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Housing rehabs could unlock wealth in Chicago's struggling neighborhoods

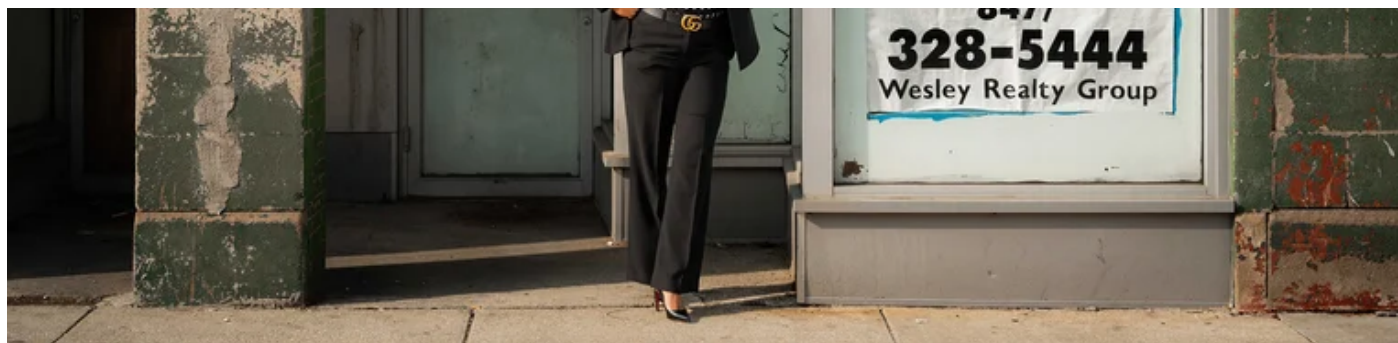
Advocates push to upgrade distressed rental buildings and open a path to homeownership.

JUDITH CROWN



REPRINTS





John R. Boehm

Tonya Trice, executive director of the South Shore Chamber of Commerce.

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Ocie Windham has leased apartments in the South Shore and Chatham neighborhoods for more than 30 years. He keeps the rents affordable and maintains occupancy at 95%. But with rising real estate prices—in part to due to speculation surrounding the development of the Obama Presidential Center—he's tempted to sell more of his 100 units.

If he does, it would be unfortunate for the neighborhood. Out-of-town owners who have been buying up property in South Shore often lack on-site management and haven't been quick to tend to tenant concerns. "I hear from tenants in the buildings I sold and they curse me out," Windham says. "They want to rent from me because they see me one or two times a month, and my janitors are around all the time."

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At a time of intense interest in revitalizing Chicago's predominantly Black neighborhoods and the housing stock, building wealth and providing a path to homeownership, deep-rooted market conditions stand in the way.

The announcement of the Obama Presidential Center in Jackson Park has attracted speculative buying and fears of gentrification that could displace residents. Yet much of South Shore awaits to be transformed. Whether outside investors are discovering rental income doesn't support the high prices they paid and there's little money left for upkeep, or whether they deliberately are milking their properties, the result is the same.

"Outside investors aren't maintaining the properties the way they should," says Tonya Trice, executive director of the South Shore Chamber of Commerce. Trash piles up and repair requests go unanswered. Some landlords have stripped buildings of their architectural distinctiveness, Trice says. Storefronts on 71st Street and other commercial corridors sit vacant because property owners can capitalize on tax breaks while they wait for gentrification.



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On the West Side in North Lawndale, community organizers have ambitious plans to build hundreds of affordable homes but

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struggle to
line up low-

cost construction loans. A partnership of United Power for Action & Justice, the Lawndale Christian Development Corp. and Chicago Neighborhood Initiatives raised \$12.5 million to start construction but needs to double that amount so it can reach a critical mass of 100 homes. "We need the banking and philanthropic organizations to contribute so we can build at scale," says Richard Townsell, executive director of Lawndale Christian.

Experts say better access to credit is needed to enable landlords and homeowners to upgrade properties. Housing advocates say loans and grants from American Rescue Plan Act funds can be channeled to small operators for building upgrades in a simplified, streamlined process. Shared ownership, in which local residents pool their capital to acquire property, could be a way to return control to the neighborhoods, activists say.

"We used to build housing for working people, and we don't do that anymore," says Nick Brunick, an attorney at Applegate & Thorne-Thomsen who specializes in affordable housing.

Upgrading two-flats

The South Shore neighborhood is known for its variety of distinctive architectural styles from the early 20th century, including Prairie School and art deco. Like other South Side neighborhoods, South Shore saw a demographic shift from 90% white in the early 1960s to 94% Black by 1980.

Entrepreneur Alisa Starks recalls that when her family moved into South Shore in 1965, "we got dressed up to go to 71st Street." Students in her kindergarten class were mostly white, but that reversed by the time she got to eighth grade. "Property owners left, businesses left, there was instant devastation," she says. The median income in 2019 was \$34,215, according to IHS Data Clearinghouse, compared with \$60,438 for all of Chicago. One-third of the population is below the poverty line, as compared with 18.4% for Chicago, according to the Institute for Housing Studies at DePaul University.

To the southwest, the Chatham neighborhood also experienced white flight, but it evolved into a middle-class African American area, home to famous businesses that include Johnson Products and Seaway Bank. The population has declined from a 1970 peak, and the businesses were sold. Median income in 2019 was \$38,208, according to

IHS Data, and nearly 27% live in poverty. It has relatively more single-family homes compared with South Shore.

These neighborhoods have what analysts call "naturally occurring affordable housing." That is, they've yet to encounter the gentrification of neighborhoods like Logan Square and Albany Park, where rising rents threaten to displace longtime residents and there's demand for subsidized housing to keep housing costs affordable.

In South and West Side neighborhoods, the challenge is how to upgrade the thousands of two-flats, four-flats and small apartment buildings, says Stacie Young, executive director of the nonprofit Community Investment Corp., or CIC, which finances the acquisition and rehabilitation of affordable rental housing. Most of the country's affordable housing, about 70%, isn't subsidized, Young says. Those naturally affordable rental units are no longer viable when owners don't maintain them. Better to invest in repairs rather than let buildings deteriorate to the point where they have to be demolished and rebuilt with new construction that costs \$250,000 to \$300,000 per unit, she says.

Revitalizing a neighborhood, of course, requires a holistic approach that also improves commercial streets. "I wouldn't buy a house if I have to walk past an abandoned building to get there," says Ja'Net Defell, who leads Community Desk Chicago, an initiative of The Chicago Community Trust in partnership with the Boston Consulting Group and JPMorgan Chase Foundation. "You need to stabilize the corridors while you're building the houses."

Anticipating rising real estate values as a result of the Obama Presidential Center in Jackson Park, outside investors have bought into struggling condo buildings and converted apartments to luxury rentals, displacing residents. At one renovated building, Park Heights by the Lake, advertised rents are \$1,500 or more for a one-bedroom apartment, with a one-bedroom penthouse listed at \$3,600 or more.



John R. Boehm

South Side entrepreneur Leon Stenneth in the past two years has purchased two buildings in Chatham that were owned by out-of-town investors.

Housing advocates say the city should provide protections like those in nearby gentrifying Woodlawn, such as affordability requirements for housing built on city-owned lots.

But South Shore isn't yet a gentrification hot spot. In the northern part of the neighborhood, just south of Jackson Park, sit vacant and abandoned buildings. "Some of the buildings are encumbered with debt," says Chicago Housing Commissioner Marisa Novara. "It's not our goal for out-of-town investors to maximize profits on these buildings."

Leon Stenneth, a South Side entrepreneur, in the past two years has purchased two buildings in Chatham that were owned by out-of-town investors. There were problems with the boiler and the roof, and the hallways hadn't been painted in more than 10 years, he said. "They were not in the best shape," he added. Stenneth, who also has a job in tech as an artificial-intelligence engineer, painted the common area, made the repairs and

added laundry facilities. Even with charging affordable rent of \$800 to \$1,000 for a one bedroom, there's room to keep up the buildings, make a profit and build wealth, he says.

Out-of-town investors aren't the only problem. Tenant complaints have been directed at Pangea Properties, a Chicago real estate investment trust that's one of the largest landlords in South Shore and Chatham. "There are growing concerns around management, upkeep of the buildings and the eviction rate of South Shore residents," says Trice at the South Shore chamber.

In response, Pangea CEO Peter Martay said the REIT has spent \$400 million of private capital over the past 13 years rehabilitating properties in underserved neighborhoods. Pangea's investments have turned often vacant buildings with code violations into safe and affordable apartments, Martay wrote in an email.

Another problem in South Shore are the empty storefronts on 71st Street and other corridors. State law enables property owners with vacant storefronts to get a break on property taxes, so they keep the spaces unleased, awaiting gentrification and higher rents, Trice says. "We have business owners interested in opening stores, but there is a shortage of viable inventory," she says. A lack of restaurants and other amenities discourages renters. Trice and other community leaders are advocating for changes to the law.

Ambitious plans in North Lawndale

Different roadblocks exist on the West Side in North Lawndale, where nonprofit organizations plan to build single-family homes, providing not just comfortable and affordable housing but a path to build family wealth.

The North Lawndale neighborhood also suffered from white flight and then rioting and looting after the 1968 assassination of Martin Luther King Jr. Iconic companies subsequently left the area, including International Harvester and Sears. Median income, according to IHS Data, was \$31,611 in 2019, and 38% of the neighborhood's population live in poverty.

As many as 3,000 city-owned vacant lots are ripe for a wide-scale housing development. Mayor Lori Lightfoot, who restarted an earlier initiative, last year announced the city would sell 250 of the city-owned lots for \$1 each to the coalition of United Power for Action & Justice, Lawndale Christian Development and Chicago Neighborhood Initiatives that is developing the housing. The city also allocated \$5.3 million in tax-increment financing money to prepare the sites.

Illinois is providing the North Lawndale consortium \$10 million in subsidies to help homebuyers with their down payments. The partnership has marketed the homes to churches, nonprofits, renters and the children of area homeowners. Townsell says there's a waiting list of prospective buyers.

The partnership has raised \$12.5 million in revolving construction loans, which will enable it to start construction on a first group of 23 homes. The partnership, however, is seeking another \$12.5 million in order to fund 100 homes at \$250,000 each.

Chase provided a \$2.5 million grant, Townsell says, adding that the bank was embarrassed by a 2020 WBEZ report showing that between 2012 and 2018, 80% of its mortgages were made in white-majority neighborhoods, compared with 2% in Black and 5% in Latino communities. Foundations and wealthy individuals have provided zero-interest loans, and Townsell says he hopes an additional four or five banks will offer low-

or no-interest financing to keep the home prices affordable.

"The banks say they can't do it at zero," he says. "What can they do it at? The banking and philanthropic community should put money where their mouth is." For the long term, the coalition seeks to develop 1,000 of the 3,000 city-owned lots. If successful, the project could be a model for Pullman, Chicago Lawn and other communities with ample vacant land.

Testing shared ownership

Larger, well-established developers are deft at using government subsidies for affordable housing. But it can be difficult for owners with limited resources to navigate complex rules. The Preservation Compact, a coalition of public and private organizations with a stake in housing preservation that is based at the CIC, is working to see whether American Rescue Plan Act funds can be used to rehab older rental buildings without subjecting small entrepreneurs to mountains of paperwork, Young says. Small operators could possibly band together to gain economies of scale in purchasing services from insurance brokers and building tradespeople, she adds.

The Preservation Compact last year was successful in pushing the Illinois General Assembly to adopt an incentive to maintain affordable housing by offering reductions in a property's assessed value.

The Chicago City Council recently adopted an ordinance that relieves city debt on vacant and abandoned properties in low- to moderate-income communities that have the opportunity for rehabilitation and reoccupation. "If debt like a past-due water bill is an obstacle to a building being redeveloped, we'll erase that," says Novara. And the Building Department last year relaxed its plumbing code to expand the use of plastic pipe, which is less expensive than traditional cast iron.

Nonprofit leaders are waiting to see if, and how, banks liberalize their guidelines to make capital more accessible to developers, building owners and homebuyers.

Philanthropy will continue to play an important role. Billionaire MacKenzie Scott in March announced a \$436 million donation to Habitat for Humanity, including \$6 million to chapters in the city and suburbs. A spokeswoman for the Chicago chapter said funds will be used to strengthen programs in West Pullman, Greater Grand Crossing and Austin.

One experiment underway in South Shore is testing the potential of shared ownership. In 2020, a group of 27 residents from the Jackson Park Highlands section pooled their money to buy and rehab a troubled building with 16 apartments and five ground-level commercial spaces.

Residents of disinvested neighborhoods often are alienated because they lack ownership and control of local buildings and businesses, says entrepreneur Michael Kelley, a leader on the shared ownership project.

Kelly and others hope their model can be replicated on a larger scale, but they acknowledge that requires a lot of community education and coordination.

"We want to pull resources together so we can acquire some of these buildings and maintain the legacy of South Shore," says Trice at the South Shore chamber. "We're

known for our properties, lakefront and golf courses. We need investors that respect the culture of the community."

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