C. More participation of both owner-occupant and investor owners of two- to four-unit buildings in landlord management training and certification	1. Perform outreach to two- to four-unit building landlords to get training. 2. Require all purchases of two- to four-unit buildings affiliated with the Small Building Initiative to get landlord training certification.	3. Sponsor landlord education seminars for landlords who join homeowner association or who sign code of conduct and register rental apartments with Small Building Initiative.	

V. Responsible Development <i>Current residents have pathways to build wealth through local economic development and pathways to homeownership, while diverse rental products and necessary amenities attract newer (moderate income) residents.</i>	A. More steering of development jobs to residents and tenants	1. Partner with a workforce development intermediary to develop workforce in Woodlawn to complement all Choice work. 2. Establish relationships with Section 3 business concerns and promote hiring of Woodlawn residents.	3. Partner with other neighborhoods to use NMTC program to get construction loan to rehab two- to four-unit properties for sale or rental.
	B. More rental housing for low-income households (60-80% AMI) that incorporate pathways to homeownership		1. Develop concentrated shallow-subsidy scattered site rental housing using the LIHTC program and 203(k) loan program, offering as many as possible for sale (as limited equity co-ops or pure sale) after 5-15 years.
	C. More financial capital for strong developers of rental two- to four-unit buildings		1. Joint participate in loans to non-profit developers, for-profit developers and joint ventures for developing two- to four-unit buildings into rental housing (with eventual for sale).
	D. More retail amenities		1. Invest in commercial retail at 63rd and cottage including grocery store, coffee shop, dry cleaners, bakery and restaurants.

Appendix II: Description of Informants

Research Alias	Informant Background	Date of Initial Interview
Informant #1	Broker with a real estate firm that serves Woodlawn	1/9/13
Informant #2	Real estate developer that serves Woodlawn	1/10/13
Informant #3	Woodlawn resident and landlord	1/16/13
Informant #4	Government official dealing with housing	1/17/13
Informant #5	Government official dealing with housing	1/18/13
Informant #6	Local developer with residential portfolio that includes two- to four-unit properties in Woodlawn	1/18/13
Informant #7	Local developer of multifamily properties on the South Side of Chicago	1/22/13
Informant #8	Government Official with an agency that deals with housing	1/22/13
Informant #9	Developer that serves Woodlawn	1/22/13
Informant #10	Representative of local institution active in Woodlawn	1/23/13
Informant #11 & #12	Two community organizers working on housing issues in Woodlawn and across the entire City of Chicago	1/23/13
Informant #13	Local developer of multifamily properties in Woodlawn	1/23/13
Informant #14	Government official dealing with housing	1/24/13
Informant #15	Non-profit representative in housing	1/25/13
Informant #16	Mortgage broker for a national lender	1/25/13
Informant #17	Non-profit representative in Woodlawn	1/25/13

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