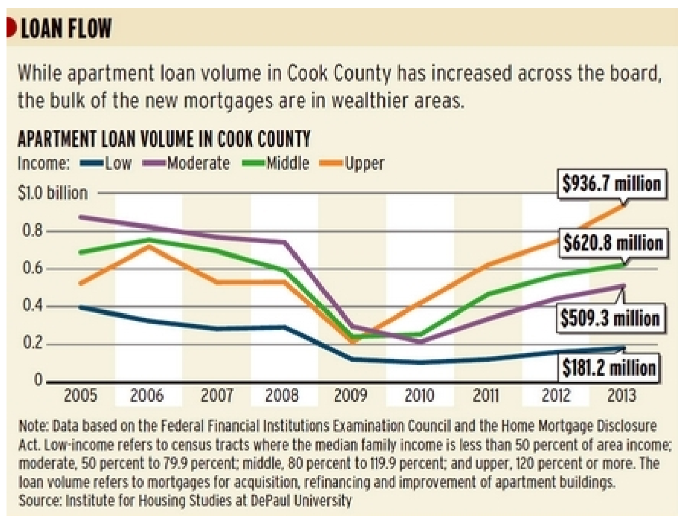
Study: Landlords on South, West sides can't get loans

By Micah Maidenberg November 10, 2014

In Chicago's downtown and on the North Side, rents are on the rise and banks are lending millions of dollars to finance **huge apartment deals**. On the city's South and West Sides, there's plenty of demand, too. But landlords can barely get a loan.

According to a new report by the Institute for Housing Studies at DePaul University, loans for rental properties in low- and moderate-income neighborhoods around Cook County have risen since hitting bottom in 2009, but such debt still is hard to come by. Increasingly, however, the multifamily loan market is dominated by bigger loans targeted to wealthier communities.



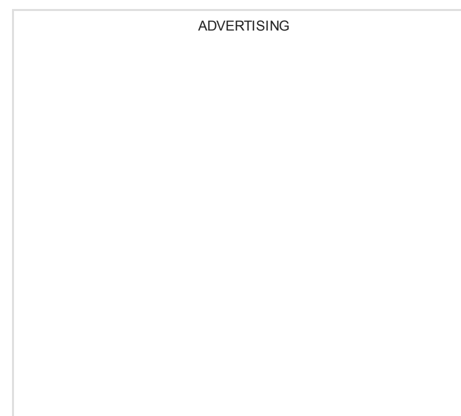
When credit is hard to get for apartment owners in lower-income neighborhoods, blight often isn't far behind. The inability to access loans means landlords make less money and can't pay for projects like roof repairs, putting properties at risk of deteriorating.

"What it really means is these neighborhoods continue to struggle. They're not going to recover as quickly as they could," says Craig Huffman, principal at Chicago-based Ascendance Partners LLC, which invests in real estate in lower-income neighborhoods.

Banks issued about $691 million in apartment loans in low- to moderate-income areas of Cook County last year, more than double the post-crash trough in 2010, when they issued just $316 million, according to DePaul's report. Before the crash, in 2005, lenders issued close to $1.3 billion in loans in such areas, nearly half the county total.

Landlords in higher-income neighborhoods borrowed about $1.6 billion last year, more than triple 2009 levels and up 29 percent versus nine years ago. The data cover bank loans for apartment-building acquisitions, refinancing and rehabilitation projects.

Particularly hard-hit are apartment investors that need smaller credit vehicles. In 2013, banks issued more than $212 million in loans of less than $1 million in poorer areas, less than a third of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multifamily lending in those areas. That's better than the low point in 2009, but less than half of 2005 levels, according to the report. Landlords in higher-income neighborhoods reeled in $803 million in mortgages worth $3 million or more in 2013.

'DEMAND FOR HOUSING'

Lending is "not going into low-income neighborhoods, where, despite challenges, there still is demand for housing," says Geoff Smith, executive director of the **DePaul institute**.

A banking industry spokeswoman says the situation is due, in part, to tighter regulations following the crash. "In the communities that are hardest hit, there's less demand for credit. There are rigorous lending standards that banks have to comply with, and obviously those standards have become more stringent over the last several years," Linda Koch, president and CEO of the Illinois Bankers Association, says of DePaul's findings.

Because of the gap, apartment owners rely on nontraditional lenders such as like nonprofit Community Investment Corp., which raises money from banks to lend to multifamily building owners. "What's difficult for banks is you've got to acknowledge the markets are challenged," with higher unemployment, flat rents and issues with rent collection, says the organization's CEO Jack Markowski. CIC lent about $35 million last year, and is raising a $200 million fund, money it anticipates lending over the coming five years, he says.

Some bankers, however, see opportunities in such low-income neighborhoods. Levoi Brown, chief banking officer at **Urban Partnership Bank**, a South Side-based lender, says competitors are returning to low-to-moderate areas after a post-crash exodus. He predicts his company will close around $20 million in multifamily loans here and in Detroit this year, and may boost that figure to more than $30 million in 2015.

The DePaul report is another indicator of the **divergent fortunes** of the Cook County housing market. Across the **North Side** and **downtown**, landlords are in the midst of a five-year hot streak and investors are buying apartments in wealthy areas at premium prices.

'A FINE LINE'

In a broad swath of the South, Southwest and West Sides of the city and suburban Cook, however, tenants in low-paying jobs can't afford rent increases, keeping pressure on owners. Building values are lower, and owners grapple with complex issues related to higher crime, an aged building stock and more challenging management.

"If you raise rent, people will move. It's a fine line," says John Olar, who owns about 300 units in South Shore, one of the stronger South Side markets.

The margin for error in such neighborhoods is much smaller than other parts of town, says Steve Joung, CEO of Chicago-based **Pangea Properties**. The company owns about 7,000 rentals here, mostly on the South and West Sides; about 95 percent are leased.

"We have seven offices in the neighborhoods we service," he says. "We make sure we hire people who understand these neighborhoods. They're constantly at the buildings. You can't show up once a month."

This story has been updated to correct the name of Community Investment Corp. and Mr. Markowski's title.

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