



Developments

MARCH 2002

Community Investment Corporation · Chicagoland's Leading Neighborhood Revitalization Lender



CIC's Tom Jackson (l) and Johnnie Herron in front of Herron's latest Austin acquisition.

"I'm honored to have been selected as the borrower whose loan represented the 500 millionth dollar lent by CIC. Since our first CIC loan in 1986, we've come full circle with seven other loans," Herron said. "The fact that we've come back to CIC for new loans so many times, and that they continue to lend to us, speaks to the importance of relationship building. It's important both for the lender and the borrower to get to know each other as people, so that you build a reputation with each other and know what to expect."

After growing up on the West Side, Ms. Herron purchased and made a significant investment in the rehab of over 80 apartment units in five buildings. "These properties in the East Garfield and Austin communities have encouraged surrounding owners to reinvest in their properties too," said Senior Loan Officer Tom Jackson, who handled the transaction for CIC.

Herron, Jackson, and CIC's Angela Maurello were among the organizers of a group of more than a dozen Austin multifamily developers into the Greater Austin Development Association (GADA), which provides both peer support and technical assistance from other sources to promote responsible ownership and management of residential buildings in the neighborhood.

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We've come a long way.

Community Investment Corporation (CIC) has now lent over \$500 million for the acquisition and rehab of affordable multifamily housing since it began lending from its now 50-member pooled-risk consortium fifteen years ago.

The loan which put CIC over the top was for \$823,000 to make possible the extensive rehab of a 25-unit building in the Austin neighborhood on the West Side of Chicago.

Herron Development Company had earlier acquired the building, which was in foreclosure, with a \$545,000 CIC "Flex" loan and a \$40,000 Community Development Financial Institutions grant. In addition to the rehab loan from CIC, Herron has been approved for a \$750,000 loan from the Illinois Housing Development Authority.

Austin has been designated a CIC target area. Herron Development principal (Ms.) Johnnie Herron is also involved with the community in other ways as a member of the citywide Chicago Alternative Policing Strategy (CAPS) advisory board and the Greater Austin Development Association.

West Side Story:

CIC Passes \$500 Million Mark in Rehab Lending

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GADA meets once a month with representatives of the local aldermen, police district, and local financial institutions to discuss issues of current interest such as crime, cost containment, and best practices in building management.

But that's another West Side story.

WEST SIDE UPDATE: CIC lent more money in 2001 to acquire and rehab multifamily buildings in Austin than in any other

Chicago neighborhood. In 2001 CIC lent \$9.5 million for 12 projects with 403 units in Austin alone. Also, sometime in the late spring, CIC anticipates the opening of the City's "Mid-West" Tax Increment Financing (TIF) District in North Lawndale and East Garfield, which will provide subsidies up to \$5,000 per unit for multifamily properties, as well as subsidies for one- to four-unit rehab, to be administered by Neighborhood Housing Services. More in our next issue.

North Side Story:

A Special Kind of SRO

Property developer Jacob Bomberg notes that in the 1970s Clifton Avenue near Wilson was known as "blood alley." Having recently acquired a 53-unit (with four storefronts) multifamily building at Clifton and Wilson Avenues in Uptown, it is evident that he takes some pride in rehabbing one of the few remaining troubled buildings in the neighborhood.

The single-room occupancy (SRO) building in the Wilson Yards TIF district is Bomberg's third multifamily building and the second SRO; the remaining building features studios. Two are in Uptown, the other in Edgewater, and together they provide 350 affordable living units. Each has been financed by CIC during the last six years. The rehab on the residential units in this building will be completed by March, and the commercial units will be built-out to suit each tenant.

One of the storefronts previously was the "infamous" Wooden Nickel tavern. Since

the building is directly across from Truman College and its 23,000 students, Bomberg anticipates the new stores will now serve that market. "[The students] haven't had a reason to cross the street in 30 years, but they will now," he notes.

Bomberg manages his SRO properties differently from most landlords. "I don't have daily or weekly tenants—only monthly and yearly ones," he says, "and each has to pass a credit and background check. But we give people a chance to interact with their neighbors and get to know each other." One example of how Bomberg facilitates the community aspect of his building occurred in December when he teamed with a local church, the Lakeview Church of Christ, to give his tenants a holiday party with gifts and a festive meal. A local professional photographer contributed by taking free photos of each guest which they could keep. Some nonresident guests attended as well, including 46th Ward Alderman Helen Shiller.

As to the future, Bomberg predicts, "I am committed to providing affordable rental housing in the Uptown and Edgewater neighborhoods. The support of my loan officer, Tom Jackson, has



Property Management Training Has Record 2001

"I feel as if I have received \$1 million worth of information...thanks Larry, Taft and staff." That enthusiastic comment came

from a property owner who attended the four-evening CIC Basic Property Management course last April. The two people she refers to are Larry McCarthy, director of the CIC Capacity Building Program, and Taft West, recently hired as deputy director.

The satisfied client was one of 532 managers and owners of multifamily residential property who attended one of the 24 series of workshops in 2001, the largest attendance and most frequent workshop

schedule to date. The workshops were all held in neighborhood locations throughout the city, and were partially funded by the Chicago Department of Housing and about a dozen CIC investor financial institutions.

Quality ownership and management are among the most important ingredients in housing success, and the program directly addresses common issues of managing and owning multifamily property. In 2002, CIC will host at least 22 more of the four-evening series, and add some one-evening seminars dedicated to a single topic. When those begin, staff will hope to receive feedback such as this one from an attendee who is a trainer herself:

"I attended the [November] session of Residential Property Management. The speakers...were TREMENDOUSLY informative. I took something significant from each session that I will use to manage my properties. The course was invaluable...thank you for your time and hard work!"



(North Side Story continued) been a key factor in closing deals for these multiunit properties. CIC has been the resource that has allowed me to purchase

and rehab buildings I might not otherwise have found funding for. I expect our relationship will continue for years to come."

FORGOTTEN NORTH SIDE HISTORY: Before CIC began its rehab lending in Uptown and Edgewater in 1984, there were 50 vacant multifamily buildings between the two neighborhoods; today there are none. Through the efforts of CIC and others these North

Side neighborhoods have become desirable yet diverse places for families to live, while keeping at least some of the units in the affordable range.



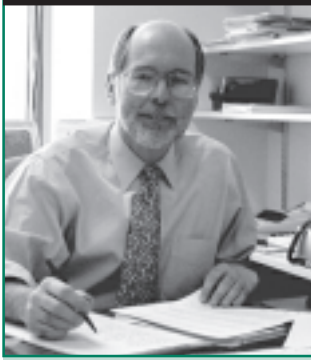
South Side Story:

CIC Increases Its South Side Investment

The South Side is CIC's most active lending area.

In 2001 CIC made 52 South Side loans for \$15.3 million for 560 units and a total project cost of \$24.8 million. This was by design, for CIC has specifically targeted Woodlawn, Bronzeville, Auburn Gresham, Englewood, Greater Grand Crossing and other South Side communities for special attention.

On the South Side in fiscal 2002, which began October 1, CIC has already lent \$9.7 million in 22 loans for 453 units, with other deals in the pipeline.



Thaddeus "Ted" Brzyski returned to CIC as a senior loan officer on February 4 after having left in 1998 to pursue housing development and management. Prior to that Ted had been with CIC from 1988 as the loan officer for over \$60 million in multifamily deals in Chicago and the suburbs. "I love

New Faces at CIC

to work with hands-on property owners who know their tenants and their markets, and who

see their ownership as good business and good community building. CIC has added some new programs so there are more tools to work with now," Ted said.

Taft West, deputy director of the Capacity Building (training) Program, has over 20 years experience as a property manager with organizations such as Draper & Kramer, RESCORP and the Rockford Housing Authority. With the addition of Taft, CIC will now expand its capacity building efforts by offering new, advanced courses on single



topics; creating owner/manager groups in new neighborhoods to discuss issues of common concern; creating a maintenance procedures library; and developing new resources in construction procedures and documentation.

Lauren Oppolo began her new position as Construction Administrative Assistant just after Christmas. Lauren, who hails from Indiana, is a 2001 graduate of St. Mary's College in South Bend. She provides helpful and cheerful administrative support for the Construction department,

reviews construction payout documents, interacts with owners and contractors on revisions, and sends documentation to title companies for disbursement.



CIC, in partnership with the Chicago Department of Housing (DOH), participates in a federal program called Mark to Market which is designed to provide required rehab and to preserve expiring Section 8 contracts where lower-income tenants are charged no more than 30% of their income.

HUD Recognizes CIC-DOH "Mark to Market" Program

HUD shares best practices information with its Mark to Market partner organizations such as CIC

around the country on a monthly basis by spotlighting the details of particular deals without revealing data about the borrower.

A recent deal processed by CIC in partnership with DOH was judged to exemplify these best practices and was the HUD featured deal for December, 2001.

"With Mark to Market we provide affordable housing by preserving what's already there."

CIC Senior Loan Officer Anita Bundze and Mark to Market Specialist Phillip Kaufman are the two CIC staff persons who work on the program. "We're proud to say that, since the program began, we have renegotiated Section 8 contracts and approved rehab plans for 2,532 units, of which 2,136 units must remain affordable rental housing for at least 30 years," Anita said. "With Mark to Market we provide affordable housing by preserving what's already there."



Can Our Area's 100,000 Substandard Affordable Rental Units Be Preserved?

*By John Pritscher,
CIC President*

Clearly we need an affordable housing preservation strategy. The alternative is the continued deterioration and demolition of greatly needed affordable rent units.

The Regional Rental Market Analysis prepared for the Metropolitan Planning Council reports that in the Chicagoland area there are approximately 100,000 substandard units that “would probably not pass HUD Housing Quality Standards inspection without substantial renovation.” This includes 67,000 to 70,000 rental units in Chicago and 32,000 to 35,000 in lower-income suburbs.

Most of these 100,000 units were built before 1930, over 70 years ago. Most are concentrated on the South and West Sides of the city where average neighborhood rents are affordable to households earning just over 40% of area median income. The second focus is in lower-income suburbs.

Size of the Problem: 100,000 affordable-rent units in need of substantial renovation...

- Would house a quarter of a million people
- Would be about twice the number of units in Illinois' second-largest city, Rockford.
- Would cost **\$15 billion to rebuild at today's costs**, say \$150,000 per unit, requiring deep subsidies of about \$100,000 per unit or \$10 billion.

Size of the Solution...

- Would cost **\$3.5 billion** to acquire and rehab at \$35,000 per unit (The average total project cost on the 2,900 units rehabbed by CIC in 2001 was \$34,000). **About 97% would be private dollars from the developers and lenders** (banks and CIC).
- Would require about **\$10 million per year in small subsidies** averaging \$4,000 per unit on 25% (25,000) of the units. (In 2001 small subsidies controlled by CIC averaged under \$3,000 per unit and were needed to cover required rehab on 11.5% of CIC loans.)

Elements of a Solution

Clearly we need an affordable housing preservation strategy. The alternative is the continued deterioration and demolition of greatly needed affordable rent units. We could not afford to rebuild the units at today's costs.

1. We need a rehab strategy with about 75% of the units being rehabbed with no direct subsidy. The rehab will need to be done **by cost effective hands-on rehabbers/owners.**

Low appraised values in these locations has been a lending challenge in neighborhoods where, despite reasonable cash flow and borrower equity, appraisers use higher cap rates. Debt coverage lending by banks will need increased emphasis over appraised value (CIC Flex loans have no losses to date).

2. A minority of the buildings will need small subsidies to \$5,000 per unit to cover all required rehab. Increased small subsidy will be needed that brings no delays or added cost to the rehabber to be of use to hands-on owners. This presently rules out federal housing subsidies. Present sources include City TIF and bond funds, Illinois Affordable Housing Trust Fund grants, and possibly increased federal CDFI funds or an appropriation set-aside for Chicago area lenders.

3. Scarce deep federal subsidies will play a minor preservation role. For example, \$10 million of deep subsidy of \$100,000 per unit would do 100 units, but small subsidies of \$4,000 per unit would aid 2,500 units. The Illinois Affordable Housing Trust Fund makes possible the rehab of buildings needing just over \$5,000 per unit in subsidy, and the City's Joint Lender program is also available. Chicago Housing Authority units were not included in the 100,000 substandard units. A preservation strategy complements the visionary CHA transformation plan.

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April 15-18
CHAC, Inc.
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Preserving 100,000 Affordable Rental Units
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4. Indirect subsidies are available through the Cook County Assessor's Class 9 program and the Tax Reactivation and Tax Sales programs. CIC is working with the City to acquire troubled buildings in Housing Court.

5. Affordable housing has become a focused issue in the suburbs, with initiatives of the Metropolitan Mayors Caucus, Northeastern Illinois Planning Commission and Metropolis 2020. Small subsidies coordinated with effective code enforcement would go a long way in the suburbs targeting a suburb's most run-down buildings. Close coordination of municipalities with the Illinois Affordable Housing Trust Fund and CIC or a local lender would be a natural fit.

In December 2001, there were 19,255 Chicago buildings before Housing Court. In 2000, there were 2,035 buildings demolished. Continued deterioration is the alternative to an affordable housing preservation strategy. Discussion of this problem will hopefully lead to next steps. Your thoughts are important. It won't happen without you.



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Both adjustable rate loans typically have a 20-year term, with 25-year amortization. Rate adjustments are capped and there is no pre-payment penalty.

For more specific information on CIC products and current rates, call Community Investment Corporation at **312/258-0070**.

* as of February 28, 2002