

The **Preservation** Compact

A Rental Housing Strategy for Cook County

Preservation Forum:

2- to 4-Unit Rental Stock



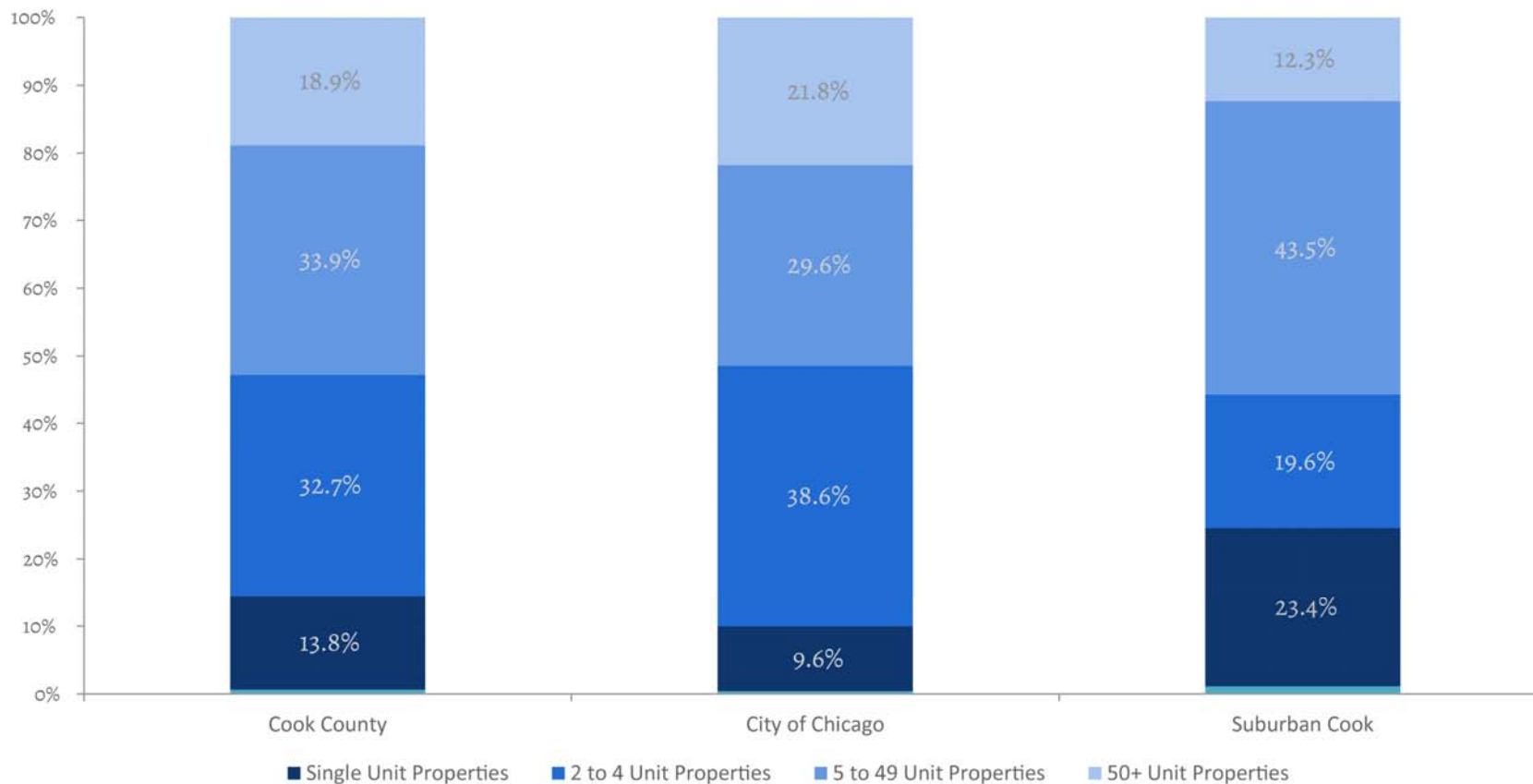
Cook County's Two-to-Four Unit Building Market



Geoff Smith, Institute for Housing Studies at DePaul University
Preservation Forum: The Two-to-Four Unit Rental Stock
June 13, 2012

The Supply of Rental Housing – Cook County’s Rental Housing Stock

Cook County Rental Units by Building Size, 2010

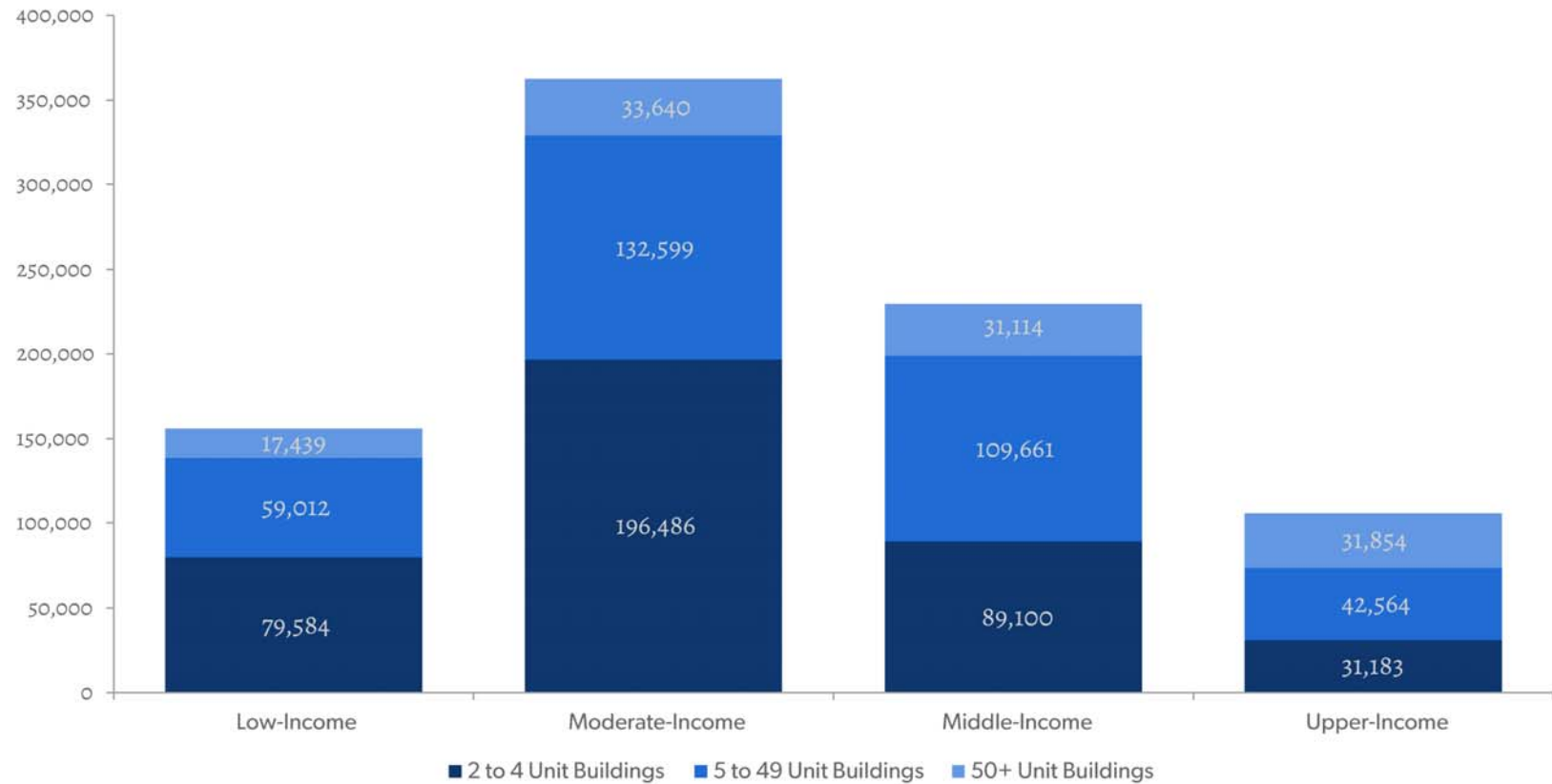


Source: American Communities Survey

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The Supply of Rental Housing – Multifamily Rental Units by Building Type and Income Area

Cook County Units in Multifamily Rental Buildings by Building Size and Neighborhood Income Level, 2010

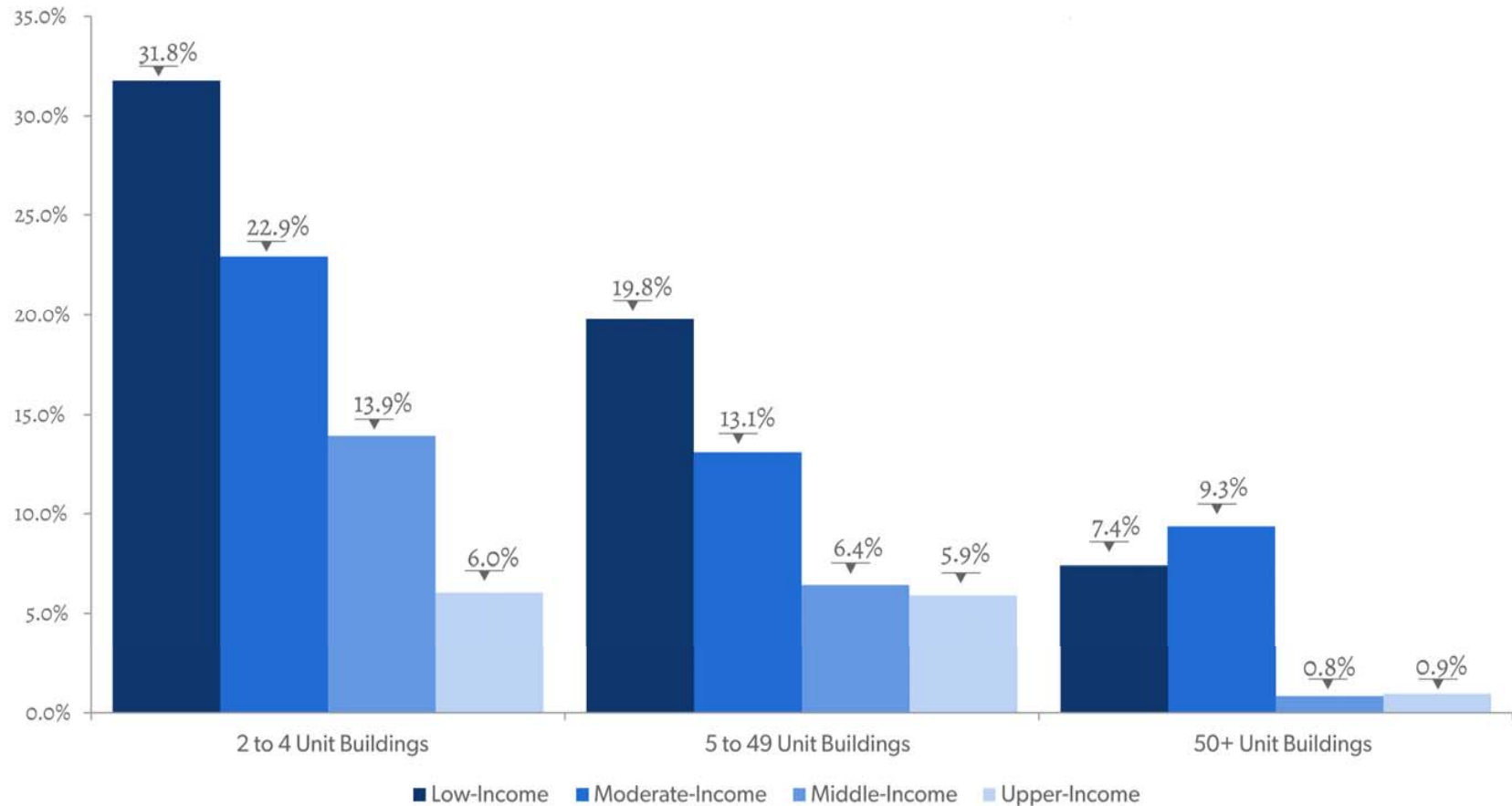


Source: Cook County Assessor's Office

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The Supply of Rental Housing – Rental Market In Lower-Income Communities Affected by Foreclosure Crisis

Cook County Share of Units in Multifamily Rental Buildings Affected by a Foreclosure by Building Size and Neighborhood Income Level, 2005 to 2011



Source: IHS calculations of data from Record Information Services and Property Insight

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The Supply of Rental Housing in Cook County – 2 to 4 Unit Building Stock in Select Community Areas

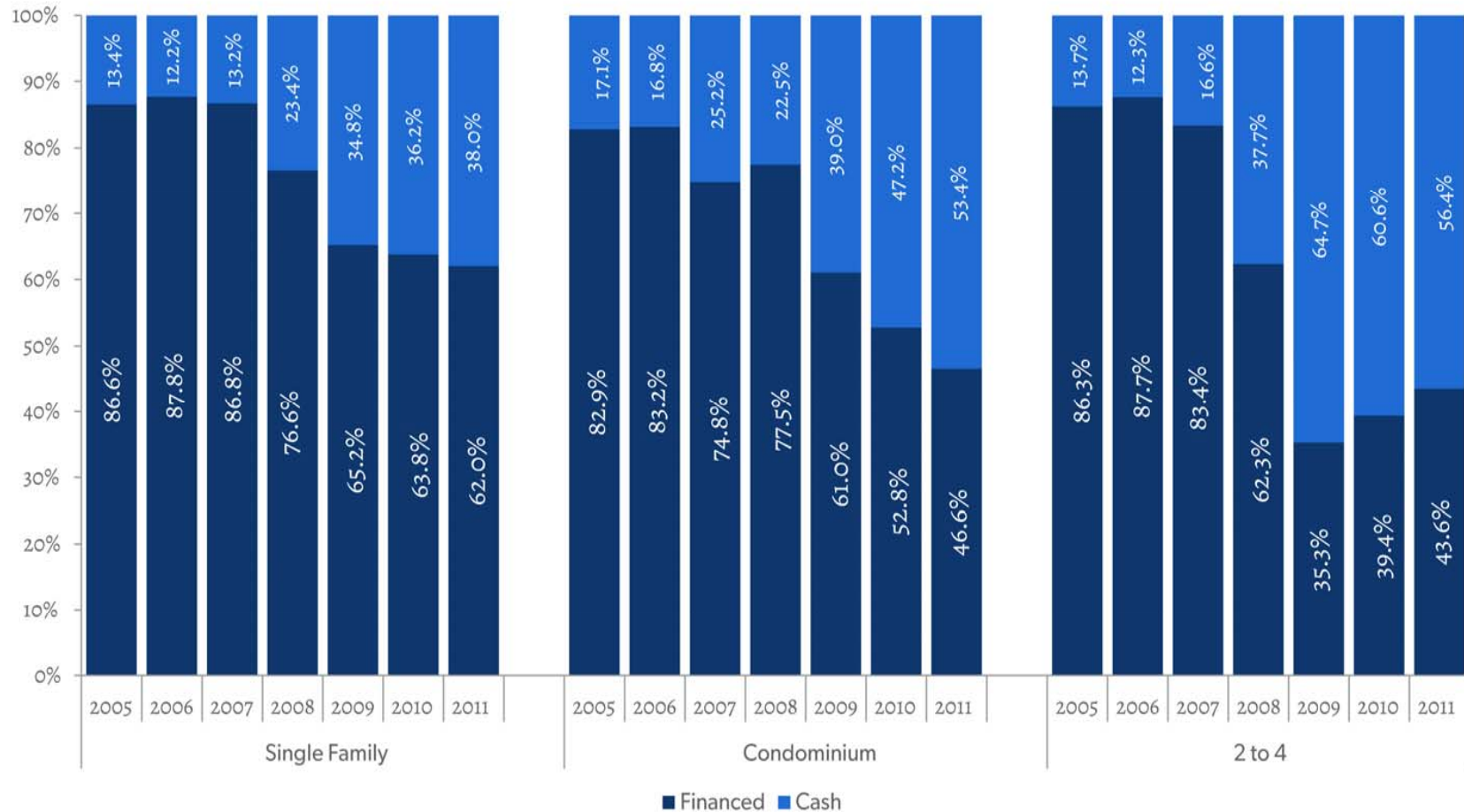
	Units in 2 to 4 Unit Buildings	Share of Multifamily Rental Units in 2 to 4 Unit Buildings	Share of Multifamily Rental Units in 2 to 4 Unit Buildings Affected by FC, 2005-2011
Brighton Park	9,457	93.8%	21.0%
New City	10,949	90.4%	32.2%
South Lawndale	13,374	85.2%	18.2%
Bridgeport	7,329	79.5%	7.4%
Avondale	8,628	76.8%	20.4%
Humboldt Park	11,272	73.3%	32.7%
North Center	7,756	72.8%	6.0%
Belmont Cragin	9,754	71.2%	27.8%
Logan Square	15,399	65.1%	16.1%
North Lawndale	8,785	64.8%	35.1%
City of Chicago	326,647	40.0%	21.7%

Source: IHS calculations of data from Cook County Recorder of Deeds and Record Information Services

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Challenges to Preserving and Producing Affordable Rental Housing – Financing for 2 to 4 Unit Buildings

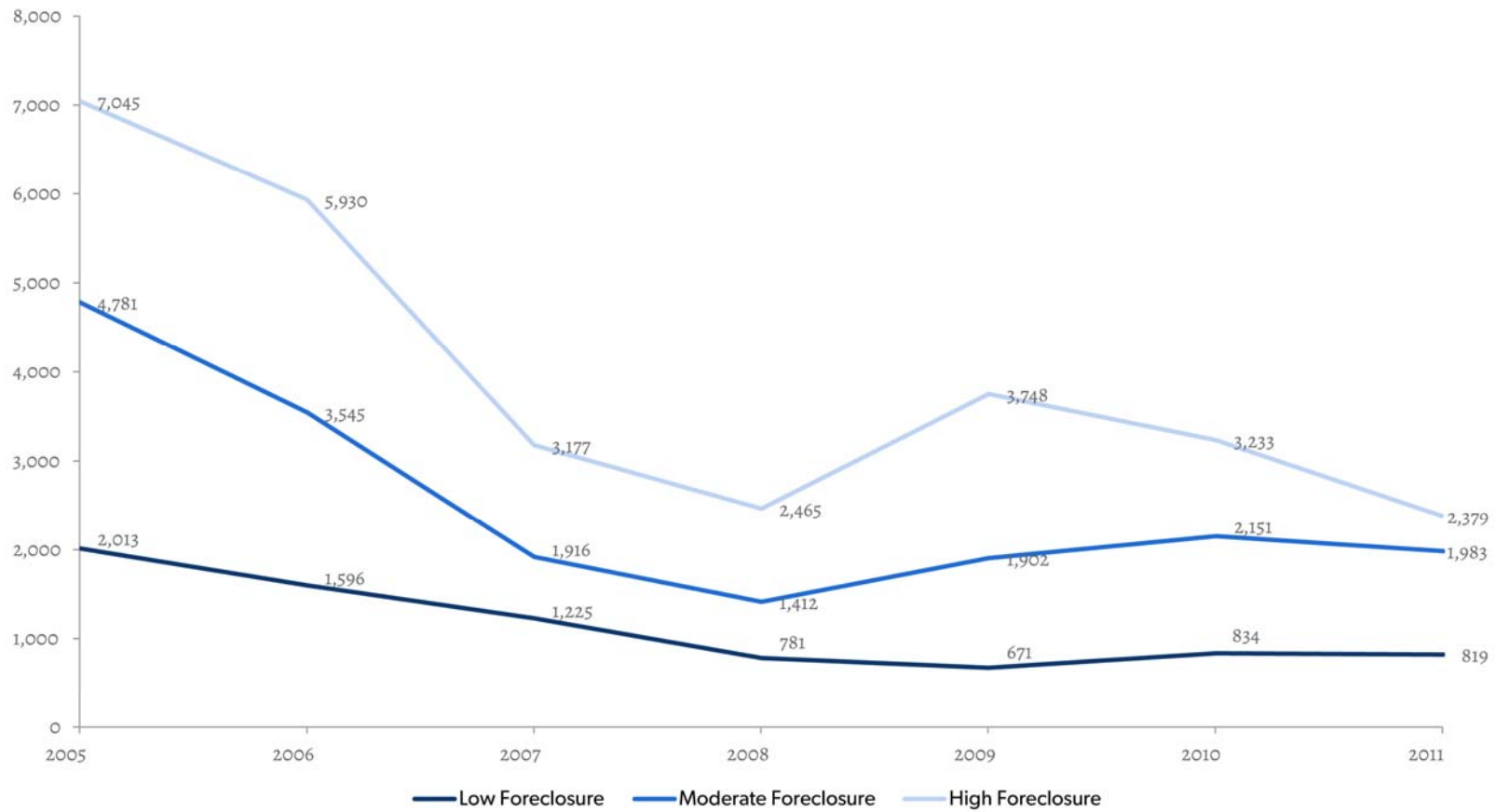
Building Sales in Cook County by Property Type and Acquisition Method, 2005 to 2011



Source: IHS calculations of data from Cook County Recorder of Deeds and Record Information Services

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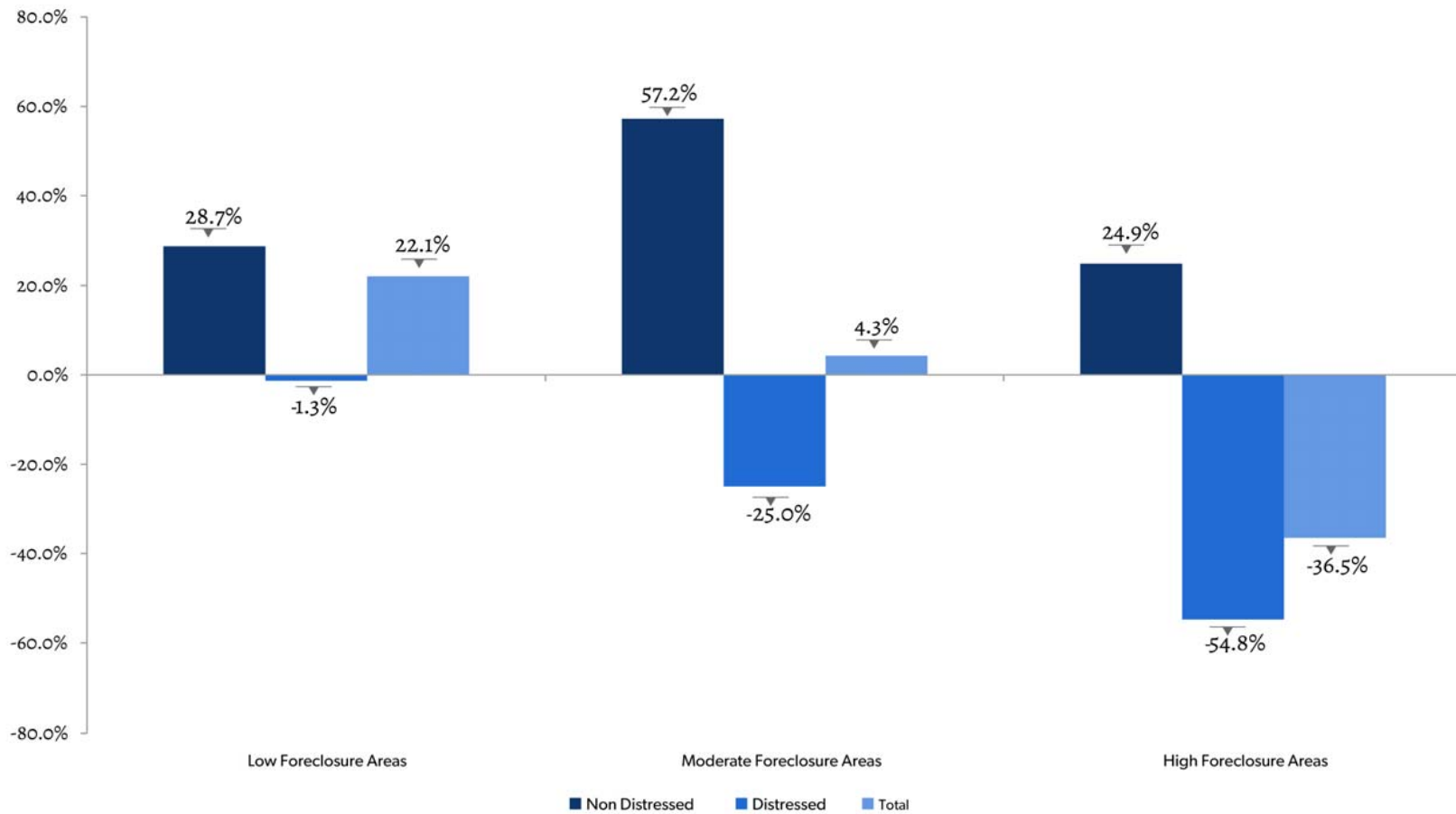
The Market for 2 to 4 Unit Buildings – Sales by Neighborhood Foreclosure Level



Source: IHS calculations of data from Cook County Recorder of Deeds and Record Information Services

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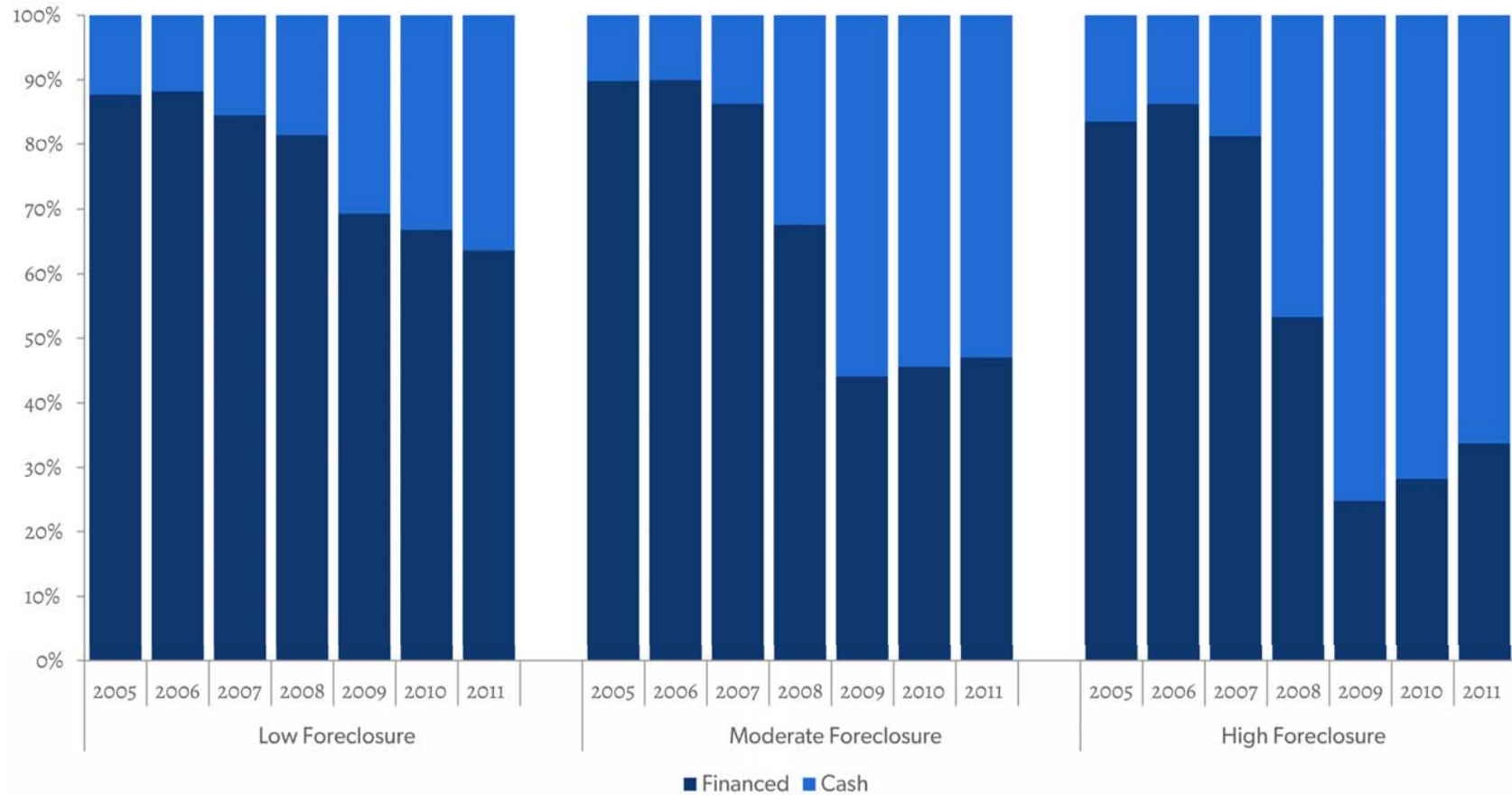
The Market for 2 to 4 Unit Buildings – Change in 2 to 4 Unit Property Sales by Transaction Type, 2009 to 2011



Source: IHS calculations of data from Cook County Recorder of Deeds and Record Information Services

Challenges to Preserving and Producing Affordable Rental Housing – Financing for 2 to 4 Unit Buildings

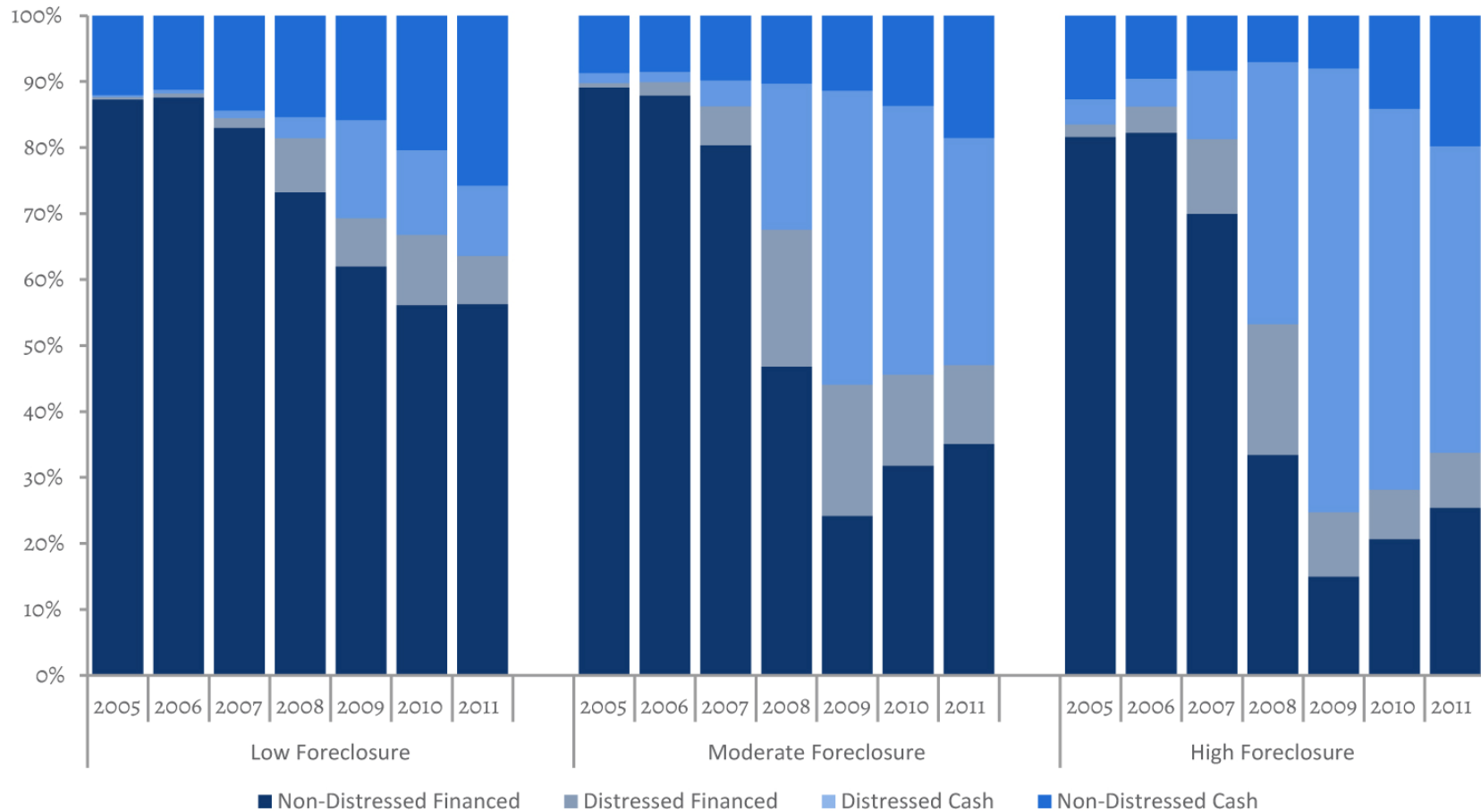
2 to 4 Unit Building Sales in Cook County by Acquisition Method and Neighborhood Type, 2005 to 2011



Source: IHS calculations of data from Cook County Recorder of Deeds and Record Information Services

Challenges to Preserving and Producing Affordable Rental Housing – Distressed Sales and Financing for 2 to 4 Unit Buildings

2 to 4 Unit Building Sales in Cook County by Acquisition Method, Type of Sale and Neighborhood Type, 2005 to 2011



Source: IHS calculations of data from Cook County Recorder of Deeds and Record Information Services

Sales Characteristics of 2 to 4 Unit Building Stock in Select Community Areas

	Sales of 2 to 4 Unit Buildings, 2011	Share of 2 to 4 Unit Buildings Purchased with Cash, 2011	Share of 2 to 4 Unit Buildings Purchased Out of REO Status
New City	189	74.6%	50.3%
North Lawndale	141	73.0%	40.4%
South Lawndale	126	71.4%	37.3%
Humboldt Park	221	62.0%	45.2%
Bridgeport	67	58.2%	20.9%
Brighton Park	115	57.4%	40.0%
Avondale	139	48.9%	30.2%
Belmont Cragin	170	47.6%	38.2%
Logan Square	197	45.7%	24.4%
North Center	101	27.7%	10.9%
City of Chicago	4,403	56.5%	35.4%

Source: IHS calculations of data from Cook County Recorder of Deeds and Record Information Services

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Cook County's Two-to-Four Unit Building Market

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Institute for Housing Studies at



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June 13, 2012

**Preservation Compact
2-4 Unit Rental Lender Survey
Preservation Forum- June 13, 2012**

Preservation Compact: 2-4 Unit Rental Lender Survey

Intent and Outcome

- Inform lending for 2-4 unit rental properties in Cook County
- Professional Investors, Neighborhood Investors and Owner-occupants
- Structures/supports to increase lending for target investors and communities

Preservation Compact: 2-4 Unit Rental Lender Survey

Primary Survey Findings

- Residential Mortgage vs. Commercial Real Estate determines loan terms and type of borrower
- Limited long term capital and/or secondary market resources available for 2-4s
- GSE and secondary market criteria pose obstacles for increased lending for 2-4s for investors
- Appraisal is key; declining values in L/M communities limit borrowing leverage for 2-4s
- Large portfolio concentrations and underwater values hinder additional lending for professional investors

Preservation Compact: 2-4 Unit Rental Lender Survey

2-4s *Lending Data 2010-2011*

**DePaul Institute for Housing Studies*

- Over 3900 loans for purchase of 2-4s in Chicago for 2010-2011
- Distribution of lending:
 - Over 52% listed as MERS
 - Next 25% originated by 8 financial institutions; including 3 of surveyed lenders
 - Additional 240 different institutions represented; most at 5 and fewer loans
- Separate informal reporting from one lender indicated:
 - 25% investor / 75% owner-occupied
 - 44% refinance / 56% purchase

Preservation Compact: 2-4 Unit Rental Lender Survey

Commercial vs. Residential Lending

	Commercial	Residential aka GSE
Borrower Type	Prof & Neigh Investor	Owner & Neigh Investor
Secondary Market	No - held in portfolio	Yes – some held
Appraisal	Comp Sales & Income	Comp Sales primarily
Loan To Value	70%	70-80%
Maturity/Amortization	3,5,7/25-30 years	30/30 years
Limits on # held	Varies/small bundling	5-10/no bundling
DCR/DTI	1.2-1.3	45%-50%
Rental Income	10-25% vacancy	10-25% vacancy
Reserves	Varies	6 mnth/property
Credit Score	700 >	660 >

Preservation Compact: 2-4 Unit Rental Lender Survey

Additional Secondary Market Criteria

- Loan products for Owner-Occupant and Small Investors
- Title held in name of an individual, land or living trust
- Max. 10 mortgages held by single individual/No bundling
- Restrictions on short term or cash purchase transactions
- Borrower documented experience in rental real estate
- Price adjustment interest charges for investors, multi-units, credit scores, and other higher risk factors

Preservation Compact: 2-4 Unit Rental Lender Survey

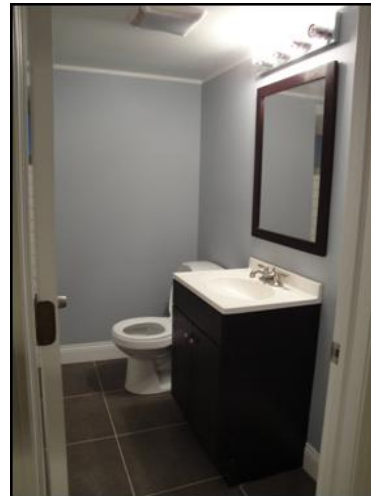
Structures and Support Opportunities?

- Credit Enhancement: increase lending limits, property bundling, subordinate loans
- Cost effective long-term Takeout and Refinance Product for Professional Investors
- Capital Reserves to leverage short term concentrations held in portfolio
- Focused marketing for Neighborhood Investor
- Landlord training

SLM Realty: Rehabbed properties



SLM Realty: Rehabbed properties



3-flat Income and Expenses

W 15th and S Central Park Ave

Summary	Price
Acquisition Price	\$ 96,494
Rehab Cost	\$ 110,000
Total Project Cost / Current Basis	\$ 206,494
Number of Units	3
Cost Basis Per Unit	\$ 68,831
RENTS	\$1,073-1,300/unit
Loan (80% of cost) 25 year amortization, 6% interest	\$ 165,195

Valuation	
Capitalization Rate	9.00%
Year One NOI	\$ 30,058
Capitalized Value	\$ 333,977
Loan to Capitalized Value	49.46%

	Operating YR1
Market Rents	\$ 42,120
General Vacancy and Credit Loss 5%	\$ (2,106)
Effective Gross Income	\$ 40,014
<u>Expenses:</u>	
Utilities (Tenant Paid)	\$ -
Repairs and Maintenance	\$ 3,600
Taxes	\$ 3,100
Insurance	\$ 1,150
Management Fee	\$ 2,006
Total Operating Expenses	\$ 9,956
Expenses Per Unit Per Year	\$ 3,318.67
NET OPERATING INCOME	\$ 30,058
Debt Service	\$ (12,772)
Cash Flow	\$ 17,286
DSCR	2.35

The **Preservation** Compact

A Rental Housing Strategy for Cook County

Preservation Forum:

2- to 4-Unit Rental Stock

The Preservation Compact brings together the region's public, private, and nonprofit leaders to preserve affordable multifamily rental housing in Cook County.

Coordinated by Community Investment Corporation (CIC) with support from The John D. and Catherine T. MacArthur Foundation, Compact activities focus on multifamily rental properties and include:

Expanding Availability of Energy Retrofits

The Compact is developing strategies to bring multifamily rental energy retrofits to a larger scale. We are gauging demand for energy loans and identifying resources and mechanisms to provide more audits and loans

Ensuring Fair and Consistent Property Taxes

The Compact is investigating ways to make the property tax system more predictable for rental buildings and working with city and suburban collaborations to educate owners about property tax appeals.

Developing Preservation Strategies for 2-4 Unit Buildings

Buildings with 2- to 4-units comprise approximately one-third of the rental stock in Cook County. The Compact is developing strategies to rehab and stabilize distressed 2- to 4-unit properties.

Streamlining Government Processes

The Compact is identifying recommendations for an improved and streamlined system for inspections, permits, and building codes.

Collecting & Analyzing Data

Preservation Compact partner, The Institute for Housing Studies at DePaul University, creates accessible information and analysis to assist preservation practitioners.

Coordinating with Public Agencies on At-Risk Properties

The Compact works with public agencies, as well as tenant and community groups, to develop joint solutions for at-risk properties.

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