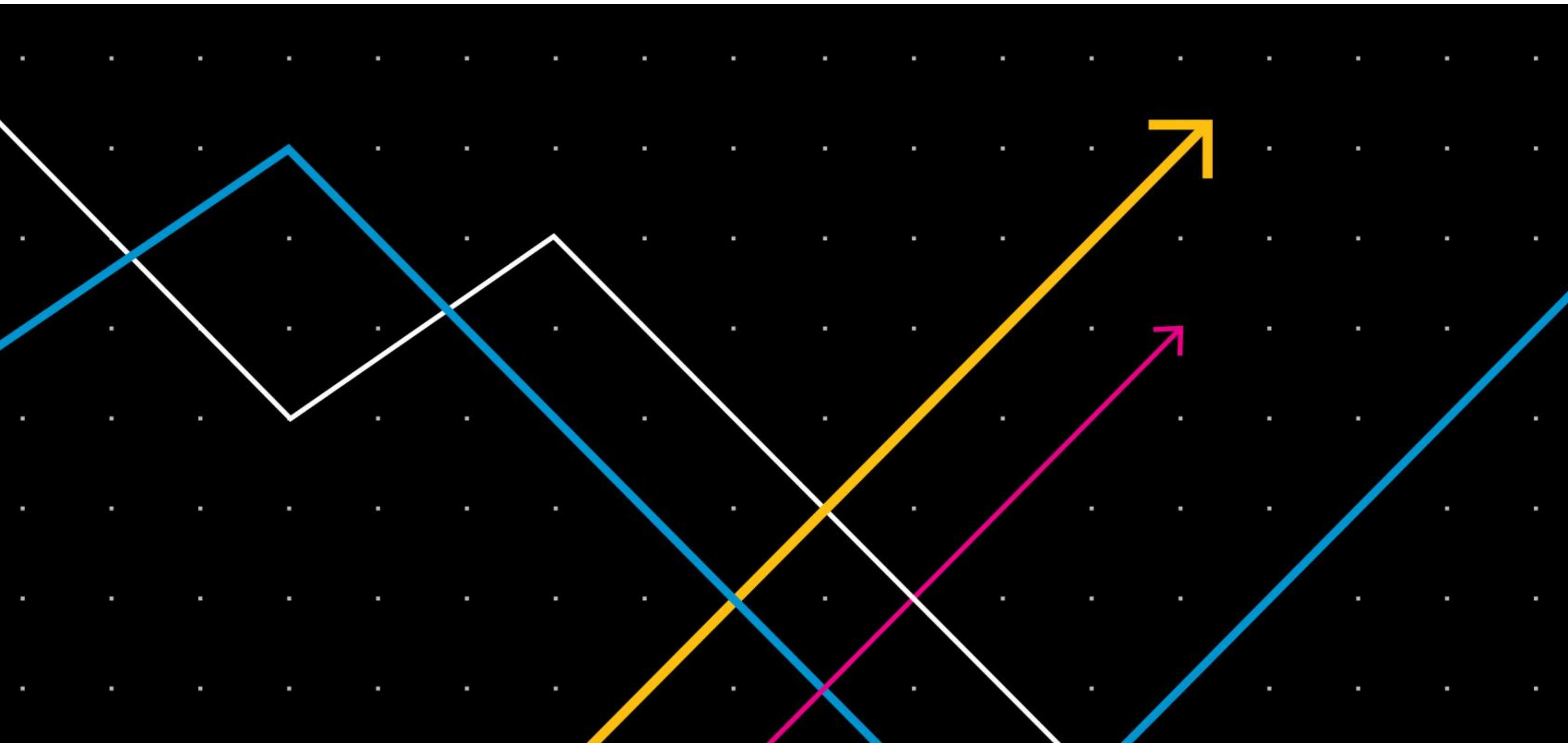
HOUSING FINANCE POLICY CENTER



RESEARCH REPORT

Landlords and Tenants of Two-to-Four-Unit Buildings in Chicago

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Executive Summary

Despite being more affordable and constituting a large share of the housing stock for tenants of color in Chicago, the supply of two-to-four-unit buildings is declining. The dwindling housing stock is primarily being lost through deconversion, demolition, and foreclosure of buildings across different neighborhoods throughout the city. Given the importance of these properties to the city's affordable housing stock and the growing challenges facing this housing's preservation and growth, this report analyzes novel survey data and focus group interviews to develop a better understanding of the conditions and pressures facing both landlords and tenants in this market. The findings suggest that many two-to-four-unit-property landlords, especially those whose tenants are friends or family members, keep rental costs affordable and are less likely to earn a profit on their rental units as a result, leaving them more vulnerable to economic shocks. Policies and stabilization tools that support these landlords and their tenants as home and rent prices rise rapidly will be critical to preserving the city's affordable housing stock.

Landlords and Tenants in Chicago

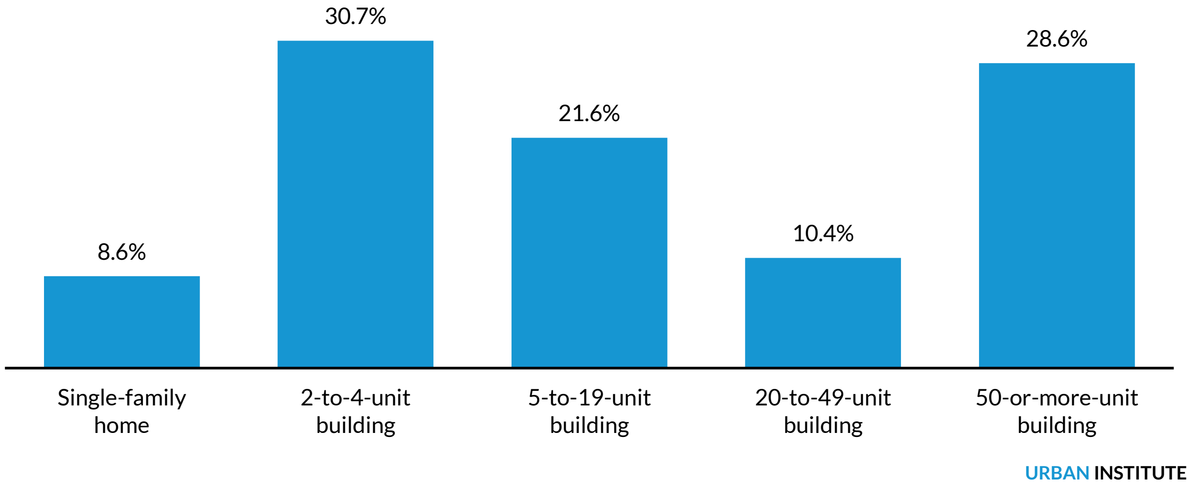
Two-to-four-unit properties represent a critical source of affordable housing for low-income renters both across the nation and especially in Chicago (Reynolds, Edmonds, and Poethig 2019). These iconic building types are intimately rooted in the city's immigrant past and represented an opportunity for security, wealth building, and realizing the American dream in these communities at the turn of the 20th century.[1] The growing immigrant workforce and demand for housing gradually increased building density in neighborhoods across the city, evolving into the vibrant communities of color that still exist today.

Most two-to-four-unit properties today are owned by smaller individual investors, often referred to as independent mom-and-pop landlords, who own less than 10 properties.[2] In general, mom-and-pop landlords are more likely to own affordable properties leased to Black and Hispanic renters with lower incomes and are often slower to raise rents, given their closer relationships with their tenants.[3] Given their significant presence in the two-to-four-unit market, mom-and-pop landlords provide a vital source of affordable rental housing. Better understanding their market pressures and relationships with tenants, especially postpandemic, will help inform programs and policies that support both Chicago's homeownership and rental markets as home and rent prices rapidly rise.

Compared with any other type of rental housing in Chicago, two-to-four-unit properties offer lower rents while composing a substantial portion of the city's housing supply, particularly in communities of color.[4] In 2021, two-to-four-unit properties accounted for 30.7 percent of rental units charging affordable rents below $900 in the city, the highest share of any building type (figure 1).

FIGURE 1

Share of Chicago Rental Units with Monthly Rents below $900, by Building Size

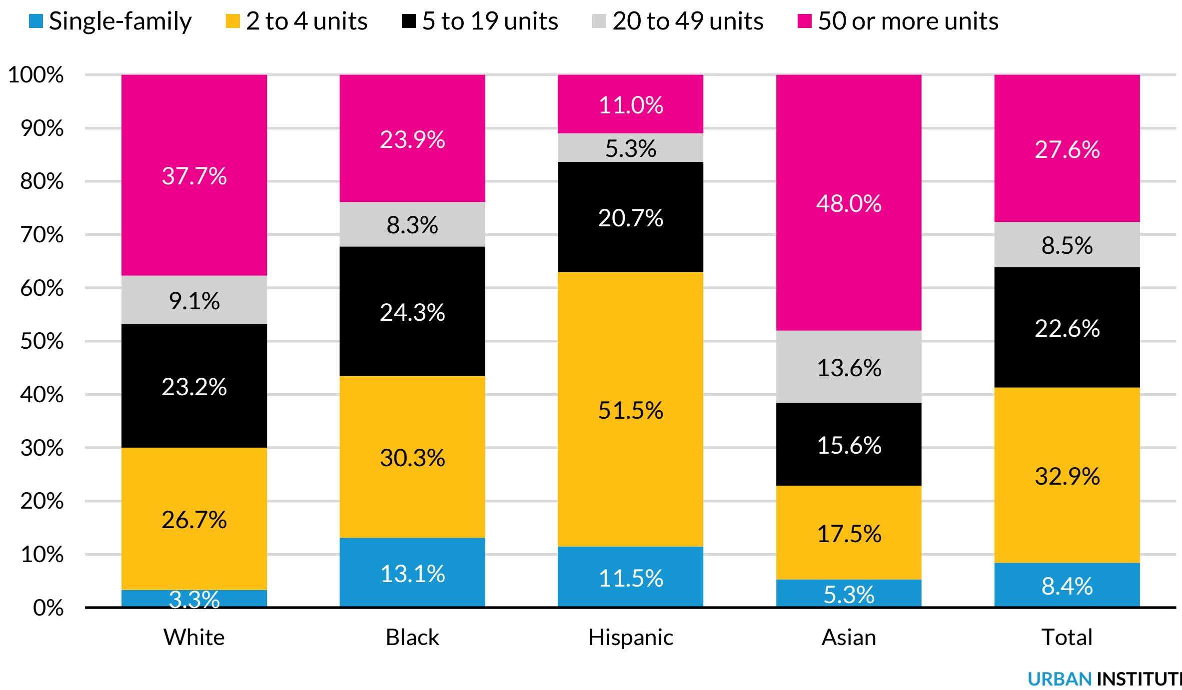


Source: 2021 one-year American Community Survey data.

These two-to-four-unit buildings provide a crucial source of affordable housing, especially for Black and Hispanic renters, as these households are more likely to rent in two-to-four-unit buildings compared with any other type of structure.[5] In 2021, 72.6 percent of all two-to-four-unit rentals in Chicago were occupied by households of color. Two-to-four-unit properties in 2021 accounted for 30.3 percent of all rental units occupied by Black households and 51.5 percent of rental units occupied by Hispanic households, the largest share of any building type for both groups, compared with just 26.7 percent for white households, who tend to live in larger professionally managed buildings with 50 or more units (figure 2).

FIGURE 2

Racial and Ethnic Composition of Chicago Renter Households, by Building Type



Source: 2021 one-year American Community Survey data.

Local housing and community development stakeholders have raised serious concerns, supported by data, that two-to-four-unit buildings are being lost citywide and that pressures facing this stock will continue. A recent study from the Institute for Housing Studies at DePaul University found that from 2013 to 2019, Chicago lost 11,775 housing units located in two-to-four-unit buildings, accounting for around 4.2 percent of the city's total stock of parcels and housing units.[6] This loss occurred across nearly all types of neighborhoods, but the disappearance was most pronounced in higher-cost neighborhoods: 60.8 percent of all lost two-to-four-unit buildings were located in high-cost areas compared with 23.9 percent in lower-cost areas and 15.3 percent in moderate-cost areas.

Many of the lost properties in the high-cost areas were replaced or converted into single-family homes, highlighting a growing demand for more expensive homes in these areas and market pressures surrounding the affordable housing supply. For example, many higher-cost neighborhoods on Chicago's North Side have experienced recent increases in the number of both higher-income households and families with children.[7] From 2013 to 2019, 77.9 percent of the lost two-to-four-unit buildings that were replaced by single-family homes were located in high-cost markets, compared with just 15.5 percent in moderate-cost markets and 6.6 percent in low-cost markets.

In Chicago's low-cost neighborhoods, two-to-four-unit buildings were more often demolished or replaced for nonresidential use, such as vacant land, as opposed to being replaced by new single-family homes. The foreclosure crisis disproportionately destabilized the two-to-four-unit building market in lower-income communities, as nearly 32 percent of units in these buildings were affected by a foreclosure filing, compared to 22 percent in moderate-income areas and 6 percent in high-income areas between 2005 and 2011.[8] Compared with vacant land in high- and moderate-cost areas, lots in low-cost areas are less likely to be under development for new residential housing projects because of historic disinvestment and a slower housing market recovery from the deeper impact of the foreclosure crisis. Developers today struggle to build affordable housing units in low-income areas without significant subsidies despite the fact that the city owns a majority of the vacant residential lots through its Troubled Buildings Initiative program. Particularly focused in the South and West sides, a majority of the buildings found in the city's Trouble Buildings Initiative are also two-to-four-unit flats. While new residential construction has stalled, nonresidential activity on former residential lots has been concentrated in the city's lowest-cost areas. From 2013 to 2019, 65.2 percent of the lost two-to-four-unit buildings that were replaced for nonresidential use were located in low-cost areas, compared with just 20.4 percent in high-cost areas and 14.4 percent in moderate-cost areas.

Chicago's moderate-cost markets saw the most stability and the lowest share of lost units during this period. Losses here were concentrated in a small number of areas facing gentrification pressures, with rising housing values and massive investment projects. The planning of additional catalytic investment projects will require proactive policies to protect from gentrification pressures and to preserve the existing affordable rental stock in these moderate-cost areas.

Data and Methods

From August 2022 to January 2023, the Neighborhood Housing Services (NHS) of Chicago, in collaboration with the Garfield Park Community Council and Puerto Rican Cultural Center, conducted two individual surveys on both landlords and tenants of two-to-four-unit buildings in Chicago. The survey was distributed by email to landlords and tenants and outreach at community events and was circulated on Twitter to those likely residing in or owning two-to-four-unit homes.

The surveys were designed to collect information and fill data gaps for creating programs and resources for two-to-four-unit buildings across the city, with a particular focus on three of Chicago's predominantly nonwhite neighborhoods in Humboldt Park, West Garfield Park, and East Garfield Park: 65.3 percent of landlord properties and 64.7 percent of tenant properties in our survey were located in zip codes within these three neighborhoods. These community areas were chosen to provide crucial insights into the two-to-four-unit market, given their significant Black and Hispanic populations and high levels of two-to-four-unit residential stock. The community areas also align with other current community development initiatives, such as Mayor Lori Lightfoot's INVEST South/West initiative and the Center for Community Investment's Connecting Community and Capital (3C) initiative.[9]

We supplement our survey findings with American Community Survey (ACS) and Home Mortgage Disclosure Act (HMDA) data to provide important additional context on neighborhood and mortgage borrower characteristics. In most analyses, the most recent one-year ACS data in 2021 are used, while the five-year ACS data from 2017 to 2021 are used where sample sizes for smaller geographic areas are insufficient. We use the most recently released 2022 HMDA data in our analyses of borrower characteristics.

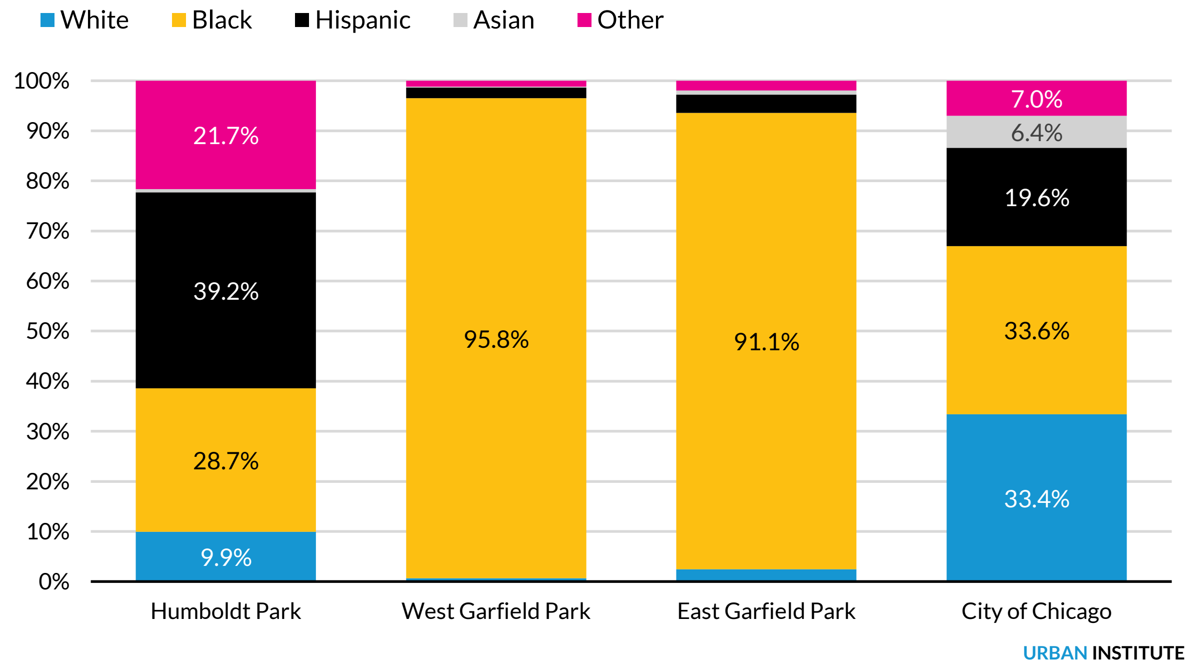
In addition to the quantitative data findings, we gained crucial qualitative context from several focus group sessions the NHS of Chicago conducted from October 2022 to January 2023. The focus group participants were owners of two-to-four-unit buildings in the Humboldt Park, West Garfield Park, and East Garfield Park neighborhoods who were asked about the benefits and challenges of owning a two-to-four-unit property in these areas.

Neighborhood Demographics

Humboldt Park, West Garfield Park, and East Garfield Park have a significantly higher nonwhite share of households compared with Chicago overall (figure 3). Nonwhite renter households in Chicago overall account for just 66.6 percent of households, with 33.6 percent being Black and 19.6 percent being Hispanic. In comparison, Humboldt Park's nonwhite households account for 90.1 percent of the renter household population, with 39.2 percent being Hispanic and 28.7 percent being Black. Both the West Garfield Park and East Garfield Park areas boast an even higher nonwhite renter household share at 99.9 percent and 97.5 percent, respectively, with 95.8 percent and 91.1 percent of these populations being composed of Black renter households.

FIGURE 3

Racial and Ethnic Composition of Renter-Occupied Housing, by Neighborhood

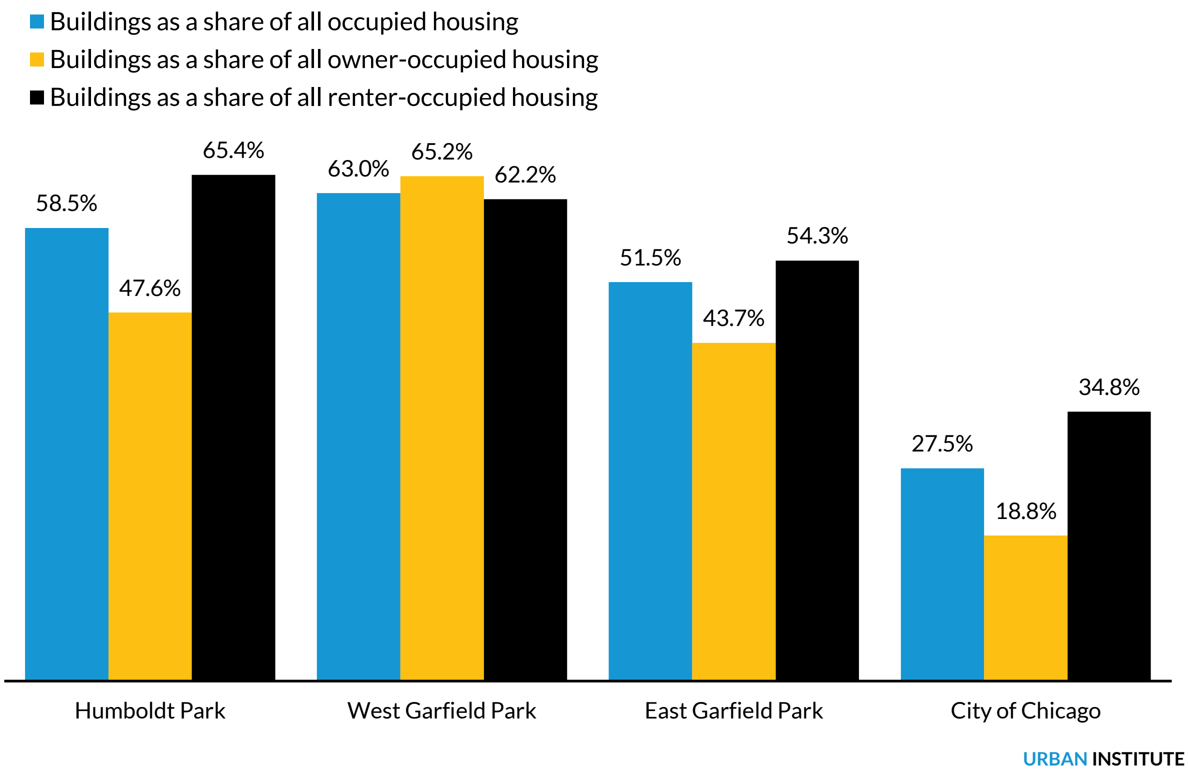


Source: 2017–21 five-year American Community Survey data.

Given the larger nonwhite population share in these three neighborhoods compared with the city overall, we observed a larger two-to-four-unit share of the housing stock in these areas as well (figure 4). Accounting for 27.5 percent of the total occupied housing stock in Chicago overall, the two-to-four-unit share was 58.5 percent in Humboldt Park, 63.0 percent in West Garfield Park, and 51.5 percent in East Garfield Park. With the exception of West Garfield Park, all these areas had a higher renter-occupied share of the stock compared with the owner-occupied share, emphasizing the importance these two-to-four-unit buildings have in providing housing to renter households, which tend to have substantially lower incomes than owner households. According to the 2021 ACS data, renters in two-to-four-unit buildings across Chicago had a median income of just $50,000 compared with $84,010 for homeowners.

FIGURE 4

Two-to-Four-Unit Buildings as a Share of the Housing Stock, by Neighborhood



Source: 2017–21 five-year American Survey data.

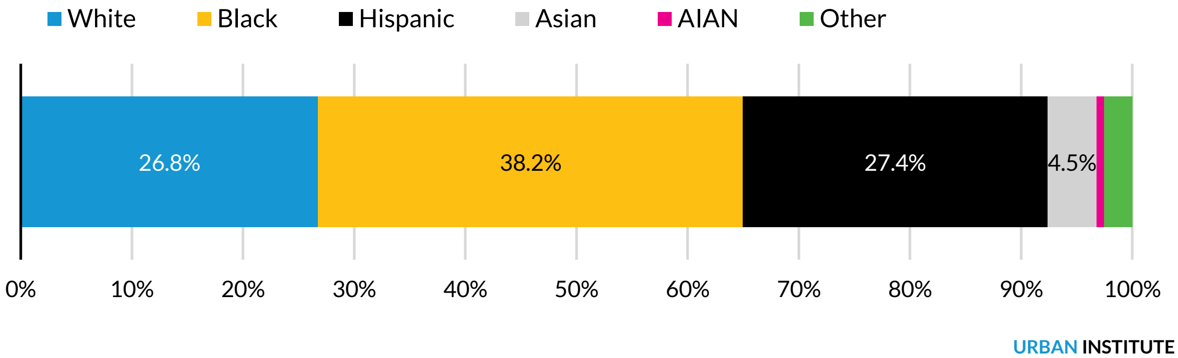
Findings

Landlord Survey

The landlord survey received 175 responses, and 26.8 percent of the owners identified as white, 38.2 percent identified as Black, and 27.4 percent identified as Hispanic (figure 5). Although the white landlord share is higher than the white renter share shown in the racial and ethnic composition of our three focus areas, most of these white landlords owned properties outside the focus-area zip codes while the Black and Hispanic landlords were more concentrated within those zip codes. Almost all the property owners are considered mom-and-pop landlords, as 174 out of 175 respondents reported owning five or fewer properties at the time of the survey.

FIGURE 5

Racial and Ethnic Composition of Landlord Survey Respondents

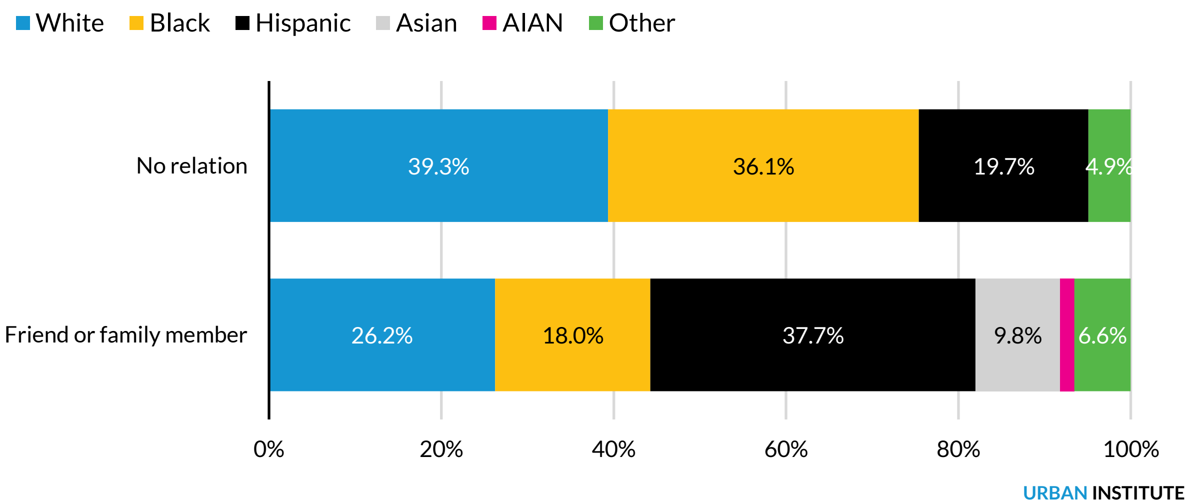


Source: National Housing Services of Chicago Landlord Survey.
Note: AIAN = American Indian or Alaska Native.

Landlords of two-to-four-unit properties often rent their units out to friends and family members. Exactly 50 percent of landlords in the survey described this as their relationship with their tenants, while the other 50 percent had no personal relation. Landlords with no relation to their tenants were more often white, compared with landlords with a friend or family relationship. Among those renting to friends or family, 26.2 percent identified as white, 18.0 percent identified as Black, 37.7 percent identified as Hispanic, 9.8 percent identified as Asian, 1.7 percent identified as American Indian or Alaska Native, and 6.6 percent identified as another race or ethnicity. For landlords with no relationship, 39.3 percent identified as white, 36.1 percent identified as Black, 19.7 identified as Hispanic, and 4.9 percent identified as another race or ethnicity (figure 6).

FIGURE 6

Racial and Ethnic Composition of Landlords, by Their Relationship to Their Tenants



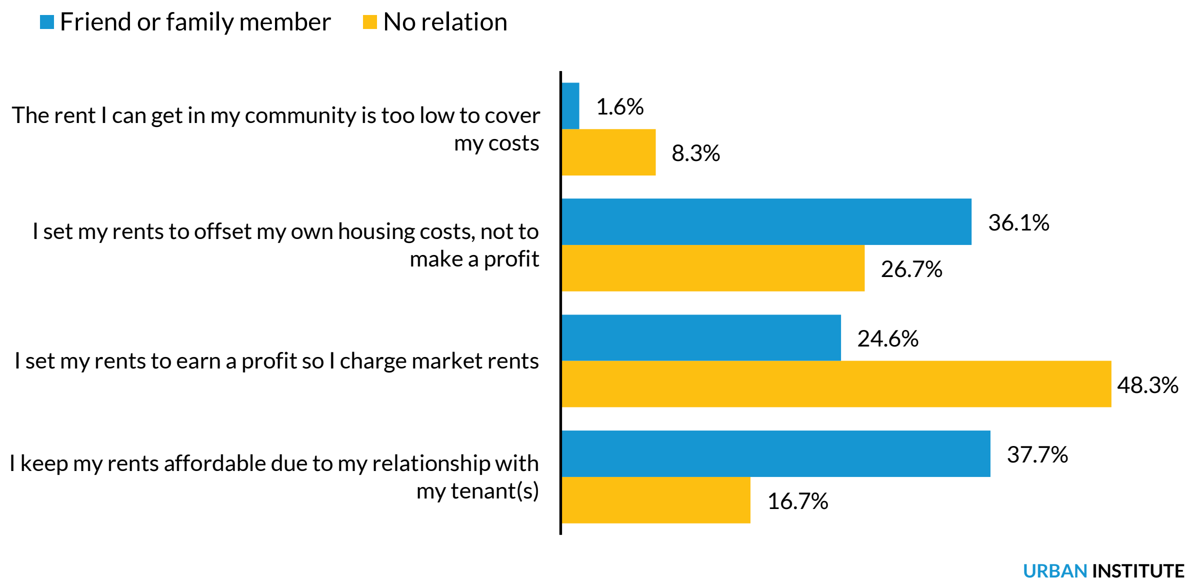
Source: National Housing Services of Chicago Landlord Survey.
Note: AIAN = American Indian or Alaska Native.

Landlords with no relation to their tenants tend to focus more on charging market rents to earn a profit on their investments, while those renting to friends or family are more willing to keep rents affordable, even if it means the property does not turn a profit. When asked about the approach landlords take when setting their rent prices, 48.3 percent of landlords with no relation to their tenants set their rent prices at market rates to earn a profit, compared with just 24.6 percent of those renting to friends or family. In contrast, just 16.7 percent of landlords with no relation to their tenants kept rents affordable because of relationships with their tenants, compared with 37.7 percent of those renting to friends or family. Furthermore, 26.7 percent of landlords with no relation to their tenants said they set rents to offset housing costs without making a profit, compared with 36.1 percent of those renting to friends or family (figure 7).

FIGURE 7

Landlords' Approaches to Setting Rent, by Their Relationships to Their Tenants

Survey question: Which of the following best describes your approach to setting rents?



Source: National Housing Services of Chicago Landlord Survey.

These results support prior survey data showing that mom-and-pop landlords who have a good relationship with their tenants are less likely to increase rent and are more likely to implement smaller price increases when doing so.[10] Given the higher Black and Hispanic shares of landlords renting to friends or family, the findings are consistent with previous survey results showing that Black and Hispanic mom-and-pop landlords supported their tenants at higher rates during the COVID-19 pandemic by offering flexible payment plans and pulling from personal savings, despite facing greater financial struggles themselves.[11]

Although many of these landlords are providing affordable housing and choosing to set rents below market rates, the reduced rental income, further exacerbated by missed payments during the pandemic, can increase financial strain on smaller landlords. This financial strain can create challenges for landlords, such as having to defer property maintenance on buildings with declining conditions, which was especially prevalent during the pandemic. Struggling landlords may feel pressure to sell their two-to-four-unit properties because of these challenges, leaving renters even fewer affordable housing options. In the survey, 26.9 percent of landlords either have plans to sell their property in the next 10 years or currently have their property for sale, while another 21.7 percent reported they were not sure about plans to sell but are thinking about it.

Reducing costs on the landlord side will be critical to preserving the city's current affordable two-to-four-unit housing stock: 61.3 percent of landlords in the survey reported having either just enough or not enough money to cover monthly housing costs, including mortgage payments, insurance, property taxes, utilities, maintenance, and repairs. Mortgage payments often account for the largest portion of these monthly housing costs, and 73.5 percent of all landlords in the survey reported owning at least one property with a mortgage. With mortgage interest rates more than doubling from their pandemic lows under 3.0 percent to nearly 8.5 percent as of October 2023, opportunities for most homeowners to refinance are largely unavailable in the current environment.[12] Refinancing provides homeowners with substantial cost savings on their monthly mortgage payments. For example, the estimated monthly mortgage payment on a $355,000 home with a 20 percent down payment at 5 percent interest in Humboldt Park is $1,524, compared with a payment of $1,702 for a loan with a 6 percent interest rate, resulting in a $178 difference in monthly payments and a $42,325 difference in interest paid over the life of a 30-year loan.[13] Even when rates are lower, Black and Hispanic borrowers are significantly less likely to refinance compared with white borrowers, even when controlling for factors such as zip code, income, credit score, and gender.[14] A recent study by Freddie Mac found that Black and Hispanic homeowners were less likely than white homeowners to refinance during the record-low-rate period beginning in 2020 because of obstacles such as closing cost concerns and not understanding the mortgage process.[15]

Furthermore, although federal forbearance programs helped many struggling owners defer mortgage costs during the pandemic, the programs restricted these homeowners from refinancing during forbearance (i.e., the period of record-low interest rates), leaving them more vulnerable after protections ended.[16] Because tenants of color were more likely to have missed rental payments while having protections through the eviction moratorium during the pandemic, landlords of these tenants were also more likely to have taken forbearance options to compensate for the missing rental income (Gerardi, Willen, and Zhang 2020).

As we observe later in our focus groups, another severe affordability concern landlords face is increased property taxes attributable to rapid home price increases. Maintenance and repair costs have also gone up, and many landlords have had to defer improvements for considerable amounts of time because of a lack of rental income, especially during the pandemic.[17]

In addition to rising costs causing affordability concerns for current homeowners, potential new homeowners will also struggle to purchase homes. The survey showed that 50.9 percent of landlords planned to buy an additional two-to-four-unit property in the near future. But rising interest rates, rising home prices, and tight housing supply may drive up costs and limit homebuying opportunities.

Another constraint for Black and Hispanic homebuyers of two-to-four-unit properties across Chicago is that they had higher interest rates on their mortgages than white homeowners in 2022. According to 2022 HMDA data, the median interest rate on purchase loans for two-to-four-unit properties in the city was 5.1 percent for Black borrowers and 5.3 percent for Hispanic borrowers, compared with 4.9 percent for white borrowers. Homebuyers in Humboldt Park, West Garfield Park, and East Garfield Park also saw higher median interest rates in 2022 (5.3 percent) compared with that of the city overall (5.0 percent).

Although these differences in interest rates may appear modest at first glance, when combined with higher loan-to-value (LTV) ratios over the life of a 30-year loan, Black and Hispanic homeowners can face substantially higher costs while having much lower median income levels than white homeowners (Neal and Pang 2022). HMDA data show that the median LTV ratio for a two-to-four-unit purchase mortgage in 2022 stood at 96.5 percent (i.e., a loan with a 3.5 percent down payment) for both Black and Hispanic homebuyers, compared with 80.0 percent for white homebuyers in Chicago. With a median purchase loan property value of $355,000 for two-to-four-unit homes in Chicago in 2022, Black and Hispanic homebuyers pay a significantly higher monthly mortgage payment than white homeowners when attempting to purchase the same home.

TABLE 1

Two-to-Four-Unit Building Purchase Costs for White and Hispanic Buyers

	White buyers	Hispanic buyers
Median property value	$355,000	$355,000
Loan-to-value ratio	80.0%	96.5%
Principal loan amount	$284,000	$342,575
Loan term (months)	360	360
Median mortgage interest rate	4.9%	5.3%
Monthly mortgage payment	$1,507	$1,902
Total principal paid	$284,000	$342,575
Total interest paid	$258,736	$342,440

Source: 2022 Home Mortgage Disclosure Act data.
Notes: PMI = private mortgage insurance. PMI, property taxes, and homeowners' association fees are excluded from the calculations. PMI premiums may be required on conventional loans with less than a 20 percent down payment and may further increase monthly payments on mortgages with higher loan-to-value ratios.

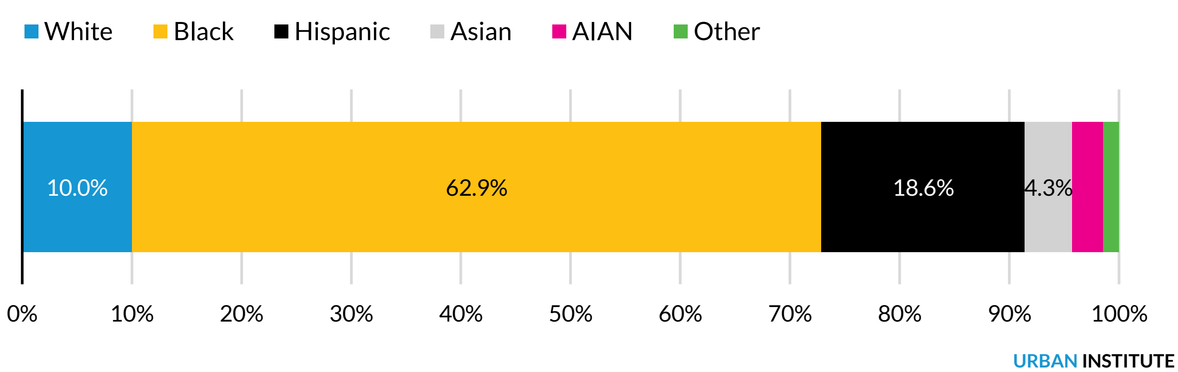
For example, when comparing 30-year mortgage purchase loan statistics between white and Hispanic buyers of two-to-four-unit properties in Chicago in 2022, we see that the differences in interest rates and LTV ratios account for Hispanic homebuyers paying $395 more in monthly mortgage payments on a $355,000 home, excluding property taxes, insurance, and homeowners' association fees (borrowers putting less than 20 percent down also have higher insurance payments, which would exacerbate this difference even further) (table 1). Over the life of a 30-year loan, Hispanic homebuyers will pay $83,704 more in interest payments while building home equity at a slower rate, despite having lower median income levels than white homebuyers. At the same time, home prices of properties owned by households of color have historically appreciated at a slower rate than those owned by their white counterparts, further exacerbating these disparities in home equity accumulation.[18]

Tenant Survey

The tenant survey was conducted during the same period as the landlord survey, from August 2022 to January 2023, and had 86 responses. All the buildings that the tenants resided in were in two-to-four-unit homes. In terms of racial and ethnic composition, the tenant survey, compared with the landlord survey, had a higher response rate among respondents of color, with just 10.0 percent of the respondents identifying as white, 62.9 percent identifying as Black, and 18.6 percent identifying as Hispanic.

FIGURE 9

Racial and Ethnic Composition of Tenant Survey Respondents



Source: National Housing Services of Chicago Tenant Survey.
Note: AIAN = American Indian and Alaska Native.

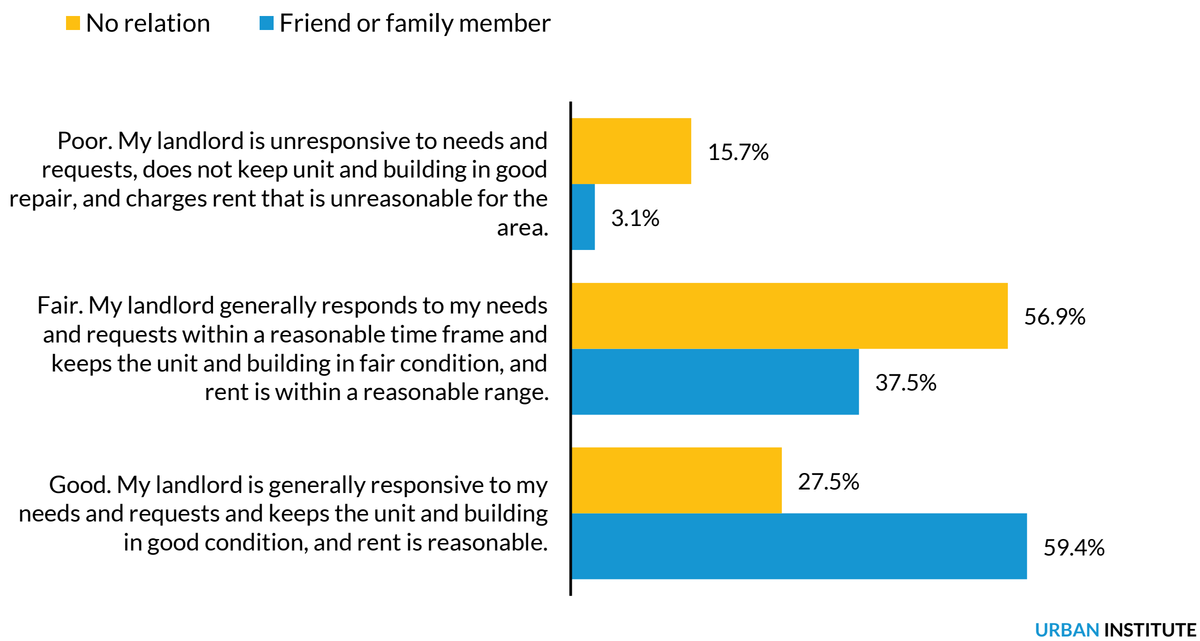
Many of the surveyed tenants were their landlord's friend or family member, accounting for 37.2 percent of the total survey. In most cases, these tenants with a friend or family relationship had their landlord living in the same building; 75.0 percent of those with a relationship had their landlord present, compared with just 22.2 percent of those with no relation.

The physical presence of a friend or family landlord in the building tended to improve the tenant's view of building quality and conditions, along with their general rating of their relationship. In terms of relationship ratings based on property condition and rent, just 3.1 percent of tenants with a friend or family relationship described their relationship as poor (e.g., the landlord is unresponsive to needs and requests, does not keep unit and building in good repair, and charges rent that is unreasonable for the area), compared with 15.7 percent of those with no relation. Furthermore, 59.4 percent of tenants with relationships with their landlords rated their relationship as good (e.g., the landlord is generally responsive to needs and requests and keeps the unit and building in good conditions, and the rent is reasonable), compared with just 27.5 percent of those with no relation (figure 10).

FIGURE 10

Ratings, by Tenants' Relationships with Their Landlords

Survey question: How do you rate your relationship with your landlord?



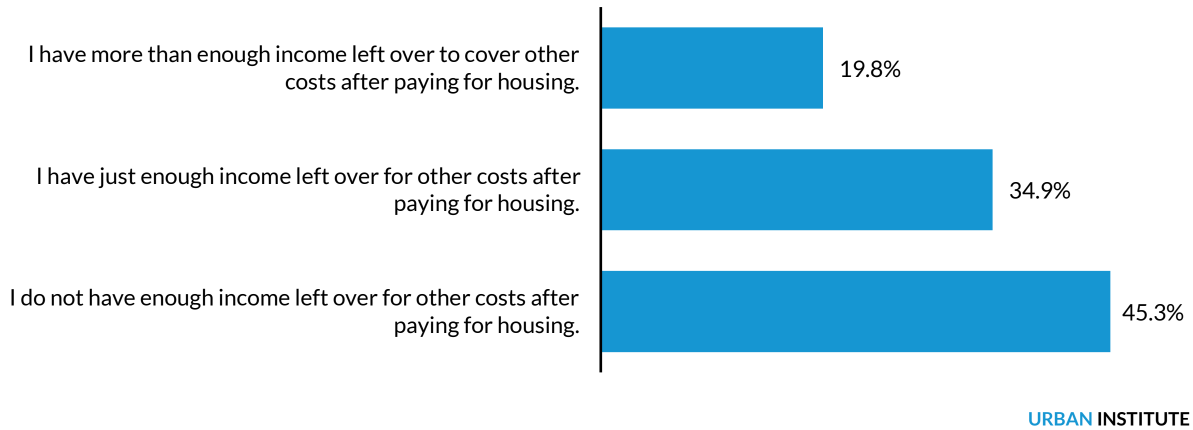
Source: National Housing Services of Chicago Tenant Survey.

Across the whole survey population, 73.5 percent of tenants felt that their rent was reasonable for the area despite struggling with their monthly housing costs. Despite most survey respondents viewing their rent prices favorably, just 19.8 percent of all tenants reported having more than enough income left over to cover other household costs after paying for all housing costs in their current situation, compared with 45.3 percent reporting not having enough at all and 34.9 percent reporting having just enough (figure 11).

FIGURE 11

Housing Costs Relative to Income

Survey question: Which of the following best describes your situation when it comes to housing costs?



Source: National Housing Services of Chicago Tenant Survey.

These tenants also struggled to cover costs during the pandemic, as 68.2 percent of all tenants in the survey reported falling behind on rent by at least one month. Consistent with previous survey findings, the mom-and-pop landlords in our tenant survey appeared to support their struggling tenants at high rates throughout the pandemic.[19] Among tenants who missed a payment, 72.2 percent reported their current landlord being cooperative during the process of applying for rental assistance. Although most tenants were able to work with their landlords to apply for emergency rental funds, only around 48.9 percent of those who applied for assistance actually received funds, which is consistent with our previous findings that emergency assistance was not reaching tenants with the lowest incomes fast enough during the crisis because of lack of awareness and a complicated application process.[20]

Given the positive support and interactions that two-to-four-unit landlords have provided their tenants during and since the pandemic, most tenants in the survey reported preferring to remain in their current apartment or moving to another two-to-four-unit building in the future. Only 9.5 percent of all tenants in the survey reported preferring to move to a bigger professionally managed property or different building type, indicating the value and benefits most tenants perceived and experienced while residing in their two-to-four-unit properties.

Focus Group Findings

In addition to our quantitative data analyses, we gained crucial qualitative context for these data from several focus group sessions the NHS of Chicago conducted from October to December 2022 with two-to-four-unit building owners in Humboldt Park, West Garfield Park, and East Garfield Park. The core questions in the focus groups were centered around the benefits and challenges of owning two-to-four-unit properties in these neighborhoods.

A key takeaway from the discussions was that the ability to provide housing for family members was a key consideration in purchasing a two-to-four-unit building for many focus group participants. One owner described their preference for their building over a single-family home: “I never really liked a single-family home because I had too much family and just in case something was to ever happen to my kids who are now getting older, they can always move here in their own space.” Another owner has rented only to family members since purchasing their building: “My tenant is my brother. He’s been there I think around 28 years, and I think I’ve raised his rent just three times when I’ve had to do major repairs. The rent is below market price, but it meets my mortgage where if I have to add anything from my personal savings, it’s very minimal. He understands he has a good deal and has always paid rent on time and directly to me; I’ve never had to ask for it.” These observations align with results seen in our surveys, where many respondents had friends or family as landlords and tenants and were more likely to set rent prices below market rates because of these relationships.

In addition to renting directly to family members, many participants wanted to create generational wealth and to leave their buildings to their families. Several focus group participants were second-generation owners who purchased the same building from their parents that they resided in as tenants. Given their strong familiarity with the building and community, one participant said, “I was living as a tenant in my parents’ building on the second floor. My brother was living there, too, and they offered him the building first, but I’ve always wanted that building, so after he declined, I immediately took the opportunity. So that’s how I ended up buying that two-unit flat. And I didn’t want to go anyplace else. I had moved away when I got married, but I came back and still grew up in the area, so I didn’t want to go anywhere else because I knew everyone there. My parents were also former block club members, and a lot of members in our organization are children of the parents who restarted the block club organization. I didn’t have to look for anything else.”

Renting to family members had been an ideal situation for many of the participants, but for others, it became challenging and uncomfortable because of bad experiences, such as having to evict family members or losing the building. Many of the focus group landlords highlighted the difficulty of setting aside their personal feelings or sympathies and maintaining a business relationship with their tenants, especially those related to them. As we saw in the landlord survey, many mom-and-pop owners provide below-market-rate rents to their tenants at their own expense, as 61.3 percent of landlords reported having either just enough or not enough money to cover monthly housing costs. One focus group participant described their experience this way: “I don’t go the family route anymore in my current building. I did have nieces and nephews on both floors, but they tore it up, and while we didn’t evict them, we lost our previous building entirely.” Another participant explained how generosity in this regard can cause strain both financially and personally: “I’m the worst landlord in the world because I’m too kind when it comes to renting, especially to family. It feels like I’m running a business that I don’t treat as a business because I’m too sympathetic and lenient when it comes to rent. It bites me in the butt because I’m the one who has to make up the difference between the reduced rental income and the cost of maintaining the home, and it feels like no one really understands the benefit I’m providing them but me. The experience has not been enjoyable.”

Difficulty financing maintenance and repairs was another major issue. Several focus group participants highlighted the age and location of their buildings as factors that have made it difficult to obtain funds for property maintenance and improvements. This is consistent with the current data we see in Chicago overall, which show that 70.6 percent of buildings in Chicago are more than 50 years old.[21] The housing stock is even older in focus areas such as Humboldt Park where 82.7 percent of buildings are more than 50 years old and 55.7 percent of buildings are more than 80 years old. One participant shared their experience trying to receive a loan: “Whenever I try to get money, the first thing that the bank says is the age of my building is too old. There aren’t too many banks that want to put money into it. It’s hard when you have to explain to the bank why you need the money and then tell them the building’s age and that you’re located in the 60624 zip code [West Garfield Park]. The process and difficulty obtaining funds due to location feels a lot like redlining.” According to 2021 ACS data, the median age of two-to-four-unit buildings was 111 years old in Humboldt Park, 113 years old in West Garfield Park, and 121 years old in East Garfield Park, all older than in the city overall (108 years old).

Several participants also described difficultly and frustration accessing programs and resources. Many described feeling “stuck in the middle” because they earn too much to qualify for any assistance, such as home repair grants, but do not earn enough to make repairs on their own. A few participants expressed their frustrations: “We’ve got city inspectors in our community all the time, and when they come through, they put a violation on your house that many can’t afford to fix on their own. It seems like nobody qualifies for these programs and resources because individual incomes are too high but not high enough to handle these violations out of our own pockets. What happens is that people don’t know what to do, so they panic and leave. I think there’s been a serious lack of education around housing, and this allows the folks with money to come in and the folks without money pushed out simply because of lack of education.”

Finally, nearly all of the participants described some type of increasing market pressure or challenge for legacy residents attributable to economic development and gentrification in their neighborhoods. These market pressures included difficulty financing repairs because of building age and location, increased property taxes, new construction and rehabilitated properties selling at significantly higher price points, high interest from cash investors (reports of properties selling for cash and never going on the market), and difficulty for tenants finding affordable rental housing without a housing choice voucher. Many participants have been dealing with a mix of these market pressures: "Because of what's being built in our community, such as the new police academy, the YMCA, and Amazon, Humboldt Park has just gotten crazy expensive because of these developments. We started to see property taxes increase for us in the most recent property tax cycle and thought, this can't be possible. We called the assessor and appealed the property taxes because I just refinanced and that is not what the bank said my house is worth. But there are a lot of new construction buildings going up that are selling for like $700,000 in our area. There are a lot of rehabs where people are taking the older buildings, rehabbing them, and they're not putting them on market for what we've traditionally been seeing. People are already coming in with deep pockets with half a million dollars, and if this trajectory continues, we're going to be really affected by property taxes. A lot of us in the area just don't know it yet because property tax education is not something that we get in our neighborhoods enough. With all these investors coming in inquiring about purchasing our homes with cash, I'm worried about protecting our legacy residents. We get calls and letters every week about selling but don't want to because it should be people who live in the community and have lived in the community for years."

Policy Recommendations and Conclusion

Long-term policies and programs that address affordability pressures, displacement, declining property conditions and that support mom-and-pop landlords and their tenants will be critical for preserving the two-to-four-unit housing stock in Chicago, which is the most affordable and prevalent building type across the city, providing a crucial source of housing for Black and Hispanic renters.

These economic concerns and challenges will affect current and potential homeowners alike. Current landlords are more vulnerable to economic shocks, as they generate less income from charging more affordable rents, especially those who rent to friends or family. This reality in the current market affects their ability to generate wealth and maintain their properties. At the same time, potential new homeowners will have to pay significantly higher mortgage costs because of rising interest rates, especially Black and Hispanic borrowers, who pay higher interest rates and lower down payments compared with white borrowers. Stabilizing the cost-burdened tenants in these properties will also be crucial, as more than 80 percent of tenants in our survey reported having either not enough or barely enough income to cover household costs in their current situation. These renters are also vulnerable to economic shocks, as more than 68 percent of respondents reported missing a rental payment during the pandemic because of difficult financial situations.

Although largely oversubscribed, some federal and local programs provide financing and assistance to both existing and new potential small rental building owners. Although valuable, many of these programs are restrictive and could benefit from modifications, such as providing tenant affordability protections, loosening program eligibility requirements, and scaling larger building programs to expand coverage to two-to-four-unit homes, especially for larger buildings with three to four units, which are largely excluded.

The federal First Look Program, for example, operates in the one-to-four-unit market and allows mission-driven investors the first opportunity to place offers on real-estate-owned properties from banks, the government-sponsored enterprises, and the Federal Housing Administration. Under the government-sponsored enterprise First Look programs, owner-occupants and nonprofit organizations engaged in neighborhood stabilization activities have the exclusive right to bid through the first 20 days without competition from investors. Although the initiative is promising, the program is severely constrained in practice and has had little impact in the current market because of limited inventory. In Chicago, inventory is especially constrained in the city's lowest-cost neighborhoods, where residential demolition is most prevalent and new residential construction is insufficient.

Additionally, the current First Look Program does not provide any tenant affordability protections and could benefit if it expanded to provide them. Proposals for expansion include requiring the new landlord to restrict future rents to an affordable level for a specified period (e.g., 10 years) and enter into repayment arrangements with existing tenants (Goodman, Reynolds, and Choi 2021). Through their mission initiatives, the government-sponsored enterprises and the Federal Housing Administration should be obligated to provide a discount on the real-estate-owned sale to offset costs taken on by the new owner for capping rents at affordable levels.

At the state and local level, many programs across the country offer forgivable or low-interest rehabilitation loans. But these loans are often limited to properties needing substantial renovations, which also increase rents, even with a subsidized loan (Reynolds, Edmonds, and Poethig 2019). One approach for modification, if replicated in Chicago, would be to offer smaller loans for minor repairs to small landlords who do not have access to other financing resources, which was a challenge many participants highlighted in our focus group sessions as repair assistance and resources were either not well known or difficult to obtain within their communities. Washington, DC's Small Buildings Program provides up to $25,000 per dwelling unit or $200,000 per project in grants if a five-year minimum affordability covenant limiting maximum rents is maintained. But this program is also restrictive, as it requires buildings to have 5 to 20 units and substantial safety and environmental hazard protections while maintaining strict affordability requirements, including having at least 25 percent of units be affordable to families earning below 50 percent of the median family income or having 100 percent of units be affordable to families earning below 80 percent of the median family income. Unfortunately, as with the federal First Look Program, this initiative is currently oversubscribed, and constrained resources limit any significant impact on the market.

An expansion or replication of the program in Chicago should focus on allowing rehabilitation funding for two-to-four-unit properties and minor repairs while preserving affordability requirements and limiting compliance costs for smaller landlords, which are currently a burden even for larger property owners. Existing proposals include offering half the amount as a grant that does not have to be paid back, subject to maintaining affordability for a specified period, and offering the other half as a loan that carries a low interest rate and does not have to be repaid.

The expansion of vouchers provided through the Housing Choice Voucher Program can also help provide stability to landlords and low-income renters who struggle during periods of constrained affordability. The Chicago Housing Authority distributes around 60,000 housing choice vouchers, which cover 30 to 40 percent of rental costs. Despite this outreach, the program is heavily inundated with requests for assistance, and additional funding and resources will be crucial for expanding distribution.

Furthermore, many landlords have been hesitant to accept vouchers because of program requirements and lack of awareness about the program, even though this resource guarantees the public housing authority will pay a portion of rent, regardless of a tenant's financial situation.[22] Survey findings from the pandemic show that low-income renters and renters of color were more likely to have vouchers and owed less back rent than renters without vouchers.[23] Additionally, most landlords who accepted the vouchers had positive experiences renting to tenants with vouchers. Expansion of funding for the Housing Choice Voucher Program would enhance housing stability and reduce the amount of assistance needed during economic downturns, as just one in five renters eligible for federal housing assistance currently receives it.[24] Additionally, streamlining regulations associated with vouchers to increase willingness among mom-and-pop landlords to accept them will be important, as many do not accept vouchers because of the program's complex rules.

Although the expansion of vouchers in the city can be vital to the city's low-income renters, these voucher holders are rapidly increasing density in the city's predominantly BIPOC[25] and low- and middle-income communities while declining in the white neighborhoods. As of 2021, more than 30,000 vouchers were located in majority-Black communities, a 24 percent increase over the past decade, while the number of voucher holders living in the city's majority-white communities near downtown or on the North Side have declined by nearly 25 percent.[26] These majority-Black neighborhoods often have less accessibility to critical resources, including banks, grocery stores, and adequate health care, which can create serious inequities in health outcomes and life expectancy.[27] Neighborhoods of concentrated poverty often isolate their residents from the resources and networks they need to reach their potential and deprive the larger community of the neighborhood's human capital.[28] Although it is explicitly illegal to discriminate against Section 8 residents in Chicago, there is little enforcement to stop landlords from turning away voucher holders by their own criteria, which can serve as a proxy to base qualification on race or ethnicity. Although many expensive neighborhoods are often out of reach for low-income families, it will be important for future voucher recipients to have opportunities to live in more mixed-income neighborhoods and for dismantling concentrated pockets of poverty in lower-income neighborhoods by investing resources and networks directly into their communities.

In addition to modifying and expanding existing federal and local programs, new solutions need to focus on developing policies that will directly address the lack of housing supply. Proposals to support the current stock of two-to-four-unit homes should include financial incentives for developers to build more homes and train more construction workers to fill labor gaps. Developers will also need support in financing construction as labor and material costs continue to rise, making it difficult to keep home prices affordable. The city will play in an important role in using its Troubled Buildings Initiative program and vacant housing stock to support more residential development. This will be especially important in Chicago's lowest-cost communities, where most empty lots from demolished two-to-four-unit homes are being converted for nonresidential use. Additional home construction will also lower rental costs and increase the number of affordable housing opportunities for renters.

Finally, more community-driven solutions, such as those emphasized by our focus group participants, will be critical for supporting existing landlords and legacy residents in their neighborhoods. Many landlords mentioned improving access to information to better educate new and existing homeowners in their communities on how to use the resources and opportunities available to them, especially in regard to rising property taxes and access to repair financing. Community organizations such as the Chicago Flats Initiative (Chi Flats)—a coalition of nine outreach, financing, policy, and direct service organizations, whose goal is to preserve and main two-to-four-unit flats—will also play a crucial role in protecting the affordable housing stock in the city. In coordination with the Neighborhood Housing Services of Chicago, Chi Flats offers programs and resources focused on homebuyer financial counseling, foreclosure prevention, loan approval, home purchase and improvement assistance, health and safety inspections, and construction management services. A comprehensive approach with coordinated efforts from various stakeholders to implement these proposed solutions will be critical to providing stability and expanding the affordable two-to-four-unit housing stock in Chicago, especially in communities of color.

Notes

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