HUD NSP TA Disposition Beyond Housing, Practical Approaches, 12/10/13

Kent Buhl: So now for today's main event, "Disposition Beyond Housing: Practical Approaches."

As the NSP expenditure deadline approaches, grantees are deeply involved in questions of disposition -- of selling houses but increasingly disposing of houses that have not sold and of vacant lots and other properties acquired. This webinar will examine disposition beyond housing.

Experts and HUD staff will present a four-part process of analyzing properties with fresh eyes, evaluating alternative uses, detailing disposition options, and making firm and timely decisions.

We have a number of people with us today. We've got Don Lenz, who's the principal with Lenz Planning and Development Services in Cleveland, Ohio; David Boehlke, who hails from the Healthy Neighborhoods Group, a nationally recognized expert in neighborhood revitalization and healthy neighborhoods. Hello to the two of you. And of course, with us today our NSP friends from HUD headquarters, David Noguera, Hunter Kurtz, and -- as happens from time to time -- we have NSP's Jennifer Hylton with us today. So welcome to each of you. Let me get you properly unmuted here, and that'll take just a second.

Okay. Let me also now turn the call over to Don Lenz, who will get us started. I will do that as soon as this poll is closed. We'll be looking at your responses a little bit later in the webinar.

There we go. Hi, Don.

Don Lenz: Hi, Kent, and thank you to everybody who's showed up today.

Okay. The focus of the presentation today is rethinking the question of disposition. HUD had a very good webinar on disposition and demolition that was referenced in the announcement for this program, and we'd recommend that people look at that also in depth.

Our point today is that disposition is more than selling NSP houses. We want to outline what the alternatives are. We want to encourage you to take a new look at how an NSP property can meet its own use so you're ready for closeout. And we'll say a little bit about closeout, and of course there'll be questions and answers at the end.

Here's an overview of the agenda -- discussion of the problem. We're going to review national objectives, DRGR, and closeout -- and again, we don't want to get lost in the details, but if you have a major question linking those items to this subject, please hold on to it and ask it later. We're going to talk about how to analyze your properties. We're going to give examples of practical answers for disposition. And then there'll be questions and answers.

So what kind of properties are we talking about? Renovated or newly-built for sale housing owned by the developer, grantee, or subrecipient, and which you obviously don't have under contract for a sale; structures other than housing owned by the grantee or subrecipient; and an

item which I think many grantees are just now really focusing on -- lots resulting from demolition or clearance owned by the grantee or subrecipient.

So what's the problem? Obviously if you have a strong market, not so much of a problem. NSP neighborhoods, the market tends not to be as strong, particularly in certain cities.

When market demand is so weak, how can a grantee dispose of property, whether a renovated house, commercial structure, or the single scattered-site lot? I guess one of our key points here is you can't sell something to people that they do not want. So whatever you're doing, there has to be a little bit of a marketing consideration of what information do you need in order to sell a particular piece of property.

Strategies for disposition that we are going to consider. When selling isn't the answer, we're suggesting you consider these six items, and we'll go over them in detail with examples later. Renting long-term -- really turning it into a rental property; renting short-term until you can see an immediate sale; leasing to own; providing community facilities; special economic development; and reuse of lot.

We're going to talk about once you've identified the alternative, what are your recommended grantee actions -- to assess the strategy of each property; to develop strategies for effective disposal; to make sure properties meet a national objective; and to report performance in DRGR.

This slide perhaps needs to be focused a little bit more -- review what counts in NSP. Obviously neighborhood stabilization counts, but the point is that all activities and expenditures must meet these requirements, and something must be in DRGR, or as one of our slides says later, it didn't happen.

So one, all your work has to conform with the correct eligible use in an approved action plan of the grantee. Two, it has to be an eligible activity under that use. And three, it must meet a national objective. These are just the three main ones we've listed here for NSP. LH-25, you're all familiar with that. Twenty-five percent must be spent here. LMMI, 120 percent AMI; and LMMA, where a comprehensive neighborhood strategy has to exist in writing and the area has to be 51 percent AMI.

This is a table which demonstrates all these points. We're certainly not going to go into this, but I would recommend that everybody either do a screen capture of this or access this PowerPoint presentation, which will be on the OneCPD resource website after this presentation is done. You've got to be familiar with these objectives and how everything you're doing plugs into them.

Just a review of DRGR. As we mentioned earlier, if it's not in DRGR it didn't happen. This is HUD's way of measuring what's done. Once an activity's been completed it has to be indicated in the QPR narrative; address information has to be entered or confirmed; and you have to confirm the reported accomplishments with beneficiary data.

You must -- point at the bottom, emphasis, outline around it -- complete and meet a national objective for each NSP property before you can close out.

So as an end of the introduction, we know you still have sales that you're working on. This is a great family from Toledo who've purchased an NSP house, the mother and owner and two adopted daughters. But consider non-sale strategies now. That's what's critical.

And I'd like to now turn it over to Dave Boehlke.

David Boehlke: Thanks, Don. This is Dave. I want to first thank everyone for participating. I realize many parts of the country there's very bad weather today, and particularly on the East Coast. The fact that many of the HUD people are calling in from their own homes, that shows a real commitment to this topic. So thanks, everyone, for participating.

What we're going to do today -- and I hope to make this more participatory than just a lecture -- is to try to go through this four-part process, and along the way, engage some of you in questions or examples or have Kent bring them forward. And if that doesn't work, at least at the end I'd like an extensive question-and-answer period.

This is a very serious problem that we're facing around the country. Many programs have done an excellent, excellent job of developing properties and in fact of even re-utilizing those properties through sale or other programs. But they're reached the point now where there are some properties that are beginning to be problematic.

So with that in mind, we're hosting this session with the long-term hope that you will really see ways that you can get out of this box. Right now, the plan is a four-part process.

First, we're going to ask you to do something called looking again with fresh eyes. I'll explain that in a moment. After that, we're going to ask you to do something which can be very frustrating but is really needed, and that's to re-research the properties you actually own. Next will be to look at the six topics that Don has already outlined for us. And the fourth is putting together a work plan and making a decision on what to do to act. This is not one of those issues where you can wait for the sale or disposition to happen around you. You'll need to be the leader.

So what are we asking you to do? This is not a request that you do a huge project, but that you take a few minutes to step back from whatever properties you're dealing with that have a disposition dilemma facing them. We are going to try to look at these situations as if you've not dealt with them before, that it's a brand new space; and that the property is going to be understood as a unique place as it exists today.

Remember, things have changed from when you purchased these properties and the long period in which you often rehab them. Many of them have been sitting on the market for months. An example I dealt with once in the HOME program was a very distressed block with three fully renovated properties on it that couldn't be sold.

When I asked the director why did you choose that block, it turns out that 18 months earlier there had been three premier properties on that block, each of which was lived in by an elderly; and in

each case, that person passed or went into senior living. The result was two out of those three houses had gone abandoned and the other was a rental.

The bottom line is what made sense 18 months ago doesn't make sense today. And you have to think of each place as unique today.

So talking about this looking again, just as I explained, the idea is to remember to avoid preconceptions. When you went into the neighborhood earlier, perhaps there hadn't been a drug problem, or perhaps there hadn't been the fire down the street, or perhaps this was two years ago and the elementary school hadn't closed. So don't go in assuming it's a safe, clean neighborhood with a good elementary school. Go in saying, "What do I need to know about this place? I'm going to look at it for the first time."

And we're strongly recommending you not do this process just as perhaps you, the grantee or the grantee staff, but that you actually try to broaden it a bit. Perhaps you should have someone from--if you're affiliated with a nonprofit, someone from that board, perhaps it's someone else from another city department if you're a city program, but try to broaden the process from people that haven't already been involved in the disposition these buildings up to this date.

The first thing we're asking you to do is to seriously consider actually going to the site, not sitting in the office with a few pictures and some sales prices and an appraiser sheet. But rather, going to the site, walking around it, going through the building, checking out its advantages and disadvantages, walking the block, walking the next block, figuring out what's happening today and if any of that is showing a change or is continuing a change.

So, first, you're going there with an open mind and, secondly, you're going on site and spending time learning about the place.

Third, when you're there, you're going to need to find out about your competition. Pay attention to where there are other For Sale signs or For Rent signs or whether foreclosures are now moving the market further down or at least not allowing the market to strengthen. So, you need to have an open mind, go to the site and then look who your competitors are for being able to effectively dispose of your properties.

So in order to do that, first, we strongly urge that you write a property profile. This is just a sheet of paper in which you put down what is actually the situation that was seen on the ground. Perhaps if you did this as a group, three or four of you, you've gone back to the office now. You've put out the famous piece of butcher paper on the wall, and you start saying, "What did we just see? What were the situations we need to understand more about?"

Then really start batting around analyzing the results. Think about what you learned. Each of you will have different perceptions about how important that nearby abandoned or that recently fully renovated house will influence your ability to dispose of your property. So that bat those ideas back and forth and really analyze the results.

Then finally, create a tentative work plan. And we're emphasizing the word tentative because instead of going through research on all the possible topics, we're asking you to look at the topics and pick out those one, two or three that have the most likelihood of being successful. And that'll work out if you, as a group, sit down and think through what is your tentative work plan. And, of course, with any work plan, a plan means nothing if you don't have a way to operationalize it. Good results don’t happen without a plan, and a plan doesn't succeed without operationalizing it.

So, in this process, the first thing is to going back and researching properties. As you know, most of you have been listing properties for sale. And if you have, you've been doing it through a reality listing. On that realty listing, essentially you have a lot of the basic information on the property that will be aimed at the current sale price, a description of the number of rooms, the positive features of the property.

But you'll also need to figure out the hard data, and part of this can come from the realtors. You might be able to ask them how many people have seen the site, how many have gone through the property, if there've been any almost serious purchases of the property. This begins to give you some hard data about the customers and about the property. You need to be thinking about what are the customers seeing and that's the property that you're marketing. And by marketing, I'll explain later what that means.

Next, as I stated, you need to have the critical information that's what's necessary for decision-making. So these are some hard numbers. If you have to go back and revisit the sales price, then you need to also be able to document what are the more appropriate sales prices in the neighborhood. So you need to be gathering some critical information.

We're recommending there is kind of a straightforward way to do it. We have Parts A, B, C and D. The first is just really the thumbnail description, very similar to what you know on any real estate listing. But also keep in mind that you want to make sure you re-looked at your documentation about the original appraised value. Make sure if this is a property that has an income restriction other than the 120, is this one that you would set aside for the under 50 percent of median. Do you know what the current taxes will be? Do you understand how many days in the market? So essentially that's what a realtor looks at when they create a realty listing and keep data on the listing.

The next thing is to go back in your own records and determine the current price. If you've made price changes, let's see what those are. And think in terms of these price changes and what they mean in terms of monthly costs.

In the course of the last year or two in Florida, many of the municipalities have had to raise their taxes because property values have gone down so much. That means that we have to think in terms of what are the new tax rates, not what are the old tax rates. So that's part of monthly cost.

And next, you really want to document the issues of profiling the kind of customers who might want the property. That might mean as a renter. A customer might mean as a nonprofit that would take ownership. It might mean someone who plans to lease or own. But you want to think through who you'll be aiming your message at so you've collected the right information.

The third area is putting the property in context. It's very easy to go ahead and offer a really excellent property for sale. And I have to tell you after years in this business, the NSP properties I've seen have been unbelievably good. But there are certain area advantages and disadvantages that are pretty profound.

In terms of the advantages, many of these go back to why you originally selected that property, perhaps its location, perhaps the status of the neighborhood, perhaps the recent new shopping strip that was improved, and that's fine and you want to write those down. But you also want to remember the area disadvantages. And these are a little harder to be honest about. We will tend to overlook those things because we don't want to say we made a less than perfect decision to buy the property.

But the reality is that the area disadvantages are calculated in every potential customer's decision-making. So you want to be detailed about it and you want to be tough because some of them can be mitigated and some you'll have to figure out how to work around.

And finally, you really want to talk about the neighborhood image. Whether it's a nonprofit, whether it's a city agency, whether it's a lessor or lessee or whether it's a possible renter or buyer, every one of those customers is interested about the place in which this building exists. Is it a place that people choose to be or is it not a community of choice for a sufficient population to keep it stable?

Finally, let's make sure we've reviewed everything about the property, if the floor plan works, if the finishes are at a high grade, if the yard has been properly landscaped, if all of the green features have been identified and promoted. If it's a lot, you really want to think through what makes it a desirable size. In some communities that means it's larger. In other communities, the desirable size is it's smaller. In some cases, the desirability of a lot might be its taxes are very low, but that also reflects that its value is low. So you want to think through the advantages of the house or the lot.

In every case, I want to repeat what you're doing is you're thinking from a customer viewpoint, what the end user needs to know about the property and wants to know.

So the six that we are going to be looking through are listed on this part of the form. What I'd like to do is before we proceed with them, Kent are you able to tell us yet how many people have responded to the survey?

Kent Buhl: Sure can, Dave, and give me a second --

David Boehlke: I caught you off-guard; sorry.

Kent Buhl: -- to get the ball back here. It's quite all right. I was listening for it. So let's look at the poll results, and they will appear on the right side of your screen here in just a second. There, are you seeing them now, Dave?

David Boehlke: Only if I have a very good set of glasses on.

Kent Buhl: That's right. Well, I can run through these. So how many renovated houses do you have in inventory? And a little bit of everything, but the biggest group is 41 or more. How many of these houses have been --

Don Lenz: Yes, this is Don. I've just -- we've got a lot of houses out there.

Kent Buhl: Indeed. How many of the houses in inventory have been hard to sell? The biggest group there says one to five out of their inventory. How many vacant lots do you have in inventory? And the largest group of respondents don't have vacant lots. But then those who do have somewhere between a little and a lot of them, have the vacant lots been hard to dispose of? How many of them? Again, a diminishing number as the number gets larger. How many nonresidential buildings do you own? Very much most people say zero. And so that's nonresidential. Looks like only three of the respondents have any of those. Mostly it's renovated houses to a lesser extent, vacant lots and hardly any nonresidential buildings.

David Boehlke: Okay.

Kent Buhl: There you go; you've got it back now, Dave.

David Boehlke: Yes. There we go. So given that we recognize we're mostly dealing here with housing, and I'm assuming a lot of cases it's scattered single family, but it could be in apartments or condos, and we're dealing with some lots, although for most programs, you have either none or just a few that you need to be dealing with.

So let's pay attention as we go along to these options, which apply to the single family houses in which apply to the others. The first three, since we assumed there'd be a lot of houses, the first three really address the issue of those single family, small apartment, condo units that you have. And we're going to look at the long-term, short-term rentals and the lease options.

So first of all, let's talk about long-term rental. And I know that this is a arbitrary use of a word when we say long-term. But really what we're saying here is if, as a grantee, you've made a decision that you have a group of these properties that likely will not easily be sold and you're going to have to hold them for an extended period of time, then you're going to want to be talking about something that has a 5, 10, 15-year timeline to it, particularly because you're going to have to meet the requirements of your grant and that if you are going to keep portion of it to a population earning under 50 percent or under 20 percent then you're going to have to be monitoring that over the long-term.

So we're thinking of long-term here as being a number of years, perhaps 10 or 15 years. And once you've decided that, then you're going to have to really spend some time thinking about how you're going to guarantee compliance during that period because whatever program or part of the program you've set up the property originally will have to be addressed as you make sure that it meets those requirements throughout its rental life.

Now, what are the pluses and minuses to rental? All of you have been through this I'm sure in almost all communities that generally speaking, rental communities and rental neighborhoods are less stable than long-term home-owner neighborhoods. But we also know there are rental neighborhoods that have been able to maintain themselves and, in fact, continue to be places of choice.

So you really want to think through in your city, in your small town, what are the dynamics and advantages and disadvantages of a long-term rental facility or facilities.

When you're doing this, you're also going to want to think through how your units are configured. We know nationally scattered site, single family rentals are extremely difficult to own and manage. There's a fairly good history of well-placed programs that have difficulty dealing with the management of these kinds of units if they're dispersed.

In some of your cases, your units might be configured in such a way that they're close to each other or adjacent to another rental complex to which they could be amended in terms of management. So you have to ask these questions. Who's going to own these things in the long run? And, of course, that also relates to the compliance issue. But just as importantly, who's going to manage them? Because you are part of a neighborhood stabilization program and as such you want to make sure that your units are managed in such a way that it continues the stabilization of the neighborhood that began with the NSP efforts.

So an example of this might be you did the neighborhood site we talked about, the onsite visit. You found that you had eight unsold, renovated houses, not that you didn't know that, but you had a chance to look at them. But what you realize now is that in the last two or three years, the block has become mostly rental. So selling today isn't a viable option.

However, you also make the realization that nearby rental is good and that a major employer is expanding over the next three to five years. So this is the kind of information that you have as you begin to look at this place.

So in this case, a response might be that you establish a full-fledged rental program. You have the goal of keeping quality rental affordable as the local economy recovers. We would probably recommend that you seek resources to expand the number of units to make the project viable because clearly a six-unit long-term rental project would be a very difficult long-term management issue.

So let's look at another option. What if you considered instead just doing short-term rental? When we think about short-term rental, we're talking about taking the property off of the market as it currently exists as a For Sale unit, renting it out for at least one, perhaps two, years. And seeing if at that point the community is ready for the properties to be moved back into home ownership.

You need to go through the same pluses and minuses you did before. Are these appropriate uses of these buildings? Do they fit into this block? Is there a market for this kind of rental? Is there a

problem that if the neighborhood has such revolving door rentals that your units will not even succeed? Those are all important pluses and minuses.

Again, you're going to have to ask the real question, even if you're talking about just the next 12-24 months, who's going to manage the units? Will you do it as the grantee and view that as part of your disposition process? Or are you going to find a management company and simply continue ownership but have someone else actually manage it? And because you need to find renters fairly quickly, how are you going to go about assisting the process of making sure these units get rented and get rented to the strongest possible buyers?

As our example, we thought it was worth revisiting those same eight unsold, renovated houses. In this case, though, our additional information was that a private developer is building new For Sale housing on the next block.

Now, that new housing may be at a market niche above yours and, as such, it's not really a competitor. But when new housing comes in like that, you know that within a year or two, nearby home owner housing at the quality of the NSP units would, again, be in market demand. So a year from now, your houses may be an excellent choice for home buyers.

Given that you don't look at long-term rental, you look at short-term rental. And you look at trying to do one-year leases. You always have to remember, though, that these leases will have to conform with local laws. In many places, even if it is a one-year lease, the tenant has the right to continue in the property with very few -- with almost no restrictions put upon their continued use of the property or you have to offer it to them for sale.

Now, certainly you have no problem offering the property to people for sale, but you have to go through the drill again of understanding what are the income niches this property can be either sold or rented for and how would that apply after a year.

Now, as the houses become vacant, if you're in a place where there are these long-term lease restrictions, you can relist the houses with local real estate firms. It doesn't even have to be the firm that you listed with the last time. Usually after six months, there is no carry over on your listing requirements.

So if you rent these properties, you usually gave yourself some breathing space, 12 months, 18 months, 2 years. But during that time you'll still have to think about management and generally speaking a professional management firm is probably your best bet, but remember it's not inexpensive because professional firms would be interested in managing not just for a year but for years, and so you'll probably have to negotiate a special contract for a short-term rental use.

So now you've got the possibility of looking at these things as becoming part of a major rental program or becoming part of a short-term rental option. But what about the other one we've heard so much about in other parts of the country with a lease-purchase program?

A lot of you know this as lease with option to buy. There's a number of names for it. But essentially what it is is you identify individuals with the very strong potential to be able to buy

but without meeting current underwriting standards, not having sufficient savings or whatever is the issue in the way of their ability to purchase. Given that, you look at the possibility of either doing short-term leases with a buyout plan in them or long-term leases.

If you're going to do a lease-purchase program, you probably want to spend more than the usual amount of time thinking through who the customers are. One of the ways to find out who they might be is to find out customers that failed for whatever reasons to buy your properties originally. If they did not get financing because they had not been stable enough in their jobs or didn't have sufficient down payment or hadn't yet been able to clear all of their previous credit dings, these might be exactly the customers you want because given a year, these might be people that are prepared to be homeowners.

On the other hand, if your customer base is extremely weak, that have a number of issues, you might want to be stepping back and saying we need to have a long-term plan and that is why we talk about long-term leases.

Your next question will be how do you find these customers and how do you qualify them. For many of you, you've been using a real estate agent to find customers and to qualify them before submitting a contract for purchase of your properties. In this case, many real estate agents do not want to be involved because the repayment to them through this system is often not sufficient to make it worth their time to invest in finding and qualifying these customers. So you've got to set up a system either as yourself as the grantees or perhaps through another organization, a first-time home buyer program, some kind of credit repair agency in town, whatever. You're going to have to figure out a way to find and qualify the customers.

In the meantime, you still have to remember even though they're leasing the units with the intention of owning it, this is still essentially only a lease. So you have to pay attention to the fact that people need to manage -- someone needs to manage these buildings. And then, of course, someone needs to manage the process of buying.

So this covers the general concept of the lease-purchase thing. Let me give you a quick example. Both of these are based on real situations. Two Midwestern cities each have extensive abandonment and low sales prices. The buyers in both cases are really quite weak and financing's hard to get. One city's response is to use a 15-year lease. That gives buyers enough time, but it also means that the grantee needs to have a connection with a large nonprofit to manage these properties because you're going to need something with a 15-year timeframe in mind.

In the case of a second city, they had a program that was aimed more at, say, 12 months getting the families prepared. They were able to lease up these units by mostly looking at people that had not been able to purchase in the past. Of the 11 units that went into the program, only 6 are going to close within the 12-month period. So five will probably have to close during the next six months. So it is not easy because there's always the issue that those five could, in fact, have been too marginal and then will have the situation that the program have to almost start over from scratch.

So those are the typical ways to deal with these kinds of properties. The next two I can go through very quickly. One is to think about the building as a community facility. This is where you look at the structure and say, let's stop thinking about it as being a house. It's not a house; it's a building. Who ought to be using this building? Who would the new owners be? How can we assure success? And an example might help you figure this out.

The situation in this case was that two unsold houses were both on a busy street. Families just weren't interested. There was, however, a program for developmentally disabled adults and they wanted more permanent independent housing. So in this case, the agency could take possession and there would be a community facility essentially operated for these disabled adults. But it would be owned by a local agency.

Interestingly, though, a second house in this situation was offered to the neighborhood association. It runs an afterschool tutoring program and provides other services. Now the association is very small, only has part-time staff, but the association is incorporated and could take over management of the property.

It's clear in both of these cases we're not talking about your ability to sell. We're talking about your ability to effectively donate. If these things don't work well, you may want to step back and do another step and say, what if we thought of it not only as a way to get the property reused, but as a way to try to trigger investment in the neighborhood. And this would mean looking at this NSP property as a way to stimulate local economic health, whether that's for profit or not for profit, but whether it's a business or it's a program. Does it have a track record? Does it serve an underemployed or underserved population? And which of your properties can trigger this kind of investment?

In the case of place in the Midwest, the decision was the property had to be cleared and initially -- essentially -- a farm has been put in with employment for neighborhood use to learn various farming tactics and for the neighbors to run a neighborhood green market where they sell produce but also sell homemade goods themselves. In the long run, had there been one of the vacant properties on this block, and there is, that property could be repaired to be used for both staging this farm site and for running the farmers market. And that would meet a special economic development need.

Now it could have been, and in the same site down the street there were three For Sale townhouses, they were all in a row and it was a commercial street. The decision was to consider -- didn't act on it, but there was a considered decision to look at the front rooms as offices and shops using the rest of the house as housing for the shop owner or office person. When they checked with local ordinances, that was legal. These could be live/work properties, and therefore could be sold on that basis on either leases or as just straightforward sales.

Now there's also, in another situation, a fourth house that was all on one floor. That could be offered to, say, a local job bank group or a youth employment program. And as long as you can help them meet the necessary ADA requirements, this is a strong tool for a special economic development.

Now the final area we're going to talk about is facilitating the use of vacant lots. I was very happy to see on the write-ups that very few of you are facing a large number of vacant lots. Some have just a few. And I want to review the basic point. Oftentimes we ask NHS grantees if there's a vacant lot problem. And they refer to the problem in the neighborhood, but as a grantee, those aren't your lots. So while it is a neighborhood problem, for you to be able to successfully do closeout, that's not an issue. But if you do own it, you want to figure out some way to get these properties moved on quickly.

One of them is direct sales as side lots to neighbors. The typical things are the neighborhood gardens, the neighborhood entry signs. Some cities have used these lots between buildings for geothermal storage. Other places that are dealing with the breakup of the sanitary and storm water from each other have used these as rainwater retention sites, in other places parking lot extensions. The point about vacant lots is to step back from them and not think of them as a problem, but to instead think of them as an asset.

Obviously, we have a community garden here with raised banks. Another picture shows a wildflower garden that basically is using up three lots in a neighborhood. Up at the top you see side lots where owners have been willing to take them on and either just fence them and keep them clean or, in fact, landscape them and make them an asset.

If you have lots, rather than viewing those as spaces you need to take care of, you should view them as how can the neighborhood use that as an asset for its stabilization.

The biggest approach would be selling the lots to an immediate neighbor. If you've offered those lots in the typical way, which is perhaps at a neighborhood meeting or listing in the paper that they're available, our experience is you very seldom can sell them that way. You need to go directly to the property owners and you need to show them the advantages of owning the lot. Even though they will pay somewhat more taxes and have more maintenance, the sense of having control is very important to people.

However, the expense of managing the lot, by that I mean originally seeding it, landscaping it, planting up the trees or whatever, you can work with local groups in town, the garden club, the master gardeners in your city. You can work with the landscape organizations/companies. You can work with home improvement companies and with youth training groups and make this possible for homeowners, even elderly homeowners, to take on these lots and make them assets.

Now the other thing you can do that will meet the requirements of assisting in job development is to look at these lots to see if they can assist in developing a local or expanding a local business. In this case, we're looking at a neighborhood pharmacy wanting to do a drive through. Their parking lot was too small. Your lots allow their parking to increase and the end product is you expand the pharmacy, improve the service to the neighbors through a drive through, and you have a bigger and better maintained parking lot. And it's done by you using your vacant lots proactively.

So if you want to learn more about vacant lots, come back to this show and you will see listing the probably two of the finest documents in this field in the country. The NPI, Neighborhood

Progress Incorporated, in Cleveland did an excellent one on reimagining Cleveland. And much of that's on lots. And they worked in conjunction with an Earth Day coalition and did a pattern book for these.

There are two organizations, two cities that have done a stellar job. One is Youngstown, Ohio, which has literally been able to reuse and reassign hundreds, and I mean hundreds, of lots in such a way that the neighborhood now basically has no vacant lots at all to manage.

Or another one where they didn't go for volume, that is in Canton, instead they went for using the vacant lots to anchor the neighborhoods through community arts projects. But both of those would be good examples if you're looking at how you want to use your vacant lots.

The important thing no matter what you do in terms of these six areas or particularly the first three about housing is to ask the business questions. Who will carry out the strategy? What resources are needed to make that successful? What timeframe are you giving yourself? And we recommend making sure these things don't drag out. How are you going to measure success? It's not just that they got reused; they got reused in a way that you wanted them reused. And how are you going to track and report it? Who's going to be responsible to make sure it gets in DRGR because as we know from Don, if it's not in DRGR, it never happened.

So when you make this decision, go through the business process, do the pro forma, looking at the issue of change of use, thinking about non-housing functions, and if necessary, finding the partners that'll allow you to do this successfully. Always keep your options open. Don't commit solely to one path if you've got multiple routes of disposition.

Finally, remember that your decisions have real life-changing impacts. These are important things that you're doing. That will change whether or not these people will find an opportunity to live in a neighborhood of choice or a neighborhood where they would prefer to choose to not be.

So if you want to make the deals work, the first thing is you're going to be looking at pricing. In many cases, price is not the issue. Frankly, the properties for the proposed use have no significant value. Essentially, you're going to be donating them. But when you donate, you're not just giving something, you're creating a community benefit. So you have to be clear about who owns the property. You have to be able to identify who will benefit. You really need to understand what it's going to cost for the new owner to own that property. And you need to identify how you're going to ensure compliance.

There are many places in the country that have already done donations. And some are finding the difficulty is not who gets it or who benefits but can that organization effectively continue to own and run that property and do the compliance necessary for the 15 years or so that that structure has to be under restrictions.

And again, let me repeat, whether you rent, whether you sell, whether you lease, whether you donate, no matter what you do, you're always asking who's your customer. If you're going to promote the idea that a non for profit landlord should be owning these properties or that they should be rented directly by you to renters, you need to think about who are those landlords and

who are those renters. If you want to convince a nonprofit or public group to accept this donation, you really have to work through with them the math to make sure that the donation moves their organizational agenda.

Finally, if you're offering the lots to a desirable owner or to any other owners that need space, you have to think through will they, in fact, be able to manage that space or are we dealing with just trying to solve our problem and leaving a long-term neighborhood issue.

Stabilization is NSP's middle name. This is the Neighborhood Stabilization Program. When I looked at this picture that we have here and thought about these -- this is a woman and her adult daughter. She has a young daughter of that adult daughter who now has a child. Four generations have bought this house. They are going to be anchored in this property for the next 20 or 30 years. And as such, everything you do leads to that level of stabilization.

So as you look for options on your program, I urge you to step back. Think about it as an asset and think about it as a force for stabilization. So you want to look at adding incentives if you have to make the deal work. You have to look at your past process. You have to think about you might need to upgrade the property or the lot to make the deals work. You need to figure out how to engage the neighbors to expand your customer base. And you need to think about who else needs to be helping you get this done.

So we've given you the six steps here about fresh eyes, your options, pluses and minuses, creating a plan, tracking, adjusting a plan, and reporting progress. Those are all your next steps but you need to decide to act because, frankly, for many programs, the issue isn't how to do it. It's to make the decision that the current process is no longer working and something has to be done before you have closeout kind of as an omen above you.

So with that, I hand this back to the leader of this group Kent to deal with the question and answer period.

Kent Buhl: Thank you, Dave. Wow, this is -- there's many facets to this issue. And hopefully those of you in the audience are thinking of taking advantage of the expert that we have here in Dave Boehlke and seeing what questions you have for him or for Don on some of those other issues [inaudible] meeting the national objectives and the like.

So I'm going to make sure all our panelists are unmated here. David I just unmated you. And let's remind you how you can ask your questions. And you've got two ways to do that. You can use the Q&A box to submit your questions and written questions. And if you're connected by phone with a phone icon next to your name in the participant list, you can also click your Raise Hand button, and I'd be happy to unmute you.

I know that the majority of you are listening via computer and that written questions are your only option there that you may be typing now. So we'll be patient. And while you're formulating questions, I'll remind you that this webinar will be archived on the OneCPD website. And that will include the AB recording of today's event, along with a PDF version of the slides you've

seen, and the written transcript as soon as that's done. It's amazing how quickly they can do that now, but word recognition software is taking that leaps and bounds forward.

So we've got a question from Phil and Phil is asking, "Does HUD have a target date for the release of the closeout and program income notice?" [inaudible] David or Jennifer perhaps?

David Noguera: Can you hear me?

Kent Buhl: Yes. We can.

David Noguera: Okay. Great. Yes. We've had multiple target dates. And unfortunately we haven't been able to deliver on them yet. I will say this. We feel like the end is near. Based on the reviews and the clearance process that we have already completed, we feel like we're really nearing the end and publication is close. At this point, my guess is it's probably at least I want to say a few weeks off. It probably won't happen until the beginning of the New Year. But I can't offer a specific date right now just because there's still a few unknowns that could potentially delay us. So please bear with it.

Kent Buhl: Thanks, David. Thanks for the question, Phil. And so questions for Dave Boehlke about disposing of your hard to dispose of homes or vacant lots. We're happy to entertain those questions and, again, while you're thinking about that, I'll let you know this is one of those rare times since the NSP program was born that there hasn't been a webinar on the schedule. But I know that they're, Hunter and Company, are working on those and they will be added as soon as dates are confirmed. So check back to the OneCPD website for upcoming NSP webinars.

David or Jennifer, you could be included in this, too. Are there any questions you have or issues you'd like to highlight that were pointed out either by David or Don?

David Noguera: Well, I think they did a good job of just sort of laying out what the landscape looks like. Obviously, it's not easy, particularly if you've been going down one path thinking that you were going to be able to sell these homes and now time has passed and properties are not selling. So trying to come to terms with that and come up with an alternative strategy can be challenging. But I think some of the strategies that both Dave and Don offered would be helpful. And those are certainly the ones that we have been encouraging grantees to consider as we talk to them both in person and via e-mail.

Kent Buhl: Louise says, "We have multifamily units that were intended for a nonprofit developer who don't really want them. Can we sell them to a for-profit buyer if there are deed restrictions that require affordability? Or do we have to find a nonprofit?"

David Boehlke: I would like to give the answer that I usually give in the field, which is that, yes, you can sell it to for-profit if you build all those restrictions in. And they have to be very carefully documented. And in places where I've looked at doing that, we've talked about putting in, in fact, a small second mortgage that allows us to control that outcome. But I would like to defer to the HUD staff that can give a much more technical answer because usually my copout is to then say talk to your local HUD staff.

David Noguera: Right. So from a technical standpoint, a for-profit entity wouldn't qualify as a subrecipient. They could be brought on as a contractor, but then again, you wouldn't be selling it to them. You'd really be bringing them on to manage the property.

The cleanest way to do it would be to have them purchase the program -- have them purchase the property out of the program. But that would mean then that you'd have to reimburse the program for all the costs that are into it. So I think it's a little tricky, and I don't want to say don't pursue it, but if you're going to do it, you really need to make sure that the agreement that you have in place has the authority to carry through all of the rules because at the end of the day, whether it's a for-profit that ended up carrying out the development or nonprofit or the city, the grantee is ultimately liable.

So I just caution you to go that route. I know we have been looking at a couple different scenarios, but I will say that they're situation-specific. So I wouldn't want to give you a blanket response. I'd ask you to work with us and let's go through your -- the specific details of your question.

Kent Buhl: Good question, Louise. Thanks for that. Stephanie is wondering if a side lot program is eligible under both activities to B and E.

Jennifer Hylton: So this is Jennifer. It might be actually good, Kent, to go back to the table in the slideshow that has the eligibility types and then activities that you can do. So you can do it under B, but under E there's the restriction with NSP 2 and 3. So with NSP 1 you could do it. If it's NSP 2 and 3 under eligible use E you can only do housing activities. So it depends in that case what funding source you're using, not just eligible use.

Yes. So if you look at the table, you can see where you've got side lots listed. So you can do it under B. And you can do it under E for NSP 1. But NSP 2 and 3 has to be housing activities. So it's basically where you see disposition as an end use.

David Boehlke: And just to be clear there, Jennifer, adding a lot to a house isn't a housing activity. Housing activity for you means development of housing?

Jennifer Hylton: Right, exactly. So in NSP specifically, we've said that a side lot program can be qualified under an area benefit, which means it's not a housing activity. It doesn't have to meet -- there's no income eligibility. So because of that it doesn't -- you can't do it under eligible use B for 2 and 3.

Kent Buhl: I hope that helped, Stephanie. Joshua asks, "Does a grantee have to announce to all nonprofits that NSP properties are available to be donated if the grantee has been approached by one nonprofit to donate properties for them to construct homes?"

David Noguera: So subrecipients don't have to be procured from HUD's perspective. And either one of those nonprofits would be considered a subrecipient for us if they're carrying out the

activity for you. So you can, yes, choose which one you want to go with unless you have a different set of rules on your local books. But yes, from the HUD perspective, that would be fine.

Kent Buhl: Thank you, Joshua. And we pause to give you a chance to think of a question you've been wanting to ask and haven't yet done. So usually this means that either the issue has been explained so well that people really don't have questions anymore, or they're befuddled and not even sure what to ask because they're so deep into it. But in this case, I suspect it would be the former.

But here we've got a question from Stephanie, a follow-up to the side lot question. "If the adjacent homeowner is income eligible and the side lot is added to their property, could eligible use E be met?

Jennifer Hylton: No. It's got to be -- basically if that property is only eligible as a vacant property, so say there was no structure on it, there was no blighted structure or no foreclosed or abandoned structure, and it's only vacant and you're using NSP 2 or 3 money to use that money to acquire it, you've got to build housing on it. If you can't build housing on it, then you have to reimburse the program because you technically haven't met a national objective. And that's only for eligible use E for NSP 2 and 3, when the property is only vacant. There's just no way for that side lot program to be considered housing.

David Boehlke: Jennifer, let me just double check the provisory you put at the beginning though. If there had been an abandoned property on the site, the program grantee bought the property, demolished it, they now own it, are you saying that that still doesn't qualify as a housing activity if they donate it to a neighbor or sell it to a neighbor?

Jennifer Hylton: Right. But in that case you'd be fine because you'd actually want to just move that from eligible -- whatever eligible use it was in to the eligible use D for demo because it was blighted so you demolished it. So you can just move that acquisition to eligible use D and that property isn't eligible. Through that acquisition you meet a national objective when you demolish it. And that national objective just carries over to the side lot program as an area benefit.

David Boehlke: Jennifer, I just think a lot of people missed that trick, which is you've done it so it doesn't make any difference. Move it to the other category.

Jennifer Hylton: Right, exactly. As long as it -- as long as that property was blighted when you demolished it, which in most cases hopefully that is the case, and you can just move that acquisition cost to eligible use D and then it's eligible as an eligible activity. You've met a national objective with the demolition as an area benefit and the side lot program continues that area benefit.

David Boehlke: And to build on that for a moment, remember that it's maybe not in the best interest to go to just to the one neighbor. You may want to look at both neighbors and if the reasonable program makes sense to get the lot surveyed and divided in half so it creates a more modest size side yard.

Don Lenz: And just to point to -- maybe technical but to follow up, you have to make sure that your action plan has that particular eligible use in it. And you may need to do an amendment to make sure. Almost everybody has demolition. So that's a good one.

David Boehlke: Well, Don, almost everybody but the very first program I worked with didn't, so we had to put -- do a whole amendment.

Don Lenz: To put it in, yes.

David Boehlke: For one lot.

Don Lenz: By this point -- oh, I know who that was. Yes. By this point in the program, I think most people have expanded or focused their substantial amendments and their action plans. So you just have to make sure what you're switching it into exists or you're going to have to amend.

Kent Buhl: So Don Lenz, while we've got you, you mentioned to me that you want to make a comment about slide 17.

Don Lenz: Yes. My only point on slide 17, I put this photo in there as we were composing this. This is a little bit more detailed, but this is an absolutely cool program that Jim Rokakis in the Thriving Communities Institute has just used in Lorraine [ph], which is an evaluation questionnaire on an iPad that takes the photo and puts it right into the file and then creates a very accessible filing system for all of these comments. And, of course, you can go back and review that as you're looking with fresh eyes as we recommend. Not something that a grantee would want to start up now with expenditure deadline in March but an exciting project, not too costly, and thriving communities actually got that from Mahoning Valley. So just wanted to comment on what this guy's doing here.

David Boehlke: And the Mahoning Valley thing you're referring to is the Youngstown Project.

Don Lenz: Yes. Yes. Youngstown Neighborhood Development Corporation. And I think -- to give credit, I think the Mahoning Valley Organizing Collaborative was involved in that, too.

David Boehlke: Yes. They were merged for this project because I helped put it together.

Kent Buhl: All right. We have a side lot follow-up question from Lee who asks, "If NSP One funds were used to demolish a site, then would it be sufficient to dispose of it as a side lot even if it wasn't "lighted?"

Jennifer Hylton: I don't think so. I'm trying to think of a case where you would demolish something that's not blighted without wanting to rebuild. I think really in the case that you're describing, you wouldn't really be meeting a national objective for one of the eligible uses because you acquired a property -- I mean, you might want to call in just to tell us how the property was eligible for the acquisition and then how you're qualifying the demolition without it being blighted because if you're doing a acquisition and then demolition as two separate activities without a final use, they each have to meet a national objective. And I'm just not sure

how that's happening if it's not a blighted property or a public safety hazard or something like that.

Kent Buhl: Scanning for other questions. Hunter tells me that he lost power and phone all at once and is trying to get back in. I wondered where he went.

David Noguera: Well, Kent, one comment I wanted to make is that as the program is transitioning to the latter stages now, this -- one of the reasons why we offered this webinar today is because of the sheer importance of the topic. This is one of the areas that we're spending a lot more time focusing on, looking at disposition, looking at how the properties that were acquired are going to meet a national objective particularly if grantees are going to be looking to close out their grants in the near future. So I think it's okay that we're not getting a lot of questions right now. I just want the callers and those listening in to just realize the significance of the issues.

Kent Buhl: Thank you, David. And I'm seeing no more questions.

And Reed does submit a comment saying she'll review the designation of properties that were acquired and demolished by her predecessor and follow up with her program contact, and thank you for those answers. Thanks for the question. And so any other final bits of advice or encouragement from either Dave or Don or Jennifer?

David Boehlke: Well, I'd like to go ahead and make a quick couple summary comments. And first of all, thanks for a very large number of participants that have stayed with us through this because I realize it was a marathon presentation and a lot of that data was talked about and programmatic issues were raised. So you really want to go back and relook at the script and can track down either Dave or -- myself, Dave, or Don if you have detailed questions.

But I think the most helpful thing was thank you for the four dozen responders to the survey to get a sense of what challenges you're facing. Although a couple programs have -- ten programs have found issues about properties they own, vacant lots are a more manageable issue than we had originally thought. And I think we can come up with strategies for those that face those.

When it comes to housing, it's also good to know that a significant percentage are dealing with just having that handful of properties that you'll need to figure out a what to do strategy on. And I do recommend that you go through this process but remember that slide towards the end where I pressed you to think about have you really thought through your sales project very well.

While you look at all these other options, if you really only have three to five houses to sell, you may want to step back and think about how can you change your pricing, change your incentive package, change the properties to make them more marketable.

In one case in a northern city in Michigan, the property wasn't selling. One of the reasons was it was fully renovated, it was a lovely home; it had no driveway. It had a muddy ditch where people parked. It should have been paved originally. If they're going to sell the property, having

a driveway and a storage shed or a driveway and a garage would have made it a property of choice.

Sometimes we have to stop back and rethink our product and figure out what's going to make it marketable. So I urge you to think through the various other options in this presentation today but not step aside from the notion of rethinking how you're trying to sell, particularly if you're talking about having only three or four troublesome properties.

And I do thank you all for your attention. I realize it was a long and kind of professorial presentation. Don?

Don Lenz: Yes. I just want to comment first thanking Dave. He does a great job in working with grantees and community groups out in the field, and I think we can all see that from this presentation. It was pretty lengthy but I think -- I want to thank HUD for kind of, let's say, focusing us and pushing us a little bit to come up with a PowerPoint that can live on its own. I would encourage any of the attendees still on to most definitely download that and take a look through it again, and again, as Dave said to ask any questions that you'd like of us. And thank you for the opportunity for participating in this.

Kent Buhl: Great. Thank you David Boehlke, Don Lenz, Jennifer Hylton, David Noguera, Hunter Kurtz and all of you for being here. And we'd appreciate when you're taken automatically to a survey form when you leave this meeting, we do look at those survey results and especially written comments you may have. So take a moment to fill that out and we thank you for that.

And we look forward to seeing you soon on another NSP webinar. Take care, everyone.