

HOUSING IN CRISIS:

REPORT OF THE DATA BASE STUDY GROUP
OF THE HOUSING ABANDONMENT TASK FORCE

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EXECUTIVE SUMMARY

The Data Base Study Group of the Housing Abandonment Task Force carried out a study of multi-family buildings in Chicago to obtain a clear understanding of the circumstances that effect these buildings which provide low-cost rental housing in modest-income urban areas. The purpose of the study was to develop a base of current information which reflects recent changes in the environment in which multi-family housing operates--high interest rates and energy costs, reduced federal programs, increasing age of the buildings, and high unemployment -- which would support the policy panels of the Housing Abandonment Task Force.

Public records were collected and examined for eighty-eight buildings located in five city neighborhoods. Eighteen of the buildings were studied intensively to understand their income and expenses, financing mechanisms, rehabilitation costs, energy usage, building court history, rehabilitation plans, and problems faced by the owner.

The buildings in the study averaged 24 units in size and 71 years of age. Over half of the buildings were classified in bad or poor condition by exterior survey, and the other half in fair or good condition. Over half of the buildings have been delinquent in property tax payments for at least one year of the past thirteen, and over a third have been tax delinquent for at least five years. Seventy-one of the eighty-eight buildings have had at least one building court suit filed against them in the last ten years, with an average of three cases per building, and an average length of nineteen months per court case. Half of the buildings have suffered at least one fire in the last five years.

Of the eighteen buildings receiving intensive study, eight were vacant and ten were occupied. One-third of the buildings were owned by not-for-profit housing development organizations.

There were clear differences between the vacant buildings owned by not-for-profit developers and the occupied buildings owned by private owners. Average rehabilitation costs were over \$25,000 per unit for the vacant buildings, and less than \$4500 per unit for the occupied buildings. Proposed debt costs were also much higher in the vacant buildings and higher rents were anticipated to meet these costs. Not-for-profit owners were relying on public subsidy or rent assistance to rehabilitate and operate their buildings.

The greatest proportion of the expenses of the buildings was for utilities, primarily gas for heating and hot water. Second was debt service, although buildings had either very high or very low debt costs. Third highest was the property tax.

The most surprising finding of the study was that over half of the buildings in the study are operating with a positive cash flow. Few of the buildings, however, could add sufficient debt to carry out total rehabilitation, and rising utility costs could quickly erode the profitability of these buildings.

Possible indicators of building deterioration and abandonment are tax delinquency, building court cases, and fires. High utility costs may also cause disinvestment and eventual abandonment. A study of these or other buildings over time is necessary to develop an early warning system to spot buildings before abandonment occurs.

The study concludes that public policy must be implemented that will keep costs from rising; that financial institutions must offer affordable financing in small amounts for repairs and energy conservation improvements to reduce the number of buildings requiring total rehabilitation; and that buildings must be actively monitored for signs of deterioration to ensure that the resource of rental housing is not lost to modest-income urban neighborhoods.

INTRODUCTION

Detailed information on multi-family housing in the 1980's is largely unavailable. The effects of two recessions, substantial withdrawal of federal funds from urban housing, housing stock that is aging and is not being replaced, high interest rates and operating costs, and a changing financial industry have influenced the environment in which multi-family housing operates. This new environment must be reflected in the ways that housing is financed, subsidized, supported, and regulated. These changes, however, must be based on a real understanding of the current situation of multi-family buildings.

Abandonment of multi-family housing in urban neighborhoods is taking place at an alarming rate. Between 1970 and 1980, more than 26,000 apartments in buildings of more than 4 units were lost to the city. The causes of housing abandonment are not well documented. However, it can be assumed that an owner will abandon a building when he or she is not making a profit on the operation of the building and has no expectation of selling the building to make a profit. This lack of profit may be due to increased costs which the tenants are unable to pay in increased rents. Debt costs caused by rising interest rates or operating costs reflecting rising utility rates and property taxes may be responsible for cost increases. Increasing maintenance needs and repair costs as the building ages may also be responsible. The lack of profitability may be due to the inability of the owner to obtain reasonably priced financing to make needed repairs or sufficient insurance coverage to protect his income stream after a fire.

Abandonment may be due to the owner's situation or to poor management of the building. An elderly owner who can no longer make repairs himself, or who no longer has another source of income to use when the building faces emergencies may allow the building to decline or may sell it to an unsuitable buyer. An inexperienced owner may manage the building badly, losing tenants in the process. There are few resources available to assist owners of multi-family buildings in solving their problems.

Neighborhood factors may play a role. Uncertainty about the future of the building's location may make it difficult to sell, with financing unavailable and no prospective buyers. This may be due to recent changes in the ethnic, racial, or income characteristics of the community.

Larger economic factors may also be important. National recessions can result in higher unemployment, reducing tenants' ability to keep pace with higher housing costs. Shift of federal support away from urban housing can reduce the resources available to conserve existing housing.

Some of these impacts on housing have been well documented. Others have not. It was the goal of the Data Base Study Group of the Housing Abandonment Task Force to look closely at some multi-family buildings in Chicago to find out how they are run, what it costs to operate them, what it would cost to rehabilitate them, how they are being supported by the public sector, and how the courts are dealing with their problems.

The Data Base Study Group (DBSG), a subgroup of the Housing Abandonment Task Force (HATF), gathered information on multi-family housing in five neighborhoods -- Uptown, Westtown, South Austin, Grand Boulevard and South Shore. The purpose of the group's work was to develop a clear understanding of the housing situation in each of the neighborhoods as well as to look closely at a number of buildings in different parts of the city. Information gathered through the work of the DBSG provided a basis for the policy and program development work being carried out by the policy panels of the HATF.

The data gathering was done in a three-step process. First, portions of each of the five neighborhoods were surveyed on a property-by-property basis to develop a broad base of information on the housing conditions in each. From the buildings surveyed, each community group selected twenty which received closer study and, from that group, five which were studied intensively.

Community group members from all five areas participated in the work of the DBSG, as did other members of the HATF Steering Committee. Woodstock Institute coordinated the collection of all of the data, analyzed the data, and prepared this report.

METHODOLOGY:

The Data Base Study Group began by defining an area of approximately 80 square blocks in each of the target neighborhoods. (The Grand Boulevard and South Shore areas were a bit smaller.) A survey was conducted of the area by neighborhood residents, with training and supervision by the Nathalie D. Voorhees Center for Neighborhood and Community Improvement at the University of Illinois in Chicago.

The external condition of each building in the survey area was evaluated and assigned a condition code. These were then mapped, and summaries of the findings were prepared. Copies of these summaries, a survey form, and survey instructions are contained in Appendix I.

While the surveys were being completed, the Data Base Study Group began to define criteria for selecting buildings to be included in the second phase of the study. Buildings were to be selected to reflect the diversity of size, type, physical condition, occupancy status and ownership type found in each community. They were to be buildings of significance to the neighborhood organization because of previous contacts with the owner, manager, or tenants, because of the building's location, its proximity to rehabilitation activity or building abandonment, or because of particular problems with the building known to the community.

Buildings were selected for the so-called "large sample" by each community organization. Once they had been selected, collection of public records on each of the buildings began. Title reports were ordered from Chicago Title

& Trust Company, tax records were examined, building court files were examined and copied, and a request was made to the city for information on crime incidents, fires, water bills, building inspections, public program participation, building conditions from their surveys, and census data.

At the same time, the community groups began to contact owners of buildings for closer study -- the so-called "small sample." The selection of these buildings was based on their potential feasibility for rehabilitation, the interest that the neighborhood group had in the building and, what turned out to be the key selection factor, the willingness of the owner to participate in the study. As owners agreed to participate, an interview was scheduled to determine the building's income and expenses, its history, any completed or anticipated repair work, and the current problems facing the owner.

In addition to the interview, each of the small sample buildings received an energy assessment and a rehabilitation cost evaluation. The energy assessment was prepared by the Center for Neighborhood Technology. It contains information on utility costs, projected utility costs, and particular improvements that could be made which would result in savings in utility expenditures. The rehabilitation cost evaluation was prepared by an architect at Community Investment Corporation. It provides information on costs of repair or rehabilitation for each building, and also provides a consistent assessment by one person of the relative condition of all of the small sample buildings.

Finally, each community organization provided a brief statement on the history of buildings in its neighborhood and the community's involvement with them. This provides additional information on ownership and current building condition, as well as information on the area immediately surrounding the building. (A sample file of information is contained in Appendix B.)

Data Analysis

Once data collection was complete, all of the files were coded for computer entry and analysis. A number of building characteristics were identified for closer study. These included the following:

- Age of the building
- Owner occupancy
- Owner management
- Fires which occurred in the last five years
- Public dollars spent on the building
- Rent levels
- Operating expenses per unit
- Mortgage debt per unit
- Income/expense ratio
- Foreclosure suits
- Number of court cases in the last ten years

Average length of court cases
 Fines levied during court cases
 Orders issued during court cases
 Number of ownership transfers in the last ten years
 Number of different tax payers in the last twelve years
 Number of years tax delinquent in the last twelve years
 Amount tax delinquent
 Year taxes were most recently forfeited
 Percentage change in assessed valuation

The relationship between these characteristics and the building's condition were examined. For most of the buildings in the large sample, an assessment of the condition was available from the survey data. For the small sample, rehabilitation costs and the occupancy status were studied as well.

In addition, an income/expense statement was generated for each of the eighteen buildings in the small sample, so as to understand clearly the costs faced by each.

DESCRIPTION OF THE SAMPLE

The entire sample (the so-called large sample) contains 88 buildings, roughly divided between the north, west, northwest, and south side neighborhoods, with 24 in Westtown (NCO), 22 in South Austin (SAC), 19 in Uptown (ONE), and 23 on the South Side. The South Side buildings are divided between South Shore (SSC) with 12 and Grand Boulevard (GRB) with 11. Eighteen of these buildings make up the small sample.

The buildings vary in size and by neighborhood. The mean number of units in the total sample was 24, with Westtown having the smallest buildings (an average of 11 units per building), followed by Uptown with 23, Grand Boulevard and South Shore with 26 and 27, and South Austin with 37.*

Average Building Size

	<u>Total</u>	<u>NCO</u>	<u>ONE</u>	<u>SACCC</u>	<u>Gr. Blvd.</u>	<u>S. Sh.</u>
Avg. no. of units	24	11	23	37	26	27

The buildings varied in age from 24 to 94 years, with an average age of 71 years. Their condition as determined by the neighborhood surveys ranges from bad to good, with no buildings classified as excellent:

* All averages rounded to the nearest whole number.

External Building Condition from Surveys

<u>Condition</u>	<u>No. of Bldgs.</u>
Bad--needs demolition	5
Poor--numerous maintenance and structural deficiencies	36
Fair--numerous maintenance deficiencies	18
Good--not more than one or two visible maintenance deficiencies	15
Excellent--No maintenance or structural deficiencies	0
TOTAL	<u>74</u>

Fourteen buildings were not included in the survey.

The Small Sample

The small sample consists of 18 of these 88 buildings. The buildings in the small sample range in size from 4 to 96 units, with an average size of 23 and an average age of 65 years.

Size and Age of Small Sample Buildings

<u>Neighborhood</u>	<u>Number of Buildings</u>	<u>Average Number of Units</u>	<u>Average Age (Years)</u>
Westtown	5	12	71
Uptown	4	20	65
S. Austin	6	40	62
Gr. Blvd.	1	8	
S. Shore	2	19	64

Inclusion in the small sample required the owner's willingness to be interviewed about his building. Therefore, the traditional "slumlords," those who have no interest in maintaining their buildings, were not represented in the study.

Partly for that reason, the buildings in the small sample fell equally into two distinct groups. Nine of the buildings are owned by community-based organizations and institutions, most of whom are not-for-profit housing developers. These buildings are largely vacant and will receive a moderate to substantial amount of rehabilitation prior to occupancy. Six of the nine are expecting to receive Section 8 rent subsidies to augment their income.

The other half of the sample is made up of buildings owned by for-profit owner-occupants or non-resident landlords. Only one of these owners owns more than one or two other multi-family buildings. These for-profit buildings are all at least partially occupied and more modest expenditures are planned.

Ownership Type

<u>Type</u>	<u>Number of Bldgs</u>
Community-based developer	6
Other community-based or not-for-profit	3
Owner-occupied for-profit	3
Absentee-owned for-profit	6

The condition of buildings in the small sample was measured in three ways:

1. Percent vacancy, assuming that fully occupied buildings were more likely to be in better condition than vacant buildings;

Building Occupancy

<u>Occupancy</u>	<u>Number of Buildings</u>
Vacant	6
15-25% occupied	2
70% and higher occupied	<u>10</u>
TOTAL	18

2. Condition as determined by the neighborhood survey ("map condition");

Condition from Surveys

<u>Condition</u>	<u>Number</u>
Bad	1
Poor	6
Fair	2
Good	3
Excellent	<u>0</u>
	12

Six of the buildings were not included in the survey.

3. Rehabilitation costs per unit (materials and labor only) as determined by the architect who visited the buildings in the small sample. It was assumed that buildings with lower rehabilitation costs were in better condition than buildings with higher rehabilitation costs.

Rehabilitation Costs

<u>Cost/unit</u>	<u># Buildings</u>
No information	1
\$0-\$5,000	5
\$5001-10,000	3
\$10,001-15,000	4
\$15,001-25,000	0
Over \$25,000	5

All of the buildings requiring more than \$25,000 per unit rehabilitation are vacant and are or will be owned by community-based developers.

BUILDING INCOME AND EXPENSES

One of the most important questions that the study set out to answer was whether multi-family buildings in low-income neighborhoods are being operated profitably. If buildings are operating profitably, then it is possible that responsible owners will continue to operate housing and that new owners will be interested in doing so as well. Buildings operating profitably can respond to emergencies and may be able to take on additional debt for building repair and maintenance.

Each of the 18 building owners was questioned about the building's income and expenses. Operating expenses included property taxes, gas, electricity, water and sewer, scavenger (garbage disposal) service, insurance, janitor, maintenance, management, legal costs, decorating, exterminating, and any other costs mentioned by the owner. Debt included both existing mortgages and any other loans which the owner had used for purchase or repairs to the building.

Gross average rents per unit (not considering rent loss due to vacancy) ranged from \$134 to \$804 per month. The highest rents are proposed for now vacant buildings which will be rehabilitated and the rents subsidized by Section 8. Average rents in non-subsidized buildings ranged from \$134 to \$312 per month.

Operating expenses ranged from \$121 to \$397 per month with an average cost of \$205.

The buildings with the highest rents per unit were also generally the ones with the highest expenses per unit, the highest debt per unit and the highest income/expense ratio.

Building Income and Expenses

Building	Income/unit/month (Gross)	Expenses/unit/mo. (Incl. Debt)	Income/Expense Ratio
NCO 5	\$271	\$209	1.30
NCO 8	186	273	.68
NCO18	168	228	.74
NCO23	226	177	1.28
NCO24	134	145	.92
ONE14	575*	490	1.17
ONE21	478	250	1.91***
ONE22	804**	250	3.21***
ONE23	228	175	1.30
SAC 1	381	334	1.14
SAC 8	255	136	1.88
SAC 9	223	204	1.09
SAC13	257	226	1.14
SAC15	445	391	1.14
SAC23	156	164	.95
GRB25	312	199	1.57
SSC23	610**	694	.88
SSC24	692*	710	.97

It should be noted that this table uses gross rents based on full occupancy. Using gross rents, six of the buildings have expenses greater than their incomes. Four additional buildings are only marginally profitable if a normal amount of vacancy is anticipated. Some of the buildings are experiencing higher than normal vacancy which reduces their income/expense ratio. Even given all of these considerations, **one-third of the buildings in the small sample appear to be operating profitably.**

Whether or not the buildings are operating "in the black," it is also important to understand what proportion of costs are for energy, property taxes, debt service, maintenance, management, etc., so that public policies and programs can be designed to minimize the high cost areas.

* Includes rent and expenses for commercial space, but only divided by the number of residential units.

** Rents subsidized by Section 8.

*** Debt costs not yet available and therefore not included in expenses or Income/Expense ratio calculations.

Building Operating Costs by Category

Component	Av. Cost/ Unit/Yr.*	% of Oper. costs*	% of Tot. costs*	% of Income*
Property tax	338	18	13	11
Gas	702	34	27	19
Electricity	65	2	2	2
Water & Sewer	104	5	3	3
Scavenger	44	2	1	1
Insurance	148	6	4	3
Janitor	151	6	4	3
Maintenance	104	5	3	3
Management	71	4	2	2
Legal	37	2	1	1
Decorating	0	0	0	0
Exterminating	2	0	0	0
Other	0	0	0	0
Median Operating	1940*	100*	75*	53
Debt	672	33	25	24
TOTAL	2477	133	100	8

The three highest cost categories of the buildings studied were gas, with 34% of the operating costs, debt service with 33% and property taxes with 18%. Each of the other expense categories is negligible by itself.

Building Debt

<u>Debt Per Unit</u>	<u>Number of Buildings</u>
No debt	4
\$1-2,000	3
\$2,001-5,000	4
\$5,001-10,000	1
\$15,000-25,000	2
\$25,001-40,000	2
\$40,001-60,000	2

Overall, debt payments make up 25 percent of the total operating expenses, and consume 24 percent of the income. It is interesting to note that 11 of the 18 buildings have \$5,000 or less in debt per unit. Four of the buildings, or 22% of the sample, had no debt at all. The two buildings having the highest amount of debt are to be substantially rehabilitated, with city bond financing and Section 8 rent guarantees. Five of the six buildings with the highest amount of debt per unit are currently vacant and will soon undergo rehabilitation by housing developers. The sixth was

* Medians were used for these figures, to minimize the effects of extreme values. Because medians were used instead of means, column totals will not add up to the total operating figures.

recently purchased by a group which financed both the purchase and a number of weatherization-related improvements. The building includes a business which occupies approximately one-third of the building. However, all costs were attributed to the residential units.

The amount of debt on the occupied buildings is extremely low. Many of the buildings were purchased with cash for very low amounts. In other cases, the building was inherited (1), acquired through a gift (1), owned long enough by the same owner so that the mortgage was paid off (1), or built long ago with no financing (1).

Owners expressed strong hesitation when interviewed to assuming additional debt on the building. Of the owners who are not professional housing developers, most seemed willing to use profits to make repairs to the building and to take out small, short-term loans to make specific repairs or improvements when emergencies arise (such as to repair fire damage) or to improve cash flow. Most owners, for example, were interested in installing storm windows to reduce their energy costs. While they prefer to pay for such improvements out of their cash flow and to make the improvements incrementally, small personal loans are also utilized. Only one of the for-profit owners who was not also a developer expressed interest in refinancing the building so as to obtain money for rehabilitation. This owner was the most experienced of those interviewed and the only one who owns a number of buildings.

While the causes of this reluctance to assume major debt are not clear from the interviews, the programmatic implications are important. The non-developer owners interviewed would be more interested in taking advantage of a short-term, small, low-interest loan which would finance a portion of the needed repairs than they would in a program which would provide a large amount of financing over a long period of time to make all of the improvements.

A final piece of the income/expense picture is that of the income tax benefits that owners of multi-family buildings receive, which protect some of their other income from taxation. Unfortunately, no information was obtained from the owners about their other income and the tax advantages of owning these buildings. The eight not-for-profit owners are only influenced by tax considerations if they decide to syndicate the building by selling limited partnership interests to investors who wish to take advantage of the income tax benefits. Of the for-profit owners, it was the interviewer's impression that a number had very little outside income and that their interest in owning the building was because of its cash flow and future appreciation rather than its use as a tax shelter.

PROPERTY TAXES

Property taxes represent a major operating expense to each building, a major source of income to the city, and when unpaid, a possible indication that a building may be in trouble. The average property

taxes as reported by the owner make up 18% of the operating expenses. The following chart shows the property taxes for each building in the small sample.

<u>Property Taxes</u>		
<u>Building</u>	<u>Taxes Reported/Unit</u>	<u>% of Oper.</u>
NCO 5	339	20
NCO 8	353	14
NCO18	236	11
NCO23	651	34
NCO24	125	7*
ONE14	1000	28**
ONE21	333	14
ONE22	333	23
ONE23	281	19
SAC 1	462	21
SAC 8	279	17
SAC 9	455	28
SAC13	337	17
SAC15	692	37
SAC23	250	16
GRB25	150	6
SSC23	619	16
SSC24	1000	39

The mean tax amount per unit is \$439, and the median amount is \$338. The lowest amount was \$125 per unit per year for a four-flat with an owner occupant. The highest amount was \$1000 per unit per year. This represents a range of 6% to 39% of the total operating costs, with a median of 18%.

Tax Delinquency

Tax reports between 1970 and 1982 were examined for all of the 88 buildings to determine record of payment, as well as property tax amounts. Forty-seven buildings were tax delinquent for at least one year of the last thirteen. The number of years that buildings were delinquent on their property taxes ranged from one to thirteen years. The average number of years tax delinquent of those with some tax delinquency was six years.

* This is a four-unit building with an owner-occupant, which is taxed at a lower rate than the other buildings.

** This building contains commercial space. However, all costs were attributed to the residential units.

Property Tax Delinquency

<u>No. of Years</u>	<u>No. of Buildings</u>
0	41
1	9
2-4	8
5-7	14
8-10	13
11-13	3

Characteristics of Tax Delinquent Buildings

The 47 buildings studied which were tax delinquent for at least one year averaged 28 units, slightly over the average size for the sample. They averaged one fire per building over the last five years and three court cases per building over the last ten years.

Eight of the tax delinquent buildings were included in the small sample, and they ranged in tax delinquency from one to twelve years. The amount of tax delinquency showed no clear association with condition, vacancy, type of ownership, rents or costs.

There were, however, some differences by neighborhood in the number of years tax delinquent.

Years Tax Delinquent by Neighborhood

<u>Area</u>	<u>Average Yrs. Tax Del.</u> (Mean)
NCO	3
ONE	1
SAC	5
GRB	5
SSC	2

The reasons for the differences are not clear. They may be due to the perception of the future value of the buildings in different neighborhoods. Uptown and South Shore, due to their location on the lakefront as well as other factors, may have a greater future value in the eyes of their building owners.

UTILITY COSTS

The major cost of operating the 18 buildings studied was the cost of utilities. Gas for heating and hot water, electricity for lighting hallways and exterior areas, and water and sewer charges together made up the largest proportion of the budget -- with median costs of \$702

per unit for gas, \$65 per unit for electricity, and \$104 per unit for water and sewer charges. Together these make up 45% of the median operating costs (excluding debt) and 32% of the total expenses of the buildings studied.

Utility Costs Per Unit*

<u>Utility</u>	<u>Mean</u>	<u>Median</u>	<u>Range</u>	<u>% of Total Expenses</u>
Gas	820	703	0-1915	27
Electricity	103	65	22-425	2
Water & Sewer	109	104	26-240	3

*Annual

Frequency Distribution of Utility Costs

<u>Costs/unit*</u>	<u>Number of Buildings</u>
Under \$500	2
\$500-1,000	7
1,001-1500	5
1,501-2000	2
over \$2000	2

The two buildings with the lowest reported energy costs are both buildings in which tenants will pay for their own heat after rehabilitation. Four of the five buildings with the highest per unit energy costs are buildings with six, seven or eight very large units in each. All but one is now vacant. One of the vacant buildings was vacated by the owner who said that she could no longer afford to pay the high utility costs.

There appears to be no clear relationship between energy costs and rent levels, expenses per unit, or income/expense ratio. More of the buildings with high energy costs were in poor condition than those with lower costs, but the association was not strong. There was no difference between buildings with high energy costs and those with low costs in age, number of fires, or number of court cases.

Six of the eight buildings with the highest energy costs are mostly or entirely vacant. In these cases, energy costs were based on past usage. The high costs of providing utilities may have been partly responsible for them being vacated. The owner of one of the buildings said that she evicted her tenants and secured the building because she could not pay the gas bill. The two other buildings which are vacant are the buildings which have the lowest projected utility costs because tenant-paid heat is anticipated.

*Annual

Conclusions: Utility Costs

Utility costs constitute the largest portion of the operating expenses of the buildings studied. These costs do not appear to be associated with higher rents. However, they do appear to be associated with vacancy, suggesting that high utility costs may be a factor in causing abandonment.

BUILDING COURT

The system which regulates the condition of buildings encompasses the building inspectors who annually inspect multi-family buildings and recommend particular actions, the Compliance Board, which hears cases in their early or less serious stages, the office of the Corporation Counsel, which prosecutes cases in Building Court, and the judges and staff of the court system. It is designed to protect the tenants and surrounding communities from the hazards of badly managed and maintained multi-family buildings.

This system influences all multi-family buildings through annual inspections of those buildings with four or more units. Many of these buildings eventually end up in Building Court. Of the 88 buildings studied, 71 had had court suits initiated against them in the last ten years.

Building Court Cases

<u>Number of Cases</u>	<u>Number of Buildings</u>
1	17
2	15
3	15
4	9
5	8
6	4
7	2
8	1

The buildings averaged three cases each, with an average length of 19 months per case.

The building court cases were generally initiated for lead paint violations, lack of heat and hot water, or for specific problems with the building's structure, interior, plumbing, or electricity. The lead paint and heat cases usually lasted no more than two or three months before being corrected. In some cases, a receiver was appointed to reinstate heat in the building. In other cases, the case was dismissed without correction, but the owner was fined.

The cases with "conservation,"* plumbing, or electrical violations often lasted much longer, and sometimes were dismissed without clear indications in the court record as to whether the violations were corrected. Often the cases were dismissed when some but not all of the violations had been corrected. It is not unusual to find that the building is in court again within a few months.

The buildings with a greater number of building court cases in the period studied also showed a greater number of years tax delinquency. The 24 buildings with four or more court cases had an average of almost five years tax delinquency, whereas the average number of years tax delinquent for all the buildings with one or more court cases was 3.4.

Court Cases and Tax Delinquency

<u>No. Court Cases</u>	<u>No. Years Tax Delinquent</u>
4-8	4.9
1-8	3.4
0-8	2.5

In the sample as a whole, there appears to be little association between number of court cases and either vacancy or condition of the building, even though the emptying and demolition of buildings are court remedies of last resort. Of the seven small sample buildings with four or more court cases, five are vacant, possibly due to court action in some cases, and two are occupied.

Length of Court Cases

Building court cases lasted from one month to almost six years for the buildings studied. Often the case was passed from judge to judge, and hearings were scheduled in which no judge presided or no building owner appeared. The mean case length was 18 months, and the median was 13 months.

Building court case length is not apparently associated with any of the indicators examined. The three longest building court cases were for three vacant buildings. However, the building with the fourth longest case was fully occupied.

Building Court Cases by Neighborhood

The average number of building court cases per building was similar in all of the neighborhoods except South Austin, which had almost twice as many as the other neighborhoods. (This difference may be due to the way buildings in South Austin were selected.) The average court case was longest in the northwest with 22.9 months and shortest in Grand Boulevard with 9.9 months.

*Conservation violations are those which require general repairs. The term is ironic, as the building inspection and court systems are not successfully addressing the conservation of buildings.

Building Court Cases by Neighborhood

<u>Area</u>	<u>Number</u>	<u>Average Length (months)</u>
NCO	2.1	22.9
ONE	2.0	21.0
SAC	4.1	17.7
GRB	1.9	9.9
SSC	2.3	17.0

Conclusion: Building Court

The association between a large number of building court cases and a large number of years tax delinquent suggests that buildings which are repeatedly in trouble with the court system are also less likely to pay their taxes. This might suggest a pattern of building disinvestment or decline.

The lack of association between either number of court cases or length of time in court with any of the measures of building condition suggests a failure of the court system to maintain or improve the condition of the buildings studied. Buildings do not seem to get substantially better through their contact with this system.

OWNERSHIP & MANAGEMENT

The quality of management is important to the ultimate fate of a multi-family building. Well-run buildings tend to have fewer vacancies and therefore better cash flow. Repairs are made sooner, slowing the process of deterioration. While it was impossible to measure the quality of management of the buildings in the study, two aspects of ownership and management were examined. The first was owner-occupancy. Three of the buildings in the small sample have owner-occupants and a fourth, which is owned by a church, also houses the minister. These four buildings were in better condition than the sample as a whole, were smaller, had lower rents, and little vacancy.

Thirteen of the eighteen small-sample buildings were owner-managed. These managers ranged from experienced professionals to those managing one building for the first time. Perhaps because the owner-managers were so varied, there was no clear difference between their buildings and those managed by management companies.

Interviews with the owners showed various management techniques that were developed by individuals to cope with their problems. One owner, newly in charge of a building in which heating costs were high and there was no cash flow available to weatherize the building, called the tenants together and gave them a choice of putting plastic on their windows or paying for storm windows through higher rents. Another owner, seeking tenants in a neighborhood with which he was unfamiliar, is marketing the building

through neighborhood churches, and is requiring a church reference from prospective tenants as an indication of their stability. A third owner has a phased system of rehabilitation when he newly takes over a building. In the first phase he raises the rents to market levels and cleans up the building, making repairs and improvements that cannot be destroyed by the tenants. After evicting non-paying tenants, he gradually improves the building's security, and makes improvements to the individual apartments. A fourth owner dealt with his problem of high heating costs by installing a water softening device to make his boiler work more efficiently.

The variety of coping mechanisms that have been developed by the owners is both a sign of their creativity and ingenuity, and an indication of the need for support systems and ways in which owners can share knowledge and experience. For the most part, each new owner "reinvents the wheel" when he acquires his first building. Management support to the owners would make the system of private ownership more efficient and less likely to result in abandoned buildings.

FIRES, FORECLOSURES, RECEIVERSHIPS AND OTHER EVENTS

Fires

A fire can be the event that begins a building's road to abandonment. A fire causing sufficient damage to vacate some apartments reduces the building's income, making it both difficult to make repairs and to meet ordinary expenses.

Half of the 88 buildings studied had had at least one fire in the last five years.

Fires

<u>Number of Fires</u>	<u>Number of Bldgs.</u>
0	44
1	22
2	14
3-4	6
5-6	0
7-8	2

The buildings with fires were somewhat larger than the average sample size (31 unit average as compared to 24 units for the sample as a whole). The buildings with more fires were also generally the larger buildings.

The buildings with more fires tended also to be those with a greater number of years tax delinquency. Of the 22 buildings with one fire, fourteen had no tax delinquency. Of the twenty-two buildings with two or more fires, only five had no tax delinquency, and the average number of years of tax delinquency was 4.3. The average number of years tax delinquent for the sample as a whole was 3.2.

Foreclosures

Nine buildings showed foreclosure actions on the title reports. Each showed one action, except for one building which had two foreclosure suits and another which had three. It is unclear from the title reports whether the foreclosures actually occurred, although information from the owner was available in some cases.

Receiverships

Twelve buildings were put into receiverships during the last ten years. All of these appear to be heat receiverships. Half of the buildings for which receivers were appointed are in South Austin, and the remainder are spread throughout the other neighborhoods. In nine of the twelve cases, Hennessy was the receiver appointed.

Title Transfers

Title reports were studied for the past ten years to identify changes in ownership. Because many ownership changes are made through contract sales or changes in beneficiaries of an existing trust, it was often impossible to find out exactly when and to whom a building was being transferred. This information was gathered through a combination of title report information, taxpayer information, and defendants in court cases, all of which are problematic as information sources.

Over the ten year period studied, buildings showed between zero and three ownership changes.

Ownership Transfers

<u>Number of Transfers</u>	<u>Number of Buildings</u>
0	26
1	28
2	23
3	7

There were no clear differences between the neighborhoods on the number of ownership transfers.

Sequence of Events

For each building in the small sample, a case study was prepared which includes a sequence of events over the last ten years which shows in which years the property was tax delinquent, was put into receivership, had fires, had foreclosures, had ownership transfers, and was the subject of building court cases.

The earliest event was most often a transfer of ownership,* a court case, or tax delinquency. The second event was usually a court case, a fire**, or tax delinquency. The third event was likely to be either a court case or tax delinquency.

Building Events

	Number of buildings in which the item at the left was the First Occuring Event	Second Event	Third Event
Tax Delinquency	5	6	6
Receivership	1	1	
Fires	2	7	4
Foreclosure		1	2
Ownership Transfer	9	1	3
Court Cases	7	9	8

VACANCY

Because this study was carried out as part of a project on housing abandonment, it is important to look closely at the vacant buildings and to see if and how they differ from those that are occupied.

Occupancy information was collected only for the 18 buildings in the small sample. Ten of these buildings were substantially occupied, and eight of the buildings were vacant at the time the interviews took place.

The vacant buildings were in worse condition than the occupied buildings. Their estimated rehabilitation costs are high and their condition from the map survey is low.

Because six of the eight owners of the vacant buildings hope to obtain Section 8 rental assistance for their tenants, the projected average rents are higher for the vacant buildings than the existing rents of occupied ones. Because most of the owners hope to obtain financing to carry out modest or substantial rehabilitation, the debt per unit is also high.

The high rehabilitation costs of the vacant buildings not only are indicators of their present condition, but also suggest the high cost that must be paid when buildings are allowed to become vacant.

*Contract purchases and other ownership changes may not have all been identified.

**Data on fires was only collected for five years.

Vacant vs. Occupied Buildings

	<u>Vacant</u>	<u>Occupied</u>
Average No. Units	16	30
Average Rent/Unit/Month	\$475	\$260
Rehab. Costs/Unit	\$25,156	\$4280
Average Debt/Unit	\$22,574	\$4493
Aver. No. Court Cases	3	2
Number Bldgs. Tax Delinquent	5	4
Aver. No. Yrs. Tax Delinquent	4	3
No. Bldgs. With Fires	8	8
Aver. No. Fires/Bldg.	2	1.5

SUMMARY AND CONCLUSIONS

This study took a close look at a number of multi-family buildings in Chicago. Its focus was narrow and intensive in order to obtain in-depth information on the buildings studied. Building selection criteria identified buildings of importance to the community for inclusion in the study. Because of the intensive focus and the way in which the buildings were selected, its results may not be generally applicable to the broad population of buildings in Chicago or in other urban areas. However, much was learned from the study which should be useful to policymakers and program designers working in multi-family housing.

Expenses and Cash Flow. The most surprising finding of the study was that **over half of the buildings in the study are operating with a positive cash flow**, using the owner's estimates of gross income and expenses. This being the case, an important management consideration is to keep the building occupied, so that cash flow will continue to meet expenses. The positive cash flow situation of most of the buildings will allow owners to assume modest amounts of additional debt, should financing be available and affordable, to make improvements on the buildings and to make repairs when necessary. **Few of the buildings, however, could add sufficient debt to carry out total rehabilitation.**

The ability to make a profit should also be a factor in an owner's decision to continue operating the building and to new owners considering investing in older housing for modest-income residents of urban neighborhoods. How this profit compares with other investment alternatives is relevant, but beyond the scope of this study.

The greatest proportion of the expenses of the buildings were for utilities, primarily gas for heating and hot water. While this study reported only on one year, these costs have risen drastically in recent years and will continue to do so in years to come. Buildings which are now operating profitably could soon move into unprofitability as utility rates continue to rise.

Debt service was the second highest cost for the buildings studied, although buildings tended to have either very high or very low debt amounts. Four of the buildings had no debt at all, three had \$2,000 or less per unit debt, and four had between \$2,000 and \$5,000 of debt per unit. Many of these buildings were purchased without conventional financing, either because it was unavailable or because the purchase costs were so low. The buildings with very low debt are therefore less affected by interest rate hikes in recent years. However, **most of these buildings need some repair or rehabilitation, and high interest rates will greatly decrease the amount of repair work they can afford to undertake.**

The buildings with the highest amount of debt are those which are vacant and need significant amounts of rehabilitation. Owners of these buildings are counting on money from public sources (tax-exempt bonds and Section 8 rent subsidies) to restore these buildings to occupancy.

The third highest operating cost was property tax. Not considered were the high back taxes which were attached to some of the buildings when they were acquired by the present owner. Property taxes are an area where public policy could be introduced to promote housing conservation and discourage abandonment. When buildings are rehabilitated, property taxes increase substantially, acting as a disincentive to rehabilitation. Buildings with high back tax liens rapidly become unmarketable because their debt exceeds their value. Both of these problems have potential but complex programmatic solutions.

The Signs of Buildings in Trouble. Most of the buildings which were studied intensively have experienced some events which suggested future problems. Tax delinquency and building court cases were early events in the buildings studied. Ownership transfers were also early events, although by themselves are not necessarily negative. The second event in the buildings studied was either a building court case, a fire, or tax delinquency, and the third a building court case, tax delinquency, or fire. Fires might have been earlier indicators if data for the full ten years had been examined. Delinquency of utility bill payments might also be an important indicator, but this information was unavailable to the investigators for this study.

While all of the buildings experiencing these events are not destined to decline or become vacant, they should be given further consideration as possible components of an "early warning system" to spot housing problems while they can still be corrected. A study of these or other buildings over time is needed to find out whether these are the best indicators of future abandonment. (See "Recommendations on Data Availability and Accessibility.")

Unusually high utility costs might also be added to the list of possible indicators of building deterioration. Of the buildings in the study with the highest utility costs, many are now vacant.

The Costs of Building Abandonment. **The vacant buildings in the sample had much higher rehabilitation costs than those which were occupied.** Average rehabilitation costs per unit were over \$25,000 for vacant buildings and less than \$4,500 for occupied ones. For that reason, debt costs and proposed rents to meet the costs were also much higher. These buildings can only be rehabilitated for use by modest-income people with substantial assistance from the public sector. While vacant buildings cannot be neglected, a public policy that would deter abandonment would be more cost effective in the long run than one which allows buildings to be abandoned.

An additional cost to the city is the loss of property taxes when a building is abandoned. The buildings studied paid a median \$338 per unit in annual property taxes. In 1983, over \$4,000 dwelling units were demolished in the City of Chicago, representing a loss of approximately \$1.3 million to the city in one year's property taxes.

The conclusions of this study are cautiously optimistic. It appears from the findings that buildings can and are being operated profitably at modest rents. It also appears that this profitability is precarious. Public policy will have to support measures that will keep costs from rising, and financial institutions will have to offer affordable financing in modest amounts to keep the old and deteriorating buildings from dying. Information is available through public records that can be used to monitor building condition so that support can be offered to buildings before they become vacant.

This study points both to the need for immediate action and for further study. A study of the same buildings over a long period of time would more clearly identify the early indicators of building abandonment so that a system of monitoring could be set up. At the same time, enough information exists to justify action in improving the inspection and court systems, working to keep costs of energy, property taxes and debt low, and making financing available in appropriate amounts at affordable rates to allow for building repair and rehabilitation.