JOINT CENTER FOR HOUSING STUDIES OF HARVARD UNIVERSITY

PRO Neighborhoods Case Study

CHICAGO CDFI COLLABORATIVE

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SECURITY

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Cover Photo Credit: Gordon Walek

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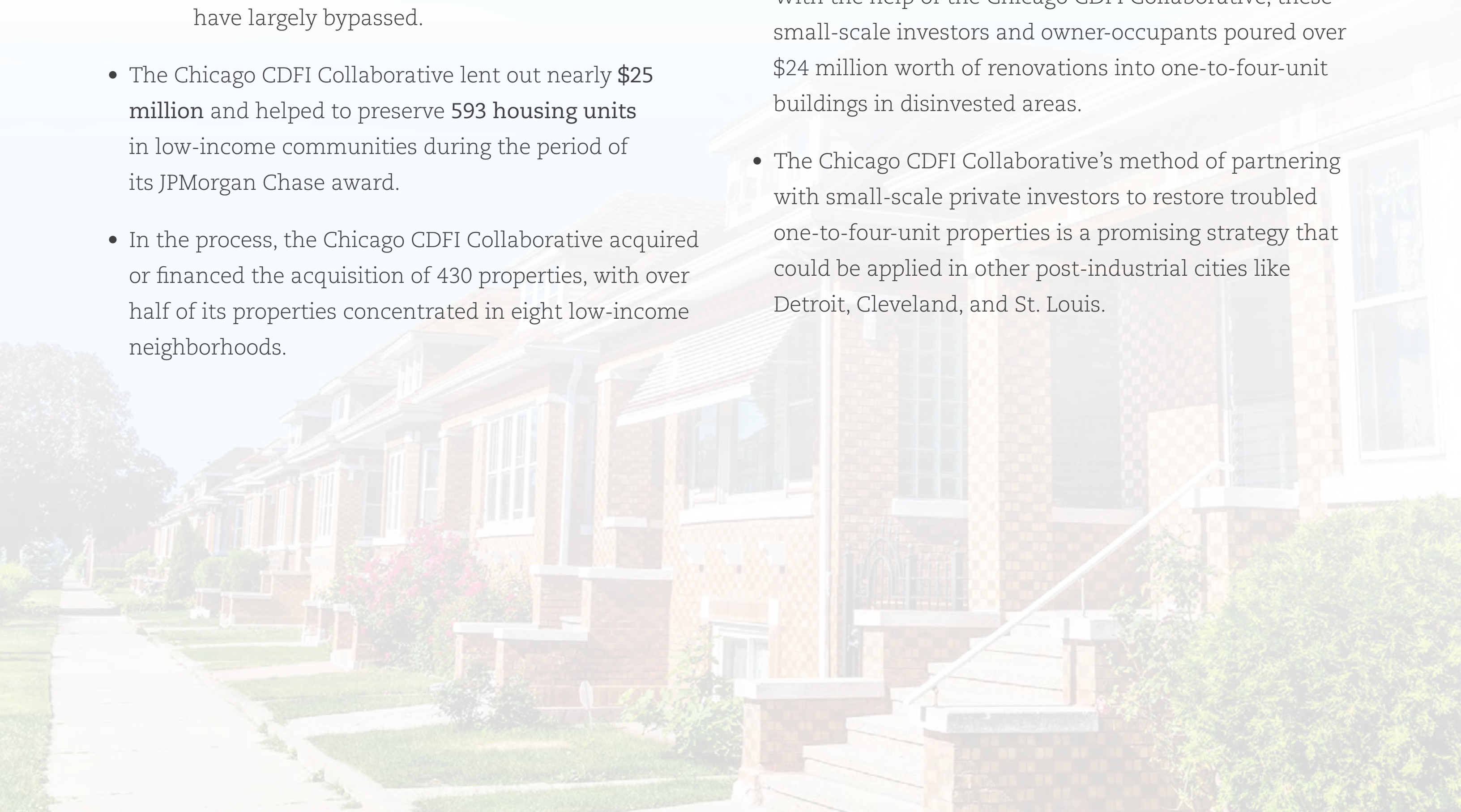
Executive Summary

The Chicago CDFI Collaborative is a partnership of three community development financial institutions (CDFIs): Community Investment Corporation, Chicago Community Loan Fund, and Neighborhood Lending Services. In 2013 they were awarded $5 million through PRO Neighborhoods, a grant program of JPMorgan Chase & Co. that seeks to identify and support solutions to the problems of inequality and disadvantaged neighborhoods in the United States.

- The Chicago CDFI Collaborative aims to revive the most economically depressed low-income neighborhoods in the city of Chicago, Illinois.
- The Collaborative's strategy is innovative in two significant ways:
    - By targeting one-to-four-unit privately owned unsubsidized residential properties, which account for nearly half of the affordable rental stock in Chicago.
    - By partnering with and assisting small-scale investors and owner-occupants, a group that up to now urban redevelopment programs have largely bypassed.
- The Chicago CDFI Collaborative lent out nearly **$25 million** and helped to preserve **593 housing units** in low-income communities during the period of its JPMorgan Chase award.
- In the process, the Chicago CDFI Collaborative acquired or financed the acquisition of 430 properties, with over half of its properties concentrated in eight low-income neighborhoods.
- Collaborations, this study shows, have to adjust to conditions on the ground. In order to target its work in specific neighborhoods, the Chicago CDFI Collaborative developed a wide array of acquisition methods, including several local and federal government programs that dispose of foreclosed or troubled properties.
- The Chicago CDFI Collaborative identified and engaged small-scale investors, most of whom are minority entrepreneurs holding down full-time jobs and were not previously connected to any government or nonprofit revitalization programs.
- With the help of the Chicago CDFI Collaborative, these small-scale investors and owner-occupants poured over $24 million worth of renovations into one-to-four-unit buildings in disinvested areas.
- The Chicago CDFI Collaborative's method of partnering with small-scale private investors to restore troubled one-to-four-unit properties is a promising strategy that could be applied in other post-industrial cities like Detroit, Cleveland, and St. Louis.



RESTORING TROUBLED BUILDINGS

Vacant buildings in need of major repair are a common sight in Chicago's low-income neighborhoods. This building in the Chicago Lawn neighborhood has since been fully rehabilitated and is now occupied as a rental property.

Photo Credit: Gordon Walek

Michael Johnson, a maintenance supervisor of a high-rise residential building in downtown Chicago, aspired to work full time in real estate, renovating and selling small residential buildings on Chicago's sprawling South Side. He had already bought and rehabilitated three such buildings, but he wanted to do more. So last year he approached an awardee of the JPMorgan Chase & Co. Partnerships for Raising Opportunities in Neighborhoods (PRO Neighborhoods) program to help him find new buildings and develop his skills. Recognizing a promising and ambitious young investor, the Chicago CDFI (Community Development Financial Institution) Collaborative sold Johnson a run-down house in the depressed South Side neighborhood of Chatham for $55,000 and then provided him with technical support while he restored the house top-to-bottom. In less than a year, Johnson had completed a beautiful renovation at a cost of $50,000 (see photos on page 15) and placed the house on the market for $150,000. With the help of the Chicago CDFI Collaborative, a local entrepreneur had expanded his operational capacity, and this block of Chatham looked more like a functioning community than a place of despair.

The Chicago CDFI Collaborative's purpose is to help redevelop struggling low- and moderate-income communities in Chicago. To this end, the participating community development financial institutions (CDFIs) find small-scale investors, such as Michael Johnson, as well as individual owner-occupants and help them acquire and restore small residential properties in Chicago's most economically depressed neighborhoods. In such neighborhoods, one-to-four-unit buildings provide a critical source of affordable housing, and their condition and appearance influence the strength of the local housing market and the amount of local investment. So far, during the period of the JPMorgan Chase award, this partnership has lent out nearly $25 million and helped to restore 593 housing units in 430 properties located in the city's low-income communities. This innovative work required overcoming many obstacles, however, including the CDFIs' different lending standards and unforeseen difficulties in acquiring troubled residential properties.

This case study is one of a series of reports written by Joint Center for Housing Studies on PRO Neighborhoods, a grant program of JPMorgan Chase that supports CDFIs pursuing innovative collaborations.[1] These publications aim to inform the field of community development by investigating the collaborative approach to community development taken by PRO Neighborhoods awardees. The present case study reviews the achievements, challenges, and innovative practices of one of the first awardees in the PRO Neighborhoods program, the Chicago CDFI Collaborative.

[1] To date, PRO Neighborhoods has given out $67.6 million in grants to 17 groups of collaborating CDFIs, with a planned total of $125 million in grants over 5 years.

A RESTORED HOME

A tenant stands in front of her new home, with (left to right) Andre Collins, who acquired the home for the Collaborative; Scott Allbright, who bought the home from the Collaborative and rehabilitated it; and Steve Schaffer, coordinator of the Neighborhood Stabilization Initiative program through which the Collaborative purchased the home out of foreclosure.

Photo Credit: Gordon Walek

Housing Challenges in Chicago

On Chicago's South and West Sides, there are many neighborhoods in which poor people live without the opportunities or amenities found in prosperous communities. More than 40,000 empty residences scar the streets of these neighborhoods, discouraging new investment and population growth.[2]

ONE- TO FOUR-UNIT PROPERTIES

In such depressed neighborhoods, a great number of homes are located in one-to-four-unit buildings; in the city of Chicago, these small residential properties comprise nearly half of the affordable rental stock.[3] During the recent economic crisis, however, lenders foreclosed on many owners of small residential properties, pushing up foreclosure rates to 10 percent per year in some neighborhoods.[4] In these circumstances, owners often neglected their one-to-four-unit buildings or abandoned them altogether. As a result of the crash, many of these buildings fell out of the hands of traditional owner-occupants.

Complicating the problem, absentee owners, speculators, and financial institutions own large numbers of the vacant lots and derelict buildings in Chicago's disinvested neighborhoods. Many of these owners fail to maintain or improve their properties, even though the city has issued citations by the thousands.[5] In addition, these owners can be difficult to locate and unwilling to sell, adding to the frustration of community residents trying to acquire the properties in order to revitalize their neighborhoods.

Hence, for many reasons and despite the recent accomplishments of the Neighborhood Stabilization Program and other revitalization efforts, the housing crisis exacerbated the decades-long problem of vacant and derelict buildings that continues to undermine many Chicago neighborhoods. Nor is Chicago alone. Across the nation, privately owned but neglected and run-down residences plague cities: coastal ports such as Baltimore, Maryland and Oakland, California; old industrial centers such as Detroit, Michigan, and Cleveland, Ohio; and even Sunbelt boomtowns such as Houston, Texas, and Miami, Florida.

Nonetheless, even in depressed neighborhoods there are responsible owners who actively maintain their one-to-four-unit properties. These owners are, in the words of a RAND Corporation report, "a tremendous resource of untapped potential" in the fight to preserve and create affordable housing.[6] They tend to be small-scale investors, however, not the large and well capitalized organizations that operate larger multifamily properties. For that reason, they often cannot qualify for loans to maintain or repair their properties. Furthermore, low property values in depressed neighborhoods make it difficult for them to get loans for any substantial amount of money. Yet until now, most affordable housing programs have ignored the small-scale investors who work on privately owned, non-subsidized one-to-four-unit buildings.

[2] U.S. Dept. of Housing and Urban Development, HUD Aggregated USPS Administrative Data on Address Vacancies, 2016 Quarter 3.

[3] 41% of Chicago-area central city renters with household income under $50,000 who pay less than 30% of their monthly income for housing costs live in 1-4 unit buildings. U.S. Census Bureau, American Housing Survey 2013, https://www.census.gov/programs-surveys/ahs/data/interactive/ahstablecreator.html#?s_areas=a16980&s_year=m2013&s_tableName=Table10&s_byGroup1=a3&s_byGroup2=a7&s_filterGroup1=t3&s_filterGroup2=g5.

[4] Institute for Housing Studies at DePaul University, "Foreclosure Filings per 100 Residential Parcels by Chicago Community Areas, 2005–2015," https://www.housingstudies.org/dataportal/filings/foreclosures-100-residential-parcel/chicago-community-areas/2005/2015/. For example, the Englewood neighborhood had a foreclosure filing rate of 10.5 per 100 parcels in 2008.

[5] Nearly 38,000 building citations related to vacant buildings over the past 9 years. City of Chicago, Building Violations, January 5, 2017, https://data.cityofchicago.org/Buildings/Building-Violations/22u3-xenr.

[6] Heather Schwartz, Raphael Bostic, Richard Green, Vincent Reina, Lois Davis, and Catherine Augustine, "Preservation of Affordable Rental Housing: Evaluation of the MacArthur Foundation's Window of Opportunity Initiative" (RAND Corporation, 2016), 109.

The Chicago Collaborative's Approach

Funded by a $5 million PRO Neighborhoods grant from JPMorgan Chase, the Chicago Collaborative is made up of three experienced local CDFIs: the Community Investment Corporation (CIC), the Chicago Community Loan Fund (CCLF), and Neighborhood Lending Services (NLS), a subsidiary of the Neighborhood Housing Services of Chicago. Within the Chicago Collaborative, each of the three partners promotes the ownership and rehab of troubled one-to-four-unit properties but specializes in different types of lending.

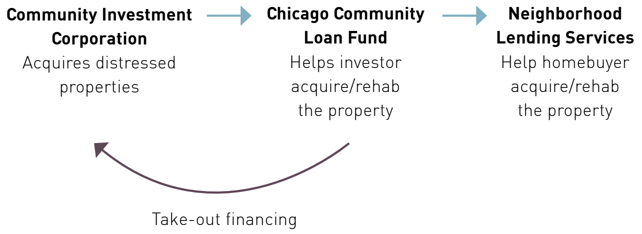

Community Investment Corporation
Acquires distressed properties
Chicago Community Loan Fund
Helps investor acquire/rehab the property
Neighborhood Lending Services
Help homebuyer acquire/rehab the property
Take-out financing

Figure 1. Potential Flow of Acquisition and Financing Activity among Chicago CDFI Collaborative Partners

CIC, which has traditionally made loans for the acquisition and rehab of large multifamily properties, now also makes refinancing loans for multiple units in one-to-four-unit buildings. In addition, CIC used part of the PRO Neighborhoods grant to create a special fund to help it acquire properties that have gone through the foreclosure process, are saddled with delinquent property taxes or code violations, or have been abandoned. CIC then sells these properties to small-scale investors whom CIC has selected for their financial stability and quality of work.

CCLF, in turn, administers loans to small investors to acquire and rehab these properties and other vacant one-to-four-unit buildings on the market. NLS extends the reach of the Collaboration by working with owner-occupants, providing lending to households earning up to 120 percent of the area median income in order to rehab their own properties. Unlike other lenders, the Chicago Collaborative offers high loan-to-value loans, which make repairs possible for owners of low-value distressed properties. All three CDFIs also offer technical assistance to help their borrowers navigate the rehabilitation process. After an investor has successfully rehabbed nine or more units in one-to-four-unit buildings, CIC can provide long-term ("take-out") loans to replace CCLF's short-term construction loans. Sometimes two or three of the members of the Chicago Collaborative work on the same property, but generally the three organizations work with different buildings and investors in the same neighborhoods, referring clients to one another as appropriate. The three CDFIs apportioned the $5 million PRO Neighborhoods grant among themselves to provide funds for each of their specialized services.

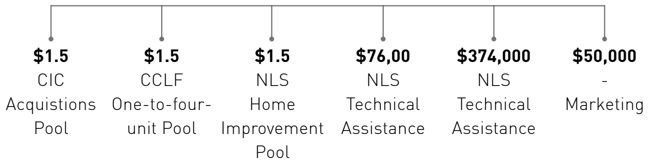

$1.5
CIC
Acquistions Pool
$1.5
CCLF
One-to-four-unit Pool
$1.5
NLS
Home Improvement Pool
$76,00
NLS
Technical Assistance
$374,000
NLS
Technical Assistance
$50,000
-
Marketing

Figure 2. Use of Funds from PRO Neighborhoods Grant

FOCUS ON SMALL-SCALE INVESTORS

Unlike almost all nonprofit low-income housing programs, the CDFIs of the Chicago Collaborative work with individual investors who hold few properties in their portfolio. The managers of the participating CDFIs believe these investors are a key to improving urban neighborhoods. Unlike large-scale investors, Chicago's small-scale investors often belong to racial and ethnic minority groups and generally take up real estate as a second occupation besides a traditional job. For the most part, these "mom-and-pop" investors have seldom participated in government and nonprofit revitalization programs and tend to view government with suspicion. However, these investors are also more likely to be residents of the community they work in, and their ambition to rehab properties can help revitalize their neighborhoods.

A problem that the Chicago CDFI Collaborative faces is that some investors in distressed markets will purchase a property speculatively, with no intention to improve the property. Other investors will do only minor, surface-level rehab work and then sell the property. While such property flipping can be lucrative, it is not in the best interest of the neighborhood because it doesn't fix the structural issues that will cause the property to become distressed again. Even when such investors have the financial capacity to buy a property, CIC and CCLF refuse to work with them.

Instead, CIC and CCLF seek potential investors who can demonstrate not only their financial capacity but also the quality of their rehabilitation work. The Collaborative's officers believe that high-quality rehabilitation that includes fixing structural problems will prevent properties from quickly falling back into disrepair and support the long-term goal of revitalization of distressed neighborhoods. Jack Crane, CIC's director of lending, says that to ensure the success of the project, "Our main job as a mission-driven organization is to vet the buyer."[7] Despite the higher costs, such high-quality rehab projects are still profitable. Indeed, CIC reports that several investors changed their renovation strategies after CIC rejected them due to their low-quality work.

In addition to assessing and choosing investors and borrowers, each CDFI provides ongoing training and technical support to help their clients rehabilitate troubled properties efficiently and well. CIC, for example, offers property management training, and even has its own construction staff to help investors manage their construction plans. CCLF helps its novice small-building owners with specialized training in the basics of the borrowing process and rehab administration procedures. Through its parent organization, Neighborhood Housing Services of Chicago, NLS provides technical assistance and continued post-purchase education to owner-occupants, including assessing and prioritizing repairs, conducting inspections, helping to review contractor bids and select a contractor, and monitoring the construction process. In this way, each Chicago Collaborative partner helps borrowers develop their skills so they can rehab more properties and have a greater impact in their community.

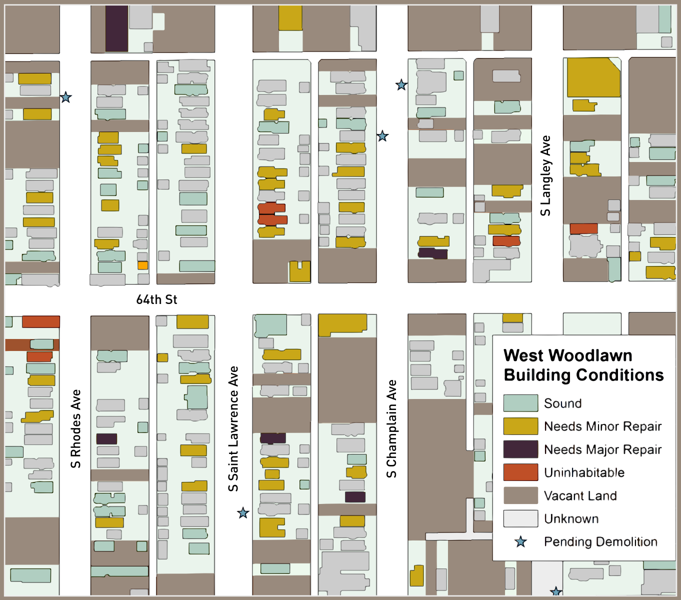
The small-scale investors served by the Collaborative are younger and less experienced than typical multifamily investors. This is mostly due to the lower capital requirements in the one-to-four-unit market compared to the multifamily market. Unlike multifamily projects, which are expensive and can take years to acquire and develop, one-to-four-unit properties are inexpensive enough for part-time and small-scale investors to purchase. One-to-four-unit projects also can be completed much more quickly: such properties can be acquired, renovated, and leased to tenants in a total of six to twelve months. In addition, one-to-four-unit properties allow for multiple exit strategies, depending on the needs of the investor. The investor could rehab the property for rental, creating a steady cash flow; or the investor could rehab and sell the property, extracting capital for a new project. Finally, for less experienced investors, it is easier to manage a small number of one-to-four-unit rental properties than it would be to manage a large portfolio of rental housing, especially if it includes big multifamily properties.

It is also easier for investors to get a foot in the door of the lending market for one-to-four-unit properties because they can demonstrate rehab competency on their own homes first. For CIC, which prefers not to work with first-time investors, evidence of success is one of the prerequisites for financing. For all these reasons, one-to-four-unit properties are attractive to younger, less established investors.

[7] Jack Crane (Senior Loan Officer and Manager, 1–4 Unit Program, CIC), interview, August 24, 2016.

A Closer Look at the Problem in Chicago's West Woodlawn Neighborhood

BUILDING CONDITIONS ON TYPICAL WEST WOODLAWN BLOCKS



Data Sources: City of Chicago, Chicago Metropolitan Agency for Planning. Scale: 1:2,000

The Chicago CDFI Collaborative has been particularly active in the West Woodlawn neighborhood, a disinvested, predominantly African American area close to the University of Chicago.[I] At its peak in 1950, West Woodlawn was home to more than 21,000 people, but since then its population has dropped by nearly two-thirds to 7,600.[II] Today, 54 percent of households live below the poverty line and 33 percent of potential workers are unemployed.[III] The troubled housing market compounds the economic distress: poor quality housing, waves of foreclosures, and vacant properties that decrease density sap the neighborhood of economic vitality and discourage people from moving there.

Most blocks feature several empty lots, with 21 percent of the neighborhood consisting of vacant land (Map 2).[IV] Of the existing residential structures, over 11 percent sit empty.[V] This means that in West Woodlawn, nearly 30 percent of the residential capacity is not in use. Furthermore, only about half of the existing buildings are structurally sound (58 percent),[VI] and 34 are currently slated for court-ordered demolition.[VII] The housing crisis compounded decades of decline. Between 2005 and 2015, over 40 percent of parcels were foreclosed on at least once.[VIII]

Despite these challenges, West Woodlawn's proximity to transit lines, the University of Chicago, and the future Obama Presidential Library have stimulated the first signs of revitalization. In addition, different agencies have launched an array of programs to better the neighborhood. The Chicago CDFI Collaborative has participated in this effort by financing the rehabilitation of 32 properties in the neighborhood, which helped to decrease the residential vacancy rate between 2014 and 2016 from 16 percent to 11 percent.[IX]

[I] As of 2015, the population of West Woodlawn was 94 percent African American. U.S. Census Bureau, 2011-2015 American Community Survey 5-Year Estimates, Table B02001, for tracts 4205, 4206, and 4207, Cook County, Illinois.

[II] Minnesota Population Center, National Historical Geographic Information System (Minneapolis: University of Minnesota, 2016), Table AV0. doi:10.18128/D050.V11.0

[III] U.S. Census Bureau, 2011-2015 American Community Survey 5-Year Estimates, Tables S2301 and S1701.

[IV] Chicago Metropolitan Agency for Planning, 2010 Land Use Inventory for Northeastern Illinois, Version 1.0, December 2014.

[V] U.S. Dept. of Housing and Urban Development, Aggregated USPS Data.

[VI] City of Chicago, Building Footprints, August 2015, https://data.cityofchicago.org/Buildings/Building-Footprints-current-/hz9b-7nh8

[VII] City of Chicago, City Demolition Orders, October 27, 2016, https://www.cityofchicago.org/content/dam/ city/depts/bldgs/general/Vacant/DemoOrdersbyWardDate10272016.pdf.

[VIII] 42.8 percent of parcels in the greater Woodlawn neighborhood faced a foreclosure action between 2005 and 2015. Institute for Housing Studies at DePaul University, "Cumulative Foreclosure Filings Activity by Chicago Community Areas, 2005–2015," https://www.housingstudies.org/dataportal/filings/percent-parcels-impacted-foreclosure/chicago-community-areas/2015/2015/.

[IX] U.S. Dept. of Housing and Urban Development, Aggregated USPS Data.

Implementation

TARGETING DEPRESSED NEIGHBORHOODS

Part of the Chicago Collaborative's long-term strategy is to create a critical mass of safe, stable housing on particular blocks so as to begin a revitalization that will eventually spread to the whole neighborhood. In order to have the greatest effect where it is most needed, the Chicago Collaborative focused the majority of its work in or near thirteen neighborhoods that the City of Chicago has designated as a part of the Chicago Micro-Market Recovery Program, an anti-foreclosure program aimed at keeping or placing residents in homes. This focus helps ensure that even when the partners are not coordinating their efforts on a single property, their work has a mutually reinforcing effect in disinvested neighborhoods targeted by the city and other revitalization programs. In these troubled neighborhoods, however, only the Chicago Collaborative targets one-to-four-unit properties.

ACQUIRING TROUBLED BUILDINGS

The Chicago Collaborative's strategy to target specific areas depends on acquiring troubled properties. Often the Chicago Collaborative works with investors who have already purchased properties in a distressed area but do not have the resources or expertise to acquire nearby troubled properties. In such cases, the Chicago Collaborative can acquire a building and then transfer it to a qualified investor, who will then go on to renovate and sell or lease the building.

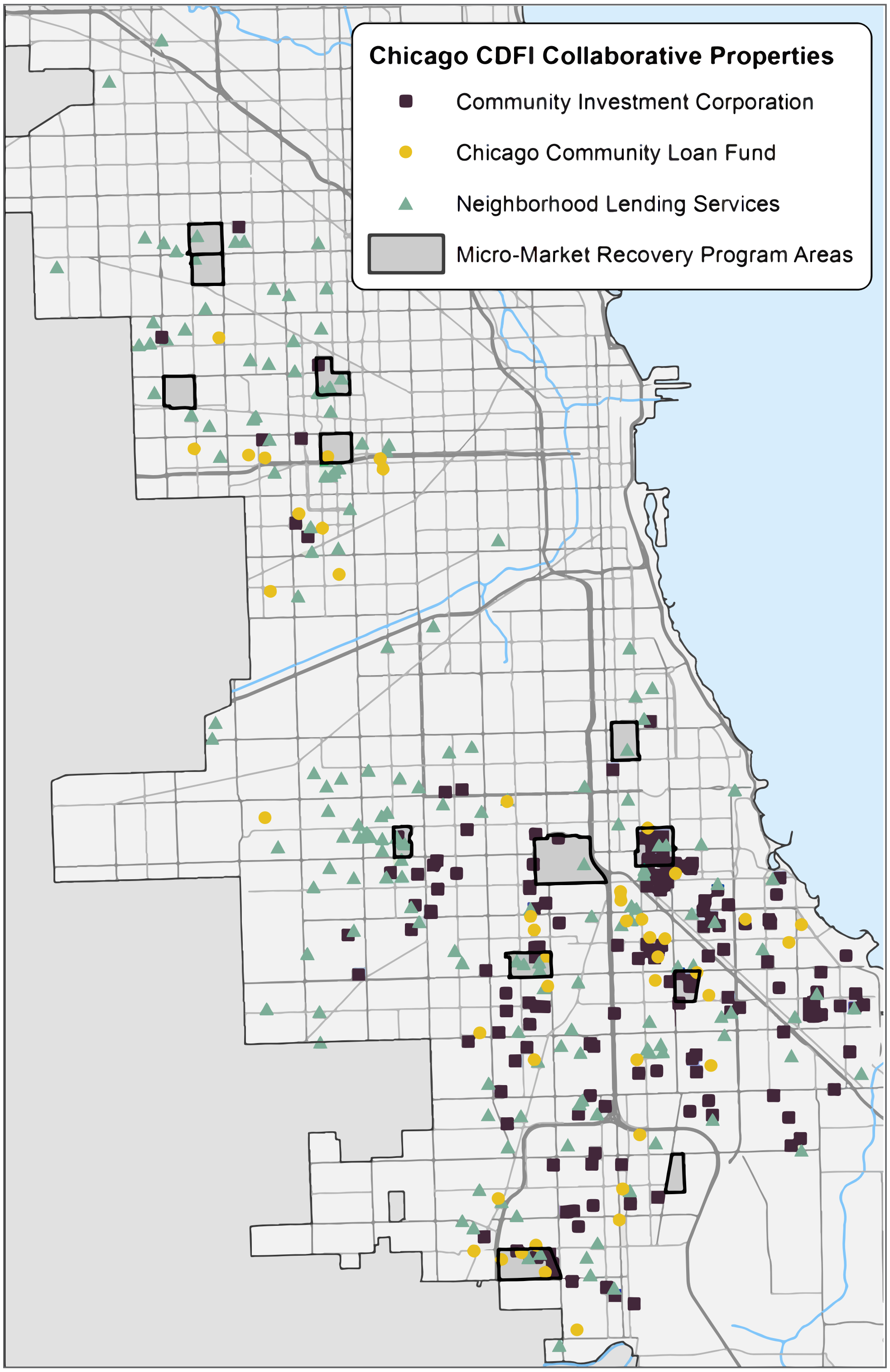
To expedite this process, CIC hired a full-time acquisition manager for the Collaborative, which then deployed $1.5 million of its PRO Neighborhoods grant as an acquisition fund to allow the acquisition manager to make timely competitive cash offers. So far, the Chicago Collaborative has acquired 178 properties, containing 268 units, at an average cost of $16,470.

Nonetheless, acquiring troubled buildings is a complicated business, and the Chicago Collaborative has had to employ a variety of methods. To acquire vacant buildings, for example, the Collaborative has used the City of Chicago's court-ordered forfeiture process. Despite the City's claim that the process is "an affordable option for many potential buyers," most individuals and small-scale investors find that preparing a complete application is too difficult to make the effort worthwhile.[8] Applicants must fully research many aspects of the property, including existing ownership, taxes owed, mortgages, liens, and court involvement. They must also successfully contact existing owners and/or lien-holders and negotiate the release of the property/liens prior to submitting an application. The Chicago Collaborative's acquisition manager has the expertise and time necessary to make successful applications for court-ordered forfeiture, which has increased the number of vacant buildings available for redevelopment.

Other tactics which CIC developed for the Collaborative include buying and foreclosing on tax liens; using housing court to be designated the receiver of a vacant and abandoned building; purchasing properties through the nonprofit National Community Stabilization Trust's "First Look" program, which offers nonprofits a chance to purchase foreclosed homes before private buyers; and making discounted cash offers on properties registered in a realtors' multiple-listing service.

[8] City of Chicago, "Forfeiture Process for Vacant Buildings," https://www.cityofchicago.org/city/en/depts/bldgs/provdrs/vacant_buildings/svcs/Forfeiture.html.

The Chicago CDFI Collaborative Rehabilitated 430 Properties Across Chicago


Chicago CDFI Collaborative Properties
■ Community Investment Corporation
● Chicago Community Loan Fund
▲ Neighborhood Lending Services
▨ Micro-Market Recovery Program Areas

Data Sources: Chicago CDFI Collaborative, City of Chicago. Scale: 1:130,000

Achievements and Challenges

TABLE 1 DEALS CLOSED BY CHICAGO CDFI COLLABORATIVE

PARTNER	TYPE	PROPERTIES	HOUSING UNITS	DOLLAR TOTAL
CIC	Acquisitions	178	268	2,931,628
NLS	Owner-Occupant Purchase/Rehab	194	231	18,734,132
CCLF	Investor Purchase/Rehab	58	94	6,041,750
	TOTAL	**430**	**593**	**27,707,510**

Note: Data are for the period January 2014 through December 2016.

DEPLOYING CAPITAL IN DISTRESSED COMMUNITIES

Since its first loan in January of 2014, the Chicago Collaborative has acquired or financed the acquisition of 430 properties (Table 1). Its work extends to over 40 distressed neighborhoods on Chicago's South and West sides, but over half of its properties are concentrated in eight neighborhoods, including several dense pockets in and around Chicago Micro-Market Recovery Program areas (Map 1).

CCLF and NLS have lent to small-scale investors and owner-occupants not only to acquire properties but also to rehab them. Of their $24.8 million in loans, more than $11 million was used to renovate the acquired properties. In addition, the properties that CIC acquired and sold to small-scale investors attracted an estimated $13.4 million in outside funds to finance rehabilitation work. This means that with the help of the Chicago Collaborative, small-scale investors poured over $24 million worth of renovations into one-to-four-unit buildings in disinvested areas.

In total, the Chicago Collaborative helped to restore and preserve 593 dwellings in one-to-four-unit buildings, exceeding the original goal of 415 units. As a result, in the unlikely landscape of Chicago's low-income communities, 593 families now live in safe, high-quality homes that they probably would not have had otherwise.

ENGAGING SMALL-SCALE INVESTORS AS STAKEHOLDERS IN COMMUNITY DEVELOPMENT

Just as impressively, the Chicago Collaborative identified and engaged small-scale investors targeting distressed properties in Chicago's low-income neighborhoods. The Collaborative's outreach activities, including holding a small-scale investor conference, not only encouraged investors to work with the CDFIs, but also exposed a much wider group of investors to financing and support from a variety of government and nonprofit sources. Its success at building connections in the community brought in more investors: Michael Johnson, for example, was referred to CIC by an existing small-scale client. As a result of its outreach and screening, the Collaborative has so far identified a dozen investors to whom to provide additional residential properties and any needed financial or technical support. Michael Johnson, a member of this group, plans to rehab six more properties with the Collaborative in 2017.

DIFFERENCE IN LENDING STANDARDS

Investors interested in one-to-four-unit properties find it difficult to secure short-term acquisition and construction financing; CCLF's loans to small investors address this difficulty. However, CCLF has an overall limit of how much they will lend to one person, and does not make long-term loans, so small investors seeking to work on several properties, and thus needing larger or longer-term

CHICAGO'S WEST SIDE

The Chicago CDFI Collaborative acquired or financed the acquisition of 430 properties, including 86 in West Side neighborhoods.

loans, must go elsewhere for such financing. In the past, however, long-term ("take-out") financing for work on one-to-four-unit buildings has been exceedingly hard to get.

The Chicago Collaborative has addressed that challenge through CIC's innovative provision of take-out financing for investors who have completed rehabilitation projects on nine or more total units in one-to-four-unit buildings. This new financing stream allows successful investors to turn their existing construction loans (which have a twelve- to eighteen-month term) into one long-term loan with a ten-year term. The long-term loan significantly lowers monthly debt payments, freeing up capital for the investor to take on new projects.

Ideally, investors should be able to progress smoothly from CCLF's short-term loans to CIC's take-out financing. In practice, though, CIC and CCLF discovered that differences in their respective lending standards could leave investors in a bind: they had reached CCLF's borrowing limit but held loans with a loan-to-value ratio too high to be accepted by CIC for take-out financing. All the CDFIs in the Chicago Collaborative offer their customers relatively high loan-to-value credit, but CCLF offers investors loans at 90 percent loan-to-value while CIC has an 80 percent loan-to-value limit on their take-out loans. To qualify for CIC's financing, an investor with loans from CCLF would have to pay the 10 percent difference up front, a difficult task for small-scale investors.

The Chicago Collaborative partners have not changed their standards, but they have endeavored to prevent investors from getting into a lending bind created by their different criteria. Now if CCLF thinks that a borrower's goals align with CIC's, their officers will steer that borrower toward an 80 percent loan-to-value loan. Borrowers then can choose an 80 percent loan-to-value loan from CCLF so that they are positioned to get take-out financing from CIC later on.

DIFFICULTY OF ACQUIRING PROPERTIES IN TARGET AREAS

On a larger scale, the partners in the Chicago Collaborative found that acquiring a critical mass of properties on targeted blocks – a key part of its revitalization strategy – proved more difficult than they had originally imagined.

Despite the high rate of vacancy and troubled buildings on many blocks and the Chicago Collaborative's arsenal of acquisition tools, properties have not become available as quickly as or in the quantities that the Collaborative's leaders had expected. As the foreclosure rate has slowed over the last several years, there have been fewer foreclosed properties to acquire. Even with an acquisition fund, the Chicago Collaborative faces competition from other cash buyers (especially speculators). Finally, despite the Collaborative's extensive efforts, some property owners are impossible to find and contact, and others, including absentee owners of vacant properties, are unwilling to sell.

In the face of this difficulty, the Chicago Collaborative continues to explore new ways to acquire troubled properties. One step was to expand their role as a receiver for the City of Chicago housing court to include two-to-four-unit condominium buildings, which they convert into single properties. In addition, the Collaborative has applied to participate in the U.S. Department of Housing and Urban Development's Asset Control Area program, which offers foreclosed homes to approved nonprofit organizations.

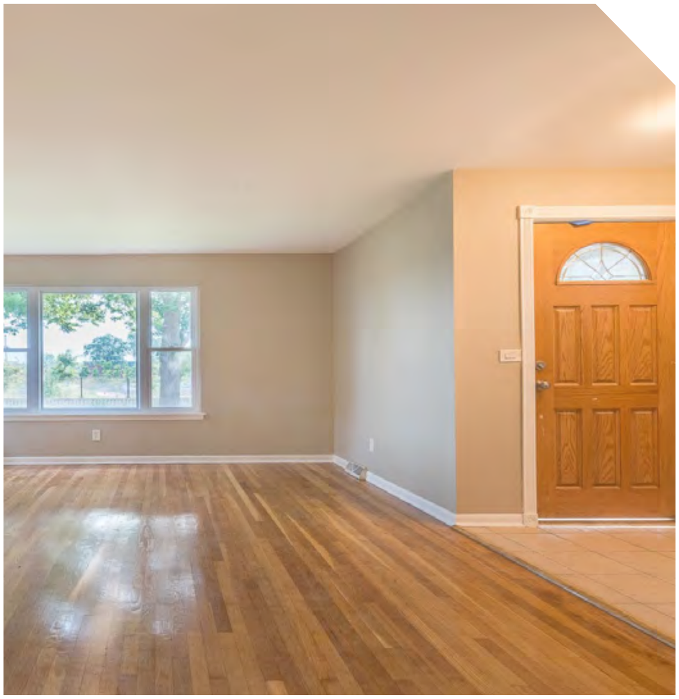
BUILDING EXPERTISE AND PROFESSIONAL NETWORKS

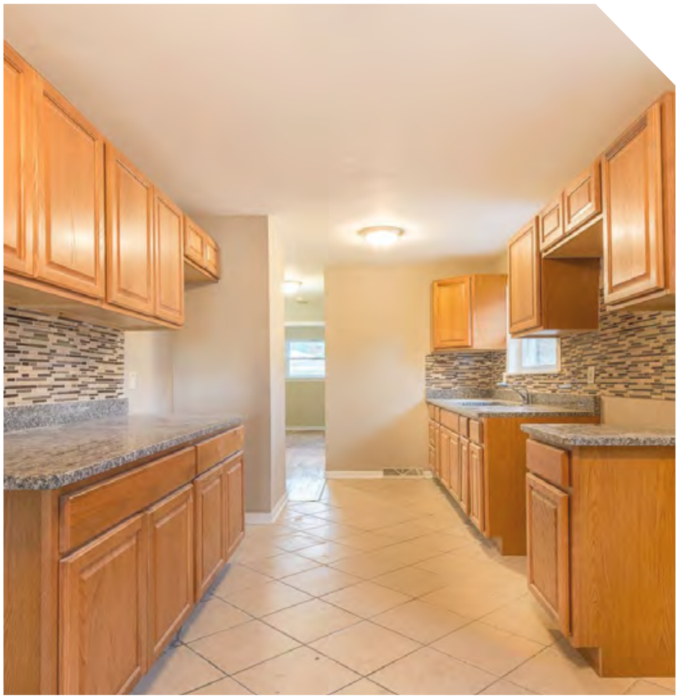
The Chicago CDFI Collaborative connects small-scale investors, such as Michael Johnson, to high-quality building tradesmen. In rehabbing his investment properties, Johnson acts as a general contractor. At this Chatham home, Johnson replaced the windows, tuckpointing, and the HVAC system, and renovated every room in the house to prepare it for new occupancy.

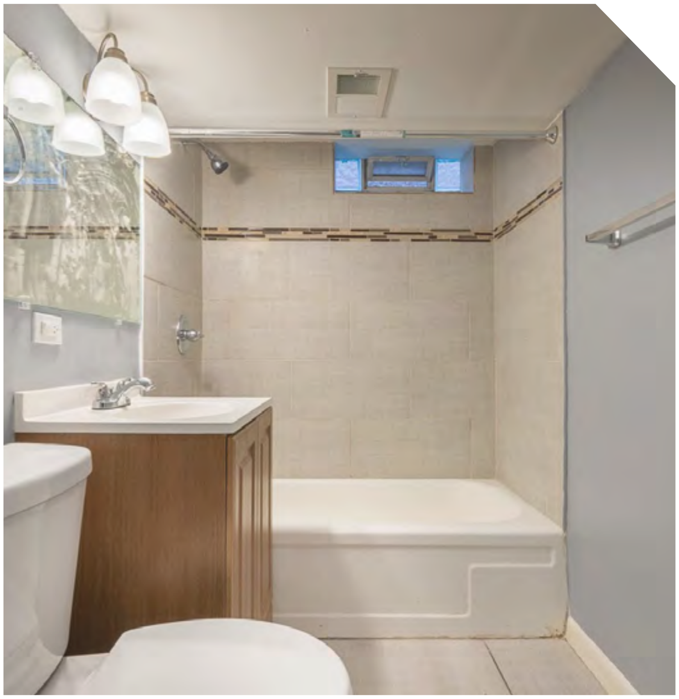
Photo Credit: Nathan Hardy

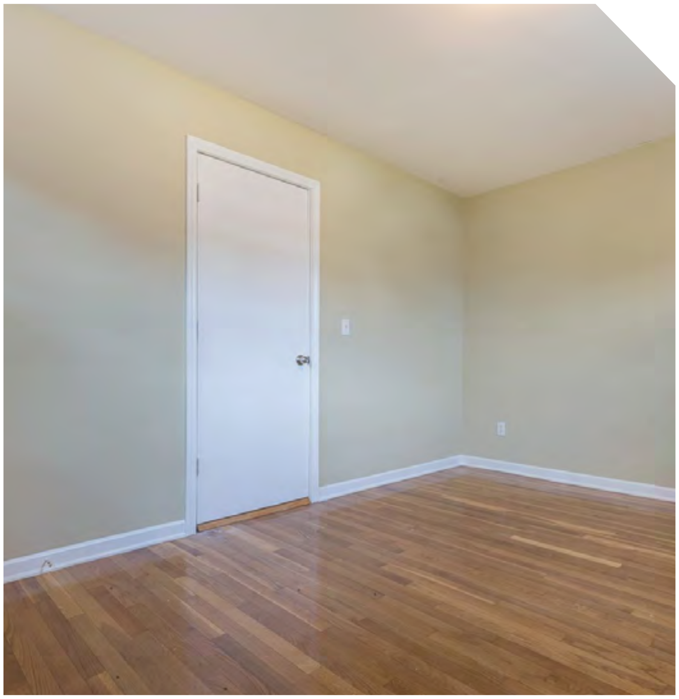
Chatham Home Renovation

Restored interior of a home in the Chatham neighborhood, purchased and renovated by Michael Johnson, with assistance from the Chicago CDFI Collaborative.









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SMALL-SCALE INVESTORS CAN HELP ADDRESS BIG-CITY PROBLEMS

Partnering with small-scale private investors to restore troubled one-to-four-unit properties is a promising strategy that could be applied in other post-industrial cities like Detroit, Cleveland, and St. Louis.

Lessons from Chicago

The Chicago CDFI Collaborative's innovative program of urban restoration offers important lessons to other CDFIs and the community development field generally. Privately owned unsubsidized one-to-four-unit properties are a significant but underserved segment of the affordable housing market and thus provide potentially new territory for many community development practitioners. The Chicago Collaborative has shown the way by providing needed financing for these properties.

The Chicago Collaborative's strategy of improving one-to-four-unit properties in order to stimulate the private market is novel in that it has the potential to grow through normal market mechanisms rather than additional government investment. Community members already recognize the value of this approach: a recent study of West Woodlawn argued that neighborhood recovery "requires financing for smaller investors and developers," and concluded that Chicago Collaborative member CIC "stepped up at a critical moment for the city and West Woodlawn."[9]

Just as innovative are the Collaborative's partnerships with small-scale private investors. These investors are frequently minority and working-class individuals who generally function outside government and philanthropic subsidy networks. In pursuing their rehabilitation projects, these individuals can build up their assets and improve the opportunities of their families while also helping to revitalize economically depressed neighborhoods. Furthermore, the increasing involvement of small-scale private investors opens the door to a new and possibly large source of investment in low-income neighborhoods.

Nonetheless, the Chicago Collaborative has found it difficult to acquire properties in targeted areas at the rate that it had hoped. It has become apparent that the vision of choosing a block with fifteen troubled buildings, acquiring and renovating ten of them, and making an unmistakable improvement may not be possible given current market conditions, legal entanglements, and local government procedures. It is important to note that the limiting factor is not the capacity of small-scale investors to rehab troubled properties, but the inability so far of even a sophisticated buyer like the Chicago Collaborative to acquire large numbers of the vacant, troubled, or abandoned properties that fill Chicago's low-income neighborhoods. The difficulty of obtaining sufficient numbers of nearby properties to restore an entire area is hardly new to the field of urban redevelopment, and the Collaborative has responded to the problem by pursuing new ways of procuring financially troubled residential buildings.

In sum, the Chicago Collaborative has helped small-scale real estate entrepreneurs restore significantly deteriorated or abandoned buildings and provided hundreds of homes to low-income households. In the process, the participating CDFIs have worked out ways to coordinate their lending practices. As it chips away at the problem of acquiring hard-to-purchase properties in concentrated areas, the Chicago CDFI Collaborative is moving closer to its goal of transforming the city's economically depressed neighborhoods into vital urban communities.

[9] Thurman Smith, "Constructive Gentrification: The Informal Housing Policy for Chicago's West Woodlawn Community" (Chicago State University, 2014).

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