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Will the foreclosure crisis kill Chicago?

By Alby Gallun and Micah Maidenberg November 09, 2013

As someone whose company boards up homes, Steve Werner has seen houses stripped clean of copper wire, pipes and anything else that scrap dealers will buy. He's walked into others with food still sitting on the kitchen counter. His crews run across the occasional abandoned pet, left to fend for itself with a bag of dog food dumped on the floor.

But he was taken aback when his crew walked into a West Side house one winter's day to find a drug addict frozen stiff with a needle still stuck in his arm.

“One of the young men who works for us came out and said, 'We have a cold one,' and I thought he was talking about a beer can,” recalls Mr. Werner, director of business development at Door & Window Guard Systems Inc. in Chicago. “I was shocked.”

It's one shock among many: Chicago had 33,902 vacant homes at midyear, up 22 percent from the end of 2010, according to DePaul University's Institute for Housing Studies. In some census tracts in South Side neighborhoods such as Englewood and Back of the Yards, 1 in 6 homes is vacant.

Many people blame the foreclosure crisis, but that recent calamity has merely aggravated a **depopulation trend** on the city's South and West sides that has been going on for decades. Englewood, for instance, has lost two-thirds of its residents since 1950.

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And it's not just a city problem: Vacancies in suburban Cook County have jumped 79 percent since the end of 2010, to 21,479 homes at midyear. In one census tract in Harvey, the vacancy rate is 17 percent, while it topped 16 percent in a tract that includes parts of Chicago Heights, Steger, Ford Heights and Sauk Village.

“Basically what we're seeing are the effects of something much larger than the Great Chicago Fire,” says **architect and urban planner Marshall Brown**, an assistant professor at the Illinois Institute of Technology. “It's just happened over 40 years or something. It's like we are standing there on the day after (the fire) and everyone's waking up and saying, 'OK, how do we rebuild in this new world in a way that's smarter, knowing what we know now?' “

That question represents a major challenge for a metropolis whose deep socioeconomic divisions have been amplified by the housing bust. Even as neighborhoods and suburbs to the south and west struggle with abandonment and neglect, downtown Chicago and wealthy northern communities are bouncing back. But vacant homes impose a burden on the entire region, part of a cycle of poverty, violence and dysfunction that drains city and suburban budgets and tarnishes Chicago's image.

NO 'ROSE-COLORED GLASSES'

Any solution must start with an understanding of basic economics, Mr. Brown and others say. In many depressed neighborhoods, the supply of homes vastly exceeds demand, which has fallen due to a complex mix of factors, including crime, failing schools and a lack of good jobs. If demand comes back, great, but don't rely on it.

Spending tens of thousands rehabbing a vacant home doesn't make sense if no one wants to live in it.

“I think it requires a very thoughtful look at what you think your city is going to look like 20 years from now, without wearing rose-colored glasses,” says Robert Grossinger, vice president in the Chicago office of Enterprise Community Partners Inc., a national community development nonprofit. “The biggest thing is we've got to quit deluding ourselves thinking that this is the result of the housing bust.”

Government officials and housing advocates prefer to talk about programs that stabilize neighborhoods and save abandoned homes. But many acknowledge that limited government funds are going to force a form of property triage, focusing dollars on neighborhoods and blocks at the tipping point—places that can be saved with a push from the public sector. As unpalatable as it sounds, that also means not spending money on the hardest-hit areas.

“These are awful choices, but we're going to save more people if we concentrate our resources in a smart way,” says Adam Gross, director at Business and Professional People in the Public Interest, a Chicago nonprofit.

If anything is certain, it's that the number of homes demolished will rise—possibly by a lot. Richard Monocchio, former commissioner of the city's buildings department, estimated last year that as many as 10,000 buildings need to come down.

The number of demolition orders in Cook County has been rising steadily since the start of the recession. Judges issued 119 orders in 2008, 458 in 2011 and 859 through Oct. 31 of this year, according to the clerk's office for Cook County Circuit Court.

In some cases, destroying buildings could be the path to saving a neighborhood. Many homes—especially rickety wood-frame buildings stripped of their pipes, wiring and anything else of value—are not worth saving, having become magnets for gang members, drug addicts and squatters. The worst are marked with a big red “X,” a warning to firefighters and police that the building is empty and could collapse. Many homeowners would prefer to live next to a vacant lot than a dilapidated, boarded-up home.

“We see 'demo' as a negative activity, like you're destroying things, you're taking away,” Cook County Commissioner Bridget Gainer says. “In some ways, it actually makes the surrounding things more valuable. It's almost like pruning a tree.”

BANKING ON NEW AGENCY

Ms. Gainer spearheaded the push to create the **Cook County Land Bank**, a new agency that will buy abandoned homes and demolish some while rehabbing others and putting them back into productive use.

Government officials and nonprofits have high hopes for the land bank, which was formed in January and got a boost in July, when it was **awarded a $6 million grant** from state Attorney General Lisa Madigan. Yet the agency has yet to buy its first property. It is in the process of hiring an executive director.

Cook County Commissioner Bridget Gainer led the push to create the Cook County Land Bank, which will buy abandoned properties. Photo: Stephen J. Serio

Ms. Gainer, who chairs the land bank's board, lives on the North Side and represents a district that includes Lincoln Park and other wealthy North Side neighborhoods—far from the epicenter of the city's foreclosure crisis. But on a recent drive through the South Side, she reveals her familiarity with the area, acquired during a stint with the city's planning department and her upbringing in Beverly. The tour includes a small frame house just off Garfield Boulevard in Englewood where her mother and nine siblings grew up, raised by Irish immigrant parents back when the neighborhood was predominantly white.

Running from Hyde Park west all the way to suburban Downers Grove, Garfield Boulevard is lined with vintage mansions and sturdy brick apartment buildings built during more prosperous times, many in need of repair but not beyond hope.

But a turn down its side streets in Washington Park, Englewood, West Englewood and Back of the Yards reveals the impact of decades of poverty and neglect, compounded by the housing crash. Blocks with a half-dozen board-ups or more are common, with vacancies in both single-family homes and two- and three-flats. Sitting in between many are vacant lots, often overgrown and strewn with garbage.

A census tract in Back of the Yards had one of the highest home vacancy rates in the city, 19.7 percent, at midyear, while one Englewood tract registered a 15.1 percent vacancy rate, according to the DePaul analysis, which uses data collected by the U.S. Postal Service. The overall vacancy rate was 2.9 percent for the city and 2.0 percent for suburban Cook County.

“Look at that poor person trying to sell that house. I mean, are you kidding me?” Ms. Gainer says, pointing out a small frame house for sale on South Paulina Street. Listed for $29,900, it sits next to a ramshackle brick home with plywood covering its windows and doors but two Dish Network satellite dishes still attached. Two parcels to the north is another board-up, with a couple of boarded-up bungalows across the street. (The home for sale was under contract as of last week, according to its broker, who declines to disclose the buyer or price.)

The problem in hard-hit neighborhoods like Englewood and Back of the Yards is that the private market largely has stopped working. Homes and two-flats are dirt-cheap. But many need so much work and property prices have fallen so much that investors who might have ventured there in the past won't now. So a lot of homes sit empty, rotting until the city obtains a judge's blessing to tear them down.

“Most land banks are going to be reluctant, because they're a public entity, to invest $75,000 in a rehab if the end result has a fair-market value of $40,000,” says Emory University law professor Frank Alexander, who has advised the new land bank.

“These are tough policy decisions that need to be made by the Cook County Land Bank,” he says. “With the resources it has available, should it focus on the properties that are causing the most harm to the neighborhood? Meaning if it hypothetically got $50,000, should it take that $50,000 and demolish five structures that are burned and abandoned, that no one will rehab, that need to be taken to the ground. . . . Or should it take that $50,000 and put it into a rehab of a single house?”

Recognizing that the problem greatly exceeds the money available to solve it, Ms. Gainer says that the land bank has to pick its spots carefully, focusing on neighborhoods, or parts of neighborhoods, that could attract private investment with a little public help.

“We're not looking to come in and buy vast acres of parcels and work our magic,” she says. “We're looking to say, 'Where are there places where there's already some interest in the private market but they're just not executing? Why are they not executing? How do we come in and facilitate the execution?' “

The commissioner doesn't have an answer for a place like Back of the Yards, but she sees potential in Chatham, a more stable neighborhood about 30 blocks southeast. Chatham has been hit by the foreclosure crisis—four out of 10 census tracts have home vacancies exceeding 5 percent—but it also has strong retail corridors and a lot of brick housing stock, which holds its value better than wood-frame construction.

If the land bank and city officials can put together an effective plan, Ms. Gainer thinks Chatham could attract investors that specialize in buying and renting out foreclosed single-family homes. The single-family rental market attracted Wall Street money in the aftermath of the foreclosure crisis, with institutional investors accounting for 13 percent of all Chicago-area residential sales in September, according to RealtyTrac Inc., an Irvine, Calif.-based research firm. But the big investors largely have avoided the city, preferring to focus on more stable suburbs.

Some smaller investors are willing to take the risk, but they are being selective about where they go, avoiding areas with a high concentration of abandoned properties.

“If there's more than three board-ups on the block, we're probably going to take a pass on it,” says Frank Montro, owner of Frank Montro Homes Ltd., a Frankfort-based rehabber.

Many investors often are scared off by title problems: Even if a property has investment potential, it may be stuck in foreclosure, encumbered by liens for unpaid taxes and fines for building code violations. Sorting through the mess to get clear title can take so much time and money that it's not worth the effort.

“Our first order is: How do you remove those regulatory and other obstacles from people just executing on development decisions?” Ms. Gainer says.

ONE OF THE HARDEST HIT

Chicago is not Detroit, where torching abandoned properties became an annual October ritual, but few Northern cities were hit harder by the foreclosure crisis. Though filings are dropping now, the area still had one foreclosure filing for every 165 homes in the third quarter, the second-highest rate among the nation's 10 largest metropolitan areas, according to RealtyTrac.

Moreover, more than 17 percent, or 12,856, of all Chicago-area homes in the foreclosure process are “zombies,” properties that have been vacated but have yet to be repossessed by lenders, according to RealtyTrac. For many, there's no one to keep vandals out or cut the grass. That's bad news for neighbors, whose home values fall as a result, but also for the city budget. A 2005 study found that each home abandoned in Chicago before foreclosure costs the city almost $20,000 and as much as $34,000 if it's damaged by fire.

Compounding the problem, it takes an average of 828 days—more than two years—for a home to go through foreclosure in Illinois, the fourth-longest among all 50 states, according to RealtyTrac. The city tried to address that issue in 2011 by requiring lenders to maintain vacant properties. But that ordinance suffered a blow in August, when **a federal judge ruled** that it could not apply to federal housing finance giants Fannie Mae and Freddie Mac, which hold about 258,000 mortgages on Chicago properties.

Gov. Pat Quinn in February **signed a “fast-track” law** allowing lenders to speed properties through the foreclosure process in as little as 90 days. But it's too early to tell whether that measure, which went into effect in June, has made a meaningful impact.

Like the city's 2011 ordinance, most government programs created to address the abandoned home problem have delivered mixed results, at best. One of the biggest is the **Neighborhood Stabilization Program**, a federally funded initiative to rehabilitate distressed residential properties and reduce urban blight.

The city received $169 million through the program starting in 2009, with a goal of rehabbing as many as 2,500 units. But the initiative **has fallen well short** of that target—it fixed up just 538 units by the end of June, with only 205 rented or sold. And it has drawn criticism for spending money in a scattershot way, without sufficient planning to maximize its impact.

“The money just wound up getting spread really thin,” says Mr. Gross, of Business and Professional People in the Public Interest.

The city has tried a more focused approach with its Micro Market Recovery Program, an initiative that brings together multiple programs and nonprofits in targeted areas to maximize their effectiveness. Yet the program underscores the difficult choices government officials must make, as it covers parts of 12 neighborhoods, including Humbolt Park, Chatham, Englewood and Chicago Lawn.

Another focused program is being run by Chicago Neighborhood Initiatives, a nonprofit developer backed by U.S. Bank that is active in Pullman. CNI recently landed $8.1 million in tax-increment financing from the city to help pay for a $33 million factory where Method Products will make cleaning products and employ 100 people. Similarly, city officials hope **a planned Whole Foods Market** at Halsted and 63rd streets in Englewood will deliver an economic boost by creating about 100 jobs.

“You start with the areas that have anchors and economic activity and try to save those,” says David Brint, CEO of Brinshore Development LLC, a Northbrook-based developer that's buying and rehabbing distressed homes in the Southwest Side neighborhoods of Chicago Lawn and West Lawn.

Mayor Rahm Emanuel contends that private investment will return to hard-hit neighborhoods if the government invests in infrastructure, services and community development projects. **He cites Chicago Neighborhoods Now**, a new city initiative to revitalize seven neighborhoods, including Englewood, Pullman and Rogers Park. In Englewood, for instance, the city is trying to create an urban farming district on city-owned lots.

"In every (neighborhood), you can find private-sector investment starting to pick up because the public sector has taken the lead," Mr. Emanuel says.

Yet targeting resources carries political risks because it means some parts of the city won't get the attention they need, riling residents and community activists and leaders. In 2011, advocacy group Action Now organized **a demonstration in Englewood** that included Ald. Toni Foulkes, 15th, to protest the lack of funds allocated to the area through the Neighborhood Stabilization Program.

While the buzzed-about land bank isn't active yet, the experience with similar efforts elsewhere raises as many questions as hopes. There are about 150 land banks operating around the country, with some of the largest in Rust Belt cities such as Detroit, Cleveland and Flint, Mich. The **South Suburban Land Bank and Development Authority**, which has eight south suburbs as members, was formed last year. It recently agreed to acquire six properties and aims to acquire as many as 100 next year, says Russell Rydin, executive director.

While he expects the authority to do more rehabilitation than demolition, that hasn't been the case elsewhere. In Flint, the Genesee County Land Bank had demolished 2,040 buildings as of last year and owns about 4,000 other residential structures that should be demolished, according to its last annual report.

Yet for many city residents, vacant lots are just another form of blight, a reminder of what once was.

"I hate to see any house come down," Earl Wright says while watching an excavator take down a former neighbor's home in Englewood recently. "It's bad on a neighborhood. . . . It'd be nice if they could fix it up."

LOTS LEFT BEHIND

With more tear-downs inevitable, the city must decide what to do with all the empty lots left behind. Most are undevelopable right now for two reasons: First, many lots sit between buildings, making it hard to assemble land for a larger development. Second, demand is not strong enough to justify the construction of new homes or apartments.

The problem is especially acute in neighborhoods like Washington Park where hundreds of properties have been demolished over the decades. Demand for housing there has dropped along with the neighborhood's population, which plunged 79 percent, to 11,717 people, between 1950 and 2010.

"How do we rebuild in this new world in a way that's smarter, knowing what we know now?" asks Marshall Brown, an architect, urban planner and professor at the Illinois Institute of Technology. Photo: Stephen J. Serio

About 151 acres, or 35 percent of the developable land in the neighborhood, is vacant, according to a study that Mr. Brown, the IIT architecture professor, completed for the nonprofit Washington Park Consortium. That's roughly the size of six Millennium Parks. The neighborhood has so much vacant land that one rehabber proposed turning a vacant 19th-century mansion there into a winery surrounded by 5,000 grapevines.

Mr. Brown's solution: Reorganize the neighborhood grid in a way that almost looks suburban, with streets that wind around existing clusters of buildings, forming curvy blocks of all different shapes and sizes. His plan, which is still at the talking stage, would turn a neighborhood liability, vacant lots, back into an asset, green space.

The time of the Great Chicago Fire was a period of rampant expansion, which made it easier to rebuild the city. But Mr. Brown assumes no growth under his proposal.

“What we typically do is we depend on growth for revitalization. I know of very few revitalization projects that don't depend on increased population, increased density, increased rooftops,” he says. “If we can figure out a new way of city building that doesn't always depend on growth, that will be a huge moment in our history.”

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"In some ways, it actually makes the surrounding things more valuable. It's almost like pruning a tree."

This is the right approach. There isn't any way you are going to rehab these properties even if the area begins to gentrify.

They are nothing more than obstacles, but an unfortunate loss of architecture.

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