Preserving Chicagoland's Small Multifamily Housing Stock:
Issues and opportunities in the multifamily lending market

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Buildings with 5 to 49 units account for more than one-third of the rental housing in the U.S.[i] Generally privately owned and without government assistance, rent restrictions, or income restrictions, they nevertheless provide a major portion of our affordable rental housing supply.

When most people hear the term "affordable housing," they think of housing built or made affordable by various forms of government financial assistance. In fact, 75% of the low-cost rental housing in the U.S. receives no form of public assistance, not even Section 8 rental vouchers for its residents.[ii]

Small rental housing often is owned by "mom and pop" entrepreneurs. They may own 5 units or 1,000; they may be pursuing real estate ownership as a side venture or as a full-time career. Generally motivated by cash flow, the potential for property appreciation and the opportunity to be their own boss, these hands-on entrepreneurs are classic small business owners. They provide a valuable service, they invest their own time and money, they hire and buy materials and supplies locally, and they are committed to their community. In many neighborhoods, the owners of apartment buildings are among the strongest and most stable local businesses.

The Chicago area's 5-49 unit rental stock is an important source of affordable rental housing, but lending in this market fell precipitously during the real estate crash, and continues to lag in low- and moderate-income communities. The Chicago area lost almost one-third of its multifamily lenders between 2005 and 2010; six of the area's top eight multifamily lenders in 2006 had closed or ceased multifamily lending activity by 2010.

Historically, local banks – with an immediate knowledge of the properties, neighborhoods, and individuals involved – have been the primary source of financing for small rental housing, and they have generally held the loans for the long term in their portfolios. But 41 local banks closed between 2009 and 2012, shrinking the pool of likely lenders. No secondary market exists for this segment of the housing stock.

What could help spur lending to rehab and preserve 5-49 unit properties, especially in low and moderate income communities? What are the obstacles that prevent banks from taking advantage of the business opportunity offered by this market segment?

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[i] 2011 American Community Survey
[ii] Joint Center for Housing Studies, *America's Rental Housing – Meeting Challenges, Building on Opportunities*, 2011