

FILE COPY

HUD-0005929

**THE MULTI FAMILY
URBAN HOMESTEADING
DEMONSTRATION**

THE MULTI FAMILY URBAN HOMESTEADING DEMONSTRATION

March, 1988

**Boston
Chicago
Davenport
Des Moines
Hartford
Mt. Vernon
Omaha**

**Principal Authors:
James E. Wallace
Thomas E. Nutt-Powell
Maxine V. Mitchell
Monte L. Franke**

**Prepared for the
Department of Housing and Urban Development
by:**

**Abt Associates Inc.
Cambridge, Massachusetts
with
ON-SITE INSIGHT, Inc.
Norwood, Massachusetts
Applied Real Estate Analysis, Inc.
Chicago, Illinois
OKM Associates
Boston, Massachusetts**

ACKNOWLEDGEMENTS

The assistance of HUD, City, developer and other staff people in each of seven cities has been absolutely critical to this evaluation.

Preparation of the specific evaluations contained here in Section 3 was by:

James E. Wallace (Abt Associates, Inc.) - Boston

Thomas E. Nutt-Powell (ON-SITE INSIGHT, Inc.) - Omaha (Baseline), Hartford

Maxine V. Mitchell (Applied Real Estate Analysis, Inc.) - Omaha (Performance), Davenport

Phillip L. Mayfield (OKM Associates) - Mt. Vernon

Monte L. Franke (OKM Associates) - Des Moines, Chicago

Production of this report was ably managed by Pamela Kinahan.

CONTENTS

	Page
ACKNOWLEDGEMENTS	i
EXECUTIVE SUMMARY	v
1.0 INTRODUCTION	1
1.1 HUD Purpose	1
1.2 Research Design	5
1.3 Report Organization	5
2.0 EVALUATION	7
2.1 General	7
2.2 Evaluation, By Research Question Groupings	11
2.3 Other Lessons	26
3.0 SITE REPORTS	31
3.1 Omaha Baseline	33
3.2 Omaha Performance	40
3.3 Davenport	45
3.4 Hartford	53
3.5 Boston	64
3.6 Mt. Vernon	74
3.7 Chicago	79
3.8 Des Moines	85
TABLES	
2-1 HUD Multifamily Homesteading Demonstration: Project Summaries	8
2-2 HUD Multifamily Homesteading Demonstration: Status by Key Research Questions	13
3-1 Performance Chronology, Omaha Multifamily Homesteading Demonstration: Ford Hotel Project	36
3-2 Performance Chronology, Omaha Multifamily Homesteading Demonstration: Ford Hotel Project	41
3-3 Performance Chronology, Davenport Multifamily Homesteading Demonstration: The Roosevelt Project	48
3-4 Woodland Commons Monthly Housing Expense for Lower Income Households	54
3-5 Chronology, Hartford: Woodland Commons	56
3-6 Hartford Multifamily Homesteading Demonstration Sweat-Equity Component	61
3-6 Boston Infill Collaborative Project Description	65
3-7 Boston Infill Collaborative Project Financing	67
3-8 Chronology, Boston Infill Collaborative Project	68
EXHIBITS	
1 Multifamily Homesteading Demonstration Research Questions	12

EXECUTIVE SUMMARY

The 1983 Housing and Urban-Rural Recovery Act envisioned use of HUD-owned multifamily structures by local governments to provide homeownership opportunities to families with incomes under 80 percent of median. The Act also directed HUD to undertake a multifamily homesteading demonstration in FY1984 and FY1985 and to evaluate the demonstration. Cities entering the demonstration received technical assistance, buttressed, after the demonstration got underway, primarily by Section 312 rehabilitation loan funds. This report provides the findings of the evaluation of the demonstration.

The demonstration was announced in mid-1985 by the Department of Housing and Urban Development. By mid-1986, 14 cities had expressed interest. Of those, seven dropped out without actually submitting an application. Three cities--Chicago, Des Moines, and Mount Vernon--applied but encountered difficulties and stopped. Of the four projects going ahead--Boston, Davenport, Hartford, and Omaha--only the Omaha cooperative had reached occupancy at the end of the evaluation term specified in the original legislation.

None of the ongoing projects involve HUD-held property. The one city, Chicago, of the seven applicants that proposed a HUD-held property had to stop the project when the demonstration approach was deemed more risky by the tenants of the property than their guarantee Section 8 rental assistance under the protections of Section 203 of the Housing Act. All of the other ongoing projects are using vacant buildings, two with city-owned property, two with property controlled by a private developer.

Private developers were relied upon in the demonstration for traditional local roles in property assembling, planning, and arranging financing. Boston was the exception in its creating a consortium of four experienced community development corporations with the aggressive assistance of an experienced practitioner retained by the Boston Redevelopment Authority.

The forms of ownership in the demonstration projects are cooperatives, condominiums, or mixtures of the two. None is trying mutual housing. The condominium model for low/moderate income households is not new for either Boston or Hartford. The cooperative form being tried in Davenport has been hedged with condominium options in part because of the Omaha experience, where unfamiliarity with the cooperative form of ownership was seen as a marketing drawback.

The availability of Section 312 rehabilitation loan funds was relied upon by three of the four ongoing projects. However, considerable time and energy were necessary to adapt into a homeownership format a program intended for rehabilitation of investor-owned rental property.

The life insurance lender in Hartford, however, was able to make creative use of the Section 312 funds to achieve a blended low interest rate. The Boston project alone made no use of the Section 312 funds, relying instead on a state program providing low interest loans for moderate-income, first-time homebuyers and a commercial lender for construction funds.

Potential homesteaders basically had no involvement in planning and development of projects, largely because projects involved vacant buildings. Hartford emphasized a sweat-equity component for homesteaders, as the city has in its other homesteading projects. Targeted income levels required to carry monthly costs were as low as 50 percent of median income. Incomes were limited on the upper end by the 80 percent of median limit of the Section 312 program.

There seem to be three necessary but not sufficient conditions for this type of innovation to succeed:

- an entrepreneur, whether public or private, who has a vision of a homeownership opportunity and aggressively pursues it;
- property control by an entity committed to the project, so that the envisioned innovation can be matched with the structure and local market;
- a risk cushion to provide those involved with some hedge against market or cost uncertainties.

In Omaha and Davenport, the role of entrepreneur is filled by the Rehabilitation Management Specialist in the HUD Field Office. The technical assistance contractor became the entrepreneur moving the Hartford project along. In Boston, the redevelopment authority's designated project consultant filled this requirement.

Property control was exercised by the city in Boston and Hartford. The control by private developers in Davenport and Omaha worked because the property had no serious problems of development feasibility. Property control was at the root of the problem in three cities where the project did not proceed.

The other critical element was risk cushion. In Omaha this was provided by a HUD Special Projects Grant early in the project. Hartford's cushion, at the insistence of the developer, was a concession to allow more flexible underwriting guidelines as a backup. Davenport used a condominium option as its hedge against anticipated acceptability problems with the cooperative

form. Omaha is using an interim rental mode for several units to provide time to do a better marketing job for the cooperative. As its hedge, Boston combined property acquisition write-downs, a special state grant for special rehabilitation expenses, and a housing authority commitment to purchase some of the units.

What does this experience suggest about future multifamily homesteading attempts? One immediate observation is that these projects take time. Virtually any development project requires two years or more from inception through property control, planning, design, arranging financing, construction, marketing, and occupancy. Indeed, the demonstration should not be regarded as establishing some sort of low score for such efforts; in any arena, many more development projects are conceived than come to fruition. The demonstration's limited results are more a reflection of the allotted time than a fault of the homesteading concepts. Further, more than the usual incubation times can be expected of any project trying to implement a significant innovation, in this case an ownership form that seems foreign to the local market or to the target group of homesteaders, often urban renters.

Clearly, experience counts both in terms of time and ultimate success in carrying out plans. All cities benefited from the involvement of persons and organizations with experience in the relevant areas, especially if the experience included the collaboration that is required of projects involving public support.

Recommendations derived from this demonstration address funding and persistence. Part of the reluctance of cities to get involved in this demonstration is rooted in the lack of direct federal financial support. The technical assistance was appreciated, and, with Section 312 funds as essentially the only money available, cities made the best use they could of federal aid. Numerous persons involved in the demonstration, however, bemoaned the lack of a funding vehicle more directed to homeownership, in general, and the purpose of the demonstration, in particular. Multifamily urban homesteading demands more specific funding and support.

Continued exploration of the possibilities of using HUD-held properties for multifamily homeownership seems in order. The Chicago experience is a reminder that tenants in occupied buildings must be satisfied that a conversion is in their best interest. However, it does seem possible to design approaches that take this into account. As part of the demonstration, HUD is publishing a guidebook drawing upon lessons learned, Multifamily Homesteading: A Guide for Local Governments.

Finally, observation of the ongoing projects should be continued, to learn from their marketing and occupancy experience. The evaluation period was too short to make these observations.

1.0 INTRODUCTION

This report represents the results of evaluation of the HUD Multifamily Homesteading Demonstration. This introductory section presents HUD's purpose in undertaking the demonstration, summarizes the research design used by Abt Associates Inc. in evaluating the demonstration at the various locations at which it was attempted, and sets forth the general organization of the report.

1.1 BACKGROUND OF THE DEMONSTRATION

In several locations around the country, HUD has been forced to foreclose upon multifamily properties. Typically the consequences of this foreclosure process and possibly disposition of the property are disruptive to the residents. This disruption is not only in terms of change of operation of the project, but also in the terms of costs to occupants. Tenants may be subject to displacement, rent increases, or at least uncertainty about housing. In light of the problem of housing affordability in the 1980s, HUD is interested in determining if some form of homesteading of properties such as those upon which it forecloses might provide greater stabilization both for occupants and costs. While HUD's interest is particularly focused upon properties in its foreclosure system, there is also interest in seeing if the homesteading concept can be successfully applied in other multifamily housing. The current demonstration follows an earlier one undertaken by HUD in 1979, which tried to test the New York City multifamily homesteading model using nonprofit sponsors, Section 312 rehabilitation loans, and sweat equity.

Legislative Background

The demonstration has its roots in the 1983 Housing and Urban-Rural Recovery Act (PL #98-181). Section 122 of the statute, amending the Urban Homesteading Program authorized under Section 810(j) of the Housing and Community Development Act of 1974, directs the HUD Secretary to undertake and evaluate a multifamily demonstration for FY1984 and FY1985. Transfer of HUD-owned multifamily property at nominal cost to local governments or their public agencies to enable the demonstration was to be a principal feature, subject to certain restrictions: chief among them that the primary use after rehabilitation must be residential and at least 75 percent of the residents must have incomes at or below 80 percent of the area's median income for the first five years following rehabilitation. The Department's budgets for both fiscal years 1984 and 1985 allocated up to \$3 million for the demonstration on the presumption that most of this would be used to enable cities to purchase HUD-foreclosed properties. The Department considered a number of alternative formats and relied upon headquarters and regional staff for critical review. An important question arose regarding Section 203 of the Housing Act and associated regulations (24 CFR 290) and their application to HUD-held properties to be used in the demonstration. When

such HUD property is sold, even for minimal consideration, these regulations require that Section 8 subsidies must accompany up to 100 percent of the property's dwelling units, to afford statutory protection for existing lower income tenants upon the sale of the property. After extensive legal review, HUD concluded that Section 203 and the pertinent regulations did in fact apply to the Demonstration but that HUD would consider on a case-by-case basis whether to waive the provisions.

As a consequence of this general interest, HUD undertook a multifamily homesteading demonstration program. This program was announced in the Spring of 1985. It was HUD's intention to designate ten sites around the country for the demonstration. These sites would be selected to present diversity in terms of geography, structure type, ownership approach, and development entity. As part of the demonstration, and in addition to conveyance of HUD-held property, HUD eventually offered preferred status to projects for its existing Section 312 Rehabilitation Loan program. Further, HUD offered technical assistance to participating cities and developers. This technical assistance was provided under contract with HUD by ICF, Inc. of Washington, D.C., with OKM Associates, of Boston, Massachusetts, as a subcontractor. To meet its Congressional mandate that the demonstration be evaluated, HUD contracted with Abt Associates Inc. of Cambridge, Massachusetts.

Developing the Demonstration

The program announcement appeared on April 16, 1985 (Federal Register, Volume 50, No. 73, pp. 14987-14994) and set forth the full particulars of the demonstration. Background on earlier HUD-sponsored demonstrations in New York, Boston, Chicago, Cleveland, and elsewhere was a preamble to a description of the range of homeownership types and financing models HUD wished to encourage and test in this latest effort. Program requirements were also spelled out, including criteria for eligible applicants (any unit of local government) and projects (owned by either HUD or the locality). Desired local program design features were also suggested, subject to the statutory requirements on residential use and lower income families.

The demonstration was advertised to cities only through the Federal Register. While cities routinely monitor the Federal Register for announcement of funds availability and changes in federal program regulations, most cities were not enticed to apply. In the judgement of HUD's Technical Assistance Contractor for the demonstration, the following are likely reasons for the low response:

1. Only a limited number of cities could be expected to be interested and able to participate. Many cities have a limited multifamily inventory and little experience with

multifamily homeownership at any income level. To these cities, the perceived effort needed to conduct a single demonstration project with no prospect of an ongoing program was too great.

2. Very few cities that would be interested in multifamily homesteading had HUD-owned inventory suitable for the demonstration. While the demonstration was not limited to HUD-owned inventory, preference for HUD properties was apparent in the announcement. The ideal HUD property would have to be in a location suitable for homeownership, would have tenants who were willing and financially able to take on homeownership and, would have rehabilitation and operating costs that would be affordable to low-income tenants. Furthermore, HUD elected not to take a proactive stance--to identify candidate properties and approach the cities involved.
3. The most important reason given by cities that might otherwise have participated is that the demonstration offered no direct funding. The only funding tied to the demonstration was the availability of Section 810 demonstration funds to be used for acquisition of HUD-owned properties, which constituted an internal transfer of money at HUD. The funds could not be used for acquisition of non-HUD property. Since no city converted a HUD-owned property, none of these funds were used.
4. Although the demonstration offered technical assistance through HUD, the assistance was not specified or quantified.

The Notice in the Federal Register asked cities to submit a letter of intent to participate in the demonstration. HUD anticipated selection of up to ten cities, but received fewer initial inquiries. Approximately half of the inquiries were determined to be infeasible or non-responsive. It was apparent that some cities did not invest much time in property selection and feasibility analysis. The typical response was to suggest a couple of sites for which the city would select its project.

Because HUD was not satisfied with the rate of response, it extended the deadline. Calls were made to cities identified by HUD and the technical assistance team as likely to be interested. These calls made clear that technical assistance and Section 312 were both available.

As a result of these efforts, over the next year HUD received and reviewed fourteen letters of intent. The following local governments expressed interest in the demonstration:

- Benton Harbor, Michigan
- Boston, Massachusetts

- Chicago, Illinois
- Columbus, Ohio
- Davenport, Iowa
- Des Moines, Iowa
- Glen Cove, New York
- Hartford, Connecticut
- Mansfield, Ohio
- Memphis, Tennessee
- Mt. Vernon, New York
- Omaha, Nebraska
- Prichard, Alabama
- Westchester County, New York

Most of the localities responding initially stated that they planned to use their own properties rather than use those owned by HUD, even if acquisition of the latter were available at nominal cost. Indeed, the primary focus of the majority of these letters was on obtaining technical assistance from HUD in administering the demonstration rather than on obtaining properties from the Department's inventory.

After expressing initial interest, seven of the original applicants declined further consideration. Of the seven applicants remaining, only one--Chicago--chose to use a HUD-held property. The other sites, shown below, chose to use properties either currently owned by city agencies or readily available through acquisition with local funds:

- Boston, Massachusetts
- Hartford, Connecticut
- Davenport, Iowa
- Des Moines, Iowa
- Mount Vernon, New York
- Omaha, Nebraska

As of the end of the term set for the evaluation, three of the sites began demonstration activities but encountered difficulties and had effectively withdrawn--Chicago, Des Moines, and Mount Vernon. This evaluation report is based on the observations about these three terminated projects and on the four that are going forward--Omaha (the only project actually in marketing and occupancy), Davenport, Hartford, and Boston.

1.2 RESEARCH DESIGN

The research design by which this evaluation was conducted is presented in a March, 1986 report entitled *Evaluation Design For The Multifamily Homesteading Demonstration*. The evaluation design focuses particularly on institutional interaction in understanding the way in which innovations are introduced into routine behavior. The original design called for site visits conducted at two critical points. First, a *Baseline Report* would be completed at an appropriate point of project initiation. This baseline report would focus particularly on the routine practices in providing housing within the community, with particular emphasis on the routines associated with providing affordable housing. Second, a *Performance Report* would be prepared based on a visit at or near the end of the project cycle, including development, financing, construction, marketing, training, occupancy, and project closeout. In each case, the field information collected would identify the key actors involved, the dynamics that were both internalities and externalities for the project, and other factors which contributed to the success (or lack thereof) of the project. The general purpose of the evaluation is to identify those factors and/or dynamics which can be generalized for a broader use of homesteading into multifamily properties.

In practice, the evaluation has relied primarily on the baseline visits, because only one project had proceeded to the point of marketing and occupancy during the term fixed for the evaluation. In view of the reduction to four of the number of active sites, the evaluation design was revised to include observations from the technical assistance contractors on the three cities in which the demonstration began but was terminated.

1.3 REPORT ORGANIZATION

The evaluation section following presents the findings of the evaluation. In particular, it addresses the twenty research questions that were posed by HUD at its initiation of the project, as listed in Exhibit 1. These research questions were grouped into five major categories:

- General project structure
- Property selection
- Homesteader selection
- Financing mechanisms
- Planning and management rehabilitation

Each question is addressed using observations from the evaluation data collected at each of the sites. In the third section, the individual reports are included for each of the four cities in which the

demonstration is active and brief narrative assessments of the three cities in which the demonstration was initiated but not carried forward.

2.0 EVALUATION

This section first presents a general evaluation of the multifamily homesteading demonstration program, then an evaluation by research question groupings. Table 2-1 summarizes the eight projects that are presented in Section 3. These eight projects were located in seven cities:

- Omaha
- Hartford
- Davenport
- Boston
- Mount Vernon, New York
- Chicago
- Des Moines

The first four of these cities are active participants in the demonstration. The final three withdrew from the demonstration. Table 2-1 also presents the characteristics of the demonstrations by city. These characteristics are summarized according to:

- Development model
- Ownership form
- Financing
- Minimum income
- Number and type of units
- Construction (start and completion)
- Marketing (start and completion)
- Training
- Occupancy (start and completion)

2.1 GENERAL

Table 2-1 shows no project is sufficiently advanced to make general conclusions possible, either about specific projects or about the overall demonstration. Consequently, it is necessary to look generally at the introduction of innovation into providing housing for low to moderate income households. In particular, the innovation attempted through the HUD multifamily homesteading demonstration was conversion of existing multifamily structures to resident ownership in a way that would ensure stability of operation and acceptable standards of affordability. In seven of eight cases (Boston being the exception), this was indeed the innovation attempted. In Boston's case,

Table 2-1
HUD MULTIFAMILY HOMESTEADING DEMONSTRATION
Project Summaries

	ACTIVE PARTICIPANTS				CITY	WITHDRAWN PARTICIPANTS			
	OMAHA	HARTFORD	DAVENPORT	BOSTON		MT. VERNON	CHICAGO	DES MOINES #1	DES MOINES #2
DEVELOPMENT MODEL	Private developer	Private Developer	Private Developer	Non-profit CDCs (4) as Joint Venture	.	Private developer	City	City	Private developer
OWNERSHIP FORM	Cooperative	Condominium	Coop/Condo	Condominium	.	Condo or coop	Cooperative	Cooperative	Cooperative
FINANCING	312/Rental Rehab Special Project Grant Developer Equity	312 Actna Developer Equity	312 Developer Equity	Conventional EOCD Grant HFA Homeowner Loan Housing Auth. Purch.	.	312 Other	CDBG Private	312	312 Developer equity
MINIMUM INCOME (% median)	50%	50-70%	50-60%	50-80%	.	60-75%	50%	50%	-
NUMBER OF UNITS	30	18	37	84	.	37	47	8	16
TYPE	Efficiency, one and two bedrooms	Two and three bedrooms	One and two bedrooms	Three and four bedrooms	.				
CONSTRUCTION					.				
Start	March, 1986	Fall, 1987	Summer, 1987	Fall, 1987	.				
Complete	December, 1986*	Spring, 1988	February, 1988	Winter, 1988	.				
MARKETING					.				
Start	January, 1987	Fall, 1987	Summer, 1987	Uncertain	.				
Complete	Uncertain	Uncertain	Uncertain	Uncertain	.				
TRAINING					.				
	Uncertain	Uncertain	Uncertain	Uncertain	.				
OCCUPANCY					.				
Start	May, 1987	Uncertain	Uncertain	Uncertain	.				
Complete	Uncertain	Uncertain	Uncertain	Uncertain	.				

NOTES:

*Punch-list to be completed.

the more central innovation was combining of geographically oriented non-profit community development corporations (CDCs) into a single joint-venture entity.

In each case, whether the city is presently active in the demonstration or has withdrawn, only a single innovation was attempted as part of the demonstration. While there are no data from cities that chose not to respond to HUD's Request For Proposals (RFP), it is reasonable to assume that the objectives outlined by HUD in its RFP entailed more complications than those cities wished to undertake. Typically, research on introduction of innovations shows that the likelihood of an institutional arena being disposed to act positively on the introduction of innovation is significantly increased if only one new factor is involved. As noted above, for all the cities with the exception of Boston, the innovation was in promoting ownership as part of the provision of low to moderate income housing in the multifamily context. In Boston's case, this process had been well underway in the context of the City's new housing construction initiative. Boston's innovation was in combining several non-profit CDCs into a single entity for purposes of the homesteading demonstration.

Reviewing the seven cases that are presented in greater detail in the material on each project in Section 3, it would appear that there are *three necessary but not sufficient* conditions for an innovation to be introduced. These are:

- An *entrepreneur* significantly positioned to carry the project forward
- *Property control*, so that the housing innovation can be matched with a housing structure
- A *risk cushion* enabling the innovation-accepting entity and tenants directly affected to proceed with some reasonable assurance that the outcome will be no worse than what would have occurred had a *routine* been followed in the housing endeavor.

Entrepreneur

Each project had an individual and/or entity who perceived his/her role as one of aggressive program implementation. In the case of Omaha and Davenport, this role was fulfilled by the same individual, namely the HUD Area Office Rehabilitation Management Specialist (also Urban Homesteading Coordinator and responsible for the Section 312 and Rental Rehabilitation programs). In Hartford, this role was fulfilled by HUD's technical assistance staff person, who had a prior relationship with the City on another innovative program. In Boston, this role was fulfilled by an individual retained by the Boston Redevelopment Authority from a prior position with the most highly regarded nonprofit CDC in the city. In Mount Vernon, the entrepreneurial role was filled by the Deputy Director of Urban Renewal; the project lost its internal sense of

imperative as part of the HUD demonstration when this person resigned his position. In Chicago, the entrepreneurial role was carried forward by the Assistant Commissioner of the City's Department of Housing. In Des Moines, this role was carried by the Assistant Director of the City's Urban Development Department.

Control

Two of the four projects that proceeded to implementation (Omaha and Davenport) involve property control by private developers with structures having no serious problems of development feasibility even had there been no major public involvement. In the other two active cities (Hartford and Boston), the projects proceeded using city-controlled properties. In all four cases, the nature of control prompted the formation of the public/private partnership which successfully combined to move the projects to their present states of completion.

Lack of control in the remaining three cities proved to be the undoing of the demonstration project. In Mount Vernon, the apparent legal requirement for public auction of properties eliminated the possibility of the City forming a collaboration to implement the demonstration. (Because the demonstration was terminated at an early phase, it is not clear whether the leadership of a different entrepreneur within the City on this project might have yielded a different outcome.) In Chicago, the alternative disposition process made possible by HUD's control of the property served to undermine the tenants' willingness to risk the project moving ahead under the homesteading premise. The Chicago project was the only one of the eight which involved structures which were occupied at the time the demonstration was attempted. Because an alternative to the City's proposed ownership conversion strategy existed through the legal requirements of the HUD property disposition process, the residents had a solid alternative. When the City was unwilling to change its homeownership program criteria to match the assurance for continued occupancy which was possible under HUD's process, the tenants voted against the City's conversion to a resident ownership program. At this vote, the City withdrew from the program. Both of the projects attempted in Des Moines involved city acquisition and/or partnership with private owners of existing properties. In both cases, the private development interests and objectives of the owners served to frustrate and ultimately doom the project as part of the homesteading demonstration.

Risk Cushion

None of the projects that withdrew had a risk cushion satisfactory to the actor whose position ultimately forced the project's withdrawal from the demonstration. The property acquisition price that the City was willing to pay for the first Des Moines project was less than what the owners demanded. The return on investment in the Des Moines second project was insufficient to that

owner/developer. The financing structure offered to the Mount Vernon developers was not sufficiently compelling to demand their attention to the details of federal submittals. Finally, the unwillingness of the City of Chicago to assure continued occupancy to all residents (their desired risk cushion) was the downfall of this project.

By comparison, each of the four implemented projects had an acceptable risk cushion, established during the protracted period involved in bringing these projects to closing of construction loans. In Omaha, the risk cushion was provided by a \$300,000 HUD Special Project Grant that came early, a factor that contributed significantly to its moving through the process most quickly. Omaha also had a Historic Tax Credit associated with its structure, which would decrease if the project did not close on schedule. The benefits of the financial structure, cushioned by substantial funds from the Special Project Grant, allowed for an expedient resolution of financing. In Hartford, uncertainties associated with meeting the income qualifications of residents caused protracted negotiations on the final financing package. These were resolved by a marketing arrangement that would involve a six week period during which a pool of potential occupants would be attracted. This pool would then be evaluated by the developers, the lending institutions, and the City relative to determining the underwriting criteria to be applied. If the initial criteria required by HUD proved to be too restrictive, the more liberal criteria requested by the developer would then be applied. This together with the blended interest rates possible under the Section 312 loan and special lending arrangements by the conventional lender (Aetna Life Insurance Co.) provided sufficient cushion for the developer to proceed to closing. In Davenport, nearly complete financing with a Section 312 low-interest loan and structuring of the project as a combined co-op/condo to hedge against potential market rejection of the co-op approach provided sufficient risk cushion for the developer to proceed. In Boston, provision of a grant by the State's Executive Office of Communities and Development (for special rehabilitation costs) and the assurance of a guaranteed market through acquisition of roughly one-third of the units by the Boston Housing Authority under its condominium purchase program provided the cushion.

2.2 EVALUATION BY RESEARCH QUESTION GROUPINGS

This section responds to the twenty research questions posed initially by HUD relative the multifamily homesteading demonstration. These questions, by category, were presented in Section 1 as Exhibit 1. Table 2-2 summarizes the status of each project relative to each of these key research questions. In Section 2.3 we address two other issues which emerged--the importance of prior homesteading experience in the city and the ways in which the challenge of applying the Section 312 loan program to multifamily homesteading were met.

EXHIBIT 1

MULTIFAMILY HOMESTEADING DEMONSTRATION RESEARCH QUESTIONS

General

1. Did the demonstration show that it is practical and cost-effective for local governments to help lower income tenants acquire and rehabilitate multifamily property for homeownership?
2. Was community and neighborhood group participation in the planning and execution of the program design encouraged?
3. Was the formation of public/private partnerships encouraged in the multifamily demonstration?
4. What was the role of profit and nonprofit developers in the conversion process?
5. Did a mixture of ownership forms result, including condominiums, cooperatives, and mutual housing associations?
6. Was relocation/displacement held to a minimum?

Property Selection

8. What strategy did the local government use to determine the number, size, occupancy status, and condition of the homestead properties?
9. Did the types of properties used include multifamily, nonresidential, and mixed use properties whose title was held or quickly acquired by the participating locality, as well as HUD-owned properties?

Homesteader Selection

10. What program publicity and marketing techniques were used to attract applicants?
11. How were applicants processed and screened in order to assure fair and equitable procedures?
12. What are the characteristics of homesteaders, including income, household size and structure, race?

Financing Mechanisms for Rehabilitation

13. What sources of financing were used for rehabilitation construction loan and permanent mortgage?
14. What forms of write-downs or other financial subsidies were used?
15. Were private lenders actively involved in the program?

Planning and Management of Rehabilitation

16. Did the locality devise an overall rehabilitation strategy that included physical quality standards, contractor selection, and the timing and requirements for occupancy?
17. Were self-help and sweat-equity rehabilitation and management encouraged?
18. Did the homesteaders participate in the development of rehabilitation plans, budgets, and ongoing problem solving?
19. Was homesteader training provided to enable tenants to carry out adequately the responsibilities of rehabilitation?
20. Were community based organizations active participants in developing and implementing the rehabilitation plan and homesteader training program?

Table 2-2
HUD MULTI-FAMILY HOMESTEADING DEMONSTRATION
 Status by key research questions

QUESTION	CITY							
	OMAHA	HARTFORD	DAVENPORT	BOSTON	MT. VERNON	CHICAGO	DES MOINES	
GENERAL								
1. Practical/cost effective?	No				No	No	No	
2. Community participation encouraged?	No	No	No	Yes	No	Yes	No	
3. Public/private partnership?	Yes	Yes	Yes	Yes	No	No	No	
4. Profit/non-profit developer role?	Traditional	Traditional	Traditional	Joint Venture	Traditional		Traditional	
5. Ownership form	Coop	Condo	Condo/Coop	Condo				
6. Relocation minimized?	Yes	Yes	Yes	Yes	Yes	No	Yes	
7. Relocation resources?								
PROPERTY SELECTION								
8. Strategy for property selection	Availability	Availability	Availability/cost	City-owned	Availability	HUD list	Availability	
9. Type of property	Vacant	Vacant	Vacant	Vacant	Vacant	HUD 221(d)3	Vacant	
HOMESTEADER SELECTION								
10. Marketing approach	Untargeted							
11. Selection process	Window							
12. Homesteader characteristics	Single, Female					City criteria		
FINANCING MECHANISMS								
13. Sources	312/CDBG/Grant	312/Aetna	312	Grants/Conv/Hsg Auth Pchse	Conventional/312	CDBG 3:1	Conventional/312	
14. Write downs?	312/CDBG/Grant	312/Aetna	312	Grants/Hsng Auth Pchse	312	0% interest	312	
15. Private role?	No	Yes	No	Yes	No	No	No	
PLANING/MANAGEMENT								
16. Rehabilitation strategy	Yes	Yes	Yes	Yes	No			
17. Self-help/sweat equity?	No	Yes	No	No	No			
18. Homesteader involvement?	No	No		No		Yes		
19. Training for ownership?	No							
20. Community based organizations?	No	No	No	Yes	No	No	No	

NOTE: An empty cell means that the demonstration at this location did not provide sufficient information to generate a response relative to the research question.

General

Question 1: Did the demonstration show that it is practical and cost-effective for local governments to help lower income tenants acquire and rehabilitate multifamily property for homeownership?

The demonstration showed that even under the best of circumstances, trying a new approach to provide multifamily homeownership opportunities involves a long and resource-demanding learning curve. In the four projects attempted in the cities which have withdrawn, there is no evidence that the approach was practical or cost effective. However, that does not negate the concept. In each case, as was described in Section 2.1 in discussing the general issues associated with innovation introduction, the limitations of the demonstration had to do with structuring its introduction. This is particularly confirmed because in the other four cases the concept is moving forward, in large part because the necessary conditions have been met. However, in each of the implementing cities, the participants are quick to point out that the demonstration as they conducted it was neither practical nor cost effective. They are also quick to point out that this limitation was one which they felt to be inherent in the innovation introduction process. That is, each of the cities experienced significant cost (mostly in professional time, often not recorded against project costs) in making the project happen. In each case, the key participants from the cities reported that they would not expect the same amount of time and effort to be expended on subsequent applications of the same development approach to other housing projects. They also expected that other cities which attempted to use their model would require somewhat less time in implementation, though there would be a learning curve which the key actors in each city would have to experience.

This is particularly illustrated in the Boston case. Here, the only innovation was the combining of several non-profit CDCs into a single entity for purposes of project implementation. It was generally felt by the participants that if this joint venture process had not been introduced, there would have been nothing different about this project from other new or rehabilitation ownership endeavors that the CDCs had undertaken. They particularly pointed this out in terms of the ownership form (condominium) and the use of conventional construction financing combined with the state's housing finance agency below market rate interest end-loan programs. Confirmation of this observation is offered in the Hartford experience, where an enormous amount of City, HUD and developer effort was expended on the structuring of the condominium arrangement using the 312 loan program. Most participants felt that a more desirable approach would have been the creation of a new federal program or a variation of existing ownership programs, for example, Section 235. Had more appropriate federal programs, guidelines, and regulations been available, all participants felt that the protracted process would not have occurred or would have been considerably shortened. Lessons learned in using Section 312 for multifamily homesteading are summarized in Section 2.3.

Question 2: Was community and neighborhood group participation in the planning and execution of the program design encouraged?

With the exception of Boston (which has an extended tradition of community and neighborhood participation and housing programs) and Chicago (which was the only project involving an occupied structure), none of the demonstration projects encouraged community and neighborhood group participation. The presence or absence of such participation appeared to have no particular effect on the likelihood of success of the project. Rather, the presence or absence of such participation seemed to be a matter of prevailing local practice. A city-by-city review reveals this pattern.

HUD's first multifamily homesteading demonstration in 1979 identified non-profit community groups as the vehicle for implementing projects. These groups provided for direct community participation. In this demonstration, HUD aimed to have cities assume responsibility for the project, and did not mandate formal citizen, community or non-profit organization participation. As a result, levels of citizen participation varied in the participating cities.

The following general observations are made:

1. The cities which relied upon private developers had fewer opportunities to plan active roles for community groups.
2. Smaller cities in the midwest tend not to have highly organized citizens and/or non-profit groups oriented toward housing issues.
3. The two midwestern cities (Omaha and Davenport) which proceeded with construction undertook their projects in the downtown in largely non-residential areas. Typically, abutters are the most active participants, yet these projects had few residential neighbors.
4. The major avenue for citizen participation was through the zoning and permit approval process.

The Omaha project was initiated prior to application for the demonstration, with the non-profit Omaha Economic Development Corporation (OEDC) as developer, with investor partners. Within a few months the City had replaced this arrangement with a private for-profit development team that included the OEDC director acting in a personal capacity.

The City of Davenport had established a housing development and rehabilitation non-profit, Restore Davenport, in the 1970s, which worked closely with city officials on many development decisions. Their demonstration project was configured to put the primary development decisions in the hands of a private developer partly to ensure more attention to the business and schedule aspects of the project.

The Hartford project grew out of a series of redevelopment activities in the Upper Albany area, which had involved considerable participation by the neighborhood group. The sweat equity component grew out of the commitment to this element by the City, its previous award-winning incorporation of this element in single-family homesteading and the availability of the experienced Hartford Neighborhood Housing Services for supervision of the demonstration's sweat equity component.

Boston's primary innovation was the formation of a coalition of previously successful Community Development Corporations as the primary vehicle for the homesteading program. This choice brought with it a high level of presumed community support.

Mt. Vernon selected a building that was vacant at the time. The City and the developer did meet with neighbors prior to petitioning the Board of Appeals for variances for parking. There was little appropriate citizen input needed prior to that.

The Chicago project was located on a major thoroughfare, with few residential abutters. Since it was already occupied, the conversion would not have changed occupancy, but would have improved the physical condition. Neighborhood approval could be expected. The City chose not to approach the tenants until it had a viable plan for rehabilitation and conversion. When it did approach the tenants, it did not offer adequate resident protections against displacement. Consequently the City's conversion plan was voted down. A different result might have been achieved if residents had been involved earlier.

Des Moines was planning to use a private developer. The developer had some preliminary meetings with the neighborhood, which influenced his preference for elderly housing. In the zoning approval process (which involves the City Council in Des Moines), several neighbors opposed the project on the basis of density and traffic concerns. They also expressed indirectly some concerns about low income housing. The City staff resisted pressures from these neighbors to change the project because of the need for lower income housing. The city had only two viable non-profit groups, and intended to use one of the two for marketing, resident selection, and training.

Question 3: Was the formation of public/private partnerships encouraged in the multifamily demonstration?

In each of the cities which have successfully implemented projects, a public/private partnership was forged. In each of the cities which did not successfully implement, public/private partnership was not achieved. This seems to be more an outcome rather than a causal factor. Because each project involved the use of some form of subsidy, those which were successful in implementation had to have some form of public participation, whether the project was going forward with a private or a non-profit development entity. The two Des Moines projects failed to proceed precisely because such a partnership could not be formed in either instance. In both cases, it proved impossible to achieve a convergence of public and private interests. In Chicago's case, there were competing public partnership alternatives available to the private (that is, resident) interest. The residents opted for a "partnership" with the HUD property disposition process rather than with the City's approach to conversion of the property to resident ownership.

Question 4: What was the role of profit and non-profit developers in the conversion process?

In each case, excepting Boston, the developer role in the conversion process was consistent with the traditional role and structure of developers in providing low to moderate income housing within that community. In Boston's case, the combining of four non-profit CDCs into a single joint venture was the innovation attendant to the homesteading demonstration. In the other cases, private developers were involved either through bringing a project to the city to achieve goals by use of city-controlled subsidy dollars, or the city placed the property on the market through the RFP or public auction/bid process. In this demonstration HUD did not require the use of non-profits and the cities elected to use what they considered their most expeditious alternatives.

Question 5: Did a mixture of ownership forms result, including condominiums, cooperatives, and mutual housing associations?

Two forms of ownership were attempted in the four projects which are proceeding. The two are condominium and cooperative. Mutual housing associations were not attempted. The condominium form of ownership was not an innovation in either the Hartford or Boston situations. The co-op form of ownership was the single innovation in Omaha and Davenport. Davenport, which proceeded approximately 9-12 months later than the Omaha effort, learned from the difficulties associated with attempting to structure and market co-ops. They created a risk cushion for the development by providing a mechanism to have it be both condominium and co-op.

Question 6: Was relocation/displacement held to a minimum?

In seven of the eight cases relocation was minimized because the properties in question were vacant. In Chicago, which was the only project involving occupied property, the potential of relocation was the factor which most significantly contributed to the project not proceeding as part of the demonstration. The City of Chicago was unwilling to make the formal commitments to the existing residents regarding their continued occupancy of the project. In the face of that unwillingness to make the desired level of commitment and knowing that the HUD property disposition process appeared to hold with it a greater assurance of occupancy, the tenants voted for the HUD foreclosure property disposition process rather than the City's resident ownership conversion process.

Question 7: If assistance was necessary, what resources or benefits were afforded displacees?

Because relocation assistance was not necessary in any of the implemented projects, there is no information on which to base a response to this research question.

Property Selection

Question 8: What strategy did the local government use to determine the number, size, occupancy status, and condition of the homestead properties?

For all intents and purposes, the strategy for property selection as part of the demonstration did not entail a wide search of alternatives. Rather, it involved a focus on a very few (in some cases a sole) candidate(s) reflecting the possible stock known to the City.

HUD's initial RFP for the program set forth a rational property selection process, involving listing and weighing several alternative sites, both occupied and unoccupied. Cities typically did not follow this process. Rather, the short list of sites was created by City staff using four criteria:

1. Known properties--No search for properties unknown to the City. Indeed the pattern was to look at properties unlikely to be developed under conventional options.
2. Available--Quick and/or existing site control for purposes of the demonstration.
3. Needing rehabilitation but with minimal rehab complications--This tended to rule out occupied properties.

4. Success potential--Success was understood in terms of both marketability and the complications associated with the demonstration nature of the program.

The Multifamily Homesteading Demonstration was viewed as an opportunity for the cities to get HUD funds and technical assistance on very difficult buildings which might not be feasibly developed under any other scenario. This was true in Omaha and Davenport, where the cities had made several unsuccessful attempts to rehabilitate properties prior to the demonstration, and the developers were forced to acknowledge that they would be unable to complete the project without access to HUD Section 312 funds and technical assistance. In Des Moines, the developer similarly had no other feasible alternatives. The implication is that the demonstration inherited a set of "problem " buildings as the development opportunity of last resort. This meant high risk and reduced chances for short-range success.

Omaha had no HUD-owned multifamily properties, or vacant city-owned properties. The city staff considered only the Ford Hotel for this program because they were already familiar with its rehabilitation needs, having failed in two previous attempts to repair the building using Section 312 funds and CDBG funds. They also had identified a potential owner/developer interested in the project.

Davenport briefly considered two properties other than the one that was finally selected:

- An 8-unit, HUD-owned property that had a defaulted Section 312 loan and could not be included in the demonstration.
- The Langwith Building, which was owned by a bank that was unwilling to negotiate a purchase price acceptable to the proposed developer and the City of Davenport.

Davenport staff felt that very few buildings were appropriate for the demonstration in terms of condition and interested owners.

In Hartford no more than three properties were serious candidates. The Woodland properties quickly became the choice because they had undergone a long and unsuccessful effort at rehab on the part of the locally-based non-profit community development group. The City's redevelopment authority was poised to issue an open solicitation in the development community for the disposition of the buildings. The City's housing department saw the demonstration as a means to retain the units in the affordable stock by making the property eligible for federal dollars to lower costs to occupants.

Boston already was proceeding with its redevelopment of a failed new construction project and saw the demonstration as a means for obtaining some technical assistance. Property selection for the demonstration was not an issue.

Mt. Vernon has several properties suitable for multifamily homesteading but none that were HUD owned or foreclosed. The property chosen for the demonstration was not necessarily the best of the four submitted, given the inexperience of the City. However, being vacant and city-owned, it made sense. The property was perfectly feasible and would have been a signal demonstration in the neighborhood. The problems lay in governmental procedures and competence and developer experience and strength.

Chicago had a list of several HUD-owned properties. Relying solely upon the rehabilitation costs reported by HUD Property Disposition, city staff selected the one which appeared to be most financially feasible after purchase and rehabilitation. City staff did not inspect the property until after it was selected. Upon inspection, it was discovered that rehabilitation costs were much higher than those reported by HUD. The City would have been forced to absorb higher rehabilitation costs from its own budget. The City also deferred contacting the tenants until late in the planning period. This proved to be a tactical error because the tenants rejected the conversion plan and terminated the City's participation. These two factors--failure to adequately inspect the site and to enter into early discussions with the tenants--were directly responsible for selection of a property which was not feasible for conversion.

In its original application, Des Moines acknowledged that it had no HUD-owned properties suitable for the demonstration, but that it would like to consider several vacant properties within its CDBG target areas. The original application identified two properties in its largest target area. With the help of the technical assistance team, the City screened the two properties, and entered into negotiations with the owners of one of the properties. When negotiations for the first property failed, the City examined other vacant multifamily properties available. It had been approached by the owner of a surplus school building in another CDBG target area for rehabilitation assistance. While this had not been the area of first choice for the City, it recognized the school conversion as the best alternative available to it. The school was in solid physical condition, and additional housing in that neighborhood was desirable. Thus, the City limited its search to its CDBG areas, and selected the vacant multifamily property which seemed physically solid and for which its owner had indicated a desire to work with the City. Ultimately, failure to proceed (in both cases) was largely due to the private owners' unwillingness to allow the City to take over the project. Better screening of the owners might have caused the City to rule out these buildings and select other ones for which site control was more feasible.

Question 9: Did the types of properties used include multifamily, nonresidential, and mixed-use properties whose title was held or quickly acquired by the participating locality, as well as HUD-owned properties?

The types of properties involved in the demonstration were almost entirely existing vacant multifamily structures. In the case of Chicago, the properties were also in the HUD-owned category; the properties in the Boston project were City-owned, having been deeded to the city under a bankruptcy proceeding of an earlier development attempt.

Homesteaders

Question 10: What program publicity and marketing techniques were used to attract applicants?

Only the Omaha case is sufficiently advanced to provide any information about the marketing approach. The marketing for this project has proven to be one of its most significant limitations. It is regarded as untargeted and, for what ever reasons, clearly unsuccessful. However, even this effort is insufficiently advanced to permit any but the most provisional of observations. Marketing for the Omaha cooperative did not begin until construction was essentially complete, was not targeted to likely cooperation, and used language such as "housing project", "low income", and "demonstration project"--none of which represent positive promotion for interest and acceptance. Six months after major construction was completed only four of 31 units had been sold.

Question 11: How were applicants processed and screened in order to assure fair and equitable procedures?

Again, only Omaha has gotten far enough into the process to provide any data relative to the selection process. The most significant factor associated with screening of applicants had to do with their financial eligibility. Financial eligibility is determined by the ability to fit into a *window*, which is described by an income maximum and a down payment capability. The size of the window is directly proportionate to the project costs. In most cases (whether in a demonstration or in other homeownership efforts aimed at low to moderate income households) the window is relatively small. Thus, application selection is dominated by concerns with fitting income limits while meeting down payment requirements.

Question 12: What are the characteristics of homesteaders, including income, household size and structure, race, etc.?

Only Omaha has evidence regarding actual homesteader characteristics. The four cooperative members thus far are single women in the age range of 27 to 42 years.

The demonstration had a goal of serving low and moderate income households. It required that at least 75 percent of the residents (for a period of at least five years) must qualify as such using HUD's 80 percent of median income. For all projects, this became the maximum income limit, although one quarter of the residents could exceed this limit if necessary. This qualification standard was to be applied at the time of initial occupancy. It did not require annual recertification or requalification of residents.

A more stringent maximum income requirement was imposed on the projects which chose to apply for Section 312 rehabilitation loan funds at 3 percent interest rate. In order to qualify for the program's lowest rate at the time, 100 percent of the residents were required to have incomes below 80 percent of median income (adjusted for family size).

Each project also had a *de facto* minimum income standard which was dictated by the costs of the project. By applying the HUD standard of a maximum of 30 percent of income available for housing, a minimum income could be calculated from the projected operating costs. This minimum income standard was not applied if Section 8 or other rental assistance were available.

In targeting the income levels for the projects the cities thus were constrained at one end by the incomes required to support the unsubsidized project carrying costs and at the other end by the 80 percent of median income limit for the Section 312 program. The demonstration projects reached as low as 50 percent of median income (adjusted for family size) but some of the demonstration units required minimum incomes of 60 to nearly 80 percent, thus narrowing the window of possible incomes qualifying for the project. As the only project not using Section 312, Boston has a project involving a mix of moderate and market income units allowing some skewing of prices for lower income buyers.

Financing Mechanisms

Question 13: What sources of financing were used for rehabilitation construction loan and permanent mortgage?

Each of the cities, with the exception of Boston, relied on the 312 loan program as a critical element to achieve project feasibility. The differences among the cities using 312 had to do with the proportions of the total construction covered by Section 312 and end loans. In Hartford the Section 312 loans were blended with a first mortgage loan from a subsidiary of the Aetna Life Insurance Company. Other federal sources, such as CDBG and Special Project Grants, were used. Each city (except Boston, which used a non-profit development entity) relied in some form on developer equity and/or co-op down payments. Boston's financing structure reflects the scattered-site nature of the buildings involved. The development joint venture obtained a revolving construction loan from a conventional lender (which is also a minority-owned bank). This revolving loan is roughly 45 percent of the estimated total development cost. This provides a distinct incentive to the project to move units rapidly to a sales position, so that the loan can be rolled over and then construction financed on subsequent units. The availability of appropriate end loans from the state's housing finance agency and the guarantee of purchase of a number of the units through the state's purchase program through the Boston Housing Authority proved significant components of this project's financing strategy.

Question 14: What forms of write-downs or other financial subsidies were used?

In each case the write-downs were associated with the low market rates that are possible through use of federal programs. In the case of prior or current HUD-owned or city-owned properties they also entailed acquisition costs below market rate. In the cases in which the city was disposing of the property, write-downs were accomplished through reduced acquisition costs. City and state grants and forgiveness of back taxes also were part of the Boston project.

Development incentives under the federal income tax code played a relatively minor role in demonstration projects, primarily because they require a period of investor ownership for the tax benefits to be used. The Omaha project was in a position to use the rehabilitation credit for historic buildings. This was compatible with a 5-year period of investor ownership while the coop infrastructure is developed. The historic rehabilitation credit is at least partially recaptured if the building is sold within five years. None of the other projects reviewed in the evaluation made use of tax credits. Projects intended for immediate homeownership preclude the use of tax benefits such as the Section 167(k) five-year write-off of rehabilitation expenditures by investor owners.

The Davenport project was configured to use the rehabilitation write-off but the owners already had sufficient tax shelter from other holdings and did not want the delay of interim ownership.

Question 15: Were private lenders actively involved in the program?

With the exception of Boston, and to a certain extent Hartford and Chicago, there was very limited private lender activity in the program. Boston's construction loan was directly with a private lender, which played a major role in the structuring of the project. The private lender in turn syndicated the \$4 million revolving construction loan to another bank, with which it had prior involvement in financing such projects. In Hartford the participation by a financing subsidiary of the Aetna Life Insurance Company was new in the Hartford experience, though not new to the Aetna entity. It had financed such projects in other cities which involved write-downs through blended rates and its own ability to offer financing at rates below prime. The participation by private lenders in the Chicago situation would have been similar to what had occurred in other homeownership endeavors undertaken with sponsorship by the City's Department of Housing. In that regard, the participation by private lenders was not new, nor did it involve significant risks given the three to one leveraging between public and private dollars.

Planning and Management of Rehabilitation

Question 16: Did the locality devise an overall rehabilitation strategy that included physical quality standards, contractor selection, and the timing and requirements for occupancy?

In each of the four projects which are in implementation it is reasonable to say that the locality devised such an overall rehabilitation strategy. Such an approach was consistent with how each city routinely conducted or insured the adequacy of property rehabilitation involving public funds, including the attention to physical quality standards, contractor selection and timing requirements of occupancy. Indeed, the evaluation made by the writer of the case study of Mount Vernon particularly noted the problems associated with that city not posing such a strategy in its designation of a developer for the property which it had attempted to bring into the demonstration project.

Question 17: Were self-help and sweat equity rehabilitation and management encouraged?

In only one instance (Hartford) was there particular emphasis placed on the self-help/sweat-equity concept. This emphasis was not new; rather it was a continuation of such a requirement in the City's one to three family homesteading program.

Sweat equity was a key component of HUD's first national demonstration of multifamily homesteading. In this second multifamily homesteading demonstration, the decision to include sweat equity in the project was left to the cities. The city with previous experience in urban homesteading and the most positive experience with sweat equity (Hartford) chose to include this element.

While no city was required to formally justify its decision to forego sweat equity, informally most cities indicated that they had experienced problems with sweat-equity in their single family program. Single-family homesteaders had failed to meet their sweat-equity requirements, and cities were faced with politically difficult situations in which potential homesteaders were living in substandard housing that could involve foreclosure on the property and displacement of the tenants. Davenport had had negative results in trying to allow multifamily building owners to make their own repairs under the city's rehabilitation programs for rental housing. Primary problems were delays in getting work completed and poor quality workmanship. In Boston and Hartford (in particular) the sweat-equity component in the prior demonstration and in their other programs had worked well. Hartford in fact had gone further, and required of their single-family homesteaders that there be a community contribution as well (such as take charge of a park or run a scout troop).

Also, multifamily code requirements are more strict, typically requiring full completion of rehabilitation and code compliance prior to occupancy. Because cities want quick completion and occupancy, they tend to be biased toward professional rehabilitation.

Finally, cities considered sweat equity only if they were able to offer training, technical assistance, and supervision to the homesteaders. Hartford had available the contract services of Hartford Neighborhood Housing Services for this purpose in the demonstration project.

Question 18: Did the homesteaders participate in the development of rehabilitation plans, budgets, and ongoing problem solving?

With the exception of Chicago, none of the projects involved homesteader participation in development rehabilitation plans, budgets, and/or ongoing problem solving. In Chicago's case, the participation of potential homesteaders was the source of the project's demise, as described above. For the other projects the lack of involvement of homesteaders in these processes simply reflects the fact that the projects involved vacant buildings.

Question 19: Was homesteader training provided to enable tenants to adequately carry out the responsibilities of rehabilitation?

In each case, training for occupancy and operation will be provided, though in no case had it been done to date. The Hartford project includes classes in the cosmetic elements of rehabilitation provided as part of the sweat-equity option as well as supervision, through Hartford Neighborhood Housing Services.

Question 20: Were community based organizations active participants in developing and implementing the rehabilitation plan and homesteader training program?

Only in Boston were community based organizations active participants in the current project. This is consistent with Boston's relative priority on having significant involvement of nonprofit CDCs in the development process, including being designated developers. Moreover, disposition of public property routinely involves community meetings prior to posting a property for disposition as well as part of the review and selection process for developer designation. This same kind of community participation is not routinely sought in the other communities; indeed, it often is not a live option.

Hartford's project is located in an urban renewal area which had been prompted by the community organization in that area. That organization had quite a significant role in the creation of the plan in the mid 1970's, in seeing it through various stages of implementation, and in prompting a change in the plan which ensured that the properties now involved in the homesteading demonstration would be retained and designated for multifamily development. This same community organization had an earlier priority on developer designation. When they were unable to create a feasible project, the City proceeded in an alternative direction. This direction culminated in requesting proposals from developers for rehabilitation of the property. That process occurred at a time simultaneous with HUD's request for homesteading demonstration participants, thus enabling the City to roll the demonstration into a routine disposition process.

2.3 OTHER LESSONS

Previous Homesteading Participation

Multifamily homesteading projects are among the most complicated a city can undertake. It was expected by HUD and the technical assistance team that cities which had previously done multifamily homesteading would be more capable of implementing their projects than cities doing it for the first time.

There were two cities--Hartford and Boston--participating in this demonstration which had participated in the previous HUD multifamily homesteading demonstration. Both had built upon that first demonstration project to product many more multifamily homestead projects during the 1980's. These two cities were able to undertake the new demonstration projects with much less technical assistance from HUD.

While these "second generation" cities were more experienced, both tried a slightly different method for awarding and developing their projects. The City of Boston designated a consortium of non-profits to share in the development; Hartford use the RFP process for the first time. As a result, these two cities were not the first to start construction, but are expected to have successful projects.

The remaining cities (Omaha, Des Moines, Davenport, Chicago, and Mt. Vernon) had not previously undertaken a multifamily homesteading project. All cities had experience with single family homesteading, and multifamily rental rehabilitation, but not with homeownership conversion for lower income families. As a result, they require more technical assistance and training in the fundamentals of multifamily homeownership and development.

The "first generation" cities also have very limited experience with market rate co-ops and condos. Consequently, there is much more risk and effort level associated with the marketing of these projects.

Omaha: Omaha had no previous multifamily homesteading experience, but a city staff which was capable of packaging complicated multifamily rental projects. The private developer had no previous multifamily homeownership experience. Their marketing plans reflected this inexperience. While the project was built successfully, the lack of previous experience is expected to directly affect their marketing success.

Des Moines: Des Moines also had no previous experience with multifamily homesteading, but the city staff was capable of multifamily rehabilitation. The developer, while an experienced businessman, had very little multifamily experience. Had this project gone forward, the City would have assumed most of the responsibility for rehabilitation management and marketing. The project was located in a stable single family area, and this would have been the first multifamily project in the immediate neighborhood. Only in the last few years have any condominiums appeared on the metropolitan market, so marketing experience would have been limited.

Chicago: The City had not undertaken any multifamily homesteading projects previous to this one. Had this project proceeded, it would have constituted the only conversion of an occupied building in the demonstration.

Mt. Vernon: The City had not undertaken any multifamily homesteading before and very little single family homesteading. In addition there was a lack of trust between the Mayoral and Council office and the Community Development Department personnel advocating the project. The decision to go to auction rather than a structured RFP resulted in an inexperienced developer being chosen and the eventual collapse of the project.

Use of Section 312 Loans for Multi-Family Homesteading

The Section 312 Loan Program established low interest loans for owners of rental properties to help them rehabilitate the property and make it available to tenants with incomes under 80 percent of the area median income. While the accommodations necessary to re-orient this program are not serious for cooperatives, they became more serious for condominiums.

The major condominium issue which was faced and which is germane to most states, is that of the lien position of the lenders. HUD was willing to allow the Section 312 loan to be subordinated to the first mortgage where a private lender was involved. But there were further complications. Under the Connecticut statutes, the condominium association has a prior and automatic lien against any unpaid common area charges. This would mean that it would have a position ahead of both the Aetna and HUD (in the Hartford case). This could not be legally eliminated, but the potential problems were mitigated by requiring that homeowners pay the common area charges along with their mortgage and taxes to the Aetna who would then distribute the monies accordingly. This would ensure that the Aetna and indirectly HUD would know quickly when a homeowner was not paying the common area charges and thus be able to advise the association and even take action itself.

Another issue was that of professional management. The consensus reached was that professional management would be required even though experience with self-management in the area had been positive.

A third issue was that of pre-sales. In general, HUD requires that the 312 sponsor certify through a rent regulatory agreement that occupants meet 312 requirements. In the case of condominiums, loans are technically made to each homeowner. The problem comes with a construction loan which becomes a permanent loan. How can a loan be made to a non-existent homeowner? What happens if the homeowner does not meet the income test for the lowest interest rate of 3 percent

and yet the 312 loans were committed on that assumption? The resolution was twofold. Firstly, before any construction funds are dispersed 50 percent of the homeowners must be identified. Secondly, if any homeowner does not meet the income test for the 3 percent rate, then the difference between that rate and the 'market' rate during construction would be deducted from the final requisition/s of 312 funds.

Finally, the \$33,500 per unit loan limit under Section 312 was too low to finance the major rehabilitation needed in some of the buildings. This forced the sponsors to arrange additional layers of financing and subsidy.

Both Omaha and Davenport used cooperative rather than condominium ownership mechanisms. In both cities, the major change in the program to accommodate cooperative ownership was a special provision in the mortgage allowing the cooperative entity to assume all or a portion of the mortgage within a set time period without going through the normal mortgage assumption process.

In Davenport, the local staff indicated that requirements added by HUD to the normal Section 312 application process caused additional problems. For example, extensive legal documentation was necessary for the cooperative agreement as well as a separate agreement dividing the 37-unit property into four condominium segments each containing eight to ten units. Also, HUD required the city to hire an architect to inspect the project using Community Development Block Grant (CDBG) funds.

3.0 SITE REPORTS

This section presents reports on the four active projects. It also includes brief narrative assessments of the efforts by the three cities no longer in the demonstration. Only Omaha has a sufficiently advanced project that a performance visit could be scheduled during the term set for the evaluation. The site reports begin with Omaha baseline and performance reports.

3.1. OMAHA, NEBRASKA BASELINE

This baseline report is based on a review of data and on interviews conducted during a field visit April 29-30, 1986.

Project Description

The project undertaken by the City of Omaha involves the rehabilitation of an early 20th century structure near the City's downtown area. The structure, known as the Ford Hotel, was built in 1916 as the Ford Hospital. It operated as a hospital until 1928, when it was remodeled and became a hotel. It subsequently became a rooming house. From 1981 until the inception of the present project, the building had been vacant.

In recent years the focus for housing rehabilitation with City prompting has shifted from downtown to the neighborhoods. In the year prior to HUD's multifamily homesteading demonstration program, the Ford Hotel project had been a priority for the city. However, given market conditions, it was determined to be infeasible with then available City and/or federal funds and programs. Thus when the HUD demonstration program became available (and, importantly, with it the potential of additional funds via a Special Projects Grant from the HUD Secretary's discretionary funds), the Ford Hotel was the obvious and immediate candidate for selection.

In 1984, prior to the demonstration a developer had attempted to rehabilitate the structure for housing, with the effort keyed to obtaining historic preservation tax credits. This did not succeed. The present project was initiated involving the non-profit Omaha Economic Development Corporation (OEDC) as developer, with investor partners. The final application is by the Fifth Avenue Partnership, which includes OEDC's director, Alvin Goodwin (acting in a personal capacity), Donald D. Graham (an Omaha businessperson and investor), and L. Vernon Cagle (an Omaha contractor). Neither Graham nor Cagle were partners in the original demonstration submittal. The investor partners will take advantage of the historic preservation rehabilitation tax credit and hold the property for the five year period required to avoid recapture of the credit.

The demonstration project involves rehabilitating the Ford Hotel building to provide:

- 4 efficiency units, \$200/month, \$10 coop fee
- 16 one bedroom units, \$300/month, \$15 coop fee
- 11 two bedroom units, \$350/month, \$20 coop fee

The building has four floors (plus penthouse), with an elevator. The project is to convert to full co-op ownership at the end of five years, which both guarantees the full use of the historic

rehabilitation credit and provides for a period for formation of the cooperative association and training in how to operate as a cooperative. Contractual commitments have been made by the partnership for funds set-aside for the residents to effect full purchase at that point.

Development costs are estimated as follows:

Hard Costs	
Direct construction	\$1,135,000
Contingencies/Bonds/Ins/Misc	\$ 130,000
Overhead/Supervision	\$ 125,000
Profit	\$ 76,000
sub-total, hard costs	\$1,466,000
Soft Costs	
Acquisition	\$ 170,000
Interest/taxes/closing	\$ 67,162
Developer's fee	\$ 25,000
sub-total, soft costs	\$ 262,162
TOTAL DEVELOPMENT COSTS	\$1,728,162

Project funding is from the following sources:

Section 312 loan	\$ 837,000
Special Projects Grant	\$ 300,000
CDBG Loan	\$ 200,000
Bank/Developer Loan	\$ 250,000
Developer Equity	\$ 141,162
TOTAL FUNDING	\$1,728,162

Given the project costs and financing the range of eligible incomes for the project is:

Eligible Income Range

OMAHA
(FY87 Median Income \$33,300)

	<u>Minimum Income</u> (50% Median)	<u>Maximum Income</u> (80% Median)
Efficiency (1 - 2 persons)	\$8,000	\$18,000 - 21,000
One Bedroom (1 - 2 persons)	\$12,600	\$18,600 - 21,300
Two Bedroom (3 - 4 persons)	\$14,800	\$24,000 - 26,600

Project Chronology

A chronology of the project through the baseline visit is presented as Table 3-1. The City applied for designation as part of HUD's Multifamily Homesteading Demonstration in May, 1985. Early project analysis identified the need for additional funds. A Special Projects Grant request to HUD was approved by the Omaha City Council in June, 1985, and awarded in October. The original ownership was replaced by the present Fifth Avenue partnership in October, 1985. Financing was arranged over the winter, with the City Council adopting the CDBG Loan Agreement in February, and HUD executing the 312 Loan in March, 1986. Construction began in February, 1986. By April 30, rehabilitation was 40 percent complete.

Omaha Low/Moderate Housing Arena -- Routine

In Omaha there is a very distinct demarcation between the low/moderate income housing arena, and the balance of the market housing arena, in terms of both geography and participants. Most at-market housing activity in Omaha

- occurs in the western area of the city
- is single-family detached housing, primarily sales
- involves an almost completely different set of participants from the low/moderate income housing arena.

The low/moderate income housing in Omaha

- occurs in the eastern/downtown/near northern area of the city
- is multifamily, primarily rental
- involves an almost completely different set of participants from the at-market housing arena.

The Low/Moderate Income Housing Arena routine can be characterized as follows:

- The City is an aggressively innovative, entrepreneurial *financer*, with a high *political* profile in *program formulation*. The city has no programmatic role in the at-market housing arena, other than issuing and maintaining building permits.

TABLE 3-1 BASELINE CHRONOLOGY

OMAHA MULTI-FAMILY HOMESTEADING DEMONSTRATION: Ford Hotel Project

<u>1984</u>	Charles Hill effort to do rehab; appraisal; historic preservation certification sought; no success
<u>1985</u>	
April	OEDC rehab effort (Purchase & Sale with Davis and Goldston as partners)
May 16	City submits Letter of Intent to HUD for Multifamily Homesteading Demonstration
June 18	City Council approves Special Projects Grant request to HUD
August	Application for Special Projects Grant
October 15	Five O Partnership (Graham/Cagle) formed Fifth Avenue Partnership (Goodwin and Five O) formed
October 23	HUD approves Special Projects Grant
October 28	Investor Graham commits \$391,000 to project
November 12	Preliminary 312 Loan Application
December 27	Fifth Avenue Partnership guarantees cash flow deficit
December 31	Omaha National Bank commits to \$250,000 loan to Fifth Avenue Partnership; requires 1st position
<u>1986</u>	
February 18	Council adopts Loan Agreement; financial and operating terms set; includes owner equity/loan (ONB out)
February	Construction begun
March 21	312 Loan executed
April 29-30	Baseline evaluation site visit; Rehab 40% complete

- HUD serves as an equally aggressive *funds providing source*. Here HUD relates to the City as the Federal Reserve Banks do to direct lenders. HUD has no other role in the Omaha at-market housing arena.
- For-profit builder/developer/investors follow the lead of the City, and join with non-profit corporations who "sponsor" housing developments and whose participation legitimates the for-profit participants. There is some cross-over between the two housing arenas by for-profit builder/developer/investors, illustrated by Graham & Cagle's involvement in developing and/or building market rate housing, through primarily multifamily. The non-profits do not operate in the at-market arena. Other elements of traditional housing arenas are virtually absent--including realtors, banks and universities. The only appearance of a regulatory function is by HUD, in establishing funding regulations. Land development regulation does not appear to play a major role in the Omaha low/moderate income housing arena routine.

The entrepreneurial mode adopted by the two governmental bodies--HUD and the City--appears to be the result of the personal disposition of the key actors in each instance. This mode can be sustained because of the tenure of the individuals and the success of the approach.

Melodee Humbert, HUD's Rehabilitation Management Specialist, was recruited to the position in 1978 from her job as Director of Urban Renewal in Manhattan, Kansas. She had also held such position in Council Bluffs and Sioux City, Iowa. She is extremely energetic, with a strong sense of devotion to public service. She has put a major emphasis on training and technical assistance, so that local program managers have a clear sense of how to operate the particular programs. She sees as a major role the facilitation of funds from HUD to the local programs. A clear measure of her personal success is obtaining funds above and beyond the annual commitment, which appears to be a yearly event. She primes local programs to have applications ready to be able to collect end of the year "windfall" funds when other areas/regions have not committed/spent their allocations. She sees herself as "liking to try new things", and "responsible for selling good new programs". Ms. Humbert's approach is supported by the HUD Field Office Director, Roger Massey.

Two of the three key individuals in the City's *Planning Department* are Omaha natives, including the present Planning Director. All three have been with the Department at least ten years. The *Planning Director, Martin Shukert*, is strongly entrepreneurial in attitude. His view is that "the biggest risk is not taking the risk, then facing the question, Why did you let things deteriorate?" His *assistant director, Robert Peters*, sees his role as a "deal maker", in effect the banker to the

housing subsidy sector. The third key individual, Frank Mann, Assistant Director for Community Development administers the innovative programs devised and championed by the Planning Director and Assistant Director. The City has a long list of CD Programs, most exhibiting this aggressive, funds-based approach.

This financially-oriented posture to the housing market on the part of the two key public bodies fits with the objective cost picture of the Omaha low/moderate income housing market. A major study of the Omaha housing market, commissioned by the City and completed by the Real Estate Research Corporation in 1985, details the costs and market capabilities. Our review of the market prices (as advertised in the daily newspaper) matched against known construction costs confirms the RERC findings that some form of subsidy is needed, even into the middle-income housing markets, if a plausible match is to be made between construction cost (either new or rehab) and ability of households to pay.

The sponsor/builder/developer component of the low/moderate income housing arena appears willing to follow the lead of the City. There exist a number of non-profit groups, whose existence depends on public programs. There is also a sub-set of the for-profit development community which is routinely involved in City generated housing programs. Al Goodwin, of the Omaha Economic Development Corporation, illustrates the former, while Donald Graham and Vernon Cagle are good examples of the latter. Indeed Graham and Cagle were recruited by the City to the development team, based on previous involvement. There is some peripheral involvement of Omaha-based lending institutions in the routine of the low/moderate income housing arena. Our best reports are that most lending for housing development, whether in the for profit or non-profit arenas, is by non-Omaha banks.

Low/Moderate Income Housing Arena -- Demonstration

Our view of the institutional matrix of the low/moderate income housing arena as reflected for the demonstration shows the following:

- **The activities of the City and HUD are the same for both the routine and demonstration.**
- **The activities of Graham/Cagle/Goodwin are virtually the same, the difference being that Goodwin (now in private partnership) no longer has a production role, only a political/legitimizing role.**

- There is no local bank participation. Omaha National Bank's terms were not satisfactory. The developer's loan and equity funds were personally guaranteed/provided by Graham.
- An external technical assistance specialist under contract to HUD has been introduced into the arena, providing the necessary technical information to add the one new production activity to the arena, the cooperative.

There are two things to note about the demonstration arena activities. First, the routine operating relationships have not changed. The City and HUD remain in their strongly entrepreneurial, innovative financial roles. Second, there is only one new element, namely the introduction of the cooperative form of ownership. Even this is not seen as radically new, as the city had promoted in the early 1980's, the conversion of a multifamily rental project to resident owner (condo) with HUD financial assistance in the Horizon Townhomes development. Thus the demonstration can be said to have had occasioned only minor changes to the institutional routine. However, the key attributes of the innovation had yet to be implemented. The building was vacant, thus having no pre-existing resident population to assist through the conversion process. The public announcement, resident selection and training process had not yet begun. These activities in particular are the focus of the performance report.

3.2 OMAHA, NEBRASKA PERFORMANCE

This performance report is based on review of information and on interviews conducted during a field visit June 1-2, 1987.

At the time of the performance evaluation field visit, progress on the Ford Hotel project had slowed somewhat due to problems beyond control of the development team and the City staff. Further, the project was encountering marketing difficulties. The key changes in the project since the baseline evaluation in spring of 1986, and the project's status at the time of the second field visit are discussed below. Table 3-2 provides a chronology of major events since the first evaluation field visit.

Most of the participants in the project and their roles in it have remained unchanged since the baseline evaluation. One exception is a change in the City staff person responsible for day-to-day administration of the project. Following the retirement of Frank Mann, Assistant Director of Community Development, this role was filled by Louisa Meyers, Manager of Community Development. Although Ms. Meyers lacks the years of experience of Mr. Mann, she is innovative and has some experience in marketing that could benefit the Ford Hotel project.

Negative Publicity

One key factor affecting progress on the Fifth Avenue Cooperative has been negative publicity regarding some partners in the Fifth Avenue Partnership. On October 5, 1986, the *Omaha World Herald* ran a major article titled "Developer Given Grants and Loans Despite Troubles", questioning the appropriateness of loan and grant awards to developer Cagle on five projects, including the Ford Hotel project, despite a bankruptcy of one of his companies, an alleged loan default, delinquent taxes, and a lawsuit alleging falsified documents. The article also raised questions about the developer's connections with city officials, including those through his lawyer, a former city councilman. Although local Planning Department staff were quoted in the October 5 article explaining the reasons for selecting Mr. Cagle on several projects, and the *World Herald* subsequently carried an article by the developer's attorney defending the awards and challenging the innuendos of the October 5 article, the Fifth Avenue Cooperative Project proceeds under this penumbra of negative publicity.

Perhaps prompted by the newspaper article, HUD's Regional Inspector General for Audit chose to examine many of the City's federally funded housing programs. This investigation was time consuming for the developer. As a result of that investigation, the City staff and HUD's now have little direct contact with partners in the Fifth Avenue Partnership. Instead, all

Table 3-2 PERFORMANCE CHRONOLOGY
 OMAHA MULTIFAMILY HOMESTEADING DEMONSTRATION: Ford Hotel Project

1986

- April 29-30 First evaluation site visit; rehabilitation forty percent (40%) complete.
- October Negative publicity for project in the Omaha World Herald.
- December Most construction completed; staff added by developer to sell cooperative memberships; first cooperative membership sold.

1987

- January Began first advertising of project in media.
- May Began renting some units, and first unit leased by end of May.
- June 1-2 Performance evaluation site visit; four units sold and four rented of the 10 approved for rental.

(estimated as of June 2, 1987)

- Late June Punch list inspection
- December Project that 75 percent of units could be sold with effective marketing efforts.

communication is handled by the Partnership's attorney, Mr. Taylor. Although Mr. Taylor is both very familiar with city government and cooperative in completing the project, his increased role reflects the developer's concerns about the project.

Project Status

Major construction work on the multifamily demonstration project was completed in December, 1986. At the time of the performance evaluation visit, however, a final punch list inspection had not been performed; the City was still withholding approximately \$200,000 from the contractor. In the view of HUD Field Office staff, the primary reason for delays in close out of the project was inadequately documented change orders and poor project supervision by the developer's architect, which led to questions about the quality of materials used in construction. The project also lacked units that were accessible to the handicapped. As of June 1987, the requirement for units appropriate for the handicapped had been met and the City staff planned to conduct a punch list inspection in the near future. Because of his poor performance on this project, the HUD Omaha Field Office was still considering denying the architect future participation in HUD-subsidized multifamily projects for one year.

Marketing Efforts

Efforts by the developer to market the Fifth Avenue Cooperative did not begin until most construction was completed. The marketing efforts themselves have had a somewhat negative impact on public perception of the development. Initial newspaper advertisements and brochures describing the project emphasized words such as "housing project", "low-income," "HUD," and "demonstration project," instead of terms normally used to attract housing purchasers such as "convenient location," "affordable housing costs," or "quality renovation." Promotional efforts have also been limited, focusing primarily on newspaper advertisements, and have not yet concentrated on specific target populations such as downtown office workers. The choice of marketing literature, advertising vehicles and promotional techniques have contributed to difficulties in marketing the units. A new member of the developer's staff is responsible for marketing the units. She is interested in learning ways to improve the project's market acceptance, but has no previous experience in marketing housing units. In May 1987, City staff prepared a marketing analysis of the Fifth Avenue Cooperative which provides a more clearly defined marketing plan. Monte Franke, HUD's technical assistance consultant, also visited Omaha during June 1-2, 1987 to help its staff and the developer prepare a more effective marketing strategy.

As of June, 1987, cooperative memberships for only four units had been sold. All of the cooperative members are single women ages 27 to 42 living alone, although one woman has a daughter in college who occasionally lives in the apartment. The members all have annual household incomes below \$17,000. The developer's staff stated that she received many inquiries about the units but the households were either ineligible or did not like some characteristics of the units. Factors eliminating some potential cooperative members who inquired about the units include the following:

- Families required units with more bedrooms.
- Household incomes too high.
- Households did not meet City staff's underwriting criteria (i.e., person who did freelance work and could not demonstrate steady income).
- No schools nearby for families with children.
- Negative image of area where prostitution remains a significant problem.
- Households concerned about lack of return on equity if they have to sell membership within five years before cooperative conversion from the building's rental status.
- Lack of understanding of the cooperative concept.

Because of the small number of cooperative members, training for members has not begun.

Because of slow membership sales, in May, the developer decided to rent 10 of the remaining units for one-year with City staff's approval. The smaller units with the least attractive features were selected for rental. Based on an interview with the developer's staff, rental of the units was proceeding quickly because people find the units attractive and conveniently located. As of early June, one unit was rented and occupied and three others were either rented with tenants ready to move in or had firm commitments. Two of the renters were students.

Prospects for Project

The overall housing market in downtown Omaha is active, especially for rental units. In recent years, several commercial, hotel and warehouse buildings have been converted to rental apartment buildings, ranging from the eight-unit Howard Street Hotel Building to the 130-unit Orpheum Towers. Units in these buildings have been absorbed relatively quickly. Rents for a one-bedroom unit range from about \$300 to \$800 per month or \$0.40 to \$0.77 per square foot, excluding costs of heat and utilities. Most rents are in the range of \$0.40 to \$0.60 per square foot.

Few opportunities for homeownership exist in the downtown area. Immediately west of downtown and the Fifth Avenue Cooperative is a condominium development that appeals to higher-income households. The Twin Towers is a 120-unit building that was initially constructed as a rental building in 1920, substantially renovated in 1965 and converted to condominium ownership about two and one-half years ago. To date, 90 of the units have been sold with only cosmetic improvements, such as new carpeting and painting. The building offers 26 different floor plans with unit sizes ranging from 530 to 3,200 square feet and priced from \$33,000 to \$250,000. The building attracts primarily people who work downtown.

The success of rental projects in the downtown area as well as progress with the Twin Towers suggests a relatively strong demand for housing in downtown Omaha. The Fifth Avenue Cooperative could potentially meet the demand for affordable units in the area.

3.3 DAVENPORT, IOWA

This report is based on interviews and data collection that were completed during a field visit on June 3-4, 1987.

Project Description

The project selected by the City of Davenport involves the rehabilitation of an old apartment building, the Roosevelt, that had been vacant for two years. The building is located in downtown Davenport adjacent to a somewhat deteriorated residential neighborhood. One of the partners in the development team initially purchased the building in 1972, but later sold it on a land contract. When he recovered the building in about 1984, following the buyer's default on the land contract, it was more seriously deteriorated, and unable to produce rents sufficient to justify its continued operation. The demonstration created access to Section 312 funds that the owners saw as a way out of their dilemma.

The current development team, Heritage Square Partnership, consists of Alvin Streb, a contractor with experience in residential and commercial rehabilitation; Ellsworth James, an insurance agent; and Harley DeVore, a Davenport business owner. Mr. Streb's construction company, Riverview Builders, is also the prime contractor for rehabilitation of the building. Although the technical assistance contractor for the demonstration helped to configure the project for using the 167(k) rehabilitation write-off as a tax benefit during an interim period of ownership, the owner did not see this as an advantage. The members of the development team already had enough tax shelter and did not want to delay the full transfer to the cooperative.

The demonstration involves rehabilitation of the Roosevelt to provide a cooperative with a total of 37 units with the following characteristics:

<u>Type of Unit</u>	<u>Number of Units</u>	<u>Monthly Rent</u>
Two bedroom	32	\$325
One bedroom	5	\$285

The monthly rents of \$325 and \$285 do not include utility costs. Although the exact cooperative fee has not been determined, City staff estimate that it will be about \$35 per month for each unit. Estimated project development costs and funding sources are as follows:

<u>Hard Costs</u>		
	Direct Construction	\$1,231,453
	Contingencies	<u>37,994</u>
	Subtotal	\$1,269,447
<u>Soft Costs</u>		
	Taxes, insurance, etc.	\$78,383
	Loan Fee	<u>300</u>
	Subtotal	\$78,683
	Total Development Costs	\$1,348,130
<u>Project Funding Sources</u>		
	Section 312 Loan	\$1,239,500
	Borrower's Cash	<u>108,630</u>
	Total Funding	\$1,348,130

Some additional project costs, such as property acquisition and architectural fees, are being absorbed by the developers and were not included in the development costs as part of the Section 312 Loan Application. Estimated income eligibility ranges are:

Eligible Income Range
DAVENPORT
(FY87 Median Income \$31,200)

	<u>Minimum Income</u> (50 -60% Median)	<u>Maximum Income</u> (80% Median)
One Bedroom (1 - 2 persons)	\$12,800	\$17,500 - 20,000
Two Bedroom (3 - 4 persons)	\$14,400	\$22,500 25,000

When completed, the development will contain 37 units in four buildings, including 3 units that are appropriate for the handicapped. In order to provide homeownership opportunities for low- and moderate- income households while providing control over the project for the developers until the market acceptance of the units is proven, both cooperative and condominium ownership structures are used. The overall project is divided vertically into four separate buildings which are distinguishable from the rear of the building by airshafts separating them. Each of these buildings is a condominium, one of which contains eight units that will be owned by a cooperative association. The cooperative association will have an option to purchase an adjacent condominium structure containing 10 dwelling units, if the cooperative memberships are readily marketed. The remaining two buildings containing a total of 19 units, all of which must be purchased by the cooperative association together because the developer does not want to be in a

situation in which the association is the majority owner of the project and the developer might be thwarted in taking whatever actions he thought necessary to finish selling his project.

According to City staff and other project participants, the project was structured with a combination of cooperative and condominium ownership forms for several reasons. Most importantly, the developers felt that this arrangement provided the greatest flexibility to operate part of the project as a rental development if cooperative memberships do not sell readily. Also, the developers and City staff felt that HUD was more experienced and comfortable with the use of Section 312 funds for cooperative ownership of units in multifamily buildings and consequently that application processing would be faster and more efficient. Another rehabilitation project near downtown Davenport, the Courtland, which attempted to use Section 312 funds to finance acquisition of some condominium units in the project, encountered problems and delays. Local staff also expressed interest in trying a new approach to low- and moderate-income homeownership.

Chronology

Table 3-3 provides a chronology of key events involving the Roosevelt project. Overall, the project took one year between the time when the developer first contacted the City and Section 312 Loan was executed on February 10, 1987. Initially, City staff considered using Rental Rehabilitation Program funds to renovate the building; however, they quickly determined that the maximum allowable costs per unit were insufficient to permit adequate improvement of the structure. Loan staff then considered the multifamily demonstration. The developers traveled to Omaha to talk with HUD staff and learn about Omaha's experience with the demonstration. During the summer of 1986, the project proposal was developed and refined, and the financing was arranged. Delays in closing the Section 312 loan occurred because of communication problems among the City, HUD and HUD's loan servicer. Construction began early in February, 1987 and the Section 312 loan was executed soon thereafter. At the time of the field visit in June, construction was over 50 percent completed. The contractor/developer expected the eight cooperative units to be ready for occupancy by August 1st, if not earlier. To ensure that units are ready for display, City staff and the developer plan to begin marketing the units at that time. They are, however, beginning to develop a specific marketing strategy.

Prior to selection of the Roosevelt, City staff examined other possible projects for participation in the Multifamily Homesteading Demonstration. The most significant were an historic building located on Third Street, which was dropped because the rehabilitation would have been too costly per unit; and the Langwith Building, a 15-unit building which was dropped because the purchase

TABLE 3-3

CHRONOLOGY

DAVENPORT MULTIFAMILY HOMESTEADING DEMONSTRATION: The Roosevelt Project

<u>1986</u>	
January/February	Examined feasibility of rehabilitating the Langwith Building as part of Multifamily Homesteading Demonstration.
May	Roosevelt developer approached the City about the project, which was then called Heritage Square.
July	Proposal developed for project and architectural drawings prepared.
August	Project proposal refined.
September	Section 312 Loan Application submitted.
September to December	Revised Section 312 Loan Application three times.
<u>1987</u>	
Early February	Construction begun.
Mid February	Section 312 Loan executed
June	Evaluation site visit; construction approximately fifty percent (50%) complete.
<u>(estimated dates as of June 4, 1987)</u>	
Early August	Construction will be complete for 8 cooperative units, the elevator and hallways.
	Will start marketing cooperative units.
	Will slow down construction and complete one of the remaining three buildings every 60 days.
Fall	First cooperative units will be occupied.
	Will train cooperative members as they move in.

price requested by the financial institution that owned the building was too high. No HUD-owned or city-owned multifamily properties were readily available for use in the demonstration.

Davenport Low/Moderate Income Housing Arena - Routine

In recent years, the overall housing market in the Quad City metropolitan area (the Quad City area includes Davenport and Bettendorf, Iowa; and Rock Island and Moline, Illinois) has been weak due to declines in the local economy as major employers, such as Caterpillar and John Deere, greatly reduced employment. According to local real estate sector representatives, in Davenport housing values and rents actually declined somewhat over a six- to seven-year period. Only during the last one to two years have economic conditions improved, resulting in a more stable housing market.

Within the Davenport-Bettendorf area, the very limited new housing development that has occurred in recent years has taken place to the northeast in Bettendorf's higher-income neighborhoods. Middle-income neighborhoods in the north central section of the metropolitan area and lower income neighborhoods to the west have experienced no new housing development in recent years. The generally weak housing market has, however, resulted in some very affordable housing prices for the existing housing stock and a substantial housing vacancy rate.

The Davenport housing market has little experience with low- and moderate-income housing development or rehabilitation. In the mid-1970's, the City established *Restore Davenport*, a nonprofit organization that is housed in City offices and works closely with City staff to implement housing development and rehabilitation projects. Examples of projects that the organization has undertaken include new construction of several single-family dwellings for purchase; rehabilitation of single family homes; and, most recently, rehabilitation of the Courtland Building as moderate- and middle-income condominium units using Section 312 funds. This organization is the primary participant in low- and moderate-income housing delivery.

Only one private developer, a local architect/builder, has done a number of subsidized housing developments. They consist of three developments for families including new construction and ranging in size from 52 to 100 units. In recent years, three nonprofit groups have sponsored several projects for the elderly and one project for families. Local financial institutions have also had little involvement in low- and moderate-income housing financing. The most significant project in which a local lender has participated is the Courtland, in which Davenport Bank provided a loan guaranteed by the City to finance the project's market-rate units. Section 312 financing was used for the more moderately-priced units.

The City of Davenport does have experience in working with private sector investor-owners to rehabilitate rental housing. Because of court-mandated program changes in the 1970's that required use of Community Development Block Grant funds to benefit low- and moderate-income renters, Davenport established a rental housing rehabilitation financing program much earlier than many cities. However, the funds allocated to and used by this program have been limited, and have been used primarily for rehabilitation of single-family homes and duplexes.

The Roosevelt and the Courtland buildings are the city's only experiences with rehabilitation of larger multifamily buildings. In both of these projects, the City staff have played an entrepreneurial role. The current Associate Director of the Land Development Division of the Community and Economic Development Department, John Lonergan, uses this mode of operation, encouraging the City to undertake new and different projects and working with staff to develop effective financing packages. Prior to recent organizational changes in Davenport's Community and Economic Development Department, Mr. Lonergan's responsibilities included directing housing projects, such as the Roosevelt and Courtland projects. In his new position he directs new construction activity, including permits, inspections, and zoning.

Of the two key people who worked with Mr. Lonergan prior to the reorganization, only one continues to be involved with housing programs. Patricia Shean is primarily responsible for working out the details for financing and monitoring housing projects, functioning primarily in an administrative mode. Don Costello, the other person who worked for Mr. Lonergan inspecting rehabilitation work, is now the Assistant Housing Supervisor for the Housing Commission, which is the City's public housing agency. In addition to these two people, Michael Farris is now the Associated Director of the Housing Services Division, which includes residential development, rehabilitation and code inspections. Prior to the reorganization, Mr. Farris was with the Davenport Housing Commission. Despite the recent job changes among staff in agencies responsible for low- and moderate-income housing delivery, all of the key reassigned staff have many years of experience with the City of Davenport and have worked closely together in the past, so that program continuity remains.

An important force outside the city encouraging City staff to undertake new and innovative projects is Melodee Humbert, HUD's Rehabilitation Management Specialist. Ms. Humbert assumes a very assertive role in making City staff aware of funding available for new as well as existing programs. She is well liked by local staff, who find her helpful in pursuing new projects and in resolving problems that arise. Ms. Humbert successfully works with City agencies to

attract funds to the area served by the Omaha HUD office that are above the annual commitment. The HUD Field Office Director, Roger Massey, supports these efforts.

Low/Moderate Income Housing Arena - Demonstration

Given that Davenport's experience with low- and moderate-income housing development has been limited and has involved few nonprofit and private sector actors, the multifamily homesteading demonstration project is unusual. In the Roosevelt project, the key actors and their roles are as follows:

- Public Sector Staff (City and HUD) - Their roles are the same in the demonstration as in the routine delivery of low- and moderate-income housing.
- Private Developer - The Heritage Square Partnership was created to develop the Roosevelt Building by local business owners who have not previously participated in low- and moderate-income housing development.
- Other Private Real Estate Sector Representatives - Other local actors such as realtors and financial institutions that are active in the overall Davenport housing market did not participate in this project. Financing for the project consists of a Section 312 loan and does not involve local lenders.
- Technical Assistance Specialist - A consultant to HUD provided special assistance to the City and the developer to work out the financing of the project and to structure the low- and moderate-income home ownership package.

Unlike other housing development efforts in Davenport, the demonstration involved private sectors in the form of the Heritage Square Partnership. In the past, the City staff's entrepreneurial role has involved; (1) working closely with Restore Davenport and, (2) assuming a lot of the responsibility for project decision making that is reserved to private developers in the broader middle- and upper-income housing market. Even the recently completed Courtland project was developed by Restore Davenport rather than a private developer. The City staff believe that the Roosevelt project benefited by having Heritage Square Partnership, which carefully reviewed all components of the project and pushed to keep it on schedule.

Although Heritage Square Partnership's participants do not have previous experience with low- and moderate-income housing development, they do have experience with market-rate housing

development. Alvin Streb, whose construction firm is rehabilitating the Roosevelt, has extensive experience with residential and commercial construction and rehabilitation. Mr. Streb has had a significant impact on keeping the project on schedule and within budget during the construction phase. His partner, Ellsworth James, pushed during the planning phase to get the project underway. When the development team felt that City staff were not moving quickly enough, they occasionally contacted Melodee Humbert in Omaha directly, or pushed to have the City contact HUD Headquarters for decisions regarding the Section 312 loan. According to the Heritage Square Partnership, they arranged a trip to Omaha to discuss that city's demonstration project with Omaha staff, when Davenport staff did not move quickly enough to provide information on the demonstration.

The demonstration project component that is most unusual is the use of a cooperative housing form of ownership. Cooperative housing is an uncommon form of ownership in the area. As discussed earlier, however, both City staff and the developer concluded that combination of cooperative and condominium ownership forms would facilitate project implementation and would best meet the developer's needs in controlling the project.

3.4 HARTFORD, CONNECTICUT

This baseline report is based on review of data and interviews conducted during a field visit on September 14-15, 1987.

Project Description

The Hartford Multifamily Homesteading Demonstration Program consists of two 3 story masonry structures. The project is known as *Woodland Commons*. It is located in the upper Albany redevelopment area, in the northwest section of the City. Table 3-4 presents a summary of the project components by unit type, size, and costs. The demonstration features of the project include:

- Use of Section 312 money for condominium form of ownership
- Private financing participation
- Sweat equity participation in multifamily homesteading

As required by the HUD solicitation, the City's RFP for the property emphasized that..

- 75 percent of the units must be affordable to households at 80 percent of median income
- This standard must be met for at least the first 5 years of occupancy.

Each of the proposals received responded to these criteria, offering both financing and legal mechanisms. The selected developer committed to 100 percent of the units at the 80 percent of median standard. The protracted negotiations during the summer, 1987, focused especially on the flexibility which would be allowed by the developer in meeting that objective. Table 3-4 sets forth the calculation of monthly housing expense for this target group. (Note that the costs include a price reduction of \$1,500 per unit for sweat equity. This topic is discussed in the following section.)

The Section 312 income limits can be matched against the minimum required income for a 28 percent ratio of housing expense to income to establish the *window* of housing opportunity created by the program. This range of eligible incomes is:

TABLE 3-4

WOODLAND COMMONS MONTHLY HOUSING EXPENSE FOR LOWER INCOME HOUSEHOLDS

UNIT TYPE # OF BATHS	3 BR DUPLEX 2-1/2	3 BR FLAT 1-1/2	3 BR FLAT 1	2 BR DUPLEX 1-1/2	2 BR FLAT 1	
SQUARE FEET	1,419	1,210	1,078	1,210	818	
# OF UNITS IN PROJECT	2	2	6	2	6	
SALES PRICE	\$87,600	\$82,850	\$79,350	\$80,100	\$62,400	
LESS SWEAT EQUITY SAVINGS	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500	
LESS DOWNPAYMENT	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500	
1ST MORTGAGE; AETNA	51,100	46,350	42,850	43,600	25,900	
2ND MORTGAGE; SECTION 312	33,500	33,500	33,500	33,500	33,500	
P&I 1st @ 8 7/8%; 30 yrs	406.57	368.78	340.93	346.90	206.07	
P&I 2nd @ 4%; 20 yrs	203.00	203.00	203.00	203.00	203.00	
PROPERTY TAX	20.00	20.00	20.00	20.00	20.00	
CONDO FEE	47.00	47.00	47.00	47.00	47.00	
TOTAL MONTHLY HOUSING EXPENSE	676.58	638.78	610.94	616.90	476.08	
MINIMUM REQUIRED INCOME	\$28,966	\$27,376	\$26,183	\$26,439	\$20,403	
28% HOUSING EXPENSE/INCOME RATIO						
SECTION 312 INCOME LIMITS						
# OF PEOPLE IN HOUSEHOLD	1	2	3	4	5	6
INCOME	21,300	24,300	27,350	30,400	32,300	34,200

HARTFORD
(FY87 Median Income \$38,800)

	<u>Minimum Income</u> (50 to 70% Median)	<u>Maximum Income</u> (80% Median)
Two Bedroom (3 - 4 persons)	\$20,400 - 26,400	\$28,000 - 31,000
Three Bedroom (4 - 6 persons)	\$26,200 - 29,000	\$31,000 - 34,900

As of early March, 1988, the developers reported an initial applicant pool of roughly 150 households, of which 70 percent were *over-income*. (As used here, *over-income* is another way of stating that the households could not fit into the *window* of affordable housing opportunity.) Further, the developers reported that the 36 percent total debt service to income ratio would be raised on a case by case basis to 40 percent in order to qualify certain households. (Debt service for the 36-40 percent ratio includes monthly payments to all sources.) Obviously the margin for a below median income household is very thin, when such typical consumer debts as automobile loans and bankcards are included.

Table 3-5 presents in outline form a chronology of the project. Efforts at revitalization in the upper Albany area date to the early 1970s. In 1976, a redevelopment plan was prepared and approved by the City Council. A crucial portion of this plan was a considerable acquisition in and demolition of existing stock (including residential) in the neighborhood. The major reuse was as a shopping center, now developed and known as Upper Albany Plaza. The overall plan, including the demolition of existing residential structures was developed with considerable involvement by the neighborhood group. In the early 1980s, as market pressures forced housing prices upward, a change in use was approved. A portion of the site was designated for new housing construction, while several portions which had originally been slated for demolition were retained and programmed for residential rehabilitation.

The area around the project site is characterized primarily by 2 and 3 story residential structures. The structures include single family, two family and multifamily. Across Woodland there exists two multifamily structures (approximately 6 units) which have been converted to condominiums within the past 5 years. These appear to be successful. An abutting multifamily property is at the initial stages of its gut rehabilitation for rental use. Another abutting property has recently completed its rehabilitation. To the rear of the property is a new housing construction area. Nine units were developed by the Hartford Housing Authority. Six single family raised ranch structures were developed by a for-profit developer with land from the Redevelopment Agency. These were completed and sold within the last year. The SFDs are four bedroom. With subsidies, they sold at approximately \$66,000 each. There is one urban homesteading property

TABLE 3-5 CHRONOLOGY

HARTFORD: Woodland Commons

<u>1984</u>	Upper Albany Redevelopment Plan Site acquired, designated for demolition, relocation of all occupants
<u>1984</u>	Upper Albany Housing Development Corp. fails in attempt to structure residential rehab of project
<u>1986</u>	
March	Technical assistance subcontractor OKM approaches City re: Multifamily Homesteading Formal notice to HUD
April	Hartford Officials in Seminar in Boston Hartford Redevelopment Authority (HRA) resolution re: site identification
May	Aetna identified as financing source
June	Meetings/letters HUD and City on 312 financing
July	Application submitted; designation to participate
Sept.	City/Connecticut Housing Investment Fund 312 application
Oct.	
Nov.	HRA/Developer's kit
Dec.	HRA receives proposal
<u>1987</u>	
Jan.	
Feb.	
Mar.	HUD 312 condo conditions
Apr.	HRA Disposal Agreement
May	HUD financing terms
June	
July	Aetna commitment
Aug.	Final terms negotiated
Sept.	Loan closing (9/18)

from the City's ongoing program close to the demonstration project. An additional property and vacant lot are also scheduled for action under the City's Urban Homesteading Program.

The change in strategy for residential reuse prompted in the early 1980s was accompanied by an effort by the neighborhood group to develop the two properties themselves. The Upper Albany Housing Development Corporation progressed substantially through design development. However, the project ultimately failed because the developer was unable to make project numbers work. Thus, when the City was approached to participate in the Multifamily Homesteading Demonstration Program, the Woodland Commons properties were among a very few potential sites considered. After a brief search in early 1986, the City determined that the Woodland Common sites was the most appropriate, and that it would identify it for participation in the demonstration.

Though the City of Hartford has a positive reputation for participation in demonstration programs with HUD and others, the City was not initially favorably disposed to participate in the Multifamily Homesteading Program. This was particularly due to the absence of committed administrative funds with which to implement what the City saw as a potentially complex project. However, the City was actively solicited for participation by HUD's technical assistance subcontractor, OKM Associates of Boston, MA. OKM's principal, Phillip Mayfield, has a long history of involvement in housing matters for the City. Thus, his initiative in this regard proved conclusive, in the words of one of the City's staff member, to "cajoling" the City into participating in the demonstration project. The City's staff participated in a two day technical assistance seminar sponsored by HUD with OKM involvement in Boston of April, 1986.

Simultaneous with this effort, the City was reviewing possible projects as well as proceeding to insure that its various administrative support services could be offered. In May, 1986, the financing subsidiary of the Aetna Life Insurance Company, Aetna Realty Investors Inc., contacted the City with its interest in participating in its real estate investment program. This program provides permanent financing for residential and other projects at below market interest rates, typically 100 to 200 basis points below the Fanny Mae 30 year fixed rate mortgage at the time of commitment. Concurrently, the Department of Housing was working with the Hartford Redevelopment Agency to insure that the various demonstration program criteria could be included in the HRA's Developer Kit. The HRA acted in April to formally incorporate the demonstration program criteria in the application.

In June, 1986, a series of meetings, with related correspondence, were undertaken between HUD and the City relative to the basics of the 312 financing. These negotiations were based on preliminary cost estimates for project completion. Project application was submitted in July, with HUD moving promptly to designate the City as a demonstration program participant. In September, 1986, the City, in collaboration with the Connecticut Housing Investment Fund (CHIF), submitted the formal 312 Loan Application. CHIF would serve as the loan originator and conduit until a developer was designated. In November, 1986, the HRA issued its Developers Kit. Proposals were due on December 12, 1986. The agency received five proposals from both for-profit and non-profit developers. The Department of Housing had incorporated in the developers kit basic information about the Multifamily Homesteading Demonstration, and the availability of 312 and Aetna funds. The Department of Housing reviewed and commented on the five applications. The Department ranked two of the five in top position. The HRA selected a developer through its own process. It did incorporate the comments of the Department of Housing. The selected developer, AEG Design/Build, was one of the two top ranked proposals of Department of Housing.

The HRA acted to give tentative designation to AEG Design/Build in January, 1987. During the succeeding three months, the developer worked actively to secure the documentation required by the HRA for final designation. Central among these requirements was firm financing. In March, 1987, HUD conveyed to the City and the developer its series of concerns relative to the condo conditions for the 312 program. It was generally identified that the 312 program was not well suited in either its regulatory structures or the way it had evolved through implementation for use in a condo. Only one other use of 312 for condo purposes had been identified in the country. In 1981, a project in St. Louis had proceeded on this basis. These documents were obtained by the HUD's area office of General Counsel and conveyed to the HUD area office for use in drafting loan documents for this project.

In April, 1987, the HRA prepared/submitted a land disposal agreement, with AEG Design/Build. In May, 1987, HUD established its basic framework for its financing terms. This involved participation by both area and central office personnel. Formal commitment of the permanent financing by Aetna was forthcoming in July, with construction loan commitment following in August.

During the course of the eight months of work on the project, a series of concerns emerged for the developer. Central among these were the marketing issues associated with the 312 income maximums, and associated underwriting terms, with a maximum of 28 percent of income

committed to principal and interest and 36 percent to long term debt. Intense negotiations around a series of these points were conducted during the month of August. HUD announced a final deadline for resolution of the project of September 18th, so that funds could be encumbered within the appropriate fiscal year. This final deadline prompted the resolution of outstanding issues. The loans were closed on September 18th.

Construction is scheduled to begin immediately, with several months to complete. Marketing is being undertaken over the six weeks between September 18th and November 1st. The developer will then report to HUD and AETNA on the marketability of the project, given the 28/36 percent underwriting criteria. If the project is not marketable on this basis, these criteria can be relaxed to 33/40 percent. Occupancy is scheduled for Spring, 1988.

Low/Moderate Income Housing Routine

There are three municipal level actors in the low/moderate income housing arena. These are:

- Department of Housing
- Redevelopment Agency
- Community Development and Planning Agency

A recent reorganization of City Government has moved to combine the activities of these agencies, as well as to consolidate them primarily under one roof. The City has leased substantial downtown space in which to consolidate the agencies. Thus, the description of the routine heretofore is necessarily time limited, as the routine is evolving as a consequence of this reorganization.

The *Department of Housing* (DOH) has had responsibility for many of the homeownership related programs. Central among these is the administration of the Section 312, one to four unit rehab funds and the incorporation of sweat equity. Hartford has used these in particular for its Urban Homesteading Program. This program received a Special Merit Award as part of the International Year on Sheltering the Homeless. The program and its characteristics are described in the award monograph issued by HUD. DOH also administers energy conservation programs, homeownership counseling, relocation and other related housing programs.

The *Hartford Redevelopment Agency* (HRA) is responsible for redevelopment efforts throughout the city. It has worked in both large scale office and commercial as well as smaller

scale primarily residential projects. The Upper Albany project is one in the latter category. Until recently, the HRA also served to manage and dispose of tax title property acquired by the City. This power was removed from the agency as a consequence of disposition which seemed to be contrary to broader public policy objectives. In particular, the DOH was placed in the position of competing with both for profit and non-profit housing developers for acquisition and rehab of parcels controlled by HRA.

The Community Development and Planning Agency administers CDBG and UDAG funds separately from the Department of Housing. Such funds tend to go into large scale new construction and related rental projects, in which the Department of Housing has little or no involvement. It is anticipated that the administrative reorganization of the City's functioning will tend to consolidate and coordinate many of these activities more usefully.

The City has also had substantial and recent experience in generating housing programs aimed towards affordability. In September, 1987, the City Council passed an affordable housing overlay zone. In the designated area, at least 25 percent of construction must be residential. The City has a housing replacement fund. The City must be compensated (as a proportion of replacement cost) for each unit of housing removed from the stock. This fund has been available for various housing initiatives, including the Urban Homesteading Program. A central portion of this program has been owner participation through sweat equity. The City appears to undertake its various rehabilitation and new construction initiatives involving both for profit and non-profit developers on an equal competition basis.

Sweat Equity

The City of Hartford has a long tradition of *sweat equity* as part of its urban homesteading programs. The Special Merit Award mentioned on the previous page is indicative of the importance of the program to the City, and the regard in which it is held elsewhere. Thus it was considered simple routine to require *sweat equity* as part of the RFP requirements for the Woodland Street project. The initial proposal from the successful developer limited sweat equity to simple laborer tasks (demolition, clean up, landscaping), and to interior painting. The total value per household was set initially at \$1,000.

Negotiations to increase these amounts to more closely match the value assigned in the City's other sweat equity programs revolved around the developer's concerns about more skilled activities being completed to an acceptable standard, and the supervision (hence costs) requirements to be absorbed. The final resolution and value is shown in Table 3-6. Supervision

of the sweat equity component will be performed by the Hartford Neighborhood Housing Services, under contract with the developer. HNHS will conduct classes to teach homesteaders how to perform the applicable activities, as well as having the agency's Rehabilitation Specialist do site supervision.

TABLE 3-6
Hartford Multifamily Homesteading Demonstration
Sweat-Equity Component

<u>Task</u>	<u>Number of Hours</u>	<u>@ \$ per hour</u>	<u>Total Value</u>
Clean-up, during construction	25	\$15	\$375
Painting	35-40	\$15	\$575
Basement Cages	8	\$15	\$120
Landscaping	30/18 units	\$15	\$25
Install Hardware			
Doorknobs	8	\$15	\$120
Closet Shelves	6	\$15	\$90
Bath accessories	3	\$15	\$45
Cabinet shelves/knobs	2	\$15	\$30
Final clean-up	8	\$15	\$120
TOTAL SWEAT-EQUITY SAVINGS			\$1,500

Because sweat equity work would need to be performed during regular business hours, purchasers were given the option of making a \$1,500 cash contribution in lieu of sweat equity.

The comparison of the roles of key actors in the demonstration program with their routine roles yields two major observations:

1. The demonstration involved substantially more actors than does routine operations of the low/moderate income housing arena.
2. The entrepreneurial impetus for the demonstration came from outside the city (by HUD's technical assistance contractors, OKM) and was carried on somewhat reluctantly by the developer.

These two major observations account for what is perceived to have been an extremely long, arduous and occasionally unpleasant process.

While it is frequently the case that the innovations are introduced from the outside, it is always the case that where they are successfully and quickly implemented, there is a local innovator and/or early adopter in a central role to the project. None of the local actors involved in implementing the project fulfilled this role. Indeed, the reports of the participants on the process of the demonstration noted that it moved most efficiently only when HUD's TA contractor was present. This is consistent with the contractor's role and mode of action: as provider of entrepreneurially based innovative service. The developer in fact had two active participants. Al Gary, the President, is categorized by role as an early adopter. Vice President of the firm, Sandra Zlokower, is categorized in a role as an integrator. This served to place caution into the developer role. The developer was both aggressively seeking the project and conveying willingness to undertake the demonstration aspects under the leadership of the President of the firm, while at the same time conveying caution about the financial and implementation consequences of the innovation through the Vice President. This was conveyed in a singular sense by the developer's attorney. The participation of Alan Cohen, the HUD area office counsel, enabled the HUD area office personnel to bring together the diverse aspects of the demonstration in a way that was satisfactory to the more administratively and regulatory oriented rehab specialist and program specialist function.

Aetna's participation was entirely in keeping with its routine, that is, performance of its community reinvestment responsibility function. The involvement of Aetna's construction lending group was on a basis consistent with their typical practice, although the scale of the project was substantially lower than they would typically become involved in. As with HUD, the major role played in the project by DOH's Director, Raymond Grasso, is atypical for routine program, but typical for his role as the city's financial packager for major housing endeavors.

HUD's participation in the negotiation, including the frequent participation by key HUD Headquarters staff, both by telephone and in person, is consistent with demonstration but atypical for Hartford's experience with demonstrations. Further, HUD's intense interest in the outcome of the project without the routine accompaniment of substantial funds, meant that the city was receiving mixed messages regarding the importance of the innovation. Changes in policy emanating from Washington are typically accompanied by substantial financial incentives, and/or financial penalties for failure to comply. Neither was the case in this instance. The only specific benefit of the City was the availability of 312 funds which would not otherwise have

been available. However, there was no accompanying incentive relative to the substantial amount of high level staff time required to make a new program work. Similarly, there was no apparent benefit to the area office personnel for expending substantial amount of time on this project in addition to ordinary duties.

The project is entering its construction and marketing phase. It would appear that it has yielded substantial, potentially generalizable information about structuring homeownership programs involving both public and private direct financing. It is fairly evident that further financing of this sort by HUD would need to be under the rubric of a new program more specifically oriented to multifamily urban homesteading rather than attempting to structure such an operation within the statutory and regulatory guidelines of the 312 program.

3.5 BOSTON, MASSACHUSETTS

This baseline report is based on review of data and interviews conducted in Boston on October 21 and November 9, 1987.

Project Description

The Boston Multifamily Homesteading Demonstration Program consists of 84 units in 17 masonry structures in configurations varying from 4 to 12 units per building, with three- and four-bedroom units. The sites are scattered in the Roxbury/North Dorchester section of Boston. They are a large portion of a failed development project of the late 1960s, the Infill Housing Program, in which a private developer, under City and HUD sponsorship, began construction of family housing on vacant sites but fell into bankruptcy before the project could be completed.

A special feature of the program is that the development entity is a collaborative of four experienced community development corporations (CDCs), each with well-established track record in housing development. The Boston Infill Collaborative acts as the developer/sponsor, and has teamed with an experienced minority architectural/engineering firm and Boston contractor. A revolving construction loan of \$4 million is committed by a black-owned Boston bank with participation by a supporting bank.

Table 3-7 summarizes the project in terms of unit distributions and costs. Fifty four units are to be purchased by buyers who qualify for the Massachusetts Housing Opportunity Program, relying on interest write-downs added to below-market financing from the Massachusetts Housing Finance Agency to provide loans at interest rates as low as 5 1/2 percent. Combined with 5 percent downpayments, this is intended to bring carrying costs down to levels affordable to first-time homebuyers with incomes in the \$18,000 to \$27,000 range (for a family of four) or approximately within 80 percent of median income. The feasibility of the cost limit of approximately \$86,000 is provided by allowing for some *market rate units* (nine in this project) which will be available to families with incomes up to 110 percent of median, priced at \$110,000 per unit. Twenty one of the units will be purchased by the Boston Housing Authority under another state program (Chapter 705) that funds condominium purchase by housing authorities. Eligible incomes are:

TABLE 3-7
 BOSTON INFILL COLLABORATIVE PROJECT DESCRIPTION

<u>SIZE</u>	<u>UNITS</u>	<u>PROGRAM</u>	<u>PRICE RANGE</u>
Two Bedroom Units	3	Market Rate	\$ 105 to \$ 110,000
	27	Housing Opportunity Program	\$ 82,500 to \$ 86,000
	<u>10</u>	BHA Purchase	<u>\$ 90,000</u>
	40	Total	\$ 87,425 average
Three Bedroom Units	0	Market Rate	
	27	Housing Opportunity Program	\$ 92,500 to \$ 95,000
	<u>9</u>	BHA Purchase	<u>\$ 110,000</u>
	36	Total	\$ 98,333 average
Four Bedroom Units	6	Market Rate	\$ 98,000 to \$ 110,000
	-	Housing Opportunity Program	
	<u>2</u>	BHA Purchase	<u>\$ 110,000</u>
	8		\$ 105,875 average

TOTALS

Market Rate	9	17 SITE, 4-12 DU/BLDG Located in Roxbury/Dorchester Section of Boston
Housing Opportunity Program	54	
Boston Housing Authority	21	
TOTAL	84	

Boston
(FY87 Median Income \$37,400)

	<u>Minimum Income</u> (50 - 80% Median)	<u>Maximum Income</u> (80% Median)
Two Bedroom (3 - 4 persons)	\$18,000 - 27,000	\$26,900 - 29,900
Three Bedroom (4 - 6 persons)	\$20,000 - 30,000	\$29,900 - 34,700

As summarized in Table 3-8 total development costs are estimated at \$9,400,000, including the value of the property provided at essentially no cost by the City and forgiven back real estate taxes. Additional grant support for the project is provided by the state Executive Office of Communities and Development (EOCD), the state-funded Community Economic Development Assistance Corporation, and by the Neighborhood Housing Trust, a linkage fund in Boston into which developers make required or negotiated payments in support of affordable housing. Critical early support for the project was an EOCD grant to pay for removal of sprayed-on asbestos so that buildings could be delivered "clean" to the development process. Sales proceeds will include purchase of the 21 units (scattered throughout the project) by the Boston Housing Authority.

Table 3-9 provides a chronology of the project, which is expected to have its closing essentially simultaneous with the distribution of this report. Titles to the still-vacant 100 units of the Infill Housing Program were transferred to the Boston Redevelopment Authority (BRA) in 1978 following the bankruptcy of the original developer, Development Corporation of America. The BRA included only two of the buildings in its original expression of interest to HUD in the multifamily demonstration. The City was on-again, off-again in its interest in participation in the demonstration, seeing the demonstration's contribution as only some technical assistance to prospective buyers. The City was reluctant to get involved in any unnecessary bureaucratic arrangements when there was no financing or subsidy help involved. The City was not interested in complicating the project with Section 312 procedures or in any federal program that would invoke Davis-Bacon wage requirements and work rules.

Probably the most critical event in the project was the decision by the BRA to designate as a consultant for the project Tom O'Malley, an experienced practitioner who had led the effort of the Urban Edge CDC in the Jamaica Plain section of Boston in a redevelopment of a portion of the

TABLE 3- 8

BOSTON INFILL COLLABORATIVE PROJECT FINANCING

DEVELOPMENT COSTS

Acquisition	\$ 405,000
Construction	\$ 7,273,170
Demolition and Asbestos Removal	\$ 175,000
Fees (Professional, Financing, Permits)	\$ 1,244,270
Back Real Estate Tax	\$ 250,000
TOTAL	\$ 9,347,740

SOURCES OF FUNDS

Sales Proceeds	\$ 7,884,000
BRA Land Contribution	\$ 405,000
BRA Contribution	\$ 235,000
Tax Abatements	\$ 250,000
EDCD Grant for (Demolition & Asbestos Removal, Insurance)	\$ 181,600
Grant from Community Economic Development Assistance Corp.	\$ 21,300
Grant from Neighborhood Housing Trust	\$ 370,840 (Grant imminent from Boston's Linkage fund)
TOTAL	\$ 9,347,740

TABLE 3-9

CHRONOLOGY, BOSTON INFILL COLLABORATIVE PROJECT

1969-1970	HUD-sponsored Infill Housing Program plans to build 400 family housing on scattered vacant sites, over 100 units in 18 family structures begun but eventually abandoned.
ca 1978	Bankruptcy of original developer, Development Corporation of America; HUD transferred titles to Boston Redevelopment Authority (BRA).
August 1985	BRA letter of intent to participate in the Multifamily Housing Demonstration using four parcels of vacant, City-owned buildings, only two of which had been in the Infill Program, and proposing a limited equity cooperative ownership format.
September 1985	HUD invited City to submit a formal application.
December 1985	City submitted final application to HUD, describing an RFP process for attracting developers to rehabilitate 17 of the Infill buildings for affordable homeownership.
February 1986	Thomas O'Malley, practitioner leading an Infill redevelopment for Urban Edge CDC, designated as BRA consultant to get Infill housing redevelopment project moving.
March 1986	Boston had dropped out of demonstration, was reinstated by Director of Boston Redevelopment Authority after persuasion by technical assistance contractor OKM.
April 1986	Conference conducted by HUD technical assistance contractor staff (Michael Shea of ICF and Phillip Mayfield of OKM) considering limited equity co-operative option; neighborhood participants skeptical about this model.
May 1986	BRA advanced idea of joint venture of four community development corporations operating in the neighborhoods of the Infill Housing Properties, granted tentative designation as developer to the Collaborative for 84 units in 17 buildings.
ca May 1986	Massachusetts Land Bank approached for financial support for cooperative, refused because of scattered sites.
June 1986	Infill Collaborative formally established, directors are the four presidents of the CDC's. Condominium format selected.

Table 3-9 continued

September 1986	Treasurer of Collaborative approached black-owned Boston Bank of Commerce for \$4 million construction loan. Four CDC executive directors present development team, including minority architect firm CPF/Domenech and Hicks Inc. and seasoned contractor James McFarland.
February 1987	Commitment from Massachusetts Housing Partnership/Executive Office of Communities and Development for Homeownership Opportunity Program loan at 5 1/2 percent for moderate income first-time homebuyers.
April 1987	Boston Housing Authority committed Chapter 705 funds for condominium acquisition for 21 units.
June 1987	Boston Bank of Commerce issued commitment letter of \$4 million construction loan with participation by 1st American Bank.
August 1987	Massachusetts Community Development Finance Corporation commits \$200,000 two-year second mortgage loan.
September 1987	BRA approved final designation of Infill Collaborative as redeveloper, authorized conveyance to property; Neighborhood Housing Trust approached for the last \$370,000 needed to assure a financial margin for the project.
November 1987	Expected closing and start of rehabilitation.

old Infill buildings, among other projects. Boston's primary participation in the demonstration took the form of hosting a conference in April 1986 by Phillip Mayfield of OKM Associates and Michael Shea of ICF, through the technical assistance contract with ICF, Inc. Conference participants included a number of housing actors in Boston; some skepticism was expressed about the feasibility and acceptance of a limited equity cooperative model for the Infill buildings.

O'Malley and the BRA convinced the leadership of the four CDCs to form the Collaborative and work as a single development entity. In May 1986, the BRA granted tentative designation as developer to the Collaborative. By the time the Infill Collaborative was formally established in June, the directors were convinced that a condominium model was the best format. The 1986 changes in tax law, uncertainty about the rental market in the area, and neighborhood interest in equity housing all pushed in this direction.

The Infill Collaborative assembled a development team including a seasoned contractor in the local area, James McFarland, and the respected minority architecture and engineering firm of CPF/Domenech and Hicks Inc. to put together basic project pro formas and begin the task of making the numbers work. Starting with a successful presentation in September to the Chief Operating Officer of the black-owned Boston Bank of Commerce for construction financing, the team has devoted most of 1987 to assembling the rest of the grant, loan, and purchase commitments needed to round out the project.

Low/Moderate Income Housing Routine

Boston has a long history of active and imaginative involvement in low/moderate income housing on the part of city and state governments, the private sector, and community organizations. Many of the City's housing efforts are led by the Boston Redevelopment Authority (BRA), an agency operated, by means of appointments, essentially as an arm of the city government. Growing out of its urban renewal origins, the focus of the BRA in the sixties and early seventies was on downtown development. More recent administrations have elected to focus on neighborhood housing. The City's linkage arrangements have provided a source for direct housing development or contributions to the Neighborhood Housing Trust Fund, linked to more lucrative commercial development.

The Boston Housing Authority operates a stock of public housing among the largest in the country. The Authority has just recently come out from under a court-appointed receivership that resulted from a successful lawsuit several years ago claiming that the Authority had not

responsibly maintained the large number of housing units under its control. In its active pursuit of viable options to large multifamily developments, the Authority has had the benefit of state-developed programs that provide state funds for condominium purchase.

The Massachusetts Housing Finance Agency pioneered the concept of rent-skewing and income mixing in rental housing developments and has continued to find creative combinations of federal and state programs. When the state's Executive Office of Communities and Development became the custodian of a large one-time payment from distribution of funds from a discontinued deposit insurance fund, it elected to set up a series of housing programs under the Massachusetts Housing Partnership. One of the programs, the Homeownership Opportunity Program, links additional mortgage subsidies to the below-market financing available from the Massachusetts Housing Finance Agency to further write-down the interest costs of mortgage loans for first-time homebuyers.

Matching the public agency activities in the area have been the development of increasingly sophisticated community organizations involved in housing. Growing out of a neighborhood nonprofit organization doing housing rehabilitation in the city's South End, Greater Boston Community Development has become a major technical resource for community development, finding creative matches between nonprofit community organizations and tax shelter and subsidy options to package community-based housing. This technical base has been one of the major resources on which Boston's now numerous community development corporations have built. In turn, these strong CDCs are the base for the rental development projects that are being undertaken by the Boston Housing Partnership--a for-profit entity established under the leadership of the president of the State Street Bank to form mutually beneficial links between CDCs and the investment and development community to provide rental housing affordable to low/moderate income households. The CDCs on their own have completed a variety of projects encompassing cooperatives, condominiums, and rental housing; many have set up management subsidiaries.

Another nonprofit entity, the Roxbury Multi-Service Center, has developed an array of programs in support of housing. In particular, they serve as the point of application, screening, and homeownership counseling for Boston CDCs and other housing organizations.

Demonstration Program

Against this background of organizational and programmatic resources for low/moderate income housing development, the essential innovation of the Boston Multifamily housing demonstration project was the formation of the Infill Collaborative as a 501(c)(3) organization comprising the executive directors of four CDCs. Melvin Colón, President of Nuestra Comunidad, had expressed interest in the Infill properties as early as 1983. The Boston Redevelopment Authority took the initiative to encourage four CDCs whose neighborhoods spanned the locations of the Infill properties to form a consortium for redeveloping these properties as a single organizational entity. The officers and directors of the Collaborative are the executive directors of the four CDCs:

Melvin Colón, President (Executive Director, Nuestra Comunidad)
Herbert James, Vice President (Executive Director, Quincy/Geneva CDC and lead person for marketing for the Infill Collaborative)
William Jones, Treasurer (Executive Director, Codman Square Housing Development Corp.)
Larry Bouyer, Secretary (Executive Director, Roxbury/North Dorchester Neighborhood Revitalization Corp.).

This combination puts less experienced CDCs into a working partnership with one of the most experienced CDCs, the Codman Square HDC. All are able to participate in a project of immediate value and visibility to their respective communities.

Formed in 1981, Codman Square HDC has developed nearly 100 units of rental housing and completed homeownership projects including a 21-unit new construction townhouse project and 27 rehabilitated units under the City of Boston's federally funded homesteading program. Codman Square projects under way include a mixed use project including 31 condominiums under the state Homeownership Opportunity Program, rehabilitation of 344 subsidized rental units (Section 8) in the HUD-foreclosed Granite Properties, and development and management of 14 units of family housing for purchase by the Boston Housing Authority under the state Chapter 705 program.

The other collaborating CDCs have considerable development experience as well. Nuestra Comunidad is developing 97 of the Granite Properties, has developed a small number of new sales units, and has been involved in four previous rental projects; Roxbury/North Dorchester NRC owns four properties; and Quincy/Geneva HDC is a partner in a Boston Housing

Partnership demonstration project involving 14 properties to be developed for subsidized rental housing.

Together with the commitment of the City to see the Infill housing at last productively used, the BRA's selection of Tom O'Malley provided the day-to-day and week-to-week effort and expertise required to glue all the pieces of a large project together. The project has moved steadily forward through its many necessary stages. It now appears poised to take off.

While the marketing phase of the project has not been reached, the members of the Collaborative have reasonably clear understandings about how this will be carried out. The primary clearing point will be the Roxbury Multiservice Center, which receives a steady stream of applicants for homeownership opportunities and has experience in screening applicants and working with selected households on the special challenges of homeownership. The Collaborative intends to market approximately 30 percent of the units city-wide. Each CDC plans to market within its respective community and to retain some say in resident selection to assure that neighborhood residents have a fair chance at this opportunity. The project has gotten a boost, too, from a very favorable editorial "Doing Infill Right" that appeared in the October 13 *Boston Globe*.

The most serious reservation expressed about the project was the concern that Treasurer Bill Jones has about the deed restrictions imposed on the project by the City of Boston. Owners will be limited to a resale price that reflects the Boston area Consumer Price Index. While this may help retain such housing for other moderate income households, Mr. Jones' concern is that it places a kind of second class status on such housing.

3.6 MOUNT VERNON, NEW YORK

This report of the effort by the City of Mt. Vernon, NY to create a multifamily homesteading project as part of the HUD demonstration is organized in three sections. The first section describes the project, including basic information about Mt. Vernon. The second section sets forth in narrative fashion the chronology of the City's efforts, from initial response to the HUD notice in April 1985 to the City's withdrawal from the demonstration in November, 1986. The third section presents evaluative observations.

Project Description

The project finally selected by the City for the demonstration was a building located at 445-447 South 4th Street. It is located about 5 blocks south of City Hall. It was a 28 unit vacant building substantially damaged by fire. The surrounding area is primarily two and three family owner-occupied homes.

The proposed rehab of the building would be 'gut' or substantial rehab including all new roof, plumbing, electrical, flooring, doors, windows and finishes. The number of units to be created was 37. There is no on-site parking but sites became available across the street. The cost estimate for rehab was \$1.64m (the developer) to \$2.2m (the City) plus \$822,000 for other costs (the developer). The pro forma was as follows:

<u>Development Budget</u>	
Acquisition	\$153,000
Construction	\$1,640,000
Soft Costs	<u>\$669,000</u>
Total	\$2,462,000
<u>Financing Sources</u>	
Section 312	\$999,000
Private	<u>\$1,463,000</u>
TOTAL	\$2,461,000
 <i>Sales</i> 37 @ \$75000	 \$2,960,000

There were several discussions concerning the target population and the final feasibility analysis determined the following condominium prices and projected carrying costs:

<u>Unit Size</u>	<u>Sales Price</u>	<u>Monthly</u>	<u>Min Income</u>
1 BR	\$60,000	\$450	\$15,250
2 BR	\$75,000	\$575	\$17,400

The eligible income range is thus:

Mt. Vernon
(FY 87 Median Income \$29,500)

	<u>Minimum Income</u> (60 to 75% Median)	<u>Maximum Income</u> (80% Median)
One Bedroom (1 - 2 persons)	\$15,300	\$16,500 - 18,900
Two Bedroom (3 - 4 persons)	\$17,400	\$21,200 - 23,600

Chronology

In response to an advertisement by HUD in April, 1985, the Department of Planning and Community Development of the City of Mt. Vernon New York submitted an application to HUD. The original application of Mt. Vernon identified four sites which would be appropriate for the demonstration.

In August HUD's TA contractor made a site visit to Mt. Vernon to evaluate the city's capacity and the appropriateness of the sites. Following this evaluation, HUD advised Mt. Vernon that an application would be viewed favorably and that it should prepare such including:

1. A Management and Work Plan
2. A Firm Financial Commitment
3. A detailed project work plan
4. Identification of agency to implement the first project.

The letter of invitation also offered technical assistance.

In October, 1985, a work plan was developed which targeted October 31st. for a submission to HUD and identified two of the four projects as the likely candidates for the first project (445-447 South 4th Street and 18 Roosevelt Square). At that time HUD's Technical Assistance contractor recommended an RFP strategy for securing developers and disposing of the properties. In this respect, the 4th Street property showed more promise because the City already owned it.

On October 30th, the City requested a 30-day extension for the application. In November, the City received two proposals to develop the 4th Street property, both of which had been solicited by the Deputy Director of Urban Renewal, who was acting as the representative for the City in the Demonstration. In addition, as word spread, another 12 developers expressed interest with a total of 6 proposing to submit applications. The City then made a decision to put the building up to public auction. The wisdom of that decision was questioned by HUD's TA contractor, suggesting that it might result in a decision which might not produce affordable housing or the best developer. However, the auction was conducted on November 25th. The winning bid was received from a New York City based developer, Vernon Valley Development Group. In December the developers outlined their intended approach, which was to avoid any funding source which would require Davis-Bacon wage rates and to keep open the issue of condominium versus cooperative. From December until March 1986, the developer was pre-occupied with securing commitments from the City and agreements relating to the conditions for purchasing the property and with delineating the preliminary design and cost estimates.

In March, 1986, the 4th Street property was selected by the City as the first demonstration project, and a preliminary schedule adopted.

The City submitted a revised request to HUD for technical assistance, and advised HUD of the selection of the 4th Street property for the project. In response, HUD authorized a portion of the technical assistance requested and required that the City execute the Homesteading Agreement prior to authorizing additional assistance.

In April, a meeting was held at the regional office of HUD in New York City to discuss the demonstration and to review the pros and cons of utilizing Section 312 funding, CDBG funds and other HUD assistance. The general response of the developer was polite but skeptical interest.

In May, the developer submitted to the City a letter of intent to comply with City and HUD requirements for the demonstration but with a set of conditions attached dealing primarily with approvals from the City and necessary actions. Following this, the Deputy Director of Urban Renewal, who had been directing the City's effort, resigned.

In late May, the developer submitted to the City a set of documents required in order for the City to submit an application to HUD for Section 312 financing. It identified total development costs of \$2,462,000 for 37 units. Construction costs were estimated at \$1,640,000 or \$44,000 per

unit. It requested Section 312 financing in the amount of \$999,000 or \$27,000 per unit. The form of ownership was not resolved at this time, though the developer was favoring condominiums.

In early June, the City informed HUD of the intended 312 application and of the progress on the Homesteading Agreement. The City also responded to the various contingencies of the developer's letter of late May, essentially promising support and assistance on all issues, including a commitment by the City Council for financing assistance. Subsequently the City agreed to provide a purchase money mortgage on the property on very favorable terms and also issued a letter of rejection on the zoning, thus enabling the process to move forward. The terms of the agreement required that the developer start construction on the building within 90 days after purchase.

In August, the Developer committed formally to using Section 312 funding and abiding by the regulations of the demonstration, followed by revised documentation requested by the City for the 312 application. In August, the City was notified by HUD that November 1st would be the deadline for submitting the Homesteading Agreement.

Following the HUD deadline of November 1st, 1986, the City advised HUD that it was pursuing the project, but that the developer was not going to use HUD 312 funds. On November 13, 1986 the developer took title to the property.

As of September 15th 1987, the developer had let the purchase money mortgage and the taxes to fall into arrears, had commenced roof work after an ultimatum from the City, had not secured financing for the project and had made motions towards reviving the Section 312 route. The City meanwhile had helped the developer secure a commitment for acquisition of the property across the street for parking and all the necessary City approvals for the project. At this time the City believes that the project will go into foreclosure.

Evaluative Observations

Mt. Vernon illustrates the critical role of local government and of the procedures used to select a project and development team. The informal approach used by the City initially to secure developer interest coupled with a disposition process which conveyed the property to highest bidder left a number of elements to the wisdom of the individual staff people involved and to the vagaries of an auction. Developer interest was solicited by a staff person with little knowledge of the key elements needed by a development team in this sort of undertaking. Consequently, very

little attention was paid to the prior track record of the developer, particularly with respect to home ownership. There was no focus on the financial strength of the developer or upon the financing mechanisms to be used. In evaluating the preliminary proposals of developers, most attention was paid to the architectural schemes of the developers.

There is only one non-profit group in Mt. Vernon active in housing re-development, and it has not developed any homeownership projects. In addition, there appears to be little public discussion about multifamily home-ownership. Only recently has there been any significant market-rate cooperative or condominium development in the City. Consequently, there was not a climate conducive to the demonstration objectives. In addition there was no leadership commitment to the demonstration objectives and no attempt to enlist the support of city organizations such as churches and the non-profits. The end result was an absence of public/private partnership efforts for multifamily homeownership.

3.7 CHICAGO, ILLINOIS

This report of the effort by the City of Chicago, Illinois to create a multifamily homesteading project as part of the HUD demonstration is organized in three sections. The first section describes the project, including basic information about Chicago. The second section sets forth in narrative fashion the chronology of the City's efforts, from initial response to the HUD notice in May 1985 to the City's withdrawal from the demonstration in December, 1985. The third section presents evaluation observations.

Project Description

Southeast Englewood Apartments is a 221(d)(3) development built in 1969 on Chicago's South Side. It consists of 47 units in five three-story, brick walk-up buildings. Three of the buildings front South Vincennes, a busy neighborhood commercial street. The other two buildings, similar in construction type, are located several blocks away on side streets.

The buildings reflect typical 1960's construction--flat roof, large single pane window panels, VAT tile floors, limited insulation, central gas forced hot water systems and radiators, and kitchen/bathroom fixtures of that age. The Vincennes Street buildings have some yard space, generally unused and under-maintained, surrounded by chain link fence to prevent pedestrian cut-through from Vincennes Street. The extremely busy street makes it a very noisy location.

One of the South Vincennes Street buildings burned in early 1985, causing damage to several units. In addition, roof leaks had damaged some units. The scope of rehabilitation would require correcting these problems, plus window upgrades, kitchen and bath upgrades, and other cosmetic work.

Chronology

The City of Chicago's Department of Housing responded to HUD's notice of the Multifamily Homesteading Demonstration with a letter of intent in May, 1985. In the letter, the City identified nine HUD-owned properties, accounting for 1,687 units, that would be considered for homesteading. From these nine properties, the City proposed to homestead Southeast Englewood Apartments, basing its selection on estimates of sales price and rehabilitation needs contained in the HUD Property Disposition Branch's Disposition Recommendation. This recommendation (dated 3/29/85) had indicated an 83 percent occupancy rate for the property as a whole, about \$50,000 in repairs needed to bring the development up to housing quality standards, and an as-is sales price of \$208,320 for three of the five buildings.

The proposal was selected by HUD on a preliminary basis because Chicago was one of the few cities responding to the demonstration with a good selection of HUD-owned properties that could fit into the demonstration. The City was informed of its tentative selection. A site visit by the demonstration technical assistance team was scheduled with the City for June, 1985.

It became apparent during that site visit that the City had not inspected the site nor conducted any financial feasibility analysis prior to application. The selection was done purely on the basis of the HUD Disposition Recommendation. The site inspection revealed substantial errors in the information contained in the Recommendation.

- There had been a fire in one building that affected several units, increasing repair costs.
- Partially because of the fire, there was a substantially higher vacancy rate than the 17 percent reported by HUD.
- In addition to fire-related repairs, rehabilitation needs were far in excess of the \$50,000, probably approaching \$200,000, not counting window upgrades.

On the basis of this information, the City was requested to revise its proposal to reflect actual rehabilitation needs. A revised proposal letter was submitted in July, 1985, raising construction cost estimates to \$200,000. This figure, however, was not based on a professional estimate, and was not yet considered final.

The increased costs substantially affected financial viability of the after-rehab property. The City's approach to financial viability included:

1. A "leased co-op" approach, with City acting as interim owner until a future sale made financial sense.
2. A Section 8 commitment. It had been discovered that the tenants had incomes ranging \$3,600 to \$20,000. The City had intended to qualify tenants using its normal homesteading program standards, which required homesteaders to have income over \$15,000. Since many of the tenants fell below these guidelines, the City proposed to give residents certificates provided by the Housing Authority, suggesting that residents who were not qualified for homesteading could use the certificate to move.

3. Separate out the two scattered-site buildings, and to sell them through the City's regular homestead program (as owner-occupied three and four unit buildings), or otherwise dispose of them.

HUD requested the City to obtain better estimates of rehabilitation costs, and informed the City that the Congress had specifically prohibited displacement in Demonstration projects. It could not allow the City to disqualify and displace residents, even with Section 8 Certificates.

Revised construction cost estimates were submitted in September, 1985, raising total construction to \$409,800. The major increase resulted from the decision to install new, energy efficient windows. The City made the project work on paper by increasing its zero-interest loan to the development, and continuing to plan for 100 percent Section 8 and full Fair Market Rents (even though the FMRs were higher than neighborhood rents).

Projected development costs and sources of funds were:

Construction Costs

Demolition	\$1,000
Concrete	500
Masonry	500
Carpentry	10,500
Windows	200,000
Fencing	12,000
Floors	5,000
Roofing	80,000
Tile	3,000
Paint	9,000
Drywall	5,000
Plumbing	5,000
Heating	5,000
Electric	5,000
Overhead/Profit	<u>68,300</u>
TOTAL	\$409,800

FUNDS SOURCES

Private First Mortgage	100,000
City Second Mortgage	287,100
Fire Insurance Proceeds	12,500
Co-op Equity	<u>60,000</u>
TOTAL	\$459,600

FUNDS USES

Construction Costs	409,800
<i>Other Development Costs</i>	
Architect	10,000
Title Insurance	1,800
Financing Fees	8,000

Admin Expenses	6,000
Legal	15,000
Taxes/Insurance	<u>9,000</u>
TOTAL USES	\$459,600

Upon receipt of this information, HUD decided that it would go ahead with the sale of the property to the City, subject to acceptance of the conversion by the tenants. A meeting was held with the tenants on December 9, 1985, presenting two options:

1. The City Conversion Plan - the City would acquire the property, provide Section 8 certificates to all tenants, and rehabilitate the property and operate a leased coop until a future point when full sale was feasible.
2. Standard HUD Property Disposition - HUD would offer the property under its standard disposition procedures, attaching a 15 year Section 8 commitment for 40 of the units, and a requirement to bring the buildings up to code within 6 months.

The City indicated that Chicago's single family homesteading program had a minimum income requirement of \$15,000 and that it would impose a similar minimum on this project. Because it could not guarantee Section 8 assistance over the long term, the city wanted to impose that minimum on current tenants as well as new residents. It offered to relocate all tenants with incomes under \$15,000, and provide them with Section 8 assistance. HUD rejected that proposal because of its prohibition against displacement. The minimum income requirement would have displaced 12 of 18 families for which current income figures were available.

This dispute had not been finally resolved when the presentation was made to the tenants. Because tenants did not want to be displaced, and because HUD Property Disposition could provide a 15 year Section 8 commitment if it sold the building as opposed to a 5 year Section 8 commitment from the City, the tenants voted down the conversion and took the longer term rent security.

The tenants were fairly evenly split between the two options. They ultimately voted down the coop by a slim margin. The reason the majority opposed the City's proposal was that the City refused to ensure that current residents could stay after conversion. Despite the assurance by the HUD representatives that the City was prohibited from displacing tenants, the City representative insisted that tenants would have to qualify under the City's homesteading program guidelines. Without the assurance that they could remain, and with the alternative of a 5 year Section 8 Certificate versus 15 year Section 8 assistance under normal disposition, the tenants elected what they perceived to be the

more secure alternative. As a result of the meeting, HUD terminated the City's participation in the demonstration.

Evaluative Observations

One of the primary objectives of the demonstration was to test the conversion of HUD-owned properties under homesteading. Because the project was voted down by the tenants, the demonstration was not able to go forward with an acquisition of a property from HUD Property disposition. However, cities must be prepared to work closely with the HUD Property Disposition Branch in the Area Office to have any chance of achieving a conversion of a HUD-owned property. Lengthy negotiations may be needed on price, rent assistance, and other aspects of the conversion. Timing is critical. The Property Disposition Branch has a schedule for disposition of properties, and they must be made aware of alternative disposition opportunities as soon as possible. Otherwise, the property may be sold before the conversion plan is ready.

Converting Occupied Properties. Multifamily homesteading projects are complex, but complexity is increased exponentially with the presence of tenants in the building to be converted. The project must be designed to accommodate the needs of these existing tenants. It affects the financial structure, the staging and cost of rehabilitation, and decision making. Tenants have to be consulted to determine their interests and concerns before substantial time is invested in planning. In this case, the security of tenure was foremost to the tenants. They were willing to forego the opportunity of ownership for the assurance they could remain.

Transition from Renting to Owning. The City proposed a transitional period, during which the buildings would be operated as a leased co-op. During this time, the City would retain building ownership and management. While this transition period would extend the time during which co-op members could build up equity, it also presents a challenge: how do you convince tenants to change their renter habits and attitudes when they have no experience as owners? The residents have lived as tenants their entire lives, and are used to having a landlord take on the responsibilities of maintaining the building and managing the finances. These lifelong habits would have to be changed.

Financial Structuring for Lower Income Households. The Department of Housing decided to establish co-op member downpayments of \$1,500. This price was set based upon the City's intention to require occupants to meet the City's Homesteading Program guidelines, for which minimum incomes were approximately \$15,000. While this downpayment might have been

affordable to families meeting that guideline, it was later discovered that tenant incomes were as low as \$3,600.

Co-op downpayments are important financially and emotionally to co-op members. Financially, they reduce the amount that needs to be borrowed. Emotionally, the downpayment is the member's financial risk that differentiates owning from renting. The downpayment should be structured so that the amounts are low enough to be within reach of families within the target income range yet high enough that a family would go to considerable lengths to avoid losing that money.

Had the project gone forward the estimated range of eligible incomes would have been:

Chicago

(FY87 Median Income \$36,800)

(No Minimum, if Section 8 had been used;
City imposed \$15,000 Minimum)

	<u>Minimum Income</u> <u>Based on Carrying Costs</u> (50% Median)	<u>Maximum Income</u> (80% Median)
One Bedroom (1 - 2 persons)	\$12,600	\$20,600 - 23,600
Two Bedroom (3 - 4 persons)	\$16,000	\$26,500 - 29,400
Three Bedrooms (4 - 6 persons)	\$19,200	\$29,400 - 33,100

3.8 DES MOINES, IOWA

This study of the effort by the City of Des Moines, Iowa to create a multifamily homesteading project as part of the HUD demonstration is organized in three sections. The first section describes the project, including basic information about Des Moines. The second section sets forth in narrative fashion the chronology of the City's efforts, from initial response to the HUD notice in May 1985 to the City's withdrawal from the demonstration. The third section presents evaluative observations.

Project Description

The City of Des Moines, Iowa's capital and largest city, is a major metropolitan area with a diversified and stable economy. It has a stable housing market heavily oriented toward single family homes, and a limited number of condominiums and two or three cooperatives dating from the 1940's. Prior to its participation in the HUD Multifamily Homesteading Demonstration, the City government had not undertaken any multifamily homesteading projects. It was, however, experienced in single-family homesteading and multifamily rental.

The City's Urban Development Department attempted to do two projects under the demonstration, both of which failed to go into construction largely due to problems of shaping a feasible project with private owners. Both were configured so that investor/owner could take advantage of the 5-year write-off for rehabilitation expenditures as a tax benefit.

Project 1: 1330 - 1352 12th Street

The first project selected was a parcel consisting of two three-story brick apartment buildings, a large vacant lot, and a two-story bungalow style house. At selection, the buildings were vacant except for occupancy by their owners--two brothers who had begun some moderate rehabilitation.

The buildings are on a prime street corner slightly northwest of the downtown in the the Model City CDBG Target Area. As the name indicates, the area formerly was a Model City area. Over the years, it has received concentrated public funding, including over \$2 million in direct CDBG funding since 1982, and a large human services office complex constructed in 1986. This neighborhood contains one the City's greatest concentrations of low-income families and minorities.

The City was attracted to the idea of rehabilitating and converting the property into a single-parent family co-op. The large lot was considered a possible play area, and the adjacent bungalow could ideally become a daycare center badly needed in the community.

Project 2: 1 Hartford Place

The second project, known ultimately as 1 Hartford Place, entailed the conversion of a surplus elementary school building in a neighborhood slightly south of the downtown known as the Southeast/Pioneer-Columbus neighborhood. The neighborhood, largely a moderate income, white, Italian community of single family homes, had been targeted for CDBG funds for housing stabilization and sewer improvements.

The school was a two story brick and masonry construction building on a lot slightly under 2 and 1/2 acres. It had some decorative masonry trim and parapets, and a flat roof. Inside, the building featured 10 large classrooms (plus two or three basement classrooms of marginal utility), with wide corridors and stairs, 14-15 foot ceilings, maple floors, and oak doors and trim. Windows were large double-hung, single glazed units that were in need of replacement. Attached to the building was a small gymnasium.

The plan was to rehabilitate the school into 16 units with 312 funding, and offer the units as a limited-equity cooperative. The owner/developer would be bought out via a second mortgage.

Project Chronology

The City of Des Moines applied to the HUD Multifamily Homesteading Demonstration in May, 1985, at the urging of the HUD Area Office. The City had no HUD-owned multifamily properties suitable for the Demonstration. However, the Urban Development Department staff wanted to broaden their options in dealing with multifamily buildings in the City. Because it had no suitable HUD-owned or City-owned parcels, the City identified several privately owned properties as candidates for conversion. All of the potential candidates were in a major CDBG (and former Model Cities) Target Area.

The City's application showed evidence of strong support from Mayor and City Council, and expressed an initial preference for the limited equity cooperative model, use of Rental Rehabilitation Program funds and a split-subsidy approach. HUD selected the City of Des Moines because of the potential of the candidate properties, and invited the City to select a property and submit a revised and expanded proposal.

After consideration of the several options, the City selected a project in the Model Cities target area located at 1330 - 1352 12th Street. Within this target area, nearly half the stock is considered substandard. Only 38 percent of the units are owner-occupied. Nearly half of the population consists of minority families, and the median neighborhood income is only 58 percent of the city-wide median.

The property consisted of two three-story brick buildings, a vacant lot, plus a two-story bungalow style house. The buildings were vacant, except that the owners, two brothers, living there in order to protect the property. The structures are in need of substantial rehabilitation, but still solid and worthy of rehabilitation.

Staff of the Urban Development Department were attracted to the project because of location and building condition, but also because of the multiple buildings and large lot. It seemed to be a good setting for a cooperative for single-parent households. The units were large enough for families, the adjacent lot would provide adequate play area within view, and the two-story housing could serve as a daycare facility, badly needed in the neighborhood. Because no other City housing program responded well to the needs of single parents, it was perceived to be a unique opportunity. Consequently, the City did preliminary rehabilitation cost estimates and a development pro forma, and submitted a revised proposal in October, 1985.

The two brothers who owned the property were interested in managing the project. However, the City did not believe them to be capable. Instead, the City took the position that they wanted to buy out the owners and convert the property directly. The City offered \$50,000 to buy the property plus relocation benefits, since the owners resided in the buildings. The owners wanted \$120,000.

As a means of settling the dispute, the City agreed to an independent appraisal. It came in at \$112,000, because (it was learned later) the owners only showed the appraisers the parts of the building that had been renovated. (To demonstrate the disparity, the appraisal estimated \$50,000 in rehabilitation, while the City had estimated ten times that amount.)

The City responded to that appraisal with facts to back up its analysis, but decided to go looking for an alternate project because they considered it unlikely that they would be able to come to agreement with the owners. Although discussions carried into the Spring, the City was not able to settle with the owners. The buildings are still privately owned and vacant.

A Second Project Proposed: April, 1986

The City's search for an alternative project in early 1986 led them to a surplus school building situated on a hill in a neighborhood just south of the downtown near the confluence of the Raccoon and Des Moines Rivers. This neighborhood, a CDBG target area known as Southeast/Pioneer-Columbus, is home to a large population of lower income families (the average neighborhood income is 65 percent of the City-wide median), descended mainly from white European ethnic groups (85 percent white). Two thirds of the predominantly single-family stock is owner-occupied; 37 percent were reported as substandard.

A local businessman had purchased a surplus school building from the Des Moines School System without firm plans for the property. As he began work with a local architect and contractor on plans to rehabilitate the school into housing, he allowed local charity groups to use it for temporary storage. Upon receipt of preliminary estimates of rehabilitation costs he realized he would need City assistance.

The owner approached the City in early 1986. It was suggested that the property was suitable for homesteading. Several visits were conducted in the Spring and Summer by the HUD technical assistance team to inspect project, assess feasibility, and begin negotiations with owner.

As project planning proceeded, it was recognized that rezoning would be needed from the current "R2" to an "R3" classification that would allow multifamily housing. Most other requirements, including parking, could be met due to the sizable site. The need for public hearings on the variance opened the opportunity for neighborhood residents to express concerns about density, traffic, and subsidized housing programs.

The City also offered to apply for a tax abatement for the parcel. The City's tax abatement program, meant to encourage rehabilitation, provides rehabilitated properties in urban revitalization areas two options: 100 percent abatement of the tax increase related to rehabilitation for three years, or a sliding scale over 10 years.

The City also needed to make the determination that the building would not be considered historic.

The City rushed to put in an application for Section 312 rehabilitation financing from HUD in June, in order to ensure receipt of commitment of funds by the end of the federal fiscal year. The proposal for 312 funding was submitted to HUD in mid-June, and was based on preliminary

cost estimates compiled by the architect and modified by the City. Estimated sources and uses were:

<u>Funds Sources</u>	
312 loan	\$569,900
Developer Note	69,000
Co-op Equity	<u>11,100</u>
TOTAL	\$649,900
<u>Development Costs</u>	
Acquisition	\$80,000
312 Application Fee	300
Architect/Engineering	22,000
Construction	505,700
Contingency	26,385
Construction Insurance/Utilities	3,000
Closing Costs	3,000
Real Estate Taxes	1,500
Construction Interest	<u>8,000</u>
TOTAL	\$649,900

Construction costs had been estimated at \$530,000 by the owner's architect (including architect's fee of \$22,000), \$527,700 by the owner's contractor, and \$505,700 (excluding the architect's fee) by the City's Urban Development Department.

The City's objective was to achieve a co-op monthly charge comparable to average rent, and still be affordable to families earning at or below 80 percent of median income. Monthly charges were projected as follows:

	Average Monthly Charge	Market Rent
Studio	\$260	\$271
One Bedroom	300	329
Two Bedroom	350	379

These monthly charges were set in order to achieve a slightly better than breakeven position, assuming a 5 percent vacancy rate. They compare favorably with the market, based on an annual rent survey of city apartments. (Neighborhood rents revealed by that survey were comparable to the overall market average rents.) The eligible income ranges that would have been implied by these monthly charges are noted below:

Des Moines

(FY87 Median Income \$33,400)

	<u>Minimum Income</u> (50% Median)	<u>Maximum Income</u> (80% Median)
Studio (1 person)	\$10,400	\$18,700
One Bedroom (1 - 2 persons)	\$12,000	\$18,700 - 21,400
Two Bedroom (3 - 4 persons)	\$14,000	\$24,000 - 26,700

HUD's initial response to the application for financing focused on three points:

1. HUD would insist that its loan be the primary lien, and that the owner's mortgage for the sale of the property would be in second position.
2. The City would have to resolve plans for the transition to co-op ownership, so that the original borrower and any assumption provisions could be included in the original loan documents. The owner would be the borrower for the construction period, and would sign personally for the loan, but would be taken off the loan at the time the co-op purchased the property from the owner. If assumption were to be pre-approved, then co-op documents and co-op minimum financial criteria would need to be worked out with HUD in advance of loan settlement.
3. The original unit mix included four studios. HUD questioned whether studios were marketable as for-sale units.

HUD found the project planning sufficient to make a conditional commitment of Section 312 funds in September, 1986.

As the Urban Development Department pushed ahead with planning for the project in order to obtain rezoning approval from the City Council, it became apparent that major neighborhood resistance to the project could materialize. The neighborhood wanted to have an elderly co-op, while the City wanted to make the co-op available for families. The neighborhood also wanted to have neighborhood preference, but City staff were concerned about the discriminatory impact, given that the neighborhood is 85 percent white. City staff needed to present a viable plan for selecting occupants to the City Council before it could obtain zoning approval.

With the help of the HUD technical assistance team, City staff devised a point scoring system that provided for preferences for minorities as well as length of neighborhood residency (which would give older residents some degree of preference over younger residents). The staff determined that some level of neighborhood preference was legitimate because the neighborhood was a CDBG target area, but they decided to give the same priority to residents of any CDBG target area in the City. Since the other three CDBG areas have much larger minority populations, this definition of neighborhood preference would avoid discriminatory effects of marketing. In addition, the City staff proposed an affirmative marketing program aimed at residents of the other three target areas.

To ensure fair implementation of the resident selection process, City staff assigned responsibility for applicant screening to a nonprofit group that operated tenant programs in low income neighborhoods, and proposed a selection committee of consisting of the developer, a representative of the neighborhood, and the nonprofit. Their selections would then be monitored by the City's Equal Opportunity Officer.

City Council Vote: October 6, 1986

With the marketing issues resolved, the City Council voted approval of the rezoning, fully supporting the position of City staff, while only modest neighborhood opposition materialized.

The City then requested extension of the closing deadline of November 30 to January 30, 1987. This request for an extension was based upon the City's expectations of additional time needed to complete two critical items;

1. Co-op documents - expected to be completed in early December; and
2. Construction documents and firm contractor bid - documents were to be completed in December, with bid openings in January.

The City has recently reported that nothing has happened with the project, but it has let the owner know that it would still consider purchasing the property and doing the co-op conversion itself.

Evaluation

The City wanted to participate in the Demonstration, but there were no suitable HUD-owned or City-owned properties. The City's approach was to find a privately owned vacant property located in one of its CDBG areas, and whose owner was willing to participate in the conversion.

From the perspective of location, rehab feasibility, suitability for the homestead target population, and after rehab affordability, the two properties were good candidates. However, the City did not recognize or anticipate the problems with the owners that prevented either project from moving forward. Had the City evaluated the owners, it might have avoided the loss of person hours devoted to packaging these projects.

One of the major innovations of this Multifamily Homesteading Demonstration was the inclusion of private developers. Previous multifamily homesteading efforts had concentrated on public and nonprofit developers. The use of private developers was expected to (1) give the City access to privately-owned buildings and (2) free the City from managing the rehabilitation process as private developers deliver completed "turnkey" projects.

Des Moines provides two examples of owner/developers who became obstacles to homesteading rather than facilitators. In both cases, the City selected the project based on the property, building(s), and after-rehabilitation potential. The owner was "inherited" along with the project, whether or not that owner had the capacity to manage the development, and whether or not that owner would ultimately agree to the terms of the conversion.