ANTONIO PEREZ/TRIBUNE PHOTO

Duane Ehresman stands by two buildings he would like to buy in Chicago's Austin neighborhood. Community Investment Corp.'s new $26 million loan pool aims to help investors like Ehresman to rehab small rental buildings in areas of the city hit hard by foreclosures.

Aid for rental market

$26M loan pool set up to help investors buy, rehab 1- to 4-unit structures

By Mary Ellen Podmolik
Tribune reporter

Duane Ehresman has bought and rehabbed 21 midsize multifamily buildings in some of Chicago's most challenged neighborhoods over the past 25 years. Now he is hoping a new program will help him tackle vacant, abandoned two- and three-flats on some of those blocks.

A new $26 million loan pool, rolled out by Community Investment Corp. and backed by numerous lenders, seeks to entice local investors with proven track records to buy small rental buildings to increase the supply of affordable rental units in hard-hit communities. Details are expected to be announced at a Tuesday event with CIC, Mayor Rahm Emanuel and Illinois Attorney General Lisa Madigan.

Buildings with two to four units are just over a quarter of Chicago's overall housing stock, but in some neighborhoods they account for almost half of the residential units, or even more. In 2012, buildings with two to four units accounted for 44 percent of the housing in Austin, 53 percent in East Garfield Park, 58 percent in Humboldt Park, and 72 percent in South Lawndale, according to DePaul University's Institute for Housing Studies.

As a result of speculative investors who walked away and mom and pop owners unable to stay current on their mortgages, 16,941 apartment buildings containing almost 52,000 rental units in Chicago went into foreclosure between 2009 and 2011. The Lawyers' Committee for Better Housing found that three-quarters of the affected units were in two- to four-unit buildings.

The local housing market's slow turnaround is hard to see in some of those communities.

"In the neighborhoods where there's the most foreclosures, not only have credit standards tightened up, there's little or no homebuyer demand," said John "Jack" Markowski, CIC's president and CEO. "Look at the scores of vacant two-flats. They are not buying in these neighborhoods. In today's world, if you can qualify for the more stringent (loan standards), you are unlikely to cast your lot in a changing area.

"We'd love to have the owner-occupant come back, but for the most part, they are not," Markowski added.

The one- to four-unit rental redevelopment loan program is an expansion of the traditional lending activities of CIC, a nonprofit lender that has provided more than $1.1 billion since 1984 for the purchase and rehab of almost 51,000 units of affordable housing in larger rental buildings in the Chicago area.

The impetus for the small-building

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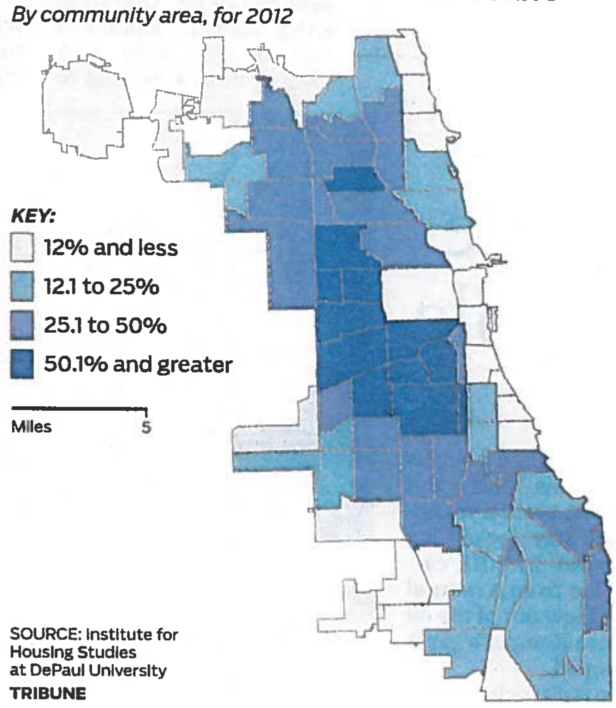
Boosting small rental buildings

A new investment loan program is looking for proven investors to buy small rental buildings, like two- to four-unit buildings, which make up about a quarter of Chicago's housing stock, to increase the amount of affordable rental units in hard-hit communities.

PERCENTAGE OF BUILDINGS WITH 2 TO 4 UNITS
By community area, for 2012



SOURCE: Institute for Housing Studies at DePaul University
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Fund set up for rental buildings

Rental, *from Page 1*

program began three years ago, as organizations realized there was no real funding stream to rescue abandoned small rental buildings in neighborhoods where the cost to renovate them far outweighed their value.

Because the purchase of a two-flat, for example, is regarded as more of a residential investment than a commercial one, the lending standards have focused more on a borrower's own finances and ability to pay the mortgage than the rental income the building might generate.

"We've done some (loans), we'd like to do more," said Andy Salk, president and CEO of First Eagle Bank, a loan pool participant. "It's a start. Right now, it's stuck. It's hard to get conventional money into the neighborhoods. People see the foreclosures, see the vacancies, see the board-ups, and it's tough to be the first."

Under the program, investors must purchase enough small buildings so they have at least nine units in an area, in order to make a greater community impact. The fund will not provide the initial loan for a building's purchase and rehab, but CIC can help vet prospective investors and vouch for them with lenders.

Then, when a building's purchase and rehab is complete, CIC would provide a 10-year loan so the investor can pay off that initial loan. A group of 11 area banks in a shared-risk pool will back the loans. Additional funding for the program includes $5 million from MacArthur Foundation and $2 million from the Illinois attorney general's foreclosure settlement funds.

The $26 million is expected to finance only about 200 buildings, or about 400 units, in the Chicago area, which is why the effort is targeting low- and moderate-income communities like those identified by Chicago's micro-market recovery program. The hope is that other lenders will step forward to make their own investments in communities.

The program lines up with the goals identified in the city's five-year housing plan, which called for more partnerships between financial institutions and nonprofit groups to expand neighborhood redevelopment efforts.

"The market's recovering. It's just uneven," said Thurman "Tony" Smith, a senior vice president at PNC Bank, one of the lenders participating in the pool. "Specifically what we've observed is that savvy investors, including some of our smaller developers, they know which neighborhoods are showing the right trends."

For Ehresman, who owns and manages almost 600 units in the Austin, North Lawndale and West Garfield Park neighborhoods, the loan fund could provide the answer for his next rental portfolio acquisitions. On recent walks through part of Chicago's Austin neighborhood, Ehresman counted 100 vacant buildings and 82 of them were single-family homes or two-flats. He already has identified 20 buildings he'd like to acquire.

"Everybody wins if we can stabilize the block," he said.

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