ULI Chicago
Multifamily Foreclosure Technical Assistance Workshop

ULI Daniel Rose Center For Public Leadership in Land Use
June 14, 2011
Agenda

• Background
  Christine Kolb, ULI Chicago

• Multifamily Foreclosure & Workshop Review
  Scott Goldstein, ULI Chicago Public Policy Chair

• Case Study: Arlington Heights
  Nora Boyer, Village of Arlington Heights

• Case Study: Oak Park
  Tammie Grossman, Village of Oak Park

• Questions & Discussion
Introductions and Background

About the Urban Land Institute (ULI)

• ULI, the Urban Land Institute, is a 501(c) (3) nonprofit research and education organization founded in 1936 and supported by its members.

• Members in 95 countries worldwide, representing the entire spectrum of land use and real estate development disciplines working in private enterprise and public service.
Introductions and Background

About ULI Chicago District Council

• ULI Chicago provides leadership for the region in land use planning, growth patterns and sustainable development
• 1000 members that span the land use and development professions
• One of the oldest district councils in the country
• Program of work includes partner initiatives, technical assistance and member engagement
Introductions and Background

Multifamily Foreclosure Technical Assistance Workshop

• Partnership with The Preservation Compact

• Provide technical assistance for a contemporary, nuanced issue: Multifamily Foreclosure

• Leverage our member’s expertise to resolve a community challenge
Multifamily Foreclosure Technical Assistance Workshop

Why?

1. Early-2010, data surfaced that confirming the existence of and increase in multifamily foreclosure, especially in suburbs

2. Municipalities raising concerns in regional forums (CMAP, Metro Mayor’s Caucus)

3. Challenges of multifamily foreclosure different than single family foreclosure – capacity ‘void’
Multifamily Foreclosure Technical Assistance Workshop

2. Municipal Concern

• Partnered with municipal staff in Arlington Heights and Oak Park

• Identify specific challenges

  1. Foreclosed, vacant multifamily properties

  2. Stability risks from foreclosure in condominium properties
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3. Build Capacity

- Many existing interventions and community responses not applicable to multifamily properties
- Opportunity for the municipality to strategically acquire / support community assets (affordable rental housing)
- Need for policy, models
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Workshop Objectives

• Respond to real-time municipal need

• Produce a series of locally-specific and regionally applicable recommendations

• Document and disseminate findings to other communities struggling with similar issues
ULI Chicago

- Real estate and development expertise
- Technical assistance program to resolve real estate challenges
- Promote dialogue between municipal representatives and development sector
What We Know

- Data confirming the existence of and increase in multifamily foreclosure
- Anecdotal evidence from municipalities
- Evidence of fraud
  (Discovered through Neighborhood Stabilization work and Community Investment Corporation’s Troubled Condo program)
What We Don’t Know

• Nuances of multifamily versus single family foreclosure

• Appropriate interventions to stabilize multifamily stock

• Appropriate role for municipalities
Technical Assistance Workshop

• TAP format

• Two facets of multifamily foreclosure
  1. Vacant, foreclosed properties
     ➢ Opportunities for affordable housing
  2. Evaluating distressed condominium properties
     ➢ Struggling conversion projects
     ➢ How to stabilize
2010 Cook County Foreclosure Filings

- **1Q**: 6454 (Single Family: 1538) + 2457 (Condominium: 1962)
- **2Q**: 7907 (Single Family: 1776) + 3182 (Condominium: 1962)
- **3Q**: 7644 (Single Family: 2001) + 3022 (Condominium: 1776)
- **4Q**: 8774 (Single Family: 2001) + 3250 (Condominium: 1250)

Data Courtesy of the Woodstock Institute
Community Partner – Arlington Heights

Issue:

Condominium buildings that have unit foreclosures that could destabilize the entire property, but are not showing outward signs of distress.
Community Partner – Arlington Heights

Case Study:

- 240 unit condominium conversion
- Data shows active foreclosure
- Municipal staff not hearing resident complaints
- Is there reason for concern?
Community Partner – Arlington Heights

Questions:

1. How does the foreclosure process affect condominium properties?
2. Do individual units in foreclosure jeopardize the property?
3. Are there options for reconverting condominiums to rental use?
4. What policies can help a municipalities track condo and apartment housing?
5. How do multifamily properties lost to foreclosure impact municipalities?
Community Partner – Arlington Heights

Challenges:

- Transitioning ownership from the developer to the association
- Individual (unit) risk affects collective building stability
- Mixed occupancy complicates property management
- Fractured ownership and occupancy complicates options
- Potential high-cost of doing nothing
Community Partner – Arlington Heights

Recommendations:

- 3-Step Assessment Process: to gauge property distress
- Municipal Condominium Policy: to establish communication with condo boards / properties, and better assist condo distress
- Existing Legislative Tools: to foster stabilization and education
Community Partner – Arlington Heights

Recommendations:

• 3-Step Assessment Process
  - ‘Taking the temperature’ of the building
    - Using a Property Index Number (PIN) to conduct research
    - Resources: Assessor’s Office and Recorder of Deeds
  - Involving property stakeholders around a solution
  - Appropriate role for the municipality
Recommendations:

- Basic Municipal Condominium Policy
  - Condominium Registration Ordinances
    - For condominium and conversion properties
  - Ordinances to Support Condominium Boards
    - Ownership transition from developer
    - Municipal dialogue
Community Partner – Arlington Heights

Recommendations:

• Existing Tools

  ➢ Stabilization
    ▪ Distressed Condominium Property Act
    ▪ Illinois Open Meeting Act
    ▪ Community Association Manager Licensing and Disciplinary Act

  ➢ Education
    ▪ Foreclosure Assistance and Information for Renters (F.A.I.R.)
    ▪ Protecting Tenants in Foreclosure Act of 2009
Community Partner – Arlington Heights

Case Study: Applying Recommendations

- 240 unit condominium conversion
- Data shows active foreclosure
- Municipal staff not hearing resident complaints
- Is there reason for concern?
Community Partner – Arlington Heights

Developer: Ashton Financial LLC
Construction Lender: Union National Bank & Trust
Construction loan status: Released paid in full 7/16/2008
Condo Dec Filed: 7/27/2006
Underlying PIN(s): 08-15-300-009-0000
1 bedroom 1 bath: 700-800 square feet
Assessments: $156-268

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As of December, 2010:

- 46 of 240 units in foreclosure since 6/09
- 58% (140) of the units are held by 4 owners
- 12 REO
- 211 units rental (92%)
- 17 are owner occupied (8%)

As of February 1, 2011

- Crains: Developer foreclosure on 39 units
Community Partner – Oak Park

Issue:

Vacant, multifamily buildings that could be community anchors, but are currently bank-owned, deteriorating, and producing negative effects in the neighborhood.
Community Partner – Oak Park

Case Study:

- 12 unit, 1920’s apartment building

- Purchased in 2005 by developer to convert into 9-unit condo

- After gutting the property the developer lost financing in 2006

- The building shell has stood vacant since that time

- The bank foreclosed, acquired the property in 2010 sheriff’s sale
Questions:

1. What is the impact of foreclosure on price; how to negotiate with the bank?
2. What role can the municipality play to support acquisition of targeted REO?
3. Are there opportunities for community partnerships?
4. How to Identify which multifamily properties are good candidates to reposition as affordable housing?
5. When is demolition appropriate?
Community Partner – Oak Park

Challenges:

- Lack of information about property
- Unrealistic pricing in acquisition expectations
- Impact of vacancy on the community versus impact of vacancy to owner
- Municipal capacity, time
- Restricted program funding
Community Partner – Oak Park

Recommendations:

- Evaluation: the property; the neighborhood; the future market
- Acquisition: calculating price; negotiating with the bank
- Redevelopment: partnerships; appropriate role for municipality
- Demolition: how to weigh the demolition alternative
Community Partner – Oak Park

Recommendations:

• Evaluation
  ➢ What to research about the property’s history
  ➢ How to determine appropriate future uses (e.g. affordable housing)

• Acquisition
  ➢ Approaching / compelling the bank
  ➢ Determining the right price
Community Partner – Oak Park

Recommendations:

• (Re)Development planning
  ➢ Redevelopment
  ➢ Roles for municipalities and partners

• Demolition
  ➢ Analysis of total cost of demolition, sources of funding for demolition
  ➢ Compare to cost of rehabilitation, adaptive reuse options
Reposition vacant buildings

Lessons learned:

✓ Vacant building registry (BPI)

✓ Creating opportunities from foreclosure

✓ Community partnerships: NSP, businesses, development community
Regional Lessons:

- Foreclosure = a process
- Importance of interjurisdictional collaboration
- Opportunities for strategic community development
- Appropriate role for municipalities
Evaluating distressed condominiums

Lessons learned:

- How to proactively research a property (you never know what you will find!)

- Implementing condo policy to foster communication and build resources

- Existing tools for municipalities to use