





Discover what 500+ business leaders
said about the future of HR.


Get Report >

Home > Commercial Real Estate

February 14, 2020 03:56 PM | UPDATED A DAY AGO

Distressed properties hitting market on South Side

After default, thousands of apartments are ripe for investors.

ALBY GALLUN  

 TWEET  SHARE  SHARE  EMAIL

 REPRINTS





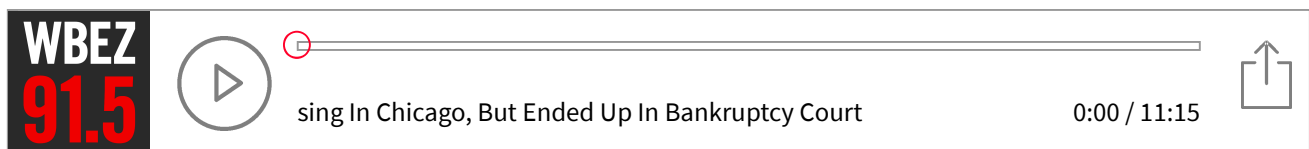
CoStar

A receiver plans to sell this 24-unit building at 6217 S. Dorchester Ave. in Woodlawn, one of 36 EquityBuild properties that will hit the market in the coming months.

If you are in the hunt for distressed apartments on Chicago's South Side, you have a lot of choices. You'll have even more in the coming months.

Dozens of buildings in neighborhoods like South Shore and Washington Park are hitting the market, the aftermath of an alleged \$135 million Ponzi scheme by EquityBuild, their Florida-based owner. Another landlord, the Better Housing Foundation, could flush about 1,000 more apartments into the market after the nonprofit defaulted on more than \$84 million in bonds it used to pay for them.

Listen to Alby Gallun discuss this story on WBEZ's "Reset" with Jenn White:



The collapse of the Better Housing Foundation and EquityBuild have become the talk of landlords, brokers and housing advocates who work on the South Side, where a [recent surge of investment](#) by out-of-town firms had lifted apartment prices and stabilized poor neighborhoods.

While their demise creates opportunity for investors who seek out distressed real estate, the story is more complicated than that. It also produces collateral damage, potentially undermining neighborhood stability as buildings deteriorate and property values fall. The city has cited Better Housing Foundation buildings for 6,002 code violations. Most of its apartments sit empty, unavailable to residents who need affordable housing.

"What you see time and time again is that these low- and moderate-income neighborhoods seem to be vulnerable to these fraudulent real estate plays," says Jack Markowski, president of Community Investment Corp., a Chicago lender that

specializes in multifamily properties. "It's confusing, and it destroys the quality of life in these neighborhoods."

The story could still have a happy ending, if the new owners spend the money to rehab buildings that have fallen into disrepair. Pangea Properties, a Chicago-based landlord, recently **agreed to pay \$3.9 million** for 13 Better Housing Foundation buildings on the South Side now in bankruptcy court. The portfolio needs \$7 million in repairs, according to a property inspection report.

The foundation's South Side buildings "need to be owned by operators that have the capital to invest large sums of money into these properties to get them to the point where they could provide safe, affordable housing," says Andrew Belew, who took over as president of the nonprofit in November 2018. "The sooner they get stabilized, the better for south Chicago in general."

The Better Housing Foundation and EquityBuild took different paths to insolvency. Marco Island, Fla.-based EquityBuild, led by Jerome Cohen and his son, Shaun, raised about \$135 million from more than 900 investors, using the money to amass a 1,674-unit residential portfolio, mostly on the South Side, court filings show.

"We have seen how improving one building can begin the process of uplifting a block, a street, a whole neighborhood," said an EquityBuild marketing brochure targeted to prospective investors. "We are committed to the ideal that we and our investors can do well by doing good. It's an amazing feeling to know you're making such a difference."

But the investors didn't do well and EquityBuild didn't do good, according to a **civil fraud lawsuit filed in 2018** by the Securities & Exchange Commission. The SEC accused the Cohens of running a Ponzi scheme, using money raised from new investors to pay off old ones, Bernie Madoff-style. The Cohens didn't deny or admit the allegations, but they agreed to step aside and not interfere with the SEC's plans to liquidate their portfolio to recover some of their investors' money.

A **sell-off that began in late 2018** has accelerated in recent months. Last month, a receiver overseeing the EquityBuild liquidation asked for court permission to put 36 more properties up for sale, including a 21-unit building at 6250 S. Mozart St. in Chicago Lawn and a 24-unit building at 6217 S. Dorchester Ave. in Woodlawn, a court

filing shows. Though EquityBuild's properties are in better shape than the Better Housing Foundation's, they also are suffering from deferred maintenance.

"Obviously, there is a good opportunity for the right operator," says Daniel Grois, a Chicago investor who has acquired one EquityBuild property and has others under contract. "It's not for the faint of heart."

EquityBuild and other out-of-town investors started gorging on South Side apartment buildings around 2015, pushing up property values. Poor neighborhoods that once seemed too risky became attractive options for investors amid shrinking financial returns in more established markets already flooded with capital.

'CRAZY PRICES'

The troubles at EquityBuild and the Better Housing Foundation have yet to drag down apartment values on the South Side, says David Goss, managing principal at Interra Realty, a Chicago brokerage that specializes in apartments. On the contrary.

"We've been seeing crazy prices," Goss says.

But recent sales of EquityBuild properties suggest that the company overpaid—or that the stigma of distress has depressed their value. In recent months, seven EquityBuild apartment buildings in South Shore, Chicago Lawn and Greater Grand Crossing sold for a combined \$6.4 million, down 17 percent from the \$7.6 million that EquityBuild paid for them, public filings show.

The question is whether a wave of future sales will put downward pressure on property values, reducing incentives for landlords to invest in rehab and maintenance. The [Better Housing Foundation's neglect](#) has already taken hundreds of affordable apartments out of the market. Belew, the nonprofit's president, estimates that the 13-building portfolio in bankruptcy is largely vacant. Of its two other portfolios in the city—totaling 794 apartments—one is 30 percent occupied and the other is about 50 percent occupied, he says.

Belew, who was brought in to clean up the mess, says some buildings are in such poor condition, with widespread water damage, broken plumbing and myriad other problems, that they need to be vacated completely for repairs. City officials won't approve that idea, unwilling to kick residents out of the buildings, he says.

"If the buildings are uninhabitable, it's due to BHF's mismanagement and incompetence," says a spokeswoman for the city's Law Department, which is in litigation with the nonprofit over 74 of its buildings. "BHF has shown that they don't have the funds to manage the buildings."

The Better Housing Foundation, then based in Ohio, rolled into the Chicago area in a big way starting in 2016, financing its apartment acquisition spree with \$169 million in bonds—some of them exempt from taxes—issued through the Illinois Finance Authority. The nonprofit sold government officials on its altruistic mission, which went beyond providing affordable housing for low-income residents to include extra services like job placement.

But it relied on property tax breaks to make its numbers work, cost-saving measures that were revoked amid evidence of widespread mismanagement. That pushed its city buildings so far into the red that the nonprofit defaulted on \$84 million in bonds secured by the properties, Belew says.

Now, with one of its three city portfolios in Chapter 11, the question is whether the other two will end up there, too. Belew acknowledges that bankruptcy is an option, saying that the ultimate goal is to find the best way to sell off the nonprofit's Chicago properties. And that could get them in the right hands, Markowski says.

Investors are "going to buy these at heavily discounted prices, rehab them, rent them out at reasonable market rates, and the buildings will recover and life will go on," he says. But, he adds, "that could be a five-year process."

EARLIER:



How the apartment boom that's lifted the Loop is spreading to lower-income neighborhoods



Big South Side apartment portfolio lands in bankruptcy court



More South Side apartment sales coming in Ponzi scheme suit

Letter
— to the —
Editor

Have something to get off your chest? You can [send us an email](#). Or tell us on our [Facebook page](#) or on [Twitter](#), @CrainsChicago.

RECOMMENDED FOR YOU



Chicago developer, WeWork to anchor new River North building



Rental-home owners in \$2.3 billion deal



Our most-viewed real estate stories last week



Sponsored Content: 75' Lot Home in Lincoln Square with Side Yard

GET OUR NEWSLETTERS

Staying current is easy with Crain's news delivered straight to your inbox, free of charge.

Email Address

SUBSCRIBE TODAY

Get the best business coverage in Chicago, from breaking news to razor-sharp analysis, in print and online.

SUBSCRIBE NOW

CONNECT WITH US



CRAIN'S

CONTACT US

Copyright © 1996-2020. Crain Communications, Inc. All Rights Reserved.