REAL ESTATE

Chicago's two-, three- and four-flats are a key source of affordable housing. The pandemic might be changing that.

By Sarah Freishtat
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Two and three flat buildings on the 1200 block of West Newport Avenue in Chicago's Lake View neighborhood on March 2, 2022. (Jose M. Osorio / Chicago Tribune)

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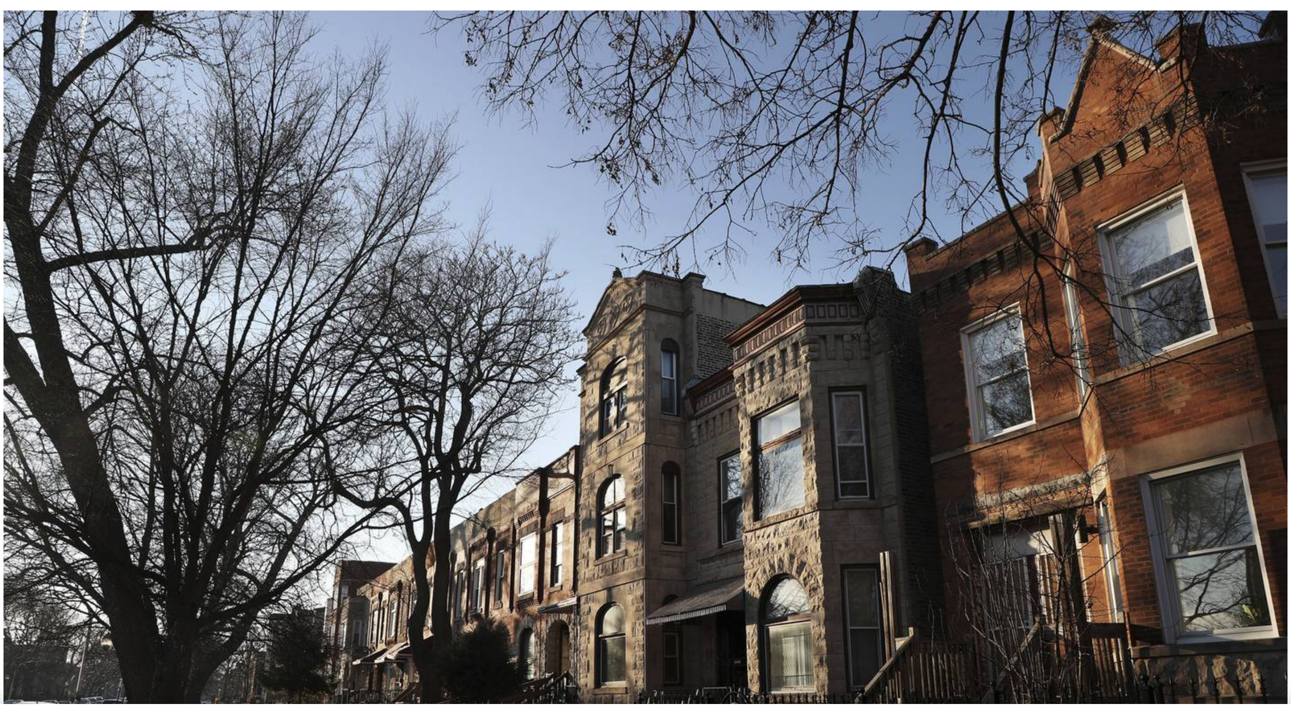
Already disappearing before COVID-19, Chicago's two-, three- and four-flats, long seen as sources of affordable homeownership and rental opportunities, may emerge from the pandemic with an identity crisis.

The uncertainty of the past two years could alter some of the signature benefits for renters as landlords change their management style to adapt or consider selling altogether, a recent study found.

That would mean one more hurdle for tenants, and one more challenge for communities as the city looks to combat a shortage of affordable housing.

The findings were outlined in a December report by researchers from the American Bar Foundation and the University of Illinois at Chicago, which examined small, independently-owned rental properties in Chicago, such as two- and three-flats. The buildings make up a large portion of the country's supply of unsubsidized affordable housing, and many of the landlords manage their properties in ways that benefit tenants, such as limiting rent increases, forgoing fees and being more flexible on partial or late payments, according to the study.

But the basis for that management style might be more precarious than it once seemed. As small landlords grapple with financial challenges during the pandemic, some are considering reining in that flexibility.



Multi-floor apartment buildings line the 3200 block of Fulton Boulevard in Chicago's East Garfield Park neighborhood on March 1, 2022. (Terrence Antonio James / Chicago Tribune)

In interviews with 51 small Chicago-area landlords during the pandemic, researchers found 10 who said they would take steps such as raising rents, adding fees or screening tenants more closely. The researchers referred to that figure as a “sizable minority,” and said the shifts “have the potential to undermine the relative affordability and accessibility” of this type of rental unit.

“When landlords take these shifts to more rigid approaches, they end up passing the risks of this crisis, the financial crisis, onto tenants,” researcher Allison Suppan Helmuth said.

The findings follow a 2021 study from the Institute for Housing Studies at DePaul University that detailed how [Chicago’s two-, three- and four-flats were disappearing] even before the pandemic, often replaced with single-family homes or empty lots. The researchers fear the pandemic could hasten the loss of small rental housing and make two- and three-flats less appealing as a path to homeownership.

“This sector of the rental market is really important because: one, it is more affordable, and two, there’s an understanding, somewhat supported by previous research, that landlords have these more flexible, lenient, tenant-friendly practices in this sector,” researcher Anna Reosti said.

Most of the landlords interviewed for the study were two- or three-flat owners, but two other small, independent landlords reported similar trends, they said.

One small owner rethinking being a landlord is Richard Fisk, who began renting out the Barrington condo he owned after he moved out of state for a job.

The tenants living there were behind on rent before the pandemic shutdowns began, Fisk said. He tried to work with them, and thought they would likely leave in March 2020, when their lease expired, he said.

Then the pandemic hit. An eviction moratorium meant the tenants stayed. Fisk lost his tech industry job for a time. And he had a mortgage and homeowners association fees due.

“I try to be flexible with people and not super rigid, and not coming down on people,” he said. “Like, if they miss a month of rent, we’ll figure it out. ... This just put me under an extreme level of pressure financially.”

Eventually, Fisk sought to evict the tenants, and was approved for pandemic rental assistance as

Fisk now wants to sell the condo.

"I've completely rethought everything," he said. "I'm going to sell my property and just get out of this. Because at this point if I can't get the support that I need, I have to do what's right for my family."

Other landlords are determined to hold onto their buildings, despite pandemic challenges. Peg Olson, who for more than four decades has owned the West Rogers Park three-flat where she lives, said whether she changes her management philosophy will depend on what the future brings. But she knows she wants to continue helping tenants as much as possible. And she wants to keep her building, because the alternative is to leave her longtime home.

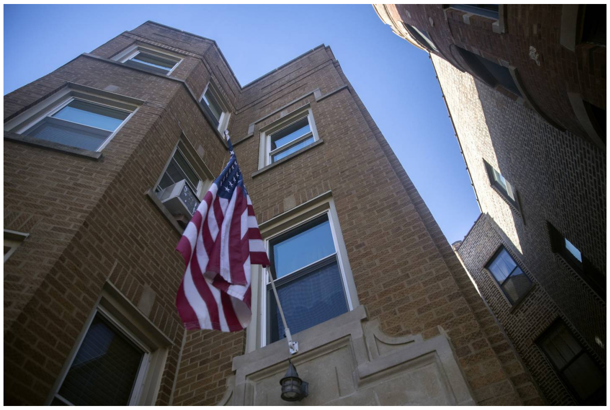
Peg Olson with her plant collection at her home, a three-flat in West Rogers Park, where she rents out the other two units on March 3, 2022, in Chicago. (Erin Hooley / Chicago Tribune)

Before the pandemic, she agreed to rent one of her units at a lower-than-usual rate, she said. During the pandemic, the tenant fell behind.

Olson, a former nurse, no longer works regularly so she couldn't pick up extra shifts to cover her costs, she said. She has had to weigh her grocery list against her bills.

"I still have my mortgage. I still have heating. I still have taxes," she said.

second half of 2021, which she said helped her keep her building.



Peg Olson's home, a three-flat where she rents out the other two units, on March 3, 2022, in Chicago. (Erin Hooley / Chicago Tribune)

Olson has long completed background checks and researched prospective tenants, but she says she should think more like a businessperson, rather than a nurse. She would like to be able to pay her bills without feeling like she is scraping by.

Still, she wants to try to continue being flexible with tenants.

"I am a nurse, first and foremost," she said. "People need to be cared for. People need compassion and caring. There's too much cruelty in the world today. I don't want to be part of the problem, I want to be part of the solution."

Olson's and Fisk's experiences mirror what the nonprofit homeownership organization Neighborhood Housing Services of Chicago has seen, said Chief Operating Officer Donna Clarke. While some small landlords are getting by, others are struggling or pulling rental units off the market, she said.

The study's findings are a concern for the organization, which has teamed with other groups to try to preserve and rehab two- and four-flats, maintain rental affordability, and help homeowners build wealth.

"I think it ends up pushing out, unfortunately, the Black and Latinx community," she said. "It makes homeownership that much more difficult for them. It destabilizes their housing. Because a lot of these units are falling in these communities."

An owner who decides to screen tenants more closely, fearing they might not otherwise be able to pay rent, could make it more difficult for a renter in the country illegally to find a home, she said. Requiring security deposits can be prohibitive for some renters.

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But less flexibility on the part of landlords doesn't have to limit affordability, Clarke said. Formalizing a lease can help both tenants and landlords.

More research will be needed to see what ultimately plays out, Reosti said. More landlords reported changing their management practices toward the end of their research in 2021, and it remains to be seen whether that trend will continue or whether access to more rental assistance

Landlords said clearer guidance about rental assistance and stronger mortgage protections would have helped, the study found.

“We heard people say they felt like they were on their own,” Helmuth said.

Eviction mediation programs, which help resolve disputes with tenants before an eviction takes place, have also helped, especially when they include money for rental assistance, Reosti said.

Fisk agreed. He didn’t oppose the moratorium on evictions that kept his tenants in place, but said better communication and consideration of small landlords would have helped. A direct payment program to homeowners could have allowed him to cover his expenses.

“We all go through hard times,” he said. “And for me, this has changed my outlook on ownership and the struggles with that.”

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