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Lender raises $35 million for affordable housing fund

"There's such a massive need for affordable housing solutions, and the more we can embrace private solutions like this, we don't have to resort to really draconian measures like rent control," says an apartment investor.

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Amid growing concerns about gentrification and a brewing debate about rent control, nonprofit lender Community Investment Corp. is rolling out a new loan program designed to preserve affordable housing in Chicago.

CIC and its partner, the Preservation Compact, have raised $35 million for the Opportunity Investment Fund, which provides favorable financing for apartment landlords who agree to set aside some of their units as affordable housing.

The loan program targets buildings in neighborhoods where rents are rising beyond the means of low- to moderate-income renters. With more research showing that the ZIP code where children grow up plays a major role in their economic success later in life, the goal is to prevent families from being pushed out of thriving neighborhoods and into poor areas with high crime and substandard schools.

"We're looking for buildings in good condition in strong neighborhoods," said CIC President and CEO Jack Markowski. "It's not the be-all and end-all. It's a nice pragmatic step in the right direction."

Affordable housing, a constant concern in a big, expensive city like Chicago, has become an even hotter topic the last few years as apartment rents have soared in many neighborhoods. The supply of affordable apartments in the city declined 10.4 percent between 2012 and 2016, to 228,870 units, according to the Institute for Housing Studies at DePaul University. As a result, the affordable housing shortage in Chicago grew to 119,402 rental units in 2016.

Housing activists have raised alarms about gentrification in hot neighborhoods like Logan Square, Humboldt Park and Pilsen. A push to lift a statewide ban on rent control could gain currency in Springfield next year when Democrat J.B. Pritzker, who supports the idea, moves into the governor's office. And developers are still grappling with an overhaul of the city's affordable housing ordinance approved a few years ago that requires them to set aside more apartments and condominiums as affordable housing.

CIC and the Preservation Compact, a nonprofit dedicated to preserve affordable housing, have been raising money for the Opportunity Investment Fund since the summer, when Mayor Rahm Emanuel said the city would contribute $5 million to the initiative. Five banks —BMO Harris, CIBC, MB Financial, Northern Trust and Byline Bank—have kicked in a combined $20 million. The remaining funds are coming from local nonprofit Benefit Chicago, which has committed $5 million; the Illinois Housing & Development Authority,

$2.5 million; and the Capital Magnet Fund, a federal affordable housing program, $3 million.

CoStar

The Chicago real estate investment firm is financing a $6 million acquisition of this 64-unit Hyde Park apartment building through the fund.

An apartment investor who finances a building through the fund must set aside 20 percent of the units in the building as affordable for at least 15 years. Households that make up to 50 percent of the area's median income—$42,300 for a family of four—qualify as tenants for the affordable apartments.

It's a modest program, one more solution among many that already exist to increase the supply of affordable housing in the Chicago area. CIC and the Preservation Compact expect to finance about 1,500 apartments through the fund, 300 set aside as affordable. The program has already provided loans for seven properties totaling 176 units in places including Hermosa, Morgan Park, Galewood and Oak Park.

"There's such a massive need for affordable housing solutions, and the more we can embrace private solutions like this, we don't have to resort to really draconian measures like rent control," said Sandeep Sood, founding principal of Nautilus Investments. The Chicago real estate investment firm is financing a $6 million acquisition of a 64-unit Hyde Park apartment building through the fund.

Through the program, a landlord will typically take out a senior mortgage from another lender representing 80 percent of the cost of a property. An investor would usually finance the rest of the acquisition with equity, but CIC will provide a subordinate 10-year mezzanine loan through the fund accounting for about 10 percent, with equity covering the last 10 percent. Though borrowers can often pay interest rates as high as 20 percent on mezzanine debt, CIC charges about 7.5 percent, Markowski said.

"This is just another piece of the puzzle, and my philosophy is you work with the market, not against it," he said.

Letter — to the — Editor

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