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Cash is king in small apartment building sales

Climbing percentage of paid-in-full deals reflects tightened credit standards

May 30, 2012 | By Mary Ellen Podmolik, Chicago Tribune reporter

Almost 40 percent of Cook County's rental stock is in two-to-four-unit buildings, but the preservation of these apartments may be at risk because prospective local buyers have trouble accessing the credit needed to purchase them.

Last year, 56 percent of all two-to-four-unit buildings sold in Cook County were purchased with cash, compared with 13 percent in 2005, according to a study scheduled to be released Wednesday by the Institute for Housing Studies at DePaul University.



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In the short term, the building sales benefit the communities regardless of who buys them because they demonstrate an investment in a neighborhood, particularly those areas hard hit by foreclosures, according to researchers. Longer term, however, the result depends on the purchaser's ownership strategy.

Historically, owner-occupants and neighborhood investors purchased small apartment buildings, but since the housing crash and the arrival of tighter credit standards there are fewer loan products available to people who want to finance their purchases of very small rental properties.

The cash sales "seem to be a positive thing," said Geoff Smith, the institute's executive director. "You need inventory absorption. But then what's next? Is there going to be access to credit once these properties are resold? If not, are the owners going to be responsible landlords? There needs to be more access to credit to put these buildings back into productive use."

A number of responsible investors can't expand their activities because the financing isn't there, said Stacie Young, director of The Preservation Compact, which seeks to curb the loss of affordable rental properties within Cook County.

"There's a lot of these two-to-four-unit buildings that are distressed in tough neighborhoods," Young said. "It's frustrating to watch them sit vacant."

DePaul's study also found that by 2011, 45 percent of all residential property sales within Cook County were cash-only deals, up from 15 percent in 2005. In communities hit hard by foreclosures, 70 percent of sales last year were cash transactions.

Last year, distressed sales accounted for 36 percent of all residential sales in Cook County, researchers

found.

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