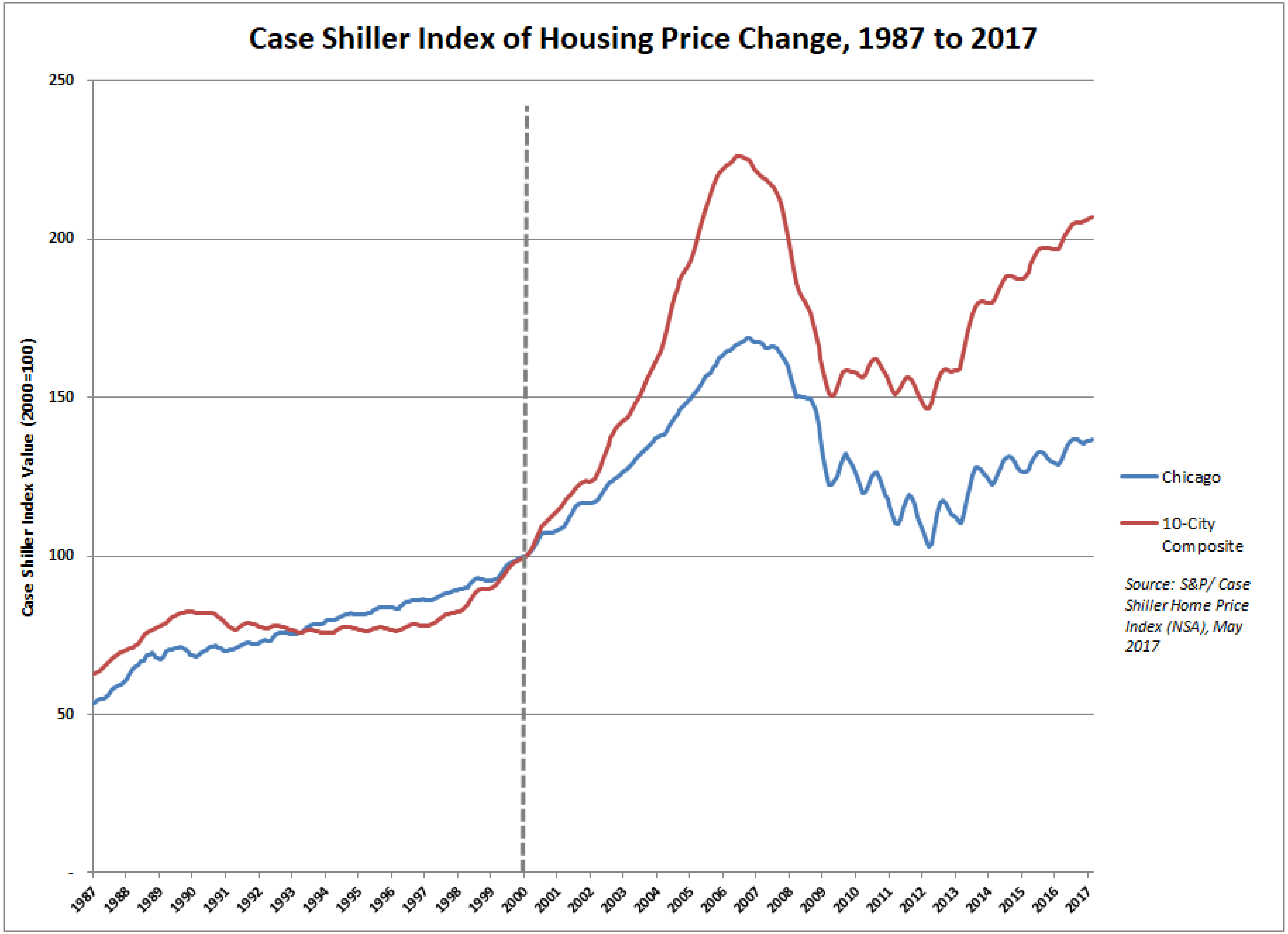
Chicago’s Polarized Housing Market Recovery:

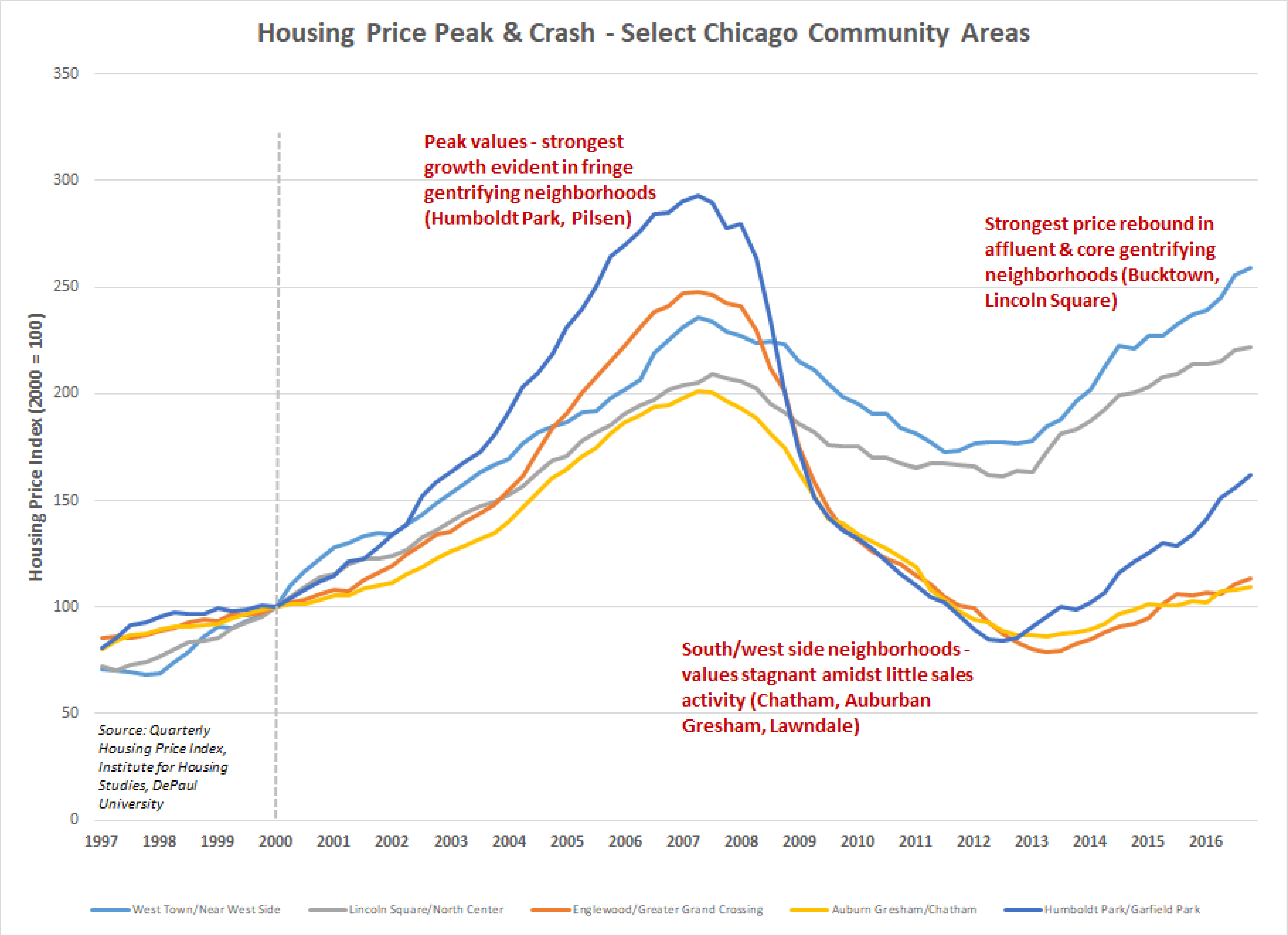
Market Challenges & Policy Responses

Philip Ashton
University of Illinois at Chicago

The Housing Bubble & Its Aftermath

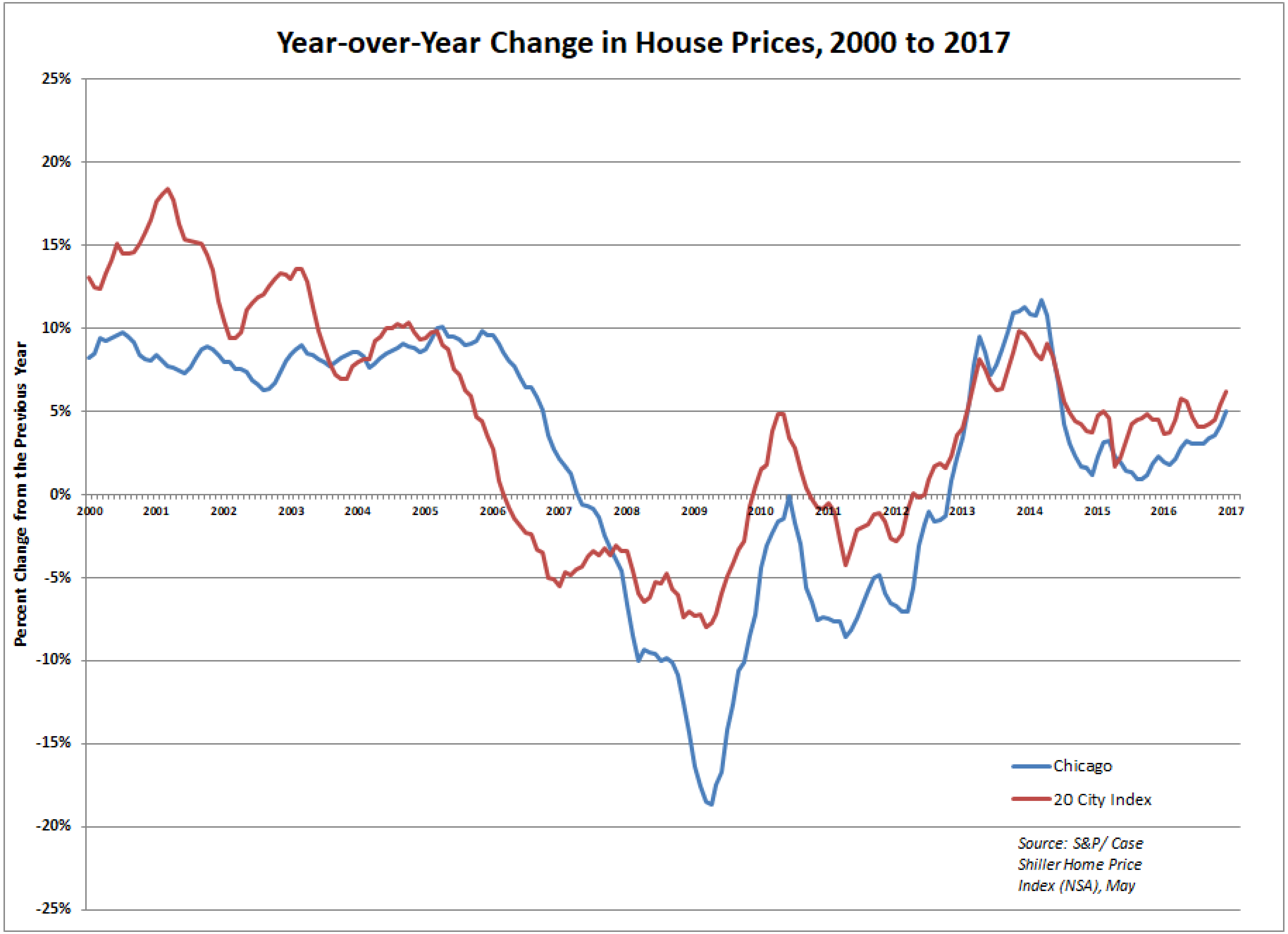


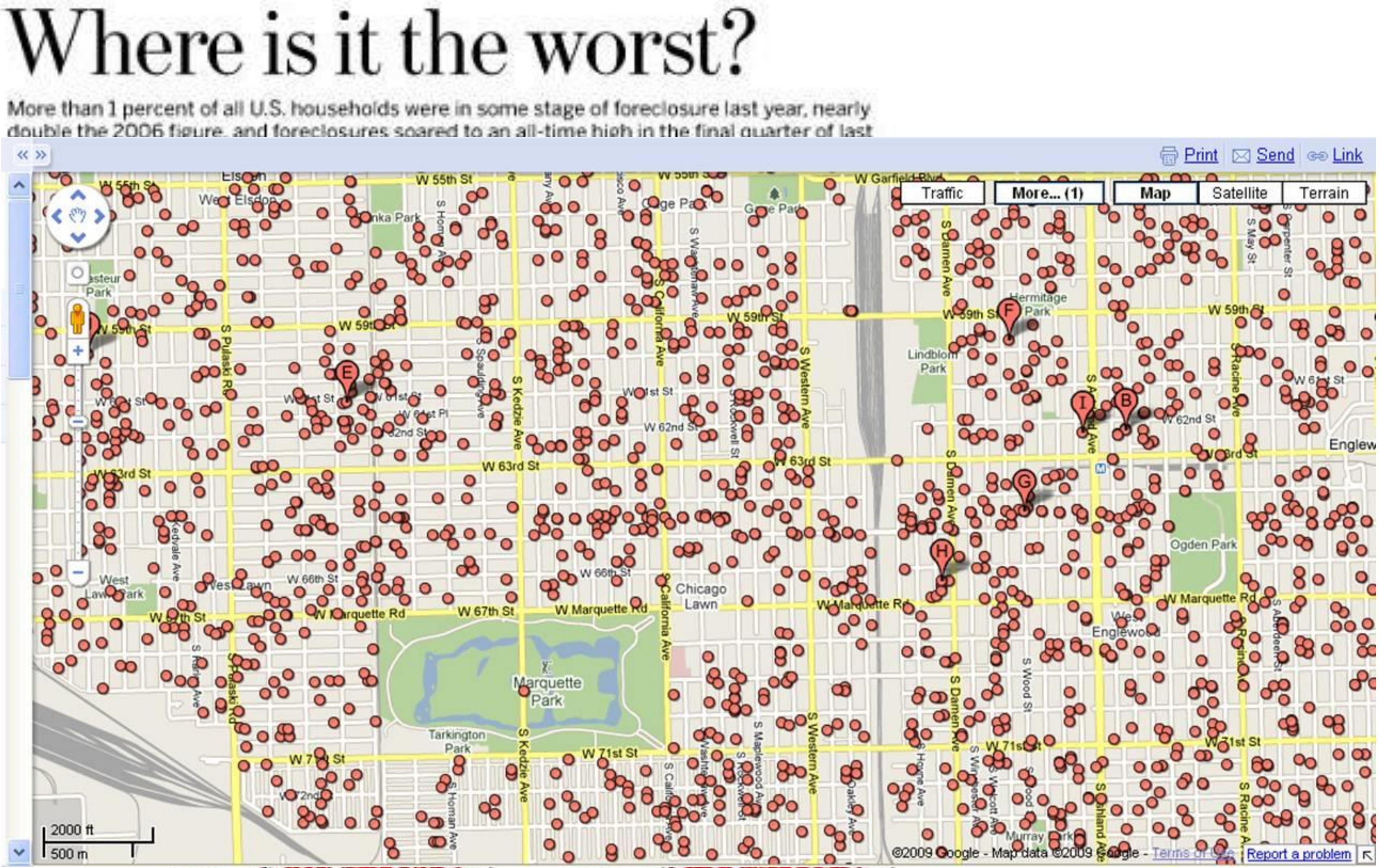
Even as the national trend was more pronounced (due to stronger increases in speculative markets like Las Vegas and San Francisco), Chicago still saw an average **69% increase in home prices** between January 2000 and summer 2006.

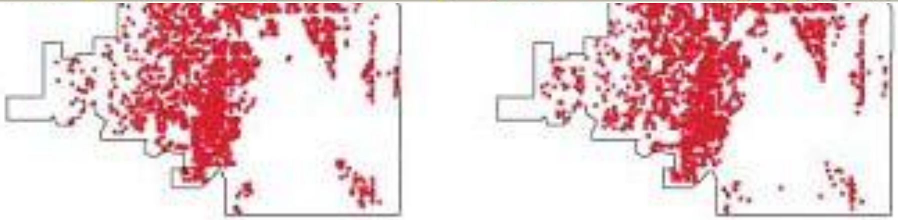


Housing Price Peak & Crash - Select Chicago Community Areas
Housing Price Index (2000 = 100)
350
300
250
200
150
100
50
0
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
Peak values - strongest growth evident in fringe gentrifying neighborhoods (Humboldt Park, Pilsen)
Strongest price rebound in affluent & core gentrifying neighborhoods (Bucktown, Lincoln Square)
South/west side neighborhoods - values stagnant amidst little sales activity (Chatham, Auburban Gresham, Lawndale)
Source: Quarterly Housing Price Index, Institute for Housing Studies, DePaul University
West Town/Near West Side
Lincoln Square/North Center
Englewood/Greater Grand Crossing
Auburn Gresham/Chatham
Humboldt Park/Garfield Park

Year-over-year changes went from an average of 10% per year during the boom to negative for 28 consecutive quarters – from Q1-2007 to Q1-2014.







Source: Southwest Organizing Project (SWOP)

A REPRESENTATIVE CASE OF THE FORECLOSURE CRISIS:

2008 foreclosure filings in the southwest neighborhood Chicago Lawn (each dot represents a foreclosure).

Several Federal policy approaches that have been operative since 2008:

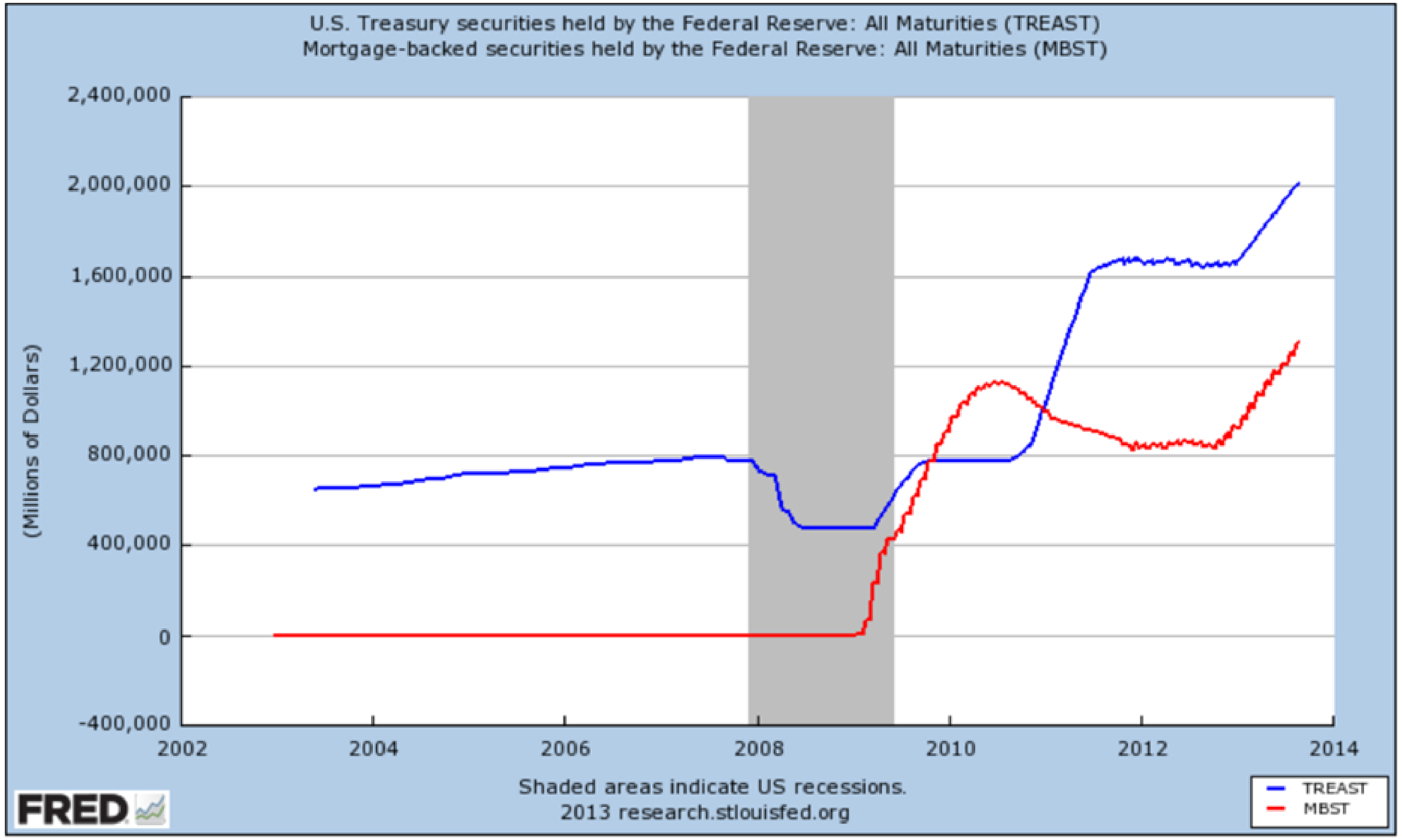
a. **Purging risk** from the system by tightening mortgage underwriting standards;

b. Increasing **homeowner stability** through mortgage modification and refinance programs;

c. Stimulating **housing purchases** through tax incentives for new buyers;

d. And, most importantly, **injecting trillions of dollars into the housing system** through Federal Reserve purchases of US Treasury securities and mortgage-backed bonds.

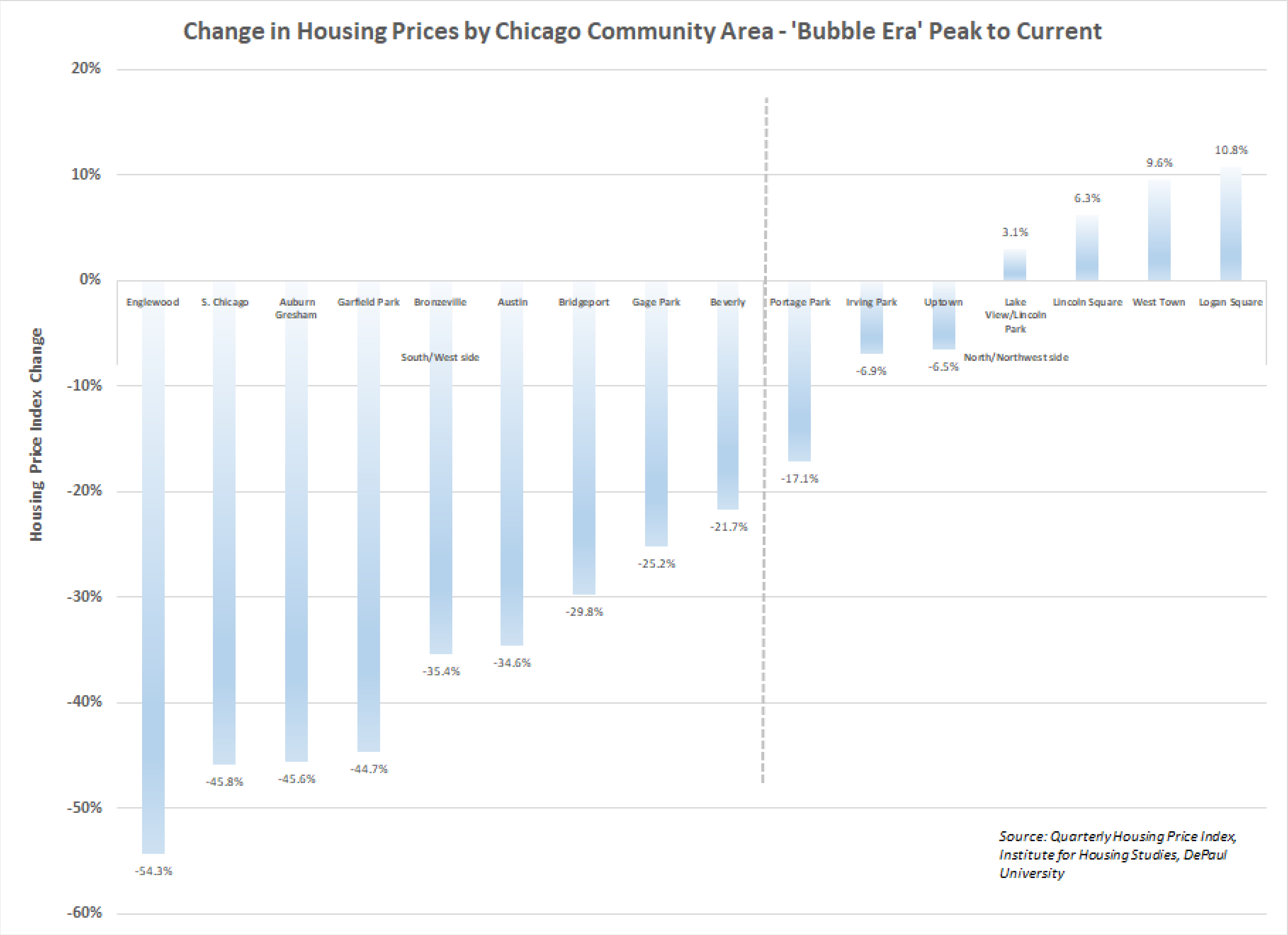
U.S. Federal Reserve: Treasury and Mortgage-Backed Securities Held

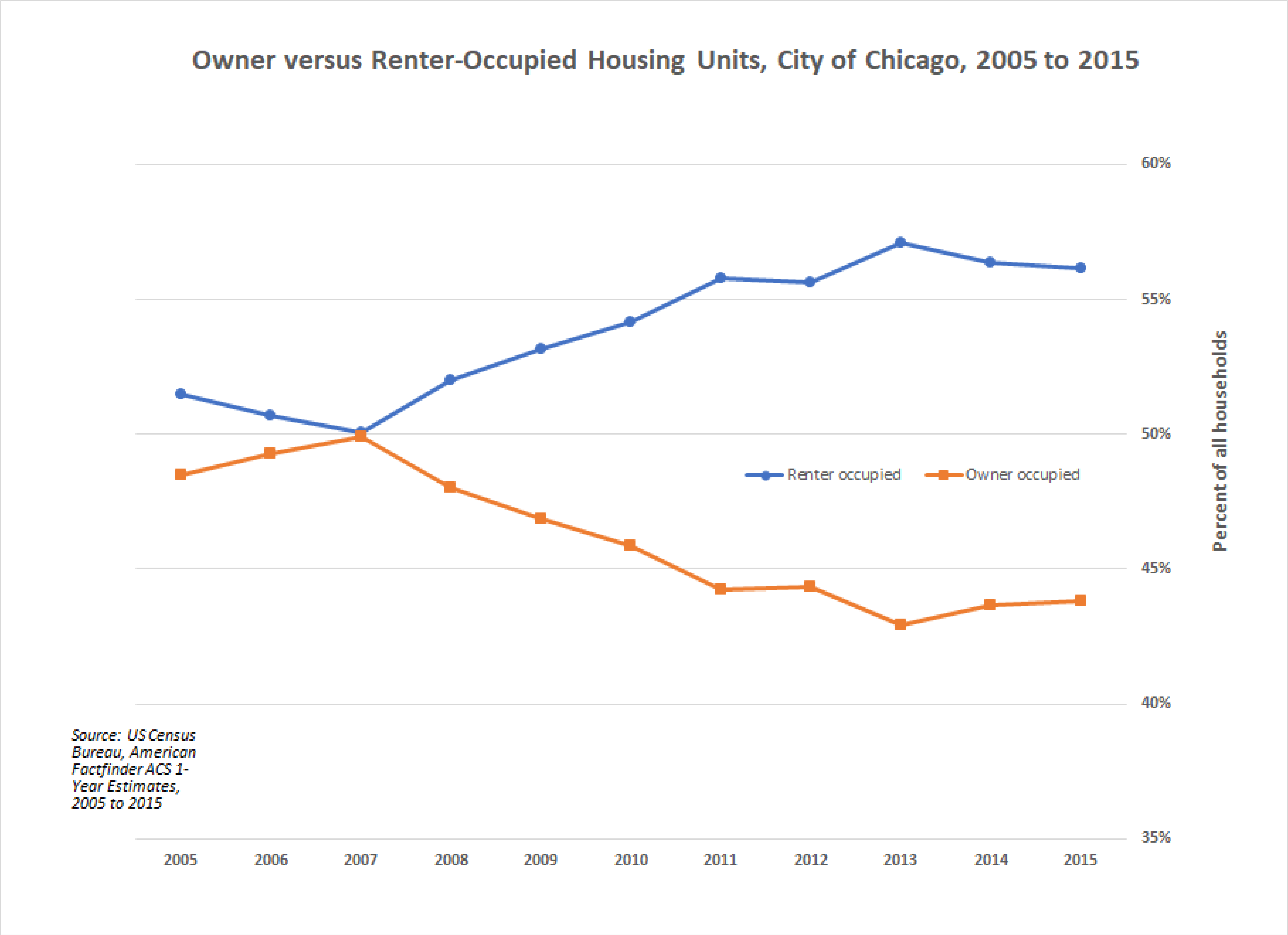


NEW FORCES SHAPING POLARIZATION

By radically lowering the cost of borrowing, quantitative easing has led a **sharp rebound in purchase activity** in select Chicago neighborhoods.

On the other hand, tightened mortgage standards have **starved other neighborhoods of resources**, compounding the effects of the foreclosure crisis.





One structural shift that has affected all city neighborhoods is the **shift to rental housing**.

Another has been significant **population loss** in large areas in the city.

Policy Orientations:

The Affordable Requirements Ordinance (ARO)

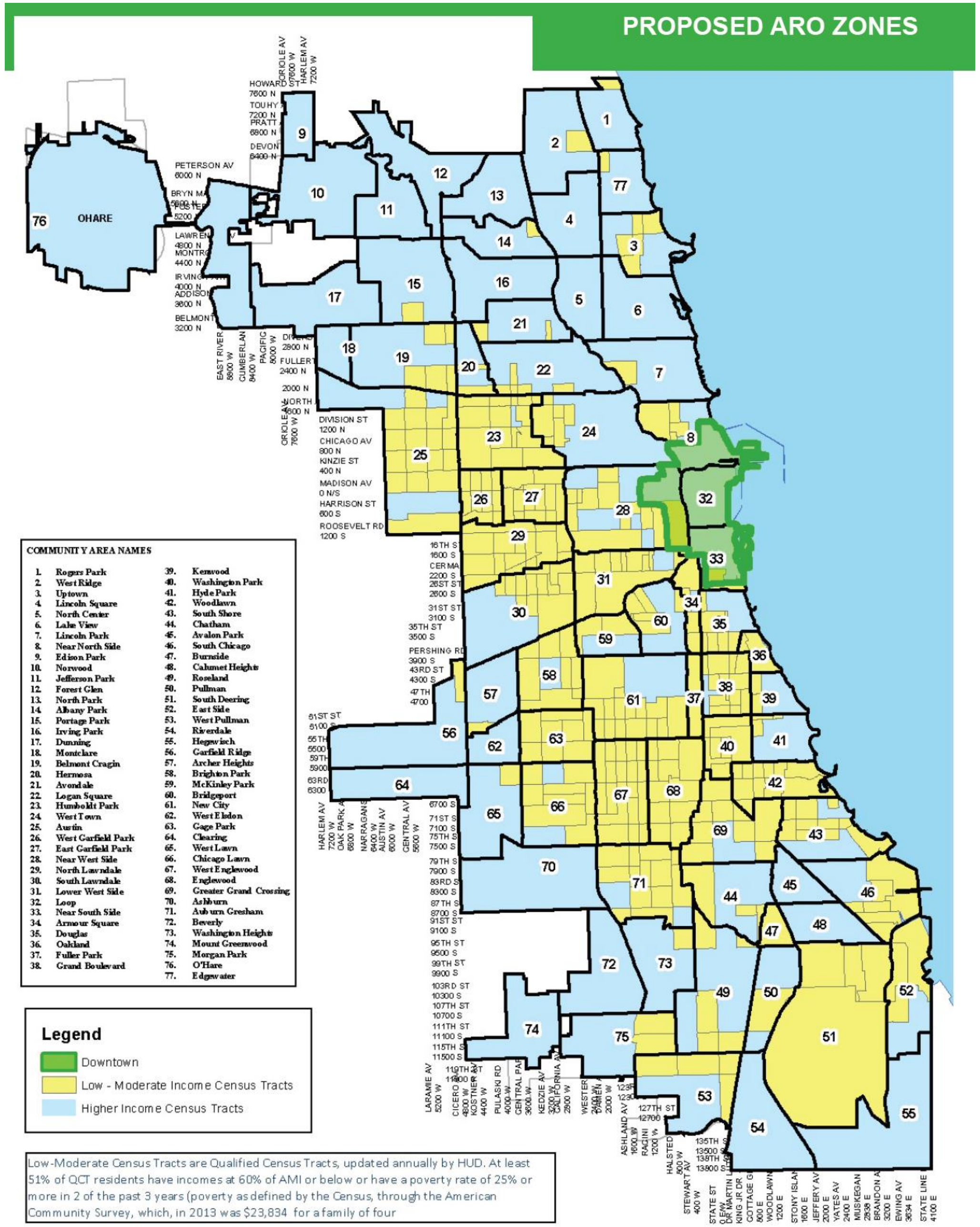
"**Inclusionary zoning**" or "**linked development**" programs have been used by US local governments since the 1980s to increase the production of affordable rental units.

New York City's "80/20" program is a prominent example.

Chicago's Affordable Requirements Ordinance (ARO), first passed in 2003, contained the following provisions:

- New developments with more than 10 units that received either city zoning changes or additional city financial assistance must set aside a proportion of the units as affordable housing.
    - Residential projects (both rental and for-sale) that utilize a zoning increase or City land are required to set aside 10% of total units as affordable to low- to moderate-income families.
    - Residential projects that receive City financial assistance, such as Tax Increment Financing, are required to set aside 20% of total units as affordable.

A related ordinance, the Downtown Density Bonus, allowed real estate projects in the central business district to receive additional density in exchange for on-site affordable units or a fee paid in lieu of actual units.



The ARO Zone map should be updated every five years. In-lieu fees should differ based on the zone in which a project is constructed.

Nevertheless, the workings of the program has highlighted some contradictions to linking affordable housing production to the cycle of private development.

Eligibility. The definition of "affordable" is set at 80% of Area Median Income for rental projects and 120% of Area Median Income for for-sale projects.

Flexibility. Developers may buy out of up to ¾ of their obligated units, and may substitute the remaining ¼ with units built up to two miles away.

Effectiveness. There is a mismatch evident between buyout amounts and the actual costs of producing affordable units.

Community conflict. In the eyes of housing advocates anti-gentrification activists, ARO has become associated with the legitimation of sellouts to developers.


COZY CORNER
& PANCAKE HOUSE
Injured?

Breaking Down the Affordable Housing Myth

Moreno's approval of over 500 luxury units near Milwaukee & California, and hundreds more in the first ward priced between $1250-3200/month will have an enormous, and negative impact on our neighborhood.

Ald. Moreno claims that he is bringing 100 units of "affordable" housing to the First Ward. We've already lost 525 public housing units at Lathrop Homes.

100 units

IS IT TRULY AFFORDABLE ?

60% AMI

Chicago's Affordable Requirements Ordinance mandates that families making 60% of the Area Median Income be able to afford the specified units onsite. A family of three would need to make $41,000/year to afford one. 60% of the median income for a Latino household in Logan Square is 34,000/year.

AFFORDABLE FOR WHO ?

Since 2000, Logan Square has lost more than 19,000 people – mostly working-class and Latino families. The "affordable housing" price is out of reach for the thousands of families who can no longer afford to live in Logan Square – and for hundreds more who are at risk of displacement

19,000

WHY WE FIGHT: Luxury developments drive displacement

We are not against development. We strongly support dense, truly affordable housing for low, middle and working class people.

OUR DEMANDS

30% units

30 % AMI

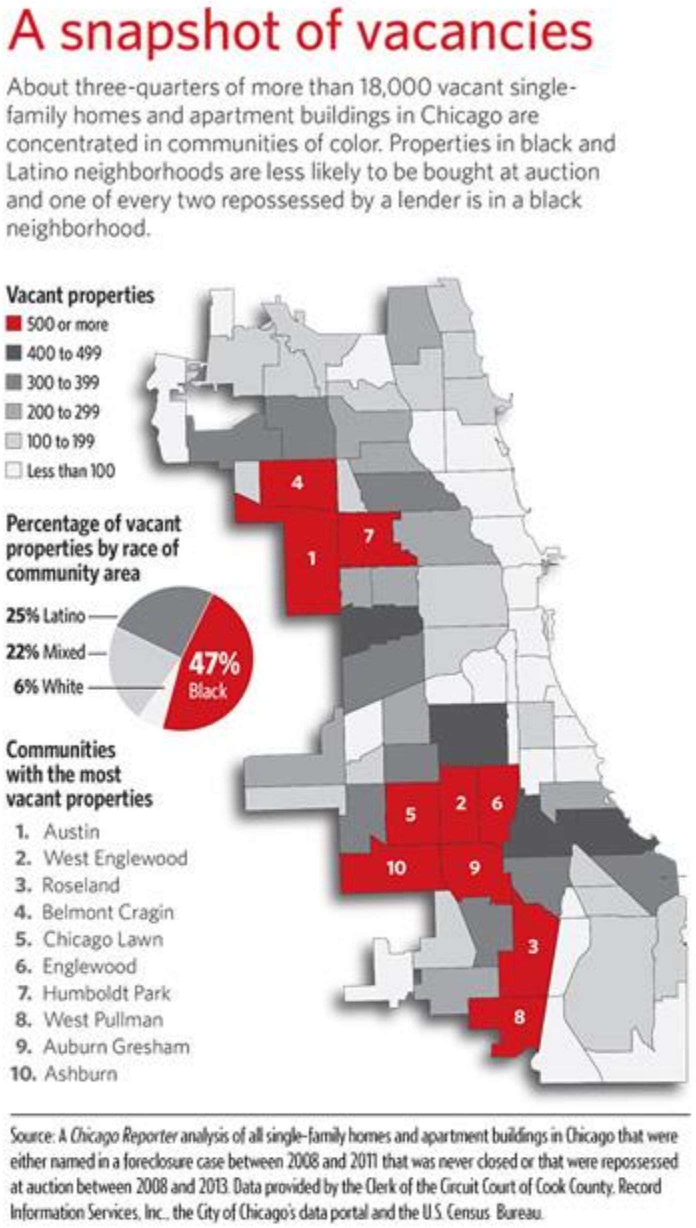
COMMUNITY-DRIVEN DEVELOPMENT - We want a seat at the table

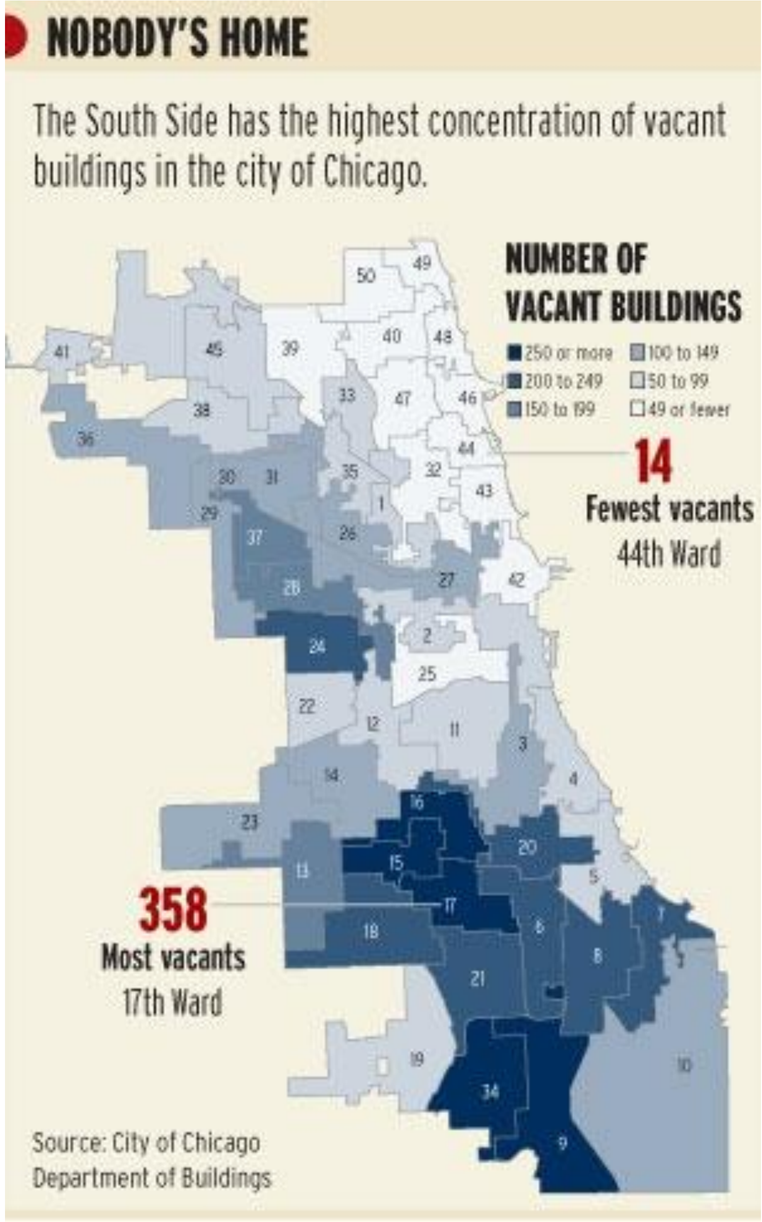
wearelogansquare@gmail.com

We Are / Somos Logan Square

Policy Orientations:

The Neighborhood Stabilization Program (NSP) & the Micro Markets Recovery Program (MMRP)





A SECOND POLICY CHALLENGE: addressing the long-term effects of the foreclosure crisis.

City of Chicago – Neighborhood Stabilization Objectives

Given the scale of the foreclosure issue, its adverse impact on neighborhoods, the following neighborhood stabilization goals have been established:

1. Stabilize neighborhoods by getting vacant and foreclosed homes up-to-code and occupied as quickly as possible.

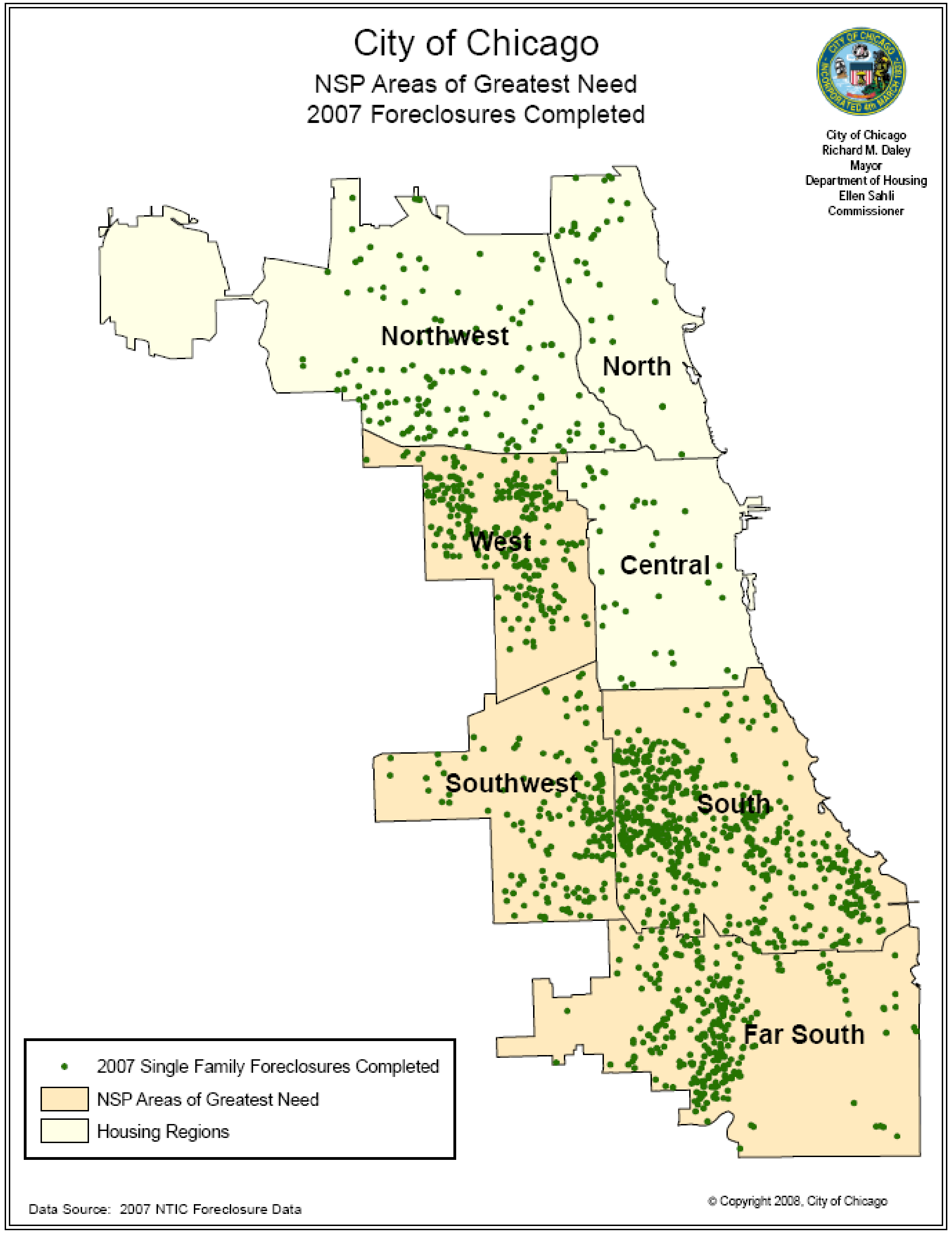
2. Strategically target interventions to protect neighborhoods impacted by foreclosure, preserve public and private investments, and make a measurable impact in targeted areas.

3. Create efficiencies and economies of scale by acquiring vacant, foreclosed properties in bulk at a discount from lending institutions and redeveloping those properties with a broad network of qualified development partners.

4. Prioritize interventions on vacant, foreclosed 1-6 unit properties and other larger buildings that adversely impact neighborhood stability and quality of life in targeted areas.

5. Ensure compliance with affordability restrictions on rehabilitated homeownership and rental housing units.

- City of Chicago, NSP II Final Narrative



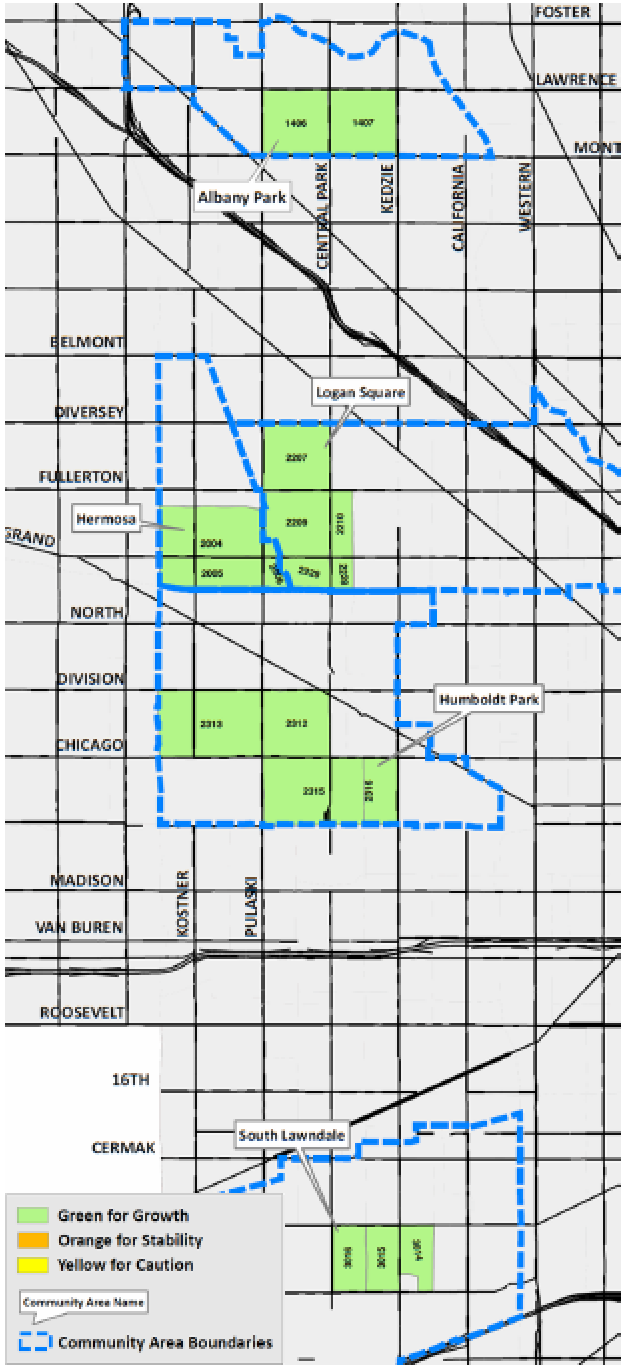
NSP 1

The City of Chicago identified 25 out of a total of 77 community areas as areas of greatest need, representing the top quartile of areas based on the following:

(1) foreclosures completed to become Real Estate Owned properties (REOs) per 1,000 mortgageable properties in the area;

(2) percent of loans in each area that are high cost; and

(3) risk factors for rising foreclosure rates, including current price compared to 8-year maximum and unemployment rates.



Targeting: 36 census tracts clustered in 11 community areas.

Selected based on:

- Scoring high on NSP-2 need scores (>18)
- Need for public sector intervention
- Capacity for a comprehensive approach based on an established plan
- Community capacity
- Parallel capital investments

Census tracts were grouped into three types based on the challenges, market conditions and opportunities of each community

Table 7. NSP Activities Proposed for Each Community Type

Neighborhood Type	Proposed NSP Activities
GREEN (growth): **32,430 housing units (2007)** **2,851 vacant for 12+ months (2008)** Built-out, moderate income, urban residential neighborhoods with little vacant land and high homeownership rates. A diverse business mix is present; a larger percent of adults has a college degree and unemployment is relatively low.	• Fast-start program will quickly establish financing and begin acquisition and rehab of abandoned or foreclosed properties, followed by sales, rental or redevelopment to restore market confidence. • Activity will concentrate in areas close to other recent investments, community strong points or transit hubs. • Demolition will be used only for severely blighted structures and for reuse as open space or new affordable housing.
ORANGE (stability): **16,831 housing units (2007)** **3,607 vacant for 12+ months (2008)** Stable low-income communities struggling with high crime and high foreclosure rates. Resident stability is moderate to high, with medium levels of homeownership. There are multiple anchors around which to build a revitalization strategy.	• A longer-term strategy will be used, along with deeper subsidies, to finance, purchase and rehab residences and return them to use. • Focus on providing affordable units to meet local demand. • Investments will be clustered for maximum impact. • Rehab will be preferred over demolition except in cases of severe deterioration or an isolated building on an otherwise vacant block.
YELLOW (caution): **2,012 housing units (2007)** **533 vacant for 12+ months (2008)** Disadvantaged neighborhood struggling with poverty, crime, unemployment and long-term population decline. Commercial and residential streets are full of vacant lots and the housing market is stagnant. Educational attainment is low and unemployment rates are high.	• Rehab and redevelopment will be concentrated on stronger blocks where there has been recent investment. • Demolition and land-banking will be pursued on mostly vacant blocks and where there is little other prospect of reinvestment. • Reuse of land for open space, urban agriculture or environmental uses will be pursued as mid- to long-term strategies. Some land may be rezoned for commercial or other uses.

Micro-Market Recovery Program

Goals

To improve conditions, strengthen property values, and create environments supportive of private investment in targeted markets throughout the city by strategically deploying public and private capital and other tools and resources in well-defined micro-markets.

Stabilizing the community

Keeping people in their homes

- Counseling
- Repair grants
- Community development activities

Knowing the market

Understand the vacant buildings

- Prioritizing blocks
- Code enforcement
- Reclaiming abandoned Buildings

Rebuilding the market

Getting buildings occupied

- Homebuyer subsidy
- Working with developers & investors

MICRO MARKET RECOVERY PROGRAM

TARGET AREAS (COMMUNITY AREAS)/
NEIGHBORHOOD PARTNERS

Auburn Gresham
Neighborhood Housing Services
Greater Auburn-Gresham Community Development Corp.

Austin
Austin Coming Together (ACT)
Community Investment Corp.

Belmont Cragin NORTH
Northwest Side Housing Center

Belmont Cragin SOUTH
Spanish Coalition for Housing

Chatham
Community Investment Corp.
Neighborhood Housing Services

Chicago Lawn
Southwest Organizing Project
Neighborhood Housing Services

East Garfield Park
Garfield Park Community Council
Neighborhood Housing Services

Englewood
Neighborhood Housing Services

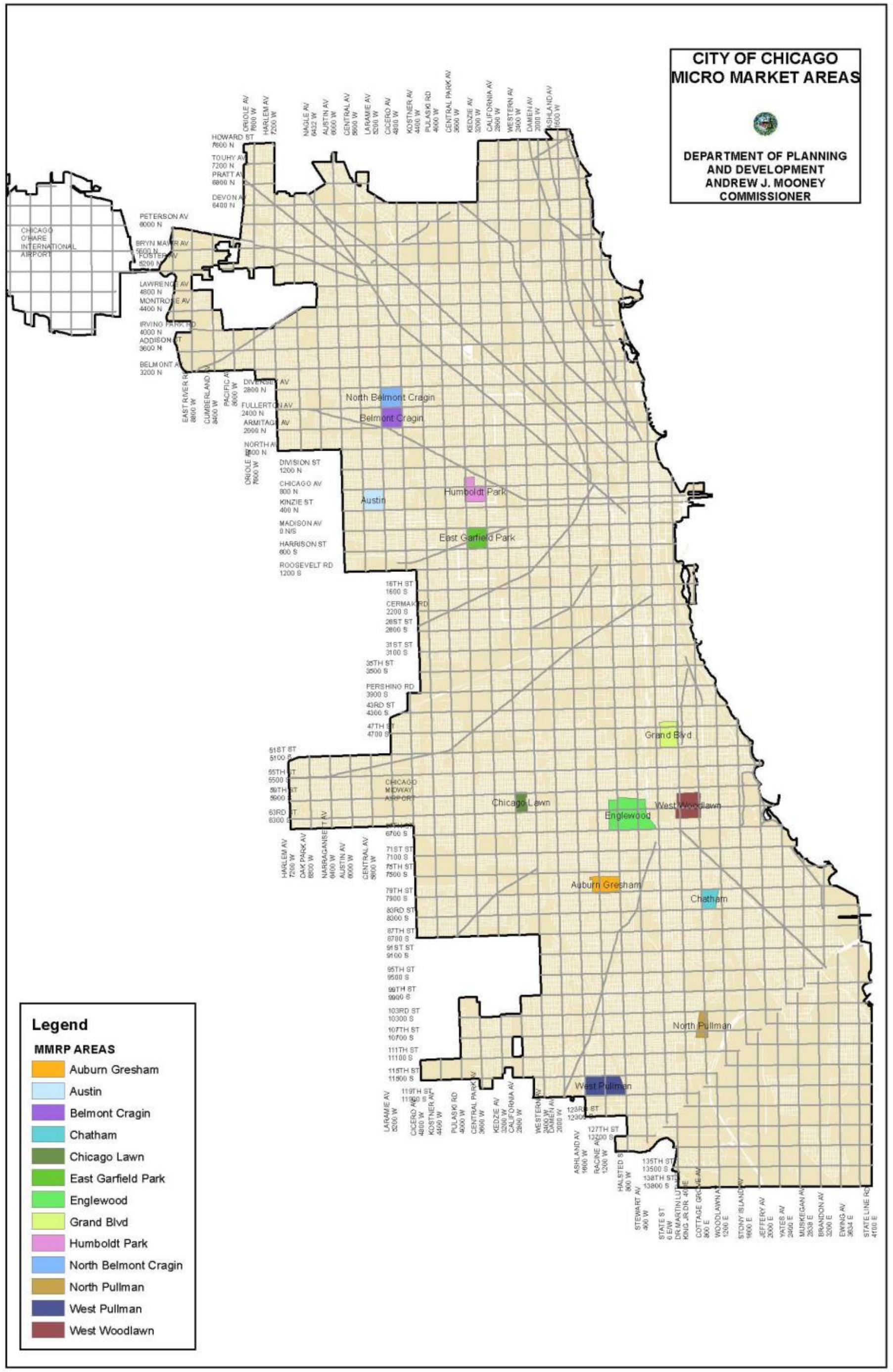
Grand Boulevard
Partners in Community Building

Humboldt Park
Neighborhood Housing Services
West Humboldt Park Family & Development Council
Bickerdike Redevelopment Corp.

North Pullman
Chicago Neighborhood Initiatives
Neighborhood Housing Services

West Pullman
Chicago Neighborhood Initiatives
Far South Community Development Corp.

Woodlawn
Community Investment Corp.
Neighborhood Housing Services



Conclusions

A polarized housing market recovery has resulted in intense development pressures, but only in select areas of the city.

City housing policy has leveraged those pressures to produce affordable units, but those units are mismatched to household need by both price (affordability) and geography (access).

Weak resources and a "micro" approach to a widespread housing collapse in low-income/minority neighborhoods raise long-term questions regarding the viability of those neighborhoods.