REBUILDING MARKETS:

SINGLE FAMILY REDEVELOPMENT
THROUGH NON-PROFIT AND FOR-PROFIT PARTNERSHIPS

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FOREWORD

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Cleveland is a unique city. It’s a city severely challenged by decades of sprawl and the recent ravages of foreclosure. Yet it’s also a city with the determination to meet each challenge with matchless innovation and creativity.

Cleveland lost 55% of its population since 1950. Its housing stock is aging; nearly one-half of the city’s homes were built before 1940. Between 2005 and 2010 the city experienced over 27,500 mortgage foreclosure filings resulting in an estimated 16,000 vacant and blighted structures. At least 7,500 of those are likely demolition candidates. The balance might be saved by renovation. Unfortunately, home sale prices have fallen by 50% since 2005 making traditional community development approaches to housing renovation nearly impossible without substantial subsidy.

The availability of HUD Neighborhood Stabilization Program (NSP) funding provided a brief but welcome solution to some of these problems. That resource is fading. What is the way forward in a post-NSP world? Now, more than ever, creative community development programming is needed to reverse decline and rebuild damaged markets.

In 2004 Neighborhood Progress created a “Strategic Investment Initiative” out of experience and research on national best practices in neighborhood planning and program design. Our goal has been to develop a model for rebuilding distressed communities through targeted and layered investment, partnership and planning; a model through which neighborhoods can prosper, even in an era of diminished public resources. Through a competitive grant process, Neighborhood Progress currently provides support to nine Strategic Investment community development corporations (CDCs).

Two of those nine Strategic Investment CDCs – Detroit Shoreway Community Development Organization and Slavic Village Development – have experimented with novel approaches to housing renovation that require little or no subsidy. We offer their stories and successes on the pages that follow with the hope that they will help guide neighborhoods and cities facing similar challenges.
**NEIGHBORS INVEST IN BROADWAY**

Cleveland, Ohio

Summary: **Neighbors Invest in Broadway** is a low cost housing sale and renovation program in which the emphasis is placed upon a modest, ‘decent, safe, and sanitary’ rehab standard, and buyers are encouraged to utilize sweat equity to drive down the cost of repair. This program has helped stabilize the hard hit neighborhood of Slavic Village by bringing distressed homes back up to code and increasing homeownership and confidence in the community.

**About Slavic Village Development**
Slavic Village Development (SVD) is an entrepreneurial, innovative, highly effective community development corporation with a successful track record of serving as a catalyst for positive change. SVD has over 30 years’ experience in neighborhood development and community building in Broadway Slavic Village, a community of 23,000 people in southeast Cleveland. Historically an ethnic blue collar community, Broadway Slavic Village became the epicenter of the foreclosure crisis in 2006 and 2007, leading the country in foreclosures for several months in 2007.
Slavic Village Development has a long history of highly successful physical development and community building, with particular emphasis on complex real estate site assembly. Since 1985, with partners such as the Cleveland Housing Network, SVD has provided site assembly and developer expertise for over 1,000 new or rehabbed housing units, including a 200+ home planned community; several large multi-family buildings; and over 400 LIHTC funded homes for low-income families. Currently, SVD is a partner for Trailside Homes, a planned 90 unit market rate single family housing development which will break ground in the spring of 2012.

Tragically, the fraud and predatory lending of the national foreclosure crisis resulted in the abandonment of over 1,000 homes in Broadway Slavic Village, littering the community with about the same number of vacant and abandoned properties that SVD had rehabbed or built in the preceding 15 years. Slavic Village Development responded by combining the many community assets, the strong engaged community, and a re-invention of its traditional strategies to accelerate the momentum to full recovery.

One of the first strategies SVD reinvented was its approach to rehabbing deteriorated housing. The strategy in place in 2008 called for: complete rehab including floor plan changes, all new mechanical systems, roofs and more; use of federal and state funding sources which required compliance with lead, asbestos, and energy efficiency regulations in addition to other requirements; a time line that required financing the full project up front, and holding the completed property for as long as it took to sell the home; and project costs nearing $140,000 with subsidies as high as $90,000. SVD went back to the drawing board and began from the perspective of providing a basic ‘starter home’ a fix-er-upper product for families who had limited cash or financing capacity, but had the ability to do a lot of the repair work themselves. The goal of this new Neighbors Invest in Broadway strategy was to provide a housing option that met people and the market where it was, rather than over-improving and over-subsidizing.

Program Description
The Neighbors Invest in Broadway Program reclaims low priced vacant and foreclosed homes using a purchase-rehab approach. Homes are acquired either by donation or very low cost from private sellers, HUD, REO’s, and the County Land Bank. These homes then are offered “as is” through an application process, and buyers must prove they have the financial capacity to both purchase the home and finance the needed repairs. A third party specification writer is hired to inspect the property and estimate the cost of those repairs. This scope of work is based on the HUD “decent, safe and sanitary” standard and also conforms with the local building code. Emphasis is placed on exterior repairs. The buyer doesn’t have to install new kitchen cabinets, or replace the tub, but the roof, siding and driveway need to be in good repair. As part of the sale, the buyer must agree to complete the scope of work within a specified period of time, or the property can revert back to SVD.

In order to protect the interests of the buyer and SVD, and to assure as smooth a process as possible, a complete set of legal documents has been developed for the Program including: application and income verification; purchase agreement with language that includes the scope of work and timelines; and deed. The deed includes restrictions that specify an agreed upon time of performance (usually six to nine months), the scope of work, and an agreement to live in the home for up to five years (for owner-occupants). Included in this language is a breach clause, which states that in the event of a contract breach the seller has the right to take back the home by filing a simple affidavit.

This breach clause acts as a motivator and ensures that the property will be repaired according to the decent and safe standard. In the event the buyer does not complete the repairs required in the scope of
work within the specified period of time, the breach clause may be exercised by a simple affidavit and the property will revert to SVD. While this reversionary tactic is an important incentive for compliance, in practical terms it is an all-or-nothing proposition, making it cumbersome to use in cases where the buyer has completed most of the work, and taking the house back may be an excessive response to the lack of full compliance.

In addition, buyers must pull all proper permits, use licensed contractors when required, pass a full inspection upon completion and obtain the Certificate of Occupancy. Once the Certificate of Occupancy is filed, the deed restrictions are satisfied and released.

Perhaps the heart of Neighbors Invest in Broadway is the encouragement to utilize sweat equity in the project. The program is designed for the Do-It-Yourselfer and can be perfect for those with contractors in the family. It is also a good fit for those who have a “cash no credit” situation. While purchase-rehab loans work well also, and are certainly encouraged, they are not required and a sufficient amount of cash on hand is acceptable. Through the use of sweat equity and up front cash, house payments have been kept as low as $250 per month as a result, creating an extremely unique and affordable homeownership opportunity.

**Neighbors Invest In Broadway: Step By Step**

**Inventory of Homes:** Slavic Village Development acquires homes from private owners, HUD, bank REOs etc. The homes are either donated, or sold to SVD at very low cost. Before SVD takes title, they assure that the home is suitable for a moderate rehab project.

**Homes Advertised for Sale:** SVD regularly advertises the Neighbors Invest In Broadway program and specific available homes in its various media outlets, including a local paper, enews, SVD newsletter. Purchase prices are set based upon SVD’s out of pocket costs, plus $2500-$3500 to cover SVD staff costs. Buyers are identified on a first-come first served basis, and while investors are eligible, preference is given to owner occupants—if an investor owner has not completed their application and signed the purchase agreement, a qualified owner-occupant can take precedence.

**Qualifying Buyers:** Once a buyer has expressed interest, they complete an application indicating their ability to afford homeownership (enough income to cover taxes, insurance and some cushion for saving for repairs), and capacity to afford repairs (the repair cost is a general estimate at this point), whether through a purchase rehab loan, and/or cash in the bank, and/or access to friends, relatives, or personal expertise to complete the repairs. This part of the process usually involves several meetings with the buyer and family members, providing technical assistance and making sure that the buyer has the capacity to do the repairs. In cases where SVD is confident in the homeowners’ willingness to repay a loan, SVD will finance a portion of the purchase price. In the case of investors, evidence must be shown of completed projects which SVD staff will visit to assure that the product meets acceptable standards.

Once the application is completed and capacity and income is verified based upon a general project estimate, SVD contracts with a spec writer to produce a scope of work. The scope of work is not completed until this stage because the scope requires an out-of-pocket expenditure, and may vary based upon the buyer’s preferences.
Sale and Rehab
With the scope complete, and the purchase agreement signed (depending upon the situation, SVD may sign the purchase agreement early in the process, or wait until there is an agreed-upon scope of work), and a deposit paid, the next step is for the buyer to take title. In the case of a bank purchase rehab loan, this can take several months. When the buyer is relying on cash in the bank or from family members, closing the sale takes a matter of weeks. If a buyer has a good income and enough cash to complete the repairs, but not enough to pay the sale price (typically between $4,000 to $6,000), SVD may finance a portion of the sales price at zero interest, using a boilerplate mortgage document prepared in-house. The loan is paid back monthly over a period of 12-18 months.

Once the buyer is in title the buyer is responsible for all permitting and contracting. SVD does not recommend contractors, or intervene in contractor client issues. SVD staff does keep in touch with the buyer and checks in periodically to make sure work is progressing. The project is not considered complete until the buyer has received a final ‘certificate of occupancy’ from the City of Cleveland as required in the deed restrictions.

Results to Date:

- 24 Homes acquired, 17 homes completed, 3 additional pending sales
- 10 new owner occupants, 3 investors from the neighborhood, 4 additional reputable developers
- Average Sale Price: $3,200
- Average Estimated Repairs: $44,100
- Average Actual Repairs: $30,200
- Average Sweat Equity Savings: $13,900
- Average Total Project Cost: $35,100 (includes closing & holding costs)

Strengths and Challenges
Neighbors Invest in Broadway harkens back to a simpler housing standard of past generations, when immigrants or young families would move into their first home excepting to make repairs and upgrade as they lived in the home. It enables buyer whose credit has been ruined by a foreclosure to return to homeownership without having to take out a mortgage, and it helps the community absorb the inventory of abandoned houses. Buyers get much needed support and guidance through the rehab process, which they would not receive buying a bank REO, or even a house on the private market. Because the contracting and completing of repairs is done while the buyer is in title and is the buyer’s responsibility, SVD’s liability exposure is limited and costs are reduced. As much as $20,000 or more of costs was added to the sale prices of old style complete rehab projects to cover financing, carrying costs, general contracting expenses, and overhead.
The program does have some challenges. Every step can be a lengthy one. Qualifying buyers can be time consuming for staff, and can be very slow. Even in the case of bank financing, purchase rehab loans take a long time to get through the bank approval process. Working through the needed repairs with buyers to assure that both SVD and the buyer are comfortable with the scope of work requires several meetings and home walk-throughs. The time spent with the project does have an added value, as the personal relationship established with the buyer’s means that they continue to stay in touch after they take title, and that they are more committed to fully completing the project. The final challenge is the ‘all-or-nothing’ remedy in the event the buyer does not complete the repairs. Although it hasn’t happened yet, taking back a house where the owner has completed few if any of the repairs is a no-brainer, but when most of the repairs have been done, activating the breach clause and taking an occupied property back (which then has to be maintained and resold) is much harder to justify. So far, the only case of non-performance involved a buyer who did not replace porch columns as agreed, leaving the exterior of the house looking unattractive, but not a serious enough lapse to justify the penalty on the owner of taking the house back, nor the burden on SVD of having to evict the owner, manage the property and re-sell it.

As Slavic Village Development enters 2012, the demand for Neighbors Invest in Broadway homes is steadily increasing. When the program began, about half the homes went to qualified investors, now almost all the homes are being sold to owner-occupants. The inventory of homes SVD had accumulated over the past several years is almost fully depleted, and they are actively looking for additional homes to acquire for the program.
Background
The foreclosure epidemic, similar to its effects on countless neighborhoods across the country, decimated the housing stock and stability of Detroit Shoreway. Since the fall of 2005, 22% of all 1-2 family homes within the neighborhood have fallen into foreclosure. One of the natural outgrowths of foreclosure is vacancy and property deterioration. As such, in that same span, 6% of all 1-2 family homes in the neighborhood have been demolished creating “missing teeth” and signs of disinvestment through the community.

At the onset of the foreclosure crisis, Detroit Shoreway Community Development Organization (DSCDO) pushed forward as a non-profit developer of new market-rate townhomes and single-family rehabilitations in order to maintain an attractive neighborhood to attract private investment. However, as the number of foreclosures grew, DSCDO struggled to sell both new and rehabilitated housing units which put a major financial strain on the organization. The difficulty in selling new and rehabilitated housing units was both a result of the stricter lending standards being implemented by lending institutions, but also due to the fact that the neighborhood was becoming unstable as vacant and blighted properties began sprouting up all over – including immediately adjacent to properties that DSCDO was trying to sell.
DSCDO quickly realized that our real estate development philosophy needed to change in order to stabilize the existing housing stock – as opposed to trying to build new housing. Therefore, in late 2008, DSCDO created the Single Family Redevelopment Program (SFRP) to adapt to current housing market dynamics. The SFRP was implemented to minimize risk to DSCDO while also generating revenue and stabilizing the local market by returning vacant properties to productive use. The SFRP had the added benefit of reducing the number of properties that were being purchased and poorly managed by “flippers,” out of state investment firms and financially incapable and unproven investors.
How the Program Works
Once DSCDO decides to pursue a vacant property for acquisition and eventual redevelopement, a Request for Proposal ("RFP") is sent out to our qualified third party developer list. DSCDO has spent over four years developing a list of developers, investors and companies with a proven track record for rehabilitation and sound financial strength. The developers on the rehabber list are very familiar to DSCDO and have a long history of redeveloping properties in the Detroit Shoreway neighborhood, or other areas of Cleveland, for many years and to an exceptional standard. Additional developers and companies are able to be added to the list of. However, additional rehabbers are only added to the list after DSCDO is able to verify their financial capacity and the quality of past rehabilitations by conducting site visits to their previous renovations or currently under construction projects.

The RFP is sent electronically to our rehabber list containing the property address, minimum bid amount, time and date bids are due, contact information for how to submit bids and a set of closing conditions.

Acceptance of Bids
Under the parameters of the SFRP, DSCDO is under no obligation to accept the highest bid. However, DSCDO will generally accept the highest bid UNLESS lower bids contain:

- Intentions to rehab and sell to owner occupants
- Provisions of affordability to potential tenants or purchasers of their home – such as down payment assistance
- Provisions for historic preservation to restore the architectural integrity of the home
- A greater degree of rehabilitation
- Incorporation of Enterprise Green Communities rehabilitation standards or other techniques and materials that are considered sustainable and energy efficient

A condition of the RFP process is critical to ensuring the properties sold by DSCDO are not then immediately sold or rehabbed to a lower standard. Each property sold by DSCDO to a third party rehabber contains a reversion clause in the deed which is attached as a rider to the deed. The rider details under what circumstances DSCDO is permitted to re-purchase the property when it is not rehabilitated in a timely and reasonable manner or up to specific standards, as stated in the developer proposal. The rider requires that developers both (i) commence the renovation of the property on or before the date that is sixty (60)
days after the date on which the deed is filed for record, and (ii) complete the renovation of the property such that the City of Cleveland has issued a certificate of occupancy on or before the date that is two hundred seventy (270) days after the date on which the deed is filed for record (which date may be extended for up to 60 days upon request of the buyer at the sole discretion of the DSCDO). DSCDO strives to carry out construction monitoring both during construction and when construction is completed to ensure compliance to the rehabilitation requirements.

It should be noted that not all DSCDO acquisitions are purchased directly from banks or servicers. Other sources of property acquisitions include: private owner acquisitions, Cuyahoga County Land Reutilization Corporation acquisitions, receivership and tax certificate foreclosure.

**Results to Date:**
- DSCDO has directly transferred or assisted in the transfer of 54 formerly vacant and abandoned properties to beneficial owners and rehabbers
- DSCDO has assisted in the stabilization of 21 additional parcels through acquisition/demolition or transferring once encumbered vacant land to adjacent neighbors and beneficial owners
- The total estimated investment (acquisition and rehabilitation) invested by third party rehabbers is $4.66 million (approximately $68,500 per home)
  - Median investment is $30,000 per home
- Excluding Opportunity Housing and Lease Purchase rehabilitations, the average investment into each home is approximately $32,000 including acquisition and rehabilitation
  - Median investment is $25,000 per home
- Of the 54 homes acquired, 17 have been fully renovated and resold (the remainder are rental properties)
- The average sales price of resold homes (including Opportunity Housing) is $122,120 with a median sales price of $105,180
- The average sales price of resold homes (excluding Opportunity Housing) is $140,350 with a median sales price of $148,000
Why the SFRP is a Preferred Model
The SFRP has become a preferred model by DSCDO for stabilizing the real estate market and revitalizing once vacant and abandoned properties. Benefits to the program include:

- Immediate site control & responsiveness to open, vacant and vandalized properties and other forms of vandalism. This is accomplished by DSCDO being the titled owner to the properties and being able to access the homes quickly and secure the homes from further vandalism and deterioration.
- Immediate marketing of property in order to shorted the time period between vacancy and eventual rehabilitation. Banks and other private owners who have abandoned their properties wait months, or sometimes years, to market their properties.
- DSCDO maintains the sole ability, with input from neighborhoods and block clubs to determine the best future use of property (i.e. demolition or rehabilitation).
- The ability to select a trusted and financially capable 3rd party rehabber to owner and undertaken a thorough and correct rehabilitation.
- DSCDO maintains the ability to oversee construction and ensure property is rehabilitated as represented in the developer proposals.
- DSCDO, at times, is able to secure a reduced acquisition cost or donation due to our 501 (c)(3) status, which allows for a greater degree of rehabilitation to be undertaken by a developer.
- The program does create revenue for DSCDO in order to fund non-real estate related activities that benefit the community such as community greening efforts and safety activities.
- Returns vacant and abandoned property to productive use without deep subsidy (or any subsidy) – which is drying out at the municipal level.