



## NSP Problem Solving Clinic 2012

# Disposition Strategies Workshop

# Disposition Strategies Agenda

A. Disposition Definition and Rules

B. Disposition Strategies:

I. Marketing

II. Financing Options

III. Lease Purchase

IV. Demolition

V. Rental Strategies

VI. Land Banking



# Disposition: Definition

***“Process of selling or renting homes and land acquired/rehabilitated/constructed with NSP”***

- Properties/land being managed after acquisition (but prior to disposition) may be:
  - ***Disposed for Development*** – Acquired, but pending sale to developer, for rehabilitation/construction; OR
  - ***Developed and Sold to End User*** - Rehabilitated/new construction complete and pending final sale/use; OR
  - ***Land Banked*** – If property is eligible, up to 10 years
  - ***Determined as Infeasible***- If acquired under Uses B or E (but not foreclosed) and found to be infeasible for redevelopment.
- Disposition costs can not be counted as part of Total Development Costs (TDC)



# Eligible Disposition Costs

- ❖ ***Disposition must be carried out by the grantee or sub-recipient directly (not developers) to ensure compliance***
- On-going site security
  - Boarding up
  - Security system installation
- Marketing property for sale
- Taxes/Insurance
- Maintenance costs
  - General maintenance
  - Groundskeeping [24 CFR 570.201 (b)]



# Key Issues in Managing Properties During Disposition

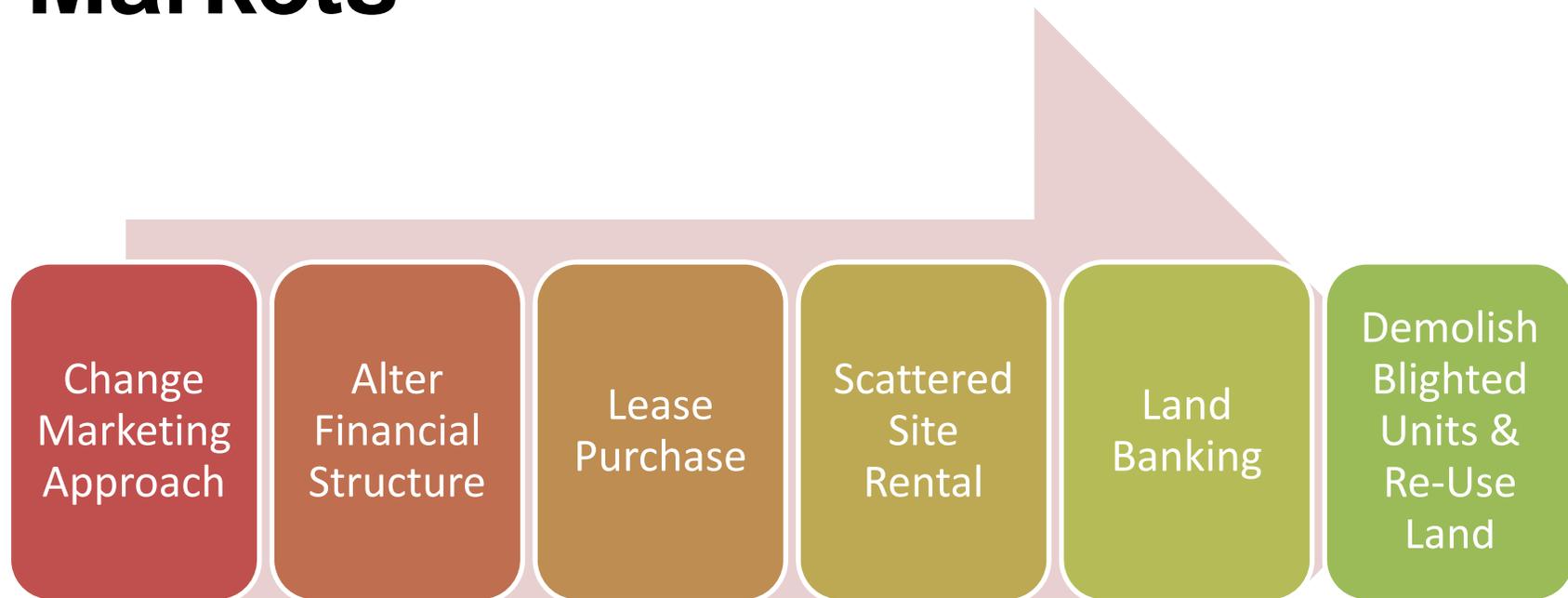
- Property management
  - How will grantee/sub maintain the property?
- Security and vandalism
  - Must ensure property/appliances not damaged/stolen
- Timeline
  - How much money does grantee want to put toward disposition costs over time?



# Disposition Strategies



# Continuum of Disposition Strategy Options in Slow Selling Markets



# Developing a Disposition Strategy

- Evaluate what you have to market
- Determine the length of the plan
- Clarify the neighborhood goals
- Review the resource needs
- Address maintenance and vandalism
- Consider alternative options



# Option 1: Change Your Marketing Approach



# Change Your Marketing Approach

- Marketing NSP neighborhoods
  - NSP intends to stabilize neighborhoods and not just fix houses
  - Marketing neighborhoods is a part of effective selling
  - When people buy a house, they are also buying a neighborhood
  - Key is communicating that the neighborhood is a community of choice



# Change Your Marketing Approach

- Focus on targeted marketing of unit and neighborhood
- Use targeted marketing for houses that SHOULD be sold to end buyers based on:
  - Features of each house and neighborhoods
  - Strength of the local real estate market
  - Profiles of potential buyers
  - Recovery of the local economy
  - Terms of the loan product



# Change Your Marketing Approach

- Example strategies for homebuyer programs
  - Building a pool of buyers
  - Engaging neighbors, use promotions
  - Broadening the message
  - Planning for applications
  - Leveraging sales
  - Adding marketing capacity
  - Getting trained realtors involved
  - Utilizing partnerships



# Marketing and Disposition

*In order to develop a market for completed units, and expedite the process of development and disposition.*

- Procure the services of real estate development professionals to provide sales support, and to brainstorm market opportunities in the area.
- Identify opportunities to attend public events and engage partners to participate in housing fairs in target areas
- Meet with local employers to determine if there is interest in Employer-Assisted Housing programs
- Work with local Homeownership Counseling programs and providers to develop a pipeline of purchasers.



# Marketing and Disposition

Community Partnerships - Partner organizations can be of significant assistance in the marketing and disposition of properties, as well as interim maintenance. Bringing them into the planning process early on will help mitigate the challenges of maintenance, marketing and disposition.

## *Make sure to involve:*

- Neighborhood Associations
- Community Development Corporations
- Civic Groups
- Faith-Based Institutions
- Universities
- Other (i.e. Artist Collectives, Gardening Groups, etc.)



## Option 2: Change Financial Structure of Deal

- Sell at below market value
  - Trade-off with area property values
- Offer soft seconds, interest subsidies & other low cost financing
- Pay for closing costs/downpayment
- Widen range of potential buyers with deeper subsidies
  - Offset discount with larger second mortgages or with shared appreciation loans



## Option 3: Do Lease Purchase

- Home is rented for defined period of time until occupant can buy
  - May offer financial assistance to buyer
    - Affordability period and income determination occurs at initial occupancy
    - Need to plan for case when tenant does not become ready to buy
      - Sell to another qualified buyer
      - Turn the unit into rental



# Case Study: Cleveland Housing Network *Opportunity Homes*

- Opportunity Homes was launched in 2009 to address Cleveland's growing foreclosure crisis through immediate recovery strategies.
- The goal is to:
  - Rehabilitate 150 vacant homes for immediate sale;
  - Rehabilitate 150 vacant homes for lease purchase;
  - Demolish 300 unsalvageable homes;





# Cleveland Housing Network *Opportunity Homes*

## Key Factors to Success

### MARKETING EXPOSURE

- For sale signs
- Quality websites
- Sales Call Center
- MLS listing
- Customer Referrals



# Cleveland Housing Network *Opportunity Homes*

- Lessons Learned
  - Target the right markets
  - Beat your competition
  - Focus & attention to detail
  - Cast a WIDE net in marketing efforts
  - Buyers rule!
  - Create an exit strategy (short-term lease purchase)
  - Create reserves
  - Remember: things ALWAYS take longer than you think!



# Cleveland Housing Network *Opportunity Homes*

## EXIT STRATEGY: Short Term Lease

### Purchase

- Never to be used as the Primary Sales Strategy.
- This must be your “Last Resort”.
- Discipline yourself with a “Mandatory Days on Market Timetable” 120 to 180 days.
- Limit your Lease Period to 3 to 6 months. If the property can’t close during that period, don’t put the family in.



# Cleveland Housing Network *Opportunity Homes*

## EXIT STRATEGY: Short Term Lease

### Purchase

- Enter into a “Month to Month Lease” and a “Purchase Agreement” prior to the family taking possession.
- Escrow Deposit refundable only upon closing the transaction.
- Limit your exposure ....you must be realistic with closing conditions.



# Option 4: Rental Strategies



# Rental Strategies Agenda

- Our goal is to provide answers to questions like this and hear about participants' relevant experiences, following this agenda . . .
  - Rental management options
  - Development decisions
  - NSP's related requirements
  - Keys to success



# Private v. Grantee Management

## Private Management Company

- Labor costs can be less expensive
- Careful selection of a management company is required
- Less direct oversight of properties

## Grantee Management

- Higher labor costs typically
- Staff more knowledgeable of NSP requirements and potential renters
- More control over properties



# Property Managers' Roles

*The in-house or hired property manager must:*

- Oversee management of rentals and ensure compliance with NSP regulations
- Manage all information systems and maintain data and records
- Oversee maintenance staff
- Maintain effective, professional renter relations
- Collect rents and enforce all aspects of lease
- Be able to carry out any necessary evictions



# Reduce Maintenance/Operating Costs

- Cluster first scattered site rentals in same area
- Take care of all deferred maintenance during the rehab process and use durable, energy efficient materials (such as ENERGY STAR appliances, solid roofs, furnaces, water heaters) and use
  - Reliable and inexpensive suppliers and contractors
  - Bulk purchasing and buy same appliance and equipment models for interchangeable parts
- Require tenants to maintain yards and walkways during lease set-up



# NSP Rental Requirements

- Income verified at move-in only
  - See Guide to Completing NSP Income Certifications at [www.hudnsphelp.info](http://www.hudnsphelp.info)
- Units that are originally set aside and occupied by households below 50% of AMI must be re-rented
- Use developer agreements for rental projects to eliminate management of NSP program income
  - While assuring no undue profits



# NSP Rental Requirements

## *Eligible Uses:*

### As a Financing Mechanism (NSP Use A)

- Example: Soft loan to a purchaser of an existing, foreclosed, rental project, with or without rehab (always a loan, must be foreclosed)

### As Purchase and Rehab (B) or Redevelopment (D) if rehab will be occurring

- Example: Soft loan to purchaser of an existing, foreclosed, abandoned or vacant property



# Setting Up Property Management

- Policies and Procedures: Develop a rental operations manual, stringent lease, and management plan and *STICK TO IT*
- Financial Management: Assure that the financial structure and projections for the rental properties create enough net cash flow to pay for management, maintenance and any services.



# Tenant Selection

*In Tenant Selection process, make sure to:*

- Check criminal and rental histories
- Manage intake, including screening for and certifying NSP income eligibility
- Consider home visits of applicants

*In Marketing efforts, make sure to:*

- Follow fair housing rules in any outreach
- Find quality tenants through targeted marketing and relationships with client



# Asset Management

- The owner has a long-term responsibility to steward the physical asset and the financial structure that supports it
- Requires . . .
  - Setting aside adequate replacement reserves
  - Controlling management/repair costs
  - Assuring high occupancy and collections
  - Monitoring to assure quality management
  - Maintaining a good reputation as a landlord



# On the NSP Resource Exchange

*NSP Single-Family Rental Toolkit (Tools from Beyond Housing):*

<http://hudnsphelp.info/index.cfm?do=viewToolkitsHome&programtypeid=4>

*NSP Scattered Site Rental Training Video:*

<http://hudnsphelp.info/index.cfm?do=viewResource&ResourceID=1157>



# Rental Conclusion

- *To succeed with rental management, you need:*
  - Informed decision between self-management and private management
  - Strong tenant selection procedures
  - Focus on maintaining data for each home
  - Reduced maintenance costs
  - Compliance with NSP regulations



# Option 6: Land Banking



# Elements of an Effective Land Bank

- Connected to the tax collection and foreclosure process
- Scaled at the metropolitan level, or most diverse real estate market possible
- Policy driven – transparent in policies and transactions
- Markets that are targeted by the community for redevelopment
- Emphasis on community engagement and participation
- Aligned with market forces to maximize income



# Definition of a Land Bank for NSP

- A land bank is a **governmental** or nongovernmental **nonprofit** entity established, at least in part, to assemble, temporarily manage, and dispose of vacant land for the purpose of stabilizing neighborhoods and encouraging re-use or redevelopment of urban property. [NSP Combined Notice]
- Land Banks are considered subrecipients.
- Eligible Use (C): Establish and operate land banks for *homes and residential properties that have been foreclosed upon*. [NSP Combined Notice]



# Land Banking and NSP

## **Eligible Activities (in approved geographic areas):**

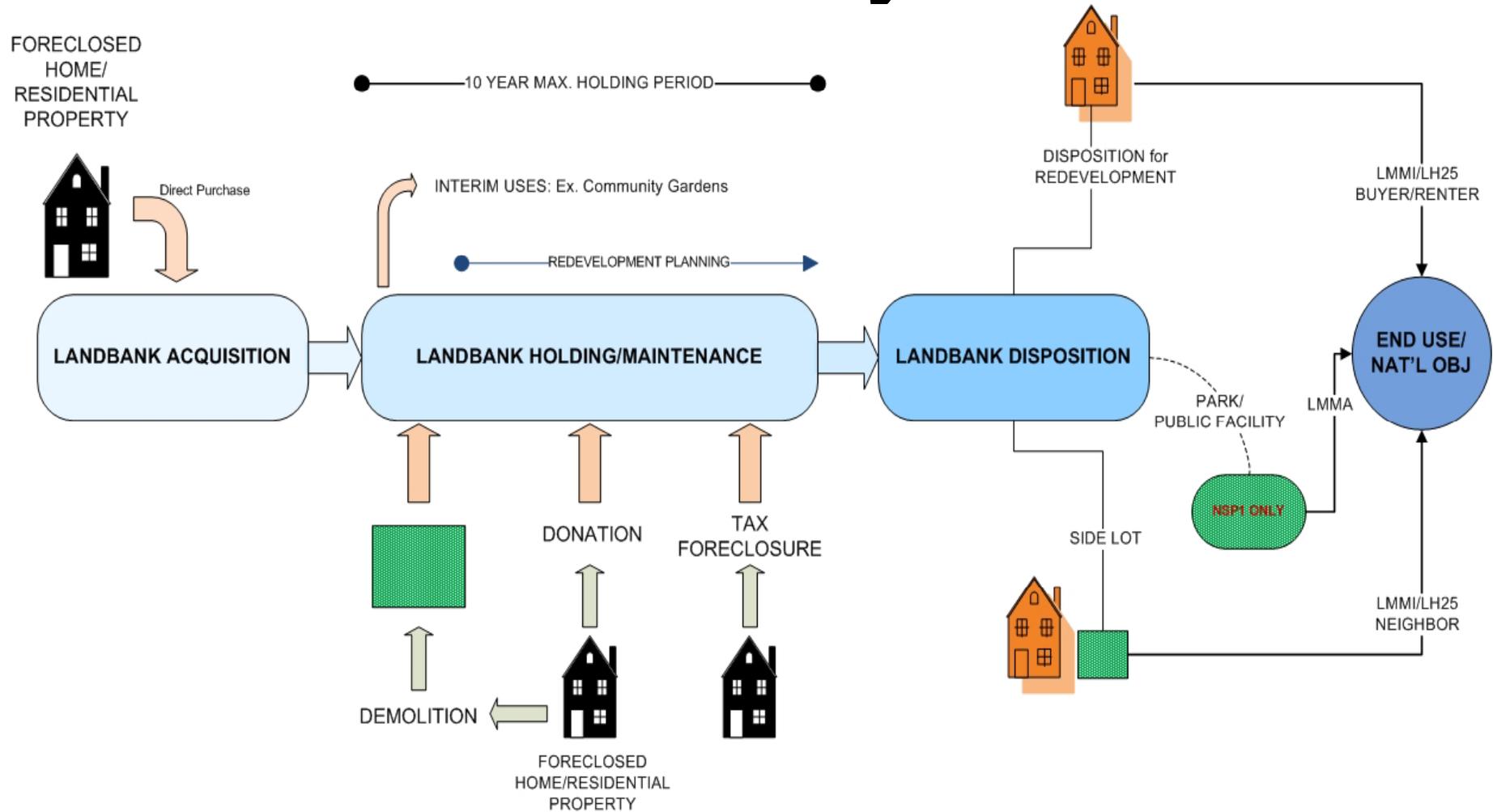
- Acquisition of foreclosed properties
- Disposition of foreclosed properties

## **Including:**

- Due diligence
- Establishing purchase price
- Closing costs
- Property maintenance and management
- Resale closing costs/disposition-related costs



# NSP Land Bank Life Cycle - Overview



# Key NSP Provisions for Land Banks

- Acquisition:
  - Properties directly acquired for NSP land banking must be *foreclosed* and *residential* (*either houses or land*)
    - Foreclosed property acquisition must meet the 1% purchase discount requirement
  - Properties must be within NSP target areas, or defined land bank operation areas within NSP targets



# Key NSP Provisions for Land Banks

- Assembling Properties:
  - Properties that are not directly acquired (negotiated acquisition of foreclosed, residential properties) for NSP land banking can be:
    - Demolished, foreclosed residential properties (eligible use D activities)
    - Foreclosed property donations
    - Tax foreclosures



# Key NSP Provisions for Land Banks

- Eligible Re-Use / Redevelopment
  - Redevelopment for Housing
  - Side-Lot Disposition
  - Public Facilities (NSP1 funds only, but can use other funds if project meets national objective and is CDBG-eligible)
- Land banked properties must meet a National Objective with end use



# End Uses for Land Banked Properties

- Redevelopment for Housing
  - Once land banked properties are conveyed for redevelopment, no longer Eligible Use C activities
  - Rental or Homeownership Units, depending on community needs and the market
    - Sales price for Ownership units = lesser of FMV or TDC
  - Housing must meet all affordability and tenant/owner income requirements to meet LMMH National Objective



# Holding and Maintenance

- 10-year maximum holding period
  - Land banking is an interim use
  - Must obligate for re-use/redevelopment
- NSP may pay for boarding, taxes and maintenance costs
  - “Static” holding costs not considered part of TDC for properties that are redeveloped
  - Procure boarding and maintenance contractors if using 3<sup>rd</sup> party entities



# Temporary/Interim Uses\*

- Mothball buildings – stabilize and secure higher value buildings. *Costly and includes risks, e.g. fire, safety*
- Vacant land with interim maintenance strategy – stabilize and secure for future redevelopment
- “Clean and Green” – use vacant land as beautification projects, e.g. community gardens. *Produce interim benefits for the community and improve marketability*

*\*NOTE: Activities can take place, but can not be paid for with NSP.*



# Temporary/Interim Uses\*

## Adopt-a-Lot

- Neighborhood associations and individuals are allowed to 'adopt' and maintain properties until such time that they are prepared for redevelopment.

## Urban Garden

- Environmentally clean vacant lots can be made available for urban gardening and agriculture.

*\*NOTE: Activities can take place, but can not be paid for with NSP*



# Temporary/Interim Uses\*

## Environmental Remediation

- Localities have partnered with academic and research institutions to use vacant property (with low levels of contamination) to experiment with phytoremediation. This involves using plant matter to clean properties. It has the benefit of being a low cost activity and can have a positive aesthetic impact.

*\*NOTE: Activities can take place, but can not be paid for with NSP.*



# Temporary/Interim Uses\*

## Public Art

- Localities have used vacant lots, and even parcels with structures, as opportunities for public art. It can contribute to neighborhood identity, market a property, & mitigate the perception that the parcel is abandoned.

## Neighborhood Signage

- Neighborhood associations and other community based initiatives can be allowed to install temporary signage for promotion of the area and quality of life issues. This also helps with the perception of the parcel being vacant or abandoned.

*\*NOTE: Activities can take place, but can not be paid for with NSP*



# Case Study: The Resurrection Project

## Issues:

- Funding for acquisition and demolition only
- High cost of acquisition and construction
- Lack of funding to meet eligible end use
- Uncertain of market and projections of program income
- New to land banking
- Costs of land banking if it is longer than the grant period
- Need a interim maintenance strategy



# The Resurrection Project

## Strategies:

- Developing policies and procedures for land banking
- Creating a strategy for each lot
- Maintenance strategy will include community gardens
- Exploring contingency plans for each property
  - Program income
  - Side Lot
  - Partner Redevelopment



# Land Banking Conclusion

Resource: Land Banking Toolkit

Provides examples of items such as:

- Acquisition and Disposition Process Maps
- Legal Forms
- Financing Techniques
- Policies and Procedures
- Boarding and Maintenance Specifications

<http://hudnsphelp.info/index.cfm?do=viewToolkitsHome&programtypeid=7>



## Option 6: Demolish & Use or Sell

- Can demolish blighted units and use, sell or donate land
  - Not appropriate for units already rehabbed
  - If property owned by private entity (demo only - no acquisition) can re-use for any purpose
  - Guidance from HUD forthcoming concerning the disposal of demolished properties (Check NSP Resource Exchange)



# Disposition Strategies Conclusion and Q&A

