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Back to Common Sense

A look at Chicago's mid-market, multi-family properties

By Estella Kiser

We all know the economy is a mess. Unemployment has risen to 6.7 percent, foreclosures are increasing, consumer confidence seems forever on the decline, financial entities have folded or are in trouble, the stock market is topsy-turvy, the bailout is seemingly ineffective and the story continues. Those of us who specialize in Chicago's mid-market, multi-family assets - whether an owner, seller, buyer or broker - are paying close attention to media reports and anecdotes being shared in our businesses and social circles in the hopes of deducing what we should do next. The challenge, however, is in navigating the morass of information bombarding us at every turn. Many multi-family investors are confused, frustrated or angry and, as a result, are warming the bench, hoping to learn from the successes or failures of those still playing the game. Unfortunately, the reticence to play, fueled primarily by fear, is further exacerbating the issues and causing people to walk away from investments they should be embracing.

Equally detrimental to Chicago's multi-family market, if not more so, has been the lack of liquidity and the constantly changing financing rules investors are experiencing. Some banks have understandably retreated from their aggressive lending practices; however, most have unreasonably run scared, either not lending at all or offering nonsensical financing terms and criteria, which changes day to day.

Many appraisers have also run for cover, submitting low appraisals and making financing all the more difficult. Many banks have admitted that they have the funds, but are afraid to lend because they can't identify the bottom of the market. Others who have received bailout monies have indicated that there is no requirement that those monies be placed back in the system. Without reasonable or predictable financing, there are fewer buyers, which is leading to price depression as well as difficulty in valuing a multi-family asset, and thus instability.

So, how does one stay in the game, but not lose his or her shirt? Do not buy into the fear that Chicago's mid-market, multi-family business is in some sort of free fall, because it is not. The good news is that although the number of transactions is undoubtedly down and investors are skittish, deals are getting

done. Buyers with strong lending relationships or who have the cash are buying properties. Some of those buyers are targeting properties in foreclosure; however, many are learning that the banks' expectations are high and these buildings come with issues.

We are advising buyers to make sure they either have the necessary cash at hand or have lined up reliable financing. On the sale side, we are representing sellers of stable properties who are interested in disposition, and advising those sellers not to stretch in pricing and to be more cautious before going under contract. These sellers should demand significant earnest money and permit only reasonable mortgage conditions to ensure the buyer will not default. Clearly there are challenges, but we are still listing, selling and closing multi-family properties throughout Chicago.

Chicago will remain a solid, stable market. In fact, despite the economic chaos, reports show that Chicago's multi-family market has only increased in desirability. Although one cannot ignore national real estate statistics or the woes of Chicago's downtown market, one must remember that such information is not directly applicable to Chicago's neighborhood, mid-market, multi-family properties. As a result, whether to buy or sell should not be based on what the stock market is doing that day or on some report or statistic, but rather should be based on the fundamentals we have always used for valuing properties: condition of the building, rents, expenses, expected cash flow and common sense. For those buyers on the sidelines, there will be many properties you will wish you had bought. For sellers, if the price is not palatable, do not sell. Also, do not expect the value you may have obtained a few years ago during the condominium boom any time soon.

What will happen is that lenders will come to their senses and loosen their grip on funds. The restored liquidity will create more buyers, more competition, more predictability and more stability. The question investors must answer now is how many good plays are they willing to miss before getting back in the game? **RD**

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