ORIGINAL

HUD-0003698/T

INTRODUCTION

This report on the Innovative Grants awarded following the 1979 competitions was prepared by Arthur D. Little, Inc. in partial fulfillment of HUD Contract HC-6555, "to assist in the selection of and provide technical assistance to participants in the program activities of the Secretary's Discretionary Fund." The report comprises a description of one project funded by the 1979 competition to promote community development opportunities in public housing projects under the Innovative Grants Program, and descriptions of eleven projects funded under the 1979 competition to prevent or mitigate the consequences of displacement of lower income persons from housing in areas subject to gentrification, condominium conversion, or other factors driving up the cost of housing.

The Innovative Grants Program, now discontinued, was authorized under the Housing and Community Development Act of 1974, Section 107: The Secretary's Discretionary Fund. The purpose of the program was to provide opportunities for states and units of local government to conduct demonstration projects that held promise of providing exemplary ways to resolve community development problems. During the life of the program, the following seven competitions were held:

Figure 1

INNOVATIVE GRANT COMPETITIONS 1975 - 1983

Year	Problem(s) Addressed	Applicants & Awards	Funding
1975	Public Service Productivity Solar Energy Neighborhood Preservation	12 awards	$1.9 M
1976	Housing and Neighborhood Preservation	335 appl. 23 awards	5.7 M
1978	Housing Rehabilitation Assistance for Lower Income Residents of Deteriorating Neighborhoods	92 appl. 2 awards	2.6 M
1978	Impact of Clean Air Act Amendments on Urban Economic Development (with EPA, EDA, and DOT)	25 appl. 8 awards	4.0 M*
1979	Urban Partnership: Community Development Opportunities in Public Housing	35 appl. 3 awards	3/4 M

Speculation --High Prices -- High Interest Rates Lack of New Construction	Santa Barbara King County D.C.1st Right Baltimore
Uncertain Future of Privately Held Properties	Columbus

Types of Solutions Proposed

The types of solutions proposed for maintaining or creating new lower cost housing opportunities were as varied as the range of problems addressed. Although most entailed some combination of purchasing units and rehabilitating or reconstructing them, four cities took other approaches. Brookline, Massachusetts provided downpayments to eligible applicants who were being displaced from rental appartments by condominium conversions. Denver, Baltimore, and Columbus undertook ambitious programs with numerous program components:

Figure 3

ANTI-DISPLACEMENT SOLUTIONS EMPLOYED

1.	Subsidy for Private Condominium Purchase --	Brookline
2.	Rehabilitation, Reconstruction, Maintenance of Ownership --	Columbia, S.C.
3.	Public Purchase, Rehabilitation, Limited Ownership in Co-op --	Santa Barbara D. C. 1st Right
4.	Public Purchase and Reconstruction --	L. A. Skid Row
5.	Non-Profit Purchase and Rehabilitation --	D. C. Jubilee
6.	Public Purchase of Scattered Condominiums for Public Housing --	King County
7.	Public Renovation of Privately-Owned Hotel --	Seattle, Atlas Hotel
8.	Multiple Strategy Program --	Columbus Denver Baltimore

Project Scale

Figure 4 compares the number of units and houses rehabilitated or created or the number of households or persons assisted directly through the grant program, and the amount of the grant spent directly to purchase, reconstruct, rehabilitate, help others purchase or otherwise provide housing. The amount spent directly on housing units (or a similar unit of measure) is also compared to the total size of the grant in Figure 4. These comparisons were used to create a rough classification into small, medium, and large scale grant programs:

Figure 4

SCALE AND COST OF PROJECTS FUNDED BY THE INNOVATIVE GRANT

		SMALL	
Santa Barbara	13	cooperative units	$205,000 from $1.1M
Columbia, S.C.	18	houses/24 units	554,000
King County	29	condos for elderly	750,000 from 1.2M
Brookline	30	households received condo downpayment	642,000 from 1.3M
		MEDIUM	
Seattle Hotel	46	rooms rehabilitated for elderly residents	575,000 from 1.5M
Baltimore	67	units purchased by non-profit corp.	1 million from 1.3M
L.A. Skid Row	150	beds provided for Skid Row dwellers	1.6 million from 2.4M
		LARGE	
D. C. 1st Right	1,270	units purchased	3.1 million from 5.2M
D. C. Jubilee	165	units rehabilitated	1.8 million from 3.0M
Columbus	120	houses rehabilitated	997,000 from 2.0M*
Denver	189	units under various programs	985,000 from 3.0M

*The total of public and private funds invested in the target area was $18.2 M. The $2.0M HUD grant was the largest innovative grant awarded by HUD.

The Technical Assistance Plan

The purpose of the technical assistance project was for the study team to assist grantees in making the demonstration projects as successful as possible, to prepare and update descriptions of the anti-displacement projects as they were implemented, and finally to prepare detailed monographs that analyzed successes and failures of the grantees' efforts and explained to other jurisdictions how to design and implement similar projects of their own.

The reports in this volume are the product of the first stage of work. Each chapter describes the design and implementation of one grant project. Although no comparative analysis is included in this volume, the project descriptions do reveal characteristics common to successful and problematic demonstrations.

Characteristics of Successful and Problematic Demonstration Projects

All of the projects that were most successful in achieving the project goals, remaining on schedule, and operating within the grant budget had the following four characteristics in common:

- Concept

  The grant project was a integral part of the city's overall low and moderate income housing strategy.

- Design

  Program design ensured that it was economically feasible to assist low and moderate income households under the program, despite fluctuations in interest rates or changes in other factors.

- Capacity

  The individuals directing the project provided continuity throughout the life of the grant; had the relevant experience; and had a realistic notion of the administrative time and expense required to implement the project.

- Transferability

  The project is of interest to a number of jurisdictions, and is susceptible to implementation without heroic efforts.

Similarly, the more problematic projects typically have these characteristics in common:

- Multiple Objectives

  Some project designers saw in the grant an opportunity to address a variety of issues and objectives and did not consider whether any of the multiple objectives were mutually exclusive goals or difficult to pursue simultaneously.

- Inflexible Design

  Federal grant applications are frequently written in great specificity, making it difficult to adjust to new program targets as exogenous factors change. Between the grant competition in 1979 and the beginning of work, neighborhoods changed, interest rates increased significantly, and other costs of reconstruction or rehabilitation rose dramatically.

- Underestimates of Administrative Burden

  Several grantees proposed to provide for the administration of the program from local budgets without dedicating staff to the grant program on a full-time basis. Other grantees significantly underestimated both the normal day-to-day administrative requirements of their projects, as well as the special requirements created by unanticipated problems.

Replicability of the Grant Projects

The conclusions of each of the program descriptions highlight issues relevant to replicating these projects. Although the Innovative Grant program has been discontinued, most of the projects described below could be carried out by interested states and local governments using Community Development Block Grant funds, other public funds, or private resources.

BALTIMORE NON-PROFIT REAL ESTATE CORPORATION

BALTIMORE NON-PROFIT REAL ESTATE CORPORATION

SUMMARY

Baltimore is committed to the twin objectives of encouraging middle income households to invest and live in the city while at the same time expanding housing opportunities for low and moderate income households. Because these two objectives may be in conflict in some neighborhoods, displacement of households, particularly renters, may occur.

In 1980 using $995,114 in HUD funding, the city created the Housing Assistance Corporation (HAC), a quasi-independent housing, finance and development entity, as a way of dealing more effectively with the problem of housing displacement. HAC is a non-profit, but city controlled real estate corporation empowered to buy, sell, finance, and develop property and provide technical assistance and related development services to community-based housing organizations.

The city has defined HAC's role broadly. Both as a developer and in a supporting capacity to neighborhood-based housing organizations, HAC has been involved in many types of activities including: developing subsidized housing, assisting tenants to become homeowners, furnishing technical assistance related to developing and financing projects, and providing temporary financing for property purchases. Over its two year life HAC has been involved in projects to rehabilitate 67 units for both rental and owner occupied housing for low and moderate income households facing possible displacement.

HAC's organizational structure and operating practices enable quick and decisive action and provide it with the flexibility to function on a par with private developers without the typical constraints faced by public agencies. Because of its ability to act quickly, HAC has a credibility that a similar public housing development agency might not enjoy.

HAC has targeted its efforts and committed $150,000 to four neighborhoods where revitalization activities have led to or are likely to lead to the displacement of low and moderate income households, particularly renters. It supports housing strategies and program designed in response to the specific needs and circumstances of each area. In each of the four neighborhoods HAC's role differs. In the Butcher's Hill, Harwood and Poppleton neighborhoods, HAC is providing financing and technical assistance to community-based organizations that are rehabilitating row houses both as rental units and for purchase by owner occupants. In Reservoir Hill, HAC is rehabilitating three multi-family buildings.

The degree of success that has been achieved varies by neighborhood. In Butcher's Hill and Harwood the levels of housing purchase and rehabilitation activities have exceeded original projections. In Poppleton only a small number of houses have been rehabilitated because of problems in identifying a capable and appropriate housing development organization. In Reservoir Hill, securing a HUD insurance commitment and permanent financing for the rehabilitation of a 15-unit apartment took longer than had been anticipated.

HAC has also undertaken various other types of activities. In an effort to better inform the elderly living in the target neighborhoods about available services and the State Homeowners Tax Credit and thereby encourage elderly households to remain in the areas, grant funds were used to organize and manage a door to door outreach program. Using Community Development Block Grant funds, HAC has engaged in activities outside the target neighborhoods such as optioning a piece of property for the city, providing housing development related technical assistance to community groups and attempting to work out permanent financing for several housing projects.

HAC's major difficulties have resulted from operating in a financing market characterized by high interest rates and the scarcity of permanent financing. Given existing market conditions, it has been difficult to recycle the temporary loans HAC has made and to rehabilitate housing at prices low and moderate income households can afford. HAC has had the advantage, however, of functioning in a city which has an active Department of Housing and Community Development, experienced neighborhood-based organizations, a low priced housing stock that lends itself to rehabilitation, and where a wide range of state and local financing programs are available.

The project was scheduled for completion in May 1982, but extended because projects in Poppleton and Reservoir Hill took longer than anticipated.

HAC is a promising institutional innovation that provide Baltimore with new capabilities and resources for meeting its housing and community development goals. It serves as a useful model to other cities in demonstrating a more effective way to achieve public objectives by responding more quickly and efficiently to real estate market circumstances.

BACKGROUND

Baltimore is an old, industrial city that has made a determined effort to revitalize its downtown core and to maintain and upgrade its neighborhoods and housing stock. In spite of its well-known successes Baltimore faces problems similar to most large eastern and midwestern cities. Between 1970 and 1980 its population declined 13.1 percent to 786,775. The city's housing stock is old; 60 percent of the units existing in 1970 were built before 1939. Most (55 percent) households are renters rather than homeowners, and per capita income is less than the national average ($4,330 versus $4,572 in 1974).

A declining population has been accompanied by a reluctance on the part of property owners and lenders to invest in housing. In many parts of the city, building abandonment, poor maintenance, declining property values, and conversion of buildings to non-residential uses have taken place.

In an attempt to reverse the disinvestment and outmigration of population that has occurred over several decades, Baltimore has carried out one of the nation's most far reaching and successful efforts to redevelop and revitalize itself. The city has received national attention for major downtown commercial renewal projects and for its large scale housing rehabilitation and neighborhood improvement efforts. In many neighborhoods, particularly those with special amenities or facilities, middle income households are buying and rehabilitating homes. In some cases they are buying vacant, abandoned structures or the homes of elderly owners who wish to sell. In other cases tenants may be displaced when investors sell their rental properties.

The city has tried to moderate the negative effects of revitalization and reinvestment by developing a variety of housing and community development programs to expand the supply of standard, low cost housing. These programs provide financial incentives and below market interest rate financing for the purchase and rehabilitation of substandard homes and apartments. Building on the strong neighborhood identity that is characteristic of Baltimore, the city relies to a great extent on neighborhood and community-based organizations to implement these programs.

The city has tried to minimize the potential for displacement, by: (1) establishing a system of community-based planning, (2) working closely with and supporting neighborhood groups that are involved in rehabilitating housing, (3) helping to promote homeownership among tenants, and (4) enacting legislation in 1979 to give tenants the right of first refusal to purchase the units they occupy.

In trying to promote housing rehabilitation for lower income households and minimize displacement, city officials came to realize that both city agencies and community organizations were at a disadvantage in property purchase competition with real estate investors and middle income buyers because neither the city nor the agencies have ready access to temporary financing or the ability to make quick decisions about property acquisition. Local laws and ordinances require city agencies to go through long drawn out procedures and secure city council approval to buy property.

Community organizations typically lack working capital to buy buildings and may not understand all the complexities of developing financing packages. Because of these limitations, in many instances, when properties were sold by estates, through public auction or by landlords, they were bought by speculators or middle income homeowners rather than by the city or community groups.

City officials concluded that a multi-purpose, real estate organization was needed that had the resource and authority to compete with the private sector but that would support and help to achieve public objectives. Such public-private corporations had been established to oversee the development of the Charles Center and Market Center, and there was a belief that a similar corporation, focusing on the needs of neighborhoods, could be similarly successful.

The availability of innovative grant funds gave Baltimore the opportunity to accomplish two objectives: secure the funding needed to implement the concept of the Housing Assistance Corporation and take steps to deal with the displacement of low and moderate income households taking place in four neighborhoods experiencing revitalization.

In May 1980 Baltimore was awarded a grant of $995,145. Seven hundred and fifty thousand dollars was budgeted for property acquisition, $191,195 for personnel costs and $53,950 for technical support and training costs. The city provided HAC with an additional $293,000 from the Community Development Block Grant program.

PROJECT DESCRIPTION

The principal objective of the Housing Assistance Corporation is to serve as a city-wide organization to disseminate information and identify financial and technical resources to assist in the expansion of housing opportunities for low and moderate income households. To accomplish this objective HAC supports various strategies including: developing subsidized rental housing under HUD's Section 8 program, developing cooperative and homeownership projects, intervention buying and holding of properties, making available high risk and temporary financing, and furnishing development and financing expertise to community-based organizations.

HAC is a non-profit (501 C 3) corporation separate from the city government and responsible to a board of directors of public officials and private citizens. Its authority and purposes are defined in a contractual agreement between HAC and the Mayor and City Council. the public purpose nature of HAC is assured through the board of directors, a majority of whom are staff of the Department of Housing and Community Development (HCD).[1]

Because HAC has been given the status of other development commissions, it is highly visible with access to key decision-makers. The Executive Director reports to the Commissioner of the Department of Housing and Community Development. An assistant commissioner of the Department serves as Chairman of the Board and as day to day contact with HCD. HAC's staff consists of two professionals and a secretary. While their salaries are similar to equivalent civil service salaries, they do not have civil service status. Figure 1 provides a budget summary and organization chart for the project.

Because it is closely tied to the city, HAC has been able to take advantage of the city's information, financial and technical resources and skills; on the other hand, HAC's role has probably been somewhat circumscribed by political considerations and the general attitude of the city that public institutions should not take on projects that private developers are willing to undertake.

HAC also benefited from HUD's agreement to give the city its innovative grant in a lump sum when the project began. The funds enabled HAC to negotiate a "leveraging" agreement with a savings and loan association. HAC invested its money in a daily interest savings account at 7 percent interest; in exchange the savings and loan agreed to provide (1) free technical assistance related to financing, (2) up to $2 million in construction financing at one point below the market rate and (3) up to $2 million in permanent financing. Because funds were not needed immediately, HAC has been able to earn substantial income from its invested capital.

HAC is viewed by the city as a technical and financial resource that can tailor its assistance to the needs of particular projects or organizations. In each of the target neighborhoods in which it has been involved, HAC's role in housing development differs because each area has its own housing problems and local community resources. Figure 2 summarizes how the innovative grant funds are being used.

Butcher's Hill Neighborhood

Butcher's Hill is a revitalizing area of two and three story row houses, about half of which are investor owned. Investment and speculation are leading to increasing rents and possible displacement.

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[1] Six members of the Board are staff of the Department of Housing and Community Development. The other members are the Executive Director of HAC and one representative from each of the four target neighborhoods.

HAC works with Neighborhood Rental Services (NRS), which was established as a demonstration project in 1979 by the Neighborhood Housing Services (NHS) program, and provides temporary financing to buy and rehabilitate houses either for resale or for rent to tenants under the Section 8 program. Because of market conditions and the substandard quality of many properties, acquisition costs are low, but rehabilitation costs are high. Homes are being purchased for about $5,000 each and rehabilitation cost have averaged about $25-30,000 a house. Of the $150,000 allocated to Butcher's Hill, $15,000 was earmarked to pay the cost of holding buildings prior to and during rehabilitation and for marketing units to potential homeowners. The HAC-NRC contract established a goal to rehabilitate 10 homes and 10 rental units. As of January 1982, NRS had bought 27 houses and had drawn down nearly $135,000.

Poppleton Neighborhood

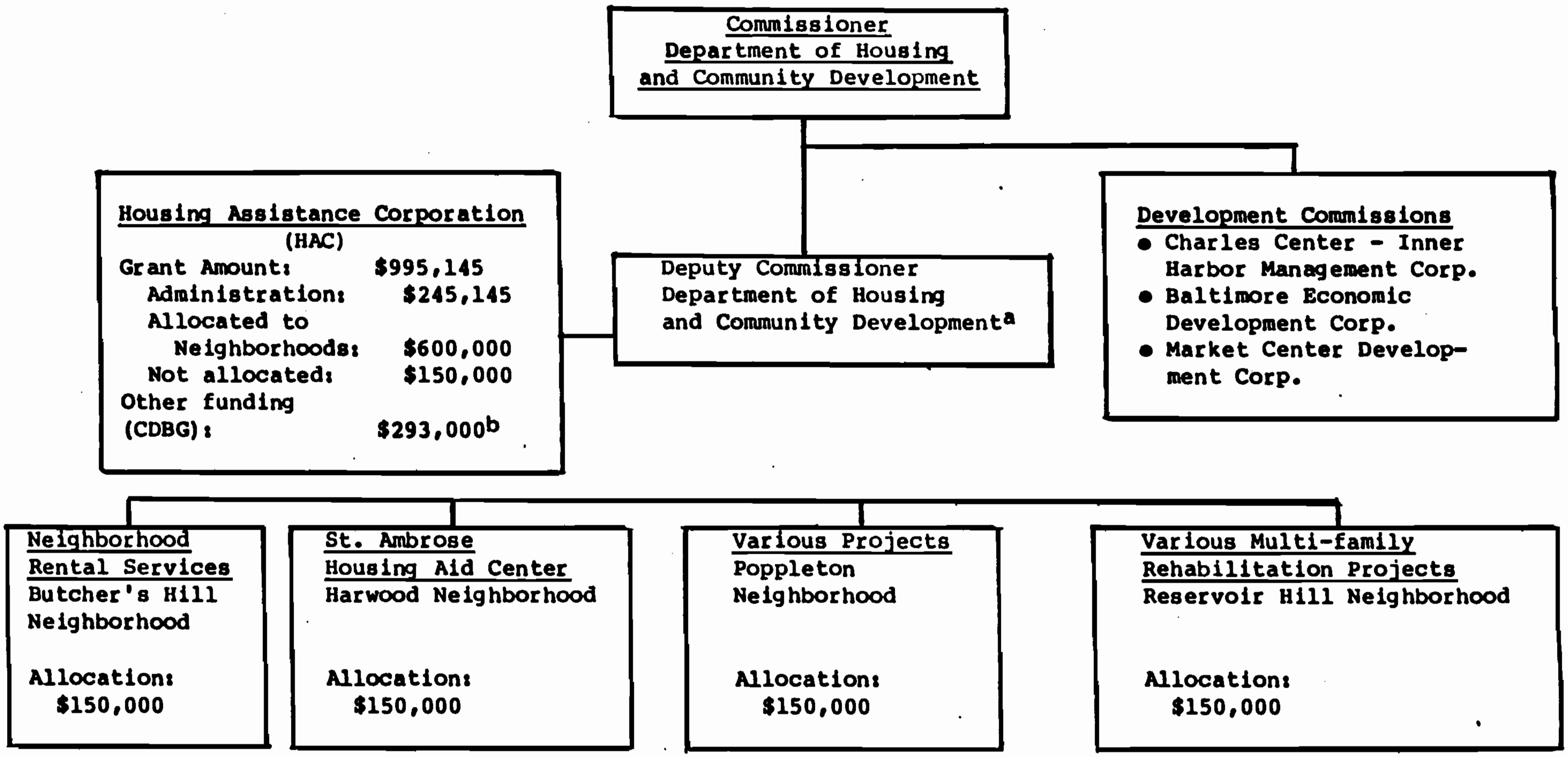
Poppleton is an old, mixed-use neighborhood with two and three story row houses dating back to the early 1800s. Planned subsidized rehabilitation projects, the establishment of a Social Security Office complex within walking distance of the neighborhood, and rehabilitation of a nearby historic district make it likely that substantial displacement may occur. HAC initially provides financing to a multi-purpose umbrella community development organization representing 45 groups, Communities Organized to Improve Life (COIL), to rehabilitate houses for resale and to assist a total of 27 households. After 5 houses had been rehabilitated, it became apparent that COIL could not complete the project as planned, and the arrangement was terminated. HAC is now working with Baltimore Blueprint, a Health and Human Services demonstration project, which will supervise the partial rehabilitation of four houses. Once the partial rehabilitation is completed, home purchasers will finish the job while occupying the structures. Sixty four thousand dollars has been allocated to this project. HAC and the city are also negotiating with a private developer who proposes to rehabilitate 10 houses and rent them to low and moderate income households. After he has taken advantage of the tax benefits of the depreciation, he will sell the houses to the tenants. Through December 1981 HAD had committed $97,725 to projects in Poppleton.

Harwood Neighborhood

In the Harwood neighborhood near Johns Hopkins University, real estate prices have risen rapidly in recent years due to speculation and increased interest in the area by middle income home buyers. In this area HAC works with St. Ambrose Housing Aid Center, a housing organization established by the Archdiocese in 1972. St. Ambrose is buying and rehabilitating two and three story row houses and selling them to tenants. With HAC assistance, St. Ambrose expected to rehabilitate 15 houses, but by the end of December 1981, St. Ambrose

FIGURE 1

Budget Summary and Organization Chart
For the Baltimore Non-Profit Real Estate Corporation



a. The deputy commissioner is in charge of five program areas: administration, planning, homeownership development, shelter conservation and program management (in urban renewal areas).

b. $100,000 has been allocated to the Monterery Apartment Project in Poppleton; the remainder is used for city-wide activities.

FIGURE 2

Allocation of HAC Funds by Neighborhood and Program Strategy as of December 31, 1981[a]

Neighborhood, Total Funds Allocated, and Number of Families to be served	Program Strategy				
	Rental Stabilization	Intervention Buying and Holding	Cooperative Development	High Risk Loans	Other
1. Butcher's Hill $150,000 27 families	$60,800 for 12 houses	$74,200 for 15 houses			$15,000 holding and marketing costs
2. Reservoir Hill $150,000 15 families	(15 units will be Section 8 assisted)		$150,000 for 15 units		
3. Poppleton $150,000[b] 9 families				$33,725 for 5 houses	$64,000 for 4 houses, Home Finishing Project
4. Harwood $150,000 16 families		$144,120 for 10 houses	$45,000 for 6 units		
Total Allocation:[c] $600,000 for 67 families					

a. This figure does not include $293,000 of CDBG funds provided to HAC by the City

b. Uncommitted but previously allocated to the neighborhood, $52,275

c. $150,000 of program funds have not been allocated

SOURCE: HAC

had actually been able to buy 16 houses and had borrowed a total of $189,120 from HAC. Six of the houses purchased are part of a 17 unit, scattered site, non-equity cooperative that St. Ambrose has formed.

Reservoir Hill Neighborhood

Reservoir Hill is a predominately residential neighborhood of three story Victorian row houses, high rise apartments and mansions converted to nonresidential uses. Displacement may increase for two reasons: the area is becoming more attractive to homeowners priced out of nearby neighborhoods and a city ordinance to require reduced density of converted multi-family building in certain zoning districts, including part of Reservoir Hill, took effect in 1979. Because there was no housing organization in the neighborhood, HAC is serving as a developer and is rehabilitating three buildings, a 15-unit building and two three-unit structures. One of the smaller structures has been completed, and the other is in the process of being rehabilitated. Both buildings are being rehabilitated under the Section 8 Moderate Rehabilitation Program, but permanent financing on acceptable terms and conditions has not yet been obtained. Trying to arrange financing for the 15-unit Monterey Apartments has been a lengthy and time consuming process. Because HUD was concerned that a crack in the building might make it structurally unsound, it took nearly a year to secure a firm commitment from HUD to insure the financing. Financing arrangements are not completed but should be resolved by April or May of 1982 when construction is expected to begin. Through December 1981 HAC had committed $150,000 of grant funds and $100,000 of CDBG funds to the project.

HAC financial assistance has been used to help renters remain in the four target neighborhoods either as renters or homeowners. All of the households who have been assisted are black with low to moderate incomes, typically $10-12,000 per year. The ages of the household heads range from the early twenties to late fifties, and a majority of them are female.

Other Activities

Elderly Outreach Program

Baltimore's innovative grant proposal included a project to provide a variety of information to the elderly in the four target neighborhoods on the presumption that such information would help elderly homeowners retain their homes and remain in the neighborhoods. HAC staff organized volunteers and state tax personnel who contacted elderly households on a door to door basis in the spring of 1980. The project's goals were to secure applications for the State Homeowners Tax Credit program, tell people about services that are available and complete a housing and SSI related questionnaire. More than 1700 contacts were made; however, HAC and the city concluded the program was not cost effective because most households contacted either had applied for the tax credit or were renters and ineligible.

City-Wide Activities

While HAC was initially established to serve four neighborhoods, HAC's board views it as a city-wide resource. Using CDBG funds, HAC has assisted the city and community organizations in various ways including: paying for market studies for projects, consulting with groups trying to develop tenant cooperatives, trying to arrange permanent financing for projects and, in one case, optioning a piece of property for a UDAG project for the city. HAC is presently trying to secure a grant to develop some prototype innovative financing projects involving non-profit housing organizations and private investors and in May 1982 will sponsor a seminar to educate community groups about the implications of the new tax laws for housing development.

LESSONS LEARNED

The value of Baltimore of a public controlled real estate corporations has been proven by its widespread acceptance by city officials and community groups and by the diverse set of projects with which it has been involved. HAC has not encountered any major problems, and HAC assistance has been sought by many groups.

City officials believe that the housing rehabilitated with HAC assistance has helped to mitigate displacement of low and moderate households and has enabled a substantial number of tenants to become homeowners.

The only significant difficulty that HAC has faced has been the need to develop a workable home purchase strategy and find suitable developers to replace COIL in the Poppleton neighborhood. The city overestimated the potential interest in homeownership; most households who want to remain in Poppleton cannot afford to buy homes or prefer to live in subsidized rental units.

While many other cities might benefit from setting up an entity similar to HAC, it is evident that its success is due in large part to the institutional and financial housing resources that exist in Baltimore. Rather than duplicating other efforts, HAC expands and builds on existing resources. HAC is simply one component in an effective housing delivery system which includes experienced community-based housing organizations, a capable and active city Department of Housing and Community Development, private lenders, and public programs which provide loans and subsidies for housing development. Even though HAC is an important new institutional tool that provides financing, technical expertise and administrative flexibility previously not readily available, each component of the delivery system plays an important role in the development process and the absence of any would make increasing the supply of low and moderate income housing more difficult. If HAC had been faced with creating these resources itself, the time and effort required before it could have functioned effectively would have been increased considerably.

Not only is the institutional setting in which HAC operates important to its success, but also many special circumstances in Baltimore have been important factors in the feasibility of HAC assisted projects. These include:

- good working relationships between the city and community and neighborhood groups as well as city support for the efforts of neighborhood housing organizations,

- a ready supply of vacant buildings suitable for rehabilitation and available at relatively low prices,

- subsidized rehabilitation financing programs available from the city and state,

- a local ordinance requiring landlords to give tenants the right of first refusal to buy the houses they occupy,

- purchase and rehabilitation costs in many neighborhoods low enough to make tenant conversion to homeownership practical, and

- the lump sum drawdown agreement with HUD which enabled HAC to develop an agreement with a lender that provided supplemental income and access to lines of credits.

Unanticipated changes in the financing market have been HAC's major problem and have had a significant effect on HAC's operations. The financing market has changed considerably since the project was conceived and has been characterized by a scarcity of funds and high interest rates. In the planning stage HAC was envisioned as a provider of short-term financing to be paid back and recycled when permanent financing was arranged. The shortage of mortgage funds and the high cost of financing have made it more difficult to develop feasible rehabilitation projects and to recycle funds lent to housing organizations. Because market conditions make it impossible to secure permanent financing at interest rates low and moderate income households can afford, much of HAC's funds are tied up in completed rehabilitations. Permanent financing arrangements for the Monterey and two smaller buildings rehabilitated by HAC in Reservoir Hill have not been completed nor has NRS and St. Ambrose been able to refinance the homes they have rehabilitated. Even if the owners of the rehabilitated homes are able to secure permanent financing, HAC will have to leave a large part of its capital tied up in second mortgages.

This project illustrates the importance of securing permanent financing if housing development projects are to be successfully implemented and the difficulties that arise when financing assumptions become outmoded.

The city has come to recognize that HAC is an excellent vehicle for accomplishing many different public purposes, but it has been careful to use HAC's financial and technical resources judiciously in order to avoid overcommitting the organization. The city's initial concept of HAC was to establish an entity that could serve as an anti-displacement resource. Over time the role of HAC broadened and its range of activities has grown. For example, it has optioned land for an Urban Development Action Grant project and expects to help non-profit housing groups take advantage of the new tax law by structuring development projects with private investors. While the role of HAC has evolved over time, the city has kept the staff small and has been careful to make sure that HAC establishes a successful track record and gets involved only in a limited number of projects. This strategy is intended to ensure that HAC develops a reputation for competence among city agencies, community organizations, lenders and the development community.

Even though HAC is tied closely to the city, it has benefited from a city decision that it should operate somewhat independently of the city and without many of the restrictions that city agencies face. For example, because the innovative grant funds were turned over to HAC, it was able to avoid having to comply with the complicated and time consuming city requisition process. HAC's independence from the city gives it additional credibility with community groups and organizations and the flexibility to respond to unanticipated situations. By not rigidly defining what kinds of activities are within its purview, HAC can be responsive to unanticipated needs. Although it was not proposed at the outset, HAC has acted as a broker and financing packager for several projects when such technical assistance was requested by community organizations.

HAC staff learned that each of the four neighborhoods in which it was operated required a different housing development strategy. Factors such as the condition of the housing stock; the income levels, expectations and tenure patterns of the residents; and the development capabilities of the neighborhood organizations operating in the areas affected the kinds of projects that would be feasible. Baltimore's experience confirms the importance of tailoring projects to the specific needs and conditions of the neighborhoods in which they are being implemented.

Innovative grant funds were put to particularly good use in Baltimore. Not only was the city able to conduct a two-year demonstration of an innovative anti-displacement strategy, but also with HUD seed money financing, the city has established an effective and flexible institutional capability to help increase the supply of low and moderate income housing. HAC expands the authority, capability and ability of the city to meet its housing needs and responsibilities, and its importance will probably grow over time.

BROOKLINE EQUITY TRANSFER ASSISTANCE PROGRAM

BROOKLINE EQUITY TRANSFER ASSISTANCE PROGRAM

SUMMARY

Brookline, Massachusetts, a relatively affluent Boston suburb, has traditionally had a high proportion of rental housing, about sixty-six percent. In the late 1970s this rental stock became the target of increasing condominium conversion. With one of the highest conversion rates in the nation, Brookline was facing a significant displacement problem. As part of its effort to alleviate displacement, Brookline designed a project to test two anti-displacement housing strategies:

- Promoting homeownership among renters by providing equity transfer assistance to low and moderate income households;

- Providing housing information and counseling.

Brookline was awarded a two-year innovative grant of $642,000 in April 1980. To supplement the grant, the Massachusetts Home Mortgage Finance Agency committed $650,000 for reduced-interest mortgages through the Brookline Savings Bank to recipients of the equity assistance of which $310,000 was actually used. The grantee is the City, which passes the funds to the Brookline Improvement Coalition, Inc., a non-profit organization.

The project has two principal components:

- An equity transfer assistance program available to low and moderate income households threatened with displacement by conversion of the units in which they live;

- A counseling service which offers financial, rehabilitation, and psychological counseling "to mitigate traumas" caused by the threat of conversion and displacement.

Initial delays in the start of the program were caused by lack of coordination between HUD and the local CDBG office, but by December of 1982 the Brookline project had made 33 payments towards purchase of the same number of units. The program originally aimed at providing assistance to 50 to 60 households. Because of cost pressures from inflation of condominium prices, an increase in mortgage interest rates, and a decrease in mortgage funds available, the program goal was revised to 30 to 35 households prior to the HUD funding agreement. The program has gained momentum after a slow beginning, has met its goal and now plans to continue operating.

The program staff handled an average of 200 calls per month during the first year (it aimed to counsel 300 households over two years) and continues to provide information assistance and counseling prior to

and after purchase of units. Program activity has varied with the availability of funds, but the approval of an additional $85,000 of fiscal year 1983 Block Grant funds again accelerated calls and applications.

To date, the program seems to have satisfied grant recipients. Recipients have written letters of thanks to the program, have welcomed program evaluators, and have shown with pride their converted and, in some cases, rehabilitated units. Because the program is small, it has not provoked additional political controversy. Program management clearly views condominium conversion as a positive development for the City housing market and aims to assist those adversely affected. The program has kept a high enough profile to attract applicants and a low enough profile to avoid raising expectations of those it cannot help. The program has also solved problems caused by oversights in project planning; failure of communication between the program and state and local bankers about different funding schedules; and cost pressures from inflation of condominium prices; an increase in mortgage interest rates; and a decrease in mortgage funds available.

According to knowledgeable observers, including opponents of the program, the theory and practice of the demonstration project have worked on a small scale. For the 33 current participants, Brookline has minimized displacement, expanded ownership, and preserved housing. Disagreements arise about the program's potential for wide application in Brookline or in other places. The program's concept seems readily transferable, but for either expansion in Brookline or replications elsewhere, additional issues merit consideration.

- How big should an equity transfer program be? At what size would the program be large enough to become an incentive to convert?

- At what stage of condominium conversion in a city, neighborhood, or local area, and in what form would the program help most?

- Who should be eligible?

- Should households be allowed to purchase units other than the ones they rented before conversion?

- Who should benefit from the increase in value of units purchased with program funds?

Each question can be answered in different ways; answers may help determine the transferability of the Brookline program.

BACKGROUND

The years from 1970 through 1979 in the United States housing market could be called the decade of conversion. Few conversions took place before then, but during the 1970s, 366,000 rental housing units were converted to condominiums and cooperatives, according to a 1980 HUD study.[1] Near the end of the decade, conversions took place at an "accelerating" rate with 260,000, or 71 percent of the total for the decade occurring between 1977 and 1979. Conversions have been concentrated in metropolitan areas with strong and growing demand for homeownership. The demand has been driven by housing needs of the generation born after World War II who are now starting families of their own, by the substitution of condominiums as affordable homes for single family houses because of rising mortgage, energy, and other maintenance costs, and by the economic and personal preference of people for owning a unit as opposed to renting. The supply has been fueled by the demand and by the potential for profits that has made converters willing to pay more for buildings than the structures were worth as rental properties.

The Boston area was no different from the 11 other large SMSAs in which three-fifths of the conversions took place in the 1970s. In the City the first eight conversions took place in 1969. Ten years later, Boston had 5,000 condominiums among its 243,000 housing units; half the conversions occurred in 1979 and 1980. Boston ranked sixth in the nation for percentage of total housing converted to condominiums.

Adjacent to Boston in the core of the metropolitan area, the town of Brookline has a stable population of approximately 60,000. Brookline is a relatively affluent suburb with some unusual characteristics. The largest age groups in the town's population, according to the 1970 census, were the elderly (20.1 percent over 65) and the post-World War II generation (21.1 percent between 25 and 44). The town's housing stock has had a high percentage of rental housing (two thirds), much of it built in the 1950s and 1960s. In 1970 there were no condominium conversions in Brookline although 34 new condominium units had been constructed in 1965. By 1980, some 4,422 master deeds which would enable conversion had been recorded, almost half of them in 1978 and 1979. (This figure includes 162 units of new construction.) To underscore how extraordinary these numbers are, the planners compared the populations and condominium conversions of Boston and Brookline; with one-tenth of Boston's population, Brookline had the same number of possible conversions for one of the highest rates in the nation, as shown on Exhibit I.

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1 U.S. Dept. of Housing and Urban Development, Office of Policy Development and Research, The Conversion of Rental Housing to Condominiums and Cooperatives, 1980.

EXHIBIT I

CONDOMINIUM CONVERSIONS - Brookline, Massachusetts

Conversion has led to controversy across the United States and Brookline is no exception. "One of the major concerns relating to conversion is the extent to which it involuntarily displaces prior tenants," according to the HUD study. In Brookline, anti-conversion sentiment led to three anti-displacement laws from 1978 through 1980:

- 1978: The town adopted a policy of granting six-month eviction stays to all tenants in converted buildings and an additional six months to the elderly;

- 1979: Residents voted to expand the town's rent-control ordinance by banning evictions of tenants in converted buildings;

- 1980: A petition drive led Brookline to establish a permit process for conversions, which requires that a building meet code standards, that 60 percent of the tenants agree to buy or vacate units voluntarily, that conversion will not adversely affect housing available to low and moderate income households, and that the converted building be controlled democratically, not by the developer.

In the early rounds of debate about condominium conversion, Brookline town planner Mark Eldridge had an experience which he judged of general value. In 1978 Eldridge sold a house that he had bought four years before. He sold it for enough money to pay off his mortgage, pay back funds he borrowed from a relative for a down payment, and realize enough gain for a down payment on another house. Eldridge considered his experience a model for a program of equity assistance. Why not help low and moderate income households avoid displacement by providing funds for a down payment on their converted units, taking out liens against the units, and requiring that the recipients return the funds on resale of the units? Through resale the recipients would realize enough gain to make an unencumbered down payment on another housing unit and the recycled funds could support another purchase.

With changes, Eldridge's idea is at the heart of Brookline's Equity Transfer Assistance program. Eldridge and other Brookline professional supporters of the program chose not to engage in the political debate about the relative costs and benefits of condominium conversion. Instead, they considered conversion a fact of town life, and viewed unit ownership as a potential ways to avoid displacement of low and moderate income households. They sought to find Federal support for a cost-effective equity assistance program as part of a balanced housing strategy.

PROGRAM DESCRIPTION

Objectives

As designed, the program's principal objectives are:

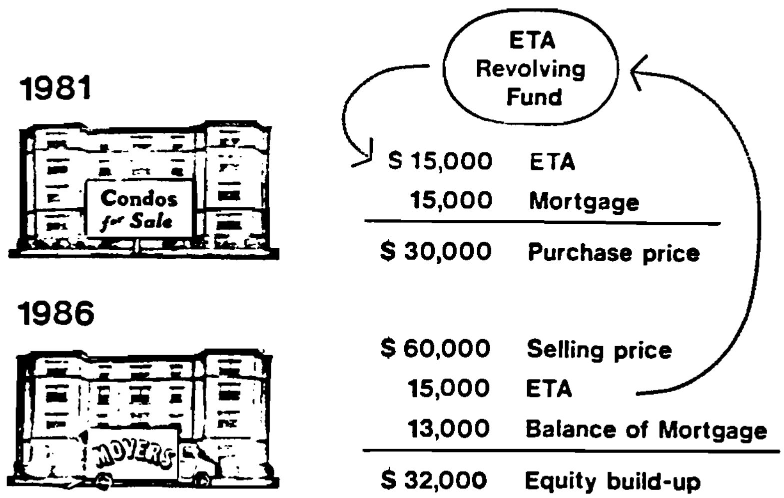
- to minimize displacement of low and moderate income households by enabling renters to buy units that have been converted to condominiums;
- to expand homeownership opportunities for these households; and
- to preserve housing resources for these households.

The program also has other objectives: to increase public awareness of condominium ownership; to provide counseling on equity assistance for tenants threatened by displacement; to expand the town's tax base; to encourage neighborhood stability; to provide low and moderate income households with the economic benefits of homeownership (equity, appreciation, and tax savings); to insure the standards of converted buildings in which participants buy units; to provide assistance which will not require sustained long term Federal support: to provide a permanent equity assistance fund through the program's "payback provision".

The Equity Transfer Assistance program provides payments to moderate and, in a few cases, low income households threatened with displacement by conversion of their rental units to condominiums. The program makes payments of up to $20,000 increased July of 1982 from $17,500, to Brookline households to enable them to purchase the units from which they otherwise would be displaced. The funds are applied to downpayments on units. Administrative costs for the program are paid out of HUD Innovative grant funds and are separate from the equity grant fund. The operation of the program is illustrated on Exhibit II.

EXHIBIT II

HOW THE ETA PROGRAM OPERATES



Eligibility

To be eligible, households must fall within income and asset limits based on Federal guidelines for HUD's 312 loan program. Recipients must have lived in their apartments for at least two years, and the units must be moderately priced and in good condition. Owners must continue to live in the units they purchase. The amount of equity assistance provided depends on household income and assets and on the price of the unit. According to the program's report of December 1982, there have been 33 closings. One additional closing is expected prior to close out of the grant. As of December, 29 households were on the waiting list for equity assistance.

In order to attract possible participants the program has advertised in two local Brookline papers, left flyers at churches, social service centers, and other community halls, and added its materials to regular mailings of town organizations.

Program Operation

When applicants contact the program, either by phone or in person, the director solicits information through discussion and use of income and asset sheets to determine their possible eligibility. She answers questions about the program and about condominium ownership and supplies pamphlets on the program and HUD booklets on condominium ownership. If the director suspects that an applicant will not qualify for a program payment or a mortgage, she offers counseling on housing alternatives. The director simplifies mortgage and other financing inquiries for the remaining applicants by offering what she calls "one-stop shopping". After applicants receive mortgage commitments and satisfy other requirements of the program's board at its twice monthly meetings.

In the Brookline program, participants apply for reduced interest mortgages financed by the Massachusetts Home Finance Agency (MHFA). The program differs from other housing subsidy programs for one main reason: the program holds second mortgages equal to the amount of equity assistance on each unit purchased by participants. If and when participants sell their units, they must pay back these second mortgages. Paybacks will create a revolving fund which will assist additional households in purchasing units. One loan has been repaid so the revolving fund has been established.

Status

The current status of the program is shown on Table III. To date, with a major caveat, the program has fulfilled its principal objectives as a demonstration. The caveat applies to each objective: the program which assisted 35 households is small in relation to Brookline's potential for condominium conversions (35 to 5000)[2]. For the 33 current participants, Brookline has minimized displacement, expanded ownership, and preserved housing for low and moderate income households. Only four households purchasing condominiums under the ETA program have had incomes above HUD Section 8 guidelines. The program seeks to do the same for additional households. The current status of the program is shown on Table I.

As to the other objectives, the program has fulfilled some and led managers to restate others. The program has educated participants about condominium ownership, but they are a fraction of the Brookline residents who could benefit from this knowledge. The program has counseled many town residents about equity assistance and displacement, none more effectively than individuals who have

[2] This figure represents master deeds recorded but not necessarily the actual number of conversions

EQUITY TRANSFER ASSISTANCE PROGRAM

EXHIBIT III

Summary Information		December 1982
Total Equity Payments (33 cases)		$516,878
Equity Cases Assisted		381
Equity Assistance Requests		111
Individual Payments	Average	$ 15,663
	Range	$ 3,400 - $20,000
Unit Price	Average	$ 30,827
	Range	$ 9,000 - $58,000
Age of Recipient	Average	46.5 years
	Range	28-79 years
Sex of Recipient		12 female-headed households with dependents 15 female-headed household living alone 6 male-headed households
15 Income Average (based on 33 units)		$23,654
Counseling and Assistance Requests		501

33 households purchased condominiums with equity assistance, 5 had problems resolved through counseling/referrals.

eventually changed their minds about the hazards of condominium ownership and applied for assistance. On average, the town's tax base increased by $1,000 per conversion, but the program's small size and scattered purchases have limited and diluted potential for promoting neighborhood stability. The program has provided ownership benefits to households, but the households have also faced the challenges of ownership such as contributing to the capital costs for improvements voted by a majority of wealthier owners in a building which program households do not favor or increased fees to cover energy and other rising maintenance costs.

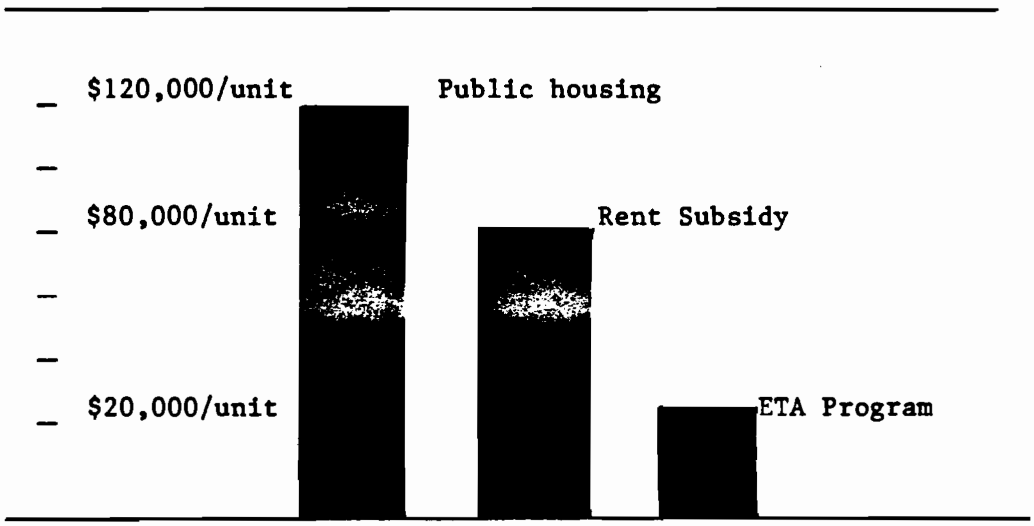
The program staff claim that over the 20-year lifetime of a housing unit, government support of equity assistance is more cost effective than support for public housing or rental subsidy. The notion of life cycle cost emphasizes that the initial equity assistance payment may be high in relation to the cost of the first year's outlay for public housing or rental subsidy, but that the cost averaged over 20 years will be much lower. In fact, equity assistance only requires a first year payment after which an owner bears the cost. More important, when the first owner sells his unit and recycles his original payment back to the program, two benefits follow: first the owner takes the gain in equity from the sale and buys a home without help; second, the recycled funds help another household purchase a unit. The program is too young to provide conclusive evidence for judging whether or not the program will be cost effective and stable. The permanent equity assistance fund has been instituted, but few resales are expected during the first five years of the program because of the penalty to avoid speculative sales.

Direct comparisons of projected life cycle costs for equity assistance, public housing, and rental subsidy are difficult. Although all attempt to provide decent, affordable housing, only ETA and rental housing programs serve similar client income categories. As Exhibit IV illustrates, the equity assistance shows a considerably lower cost then the long term unit subsidy. The present program subsidy limit is set at $20,000, a limit which in practice may assist more moderate then low income households. If the subsidy were to be increased, more lower income households might benefit. For comparison purposes the assistant planning director noted that the most recently constructed public housing for the elderly in Brookline costs in excess of $76,000 per unit (efficiencies and one bedroom units) exclusive of annual operating subsidies.

EXHIBIT IV

TYPICAL HOUSING SUBSIDY COSTS

(20 year period)



ISSUES FOR CONTINUATION

To continue after the end of its innovative grant, the Brookline program must raise other funds, since the program's revolving fund is minimal at present. As of December 30, 1982 a total of $516,878 in equity transfer assistance had been provided under the program. Prior to the end of 1982 the entire $500,000 HUD equity fund was expended as well as $20,878 of the CDBG funds. The local CDBG office has allocated an additional $85,000 to continue the program in fiscal year 1983.

The program has also asked pension funds and other private institutions for financial support. The program's tax-exempt status was questioned by the Internal Revenue Service (IRS) on the basis that program participants earn profits when units they purchase increase in value, but the final IRS ruling in November 1982 reaffirmed the tax-exempt status. Program managers think that pension funds and others may make donations to maintain the Brookline project now that the tax status question has been resolved. Brookline has discussed its financial interest with state agencies as well, but the current austerity in Massachusetts[3] means that the town cannot count on state support for a new and, in the State's view, nonessential program.

Brookline's interest in securing reduced-rate mortgage funds from the state to continue the program has led managers to continue discussions with the Massachusetts Home Finance Agency (MHFA). The legislature did approve a major new bond issue to raise mortgage funds for 1982. However, Federal and state guidelines do not require that mortgages from the agency go to Brookline, nor do they mean that the town cannot receive a commitment.

With additional funds for equity assistance payments and reduced-rate mortgages, the Brookline program could then expand into related ventures that lower housing costs for recipients and increase return on investment. The program has already "pyramided benefits", in the terms of a town planner, by helping recipients of assistance payments to use rehabilitation funds for which they qualify. Brookline legal and rehabilitation professionals have noted that the rehabilitation assistance given, the housing inspections completed and negotiated seller improvements made prior to sale under this program have been superior to those of private home buyers.

To ensure its success, the Brookline program has been clear in its goals and careful about pursuing them. Now that the program has proven the concept of equity assistance in Brookline, managers must consider the lessons they have learned and the implications of the lessons for changes in the project as it moves from the demonstration to a sustained phase.

LESSONS LEARNED

Social Policy

In Brookline, as elsewhere, condominium conversion is a highly divisive issue. Program designers and managers view the conversion trend as both established and positive. Recognizing that some residents would suffer, they created the equity assistance program to meet the needs of some individual households most adversely affected. Opponents of the program have argued that the program could fuel further conversion. Staff estimates that about 3,000-3,500 of the

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[3] Like other Frost Belt states, Massachusetts has suffered from rising energy costs and loss of industry. Increased costs and decreased revenues have made it difficult to maintain a high level of social services, especially since voters approved by referendum a measure to limit property taxes, which have been a major source of revenue.

5,780 units for which conversion master deeds have been issued are actually condominiums at present. If a large scale assistance program were to be instituted, perhaps more of these units might actually be converted.

Developers might also be encouraged to seek additional permits. At present, a developer must show that 60 percent of a building's tenants are willing to buy or vacate their units before he gets a permit, so he may be reluctant to push for conversion. If a major equity transfer program were to provide funds for unit purchases, the developer could count on meeting the 60 percent standard, even with government support, and he would press to convert. The current program is too small to make a difference in the plans of developers, but program supporters and opponents ask at what point the program would be large enough to prompt conversion. The common concern seems to be that a program of sufficient size could fuel conversion, reduce rental stock and draw funds away from higher priority public housing.

The concern can be answered in many ways, none of them supported by evidence from the Brookline program. In the view of a housing consultant who sits on the program board, the program and those like it, can increase the stock of housing by expanding the market of potential owners who can invest in and rehabilitate decaying stock. The best location for an equity assistance program may be where old and failing stock is renewed by households who invest transfer payments and "sweat equity" in units that would otherwise go uninhabited. However, the program is only one part of a balanced housing strategy; the program does not speak to the housing needs of lower income households.

Eligibility

Equity assistance programs work in a market where low and moderate income households qualify for assistance and do not have too much income or too many assets to disqualify them for reduced interest mortgages. Condominium prices also determine amounts of equity assistance; sizes of mortgages required by program participants and prices must be moderate for the program to succeed. As prices rise, mortgage rates increase and mortgage funds decrease, the range of potential program beneficiaries changes from low and moderate income households to moderate income only. In essence, the program has become a moderate income support, since low income households that qualify for payments often cannot meet the 28 percent of income/housing cost ratio without greater subsidy than that allotted by the ETA program. Staff notes, however, that some low income households have been able to satisfy eligibility requirements and buy condominiums.

The Brookline Equity Transfer Assistance program was originally designed to aid elderly individuals, as well as younger qualified individuals threatened with displacement. Brookline's planners focused on the elderly because, in the 1970 census, 27.3 percent of the town's population was over 60 and 20.1 percent was over 65. While many of the town's elderly met income requirements of the program, a much smaller percentage came within asset limits. The program's asset limits did take account of the downwardly mobile whose income earning years are past and whose assets will not support homeownership without supplement. Four of the first 17 recipients are 62 or over and qualify as elderly.

Another condition limited the number of qualified households, as well. The program requires that a household purchase the rental unit in which it lives. If an otherwise qualified household lives in a building to be demolished, the program cannot provide equity assistance; if a household cannot afford the unit in which it lives, but finds an affordable unit across the street or corridor, the program cannot provide assistance. Brookline used the narrow definition of eligibility to keep the program concept simple and assure that the town would have a relatively small pool of applicants for innovative grant funds. The program could aid more households if it defined eligibility differently, and it would not lose its anti-displacement character.

If continued, the program could target funds for an area with cheaper units, at an earlier stage of development. As one member of the Brookline Improvement Coalition board put it, the equity assistance program came several years after it would have been most useful to the town. In the program brochure, an illustration shows how a payment could support purchase of a unit for $36,000; in fact the average asking price of units purchased with program funds is $30,827, including discounts averaging $7,000. Yet condominium selling prices in Brookline went up dramatically between 1978, the year the program was designed, and today: As shown on Exhibit V of 384 units on the market in 1978 only 12 percent were sold above $50,000 and 88 percent were sold below; of 389 units sold in 1981 59 percent sold above $50,000 five times the average three years before. In the board member's opinion, with condominium prices lower elsewhere in Boston or the United States, an equity transfer program in these less expensive areas could aid more households. Program managers argue that success of the program in an expensive town like Brookline means that it could work anywhere.

1979	Anti-Displacement	135 appl. 12 awards	11.4 M
1980	Community Energy Conservation	351 appl. 17 awards	11.0 M**

*HUD contributed $1.5 to the funding; **DOE contributed $1 M to funding

Eleven out of the twelve grant-funded projects described in this report were designed in response to the 1979 Anti-Displacement competition. The twelfth project -- the Seattle, Yesler Terrace program -- was funded under the 1979 Urban Partnership competition which was designed to promote community development opportunities for people living in public housing. The project team observed and documented the progress of all twelve projects, and have included the single public housing innovative grant program (Yesler Terrace) in this report for the information of readers. However, for the purpose of summarizing the approach, size, and success of the grant projects, only the eleven projects designed to prevent or mitigate displacement have been characterized and compared in the remainder of the introduction.

Types of Problems Addressed by the Anti-Displacement Housing Projects

Figure 2 provides a summary of the range of factors causing displacement of lower income persons from their housing in eleven of the cities receiving grants funded by the 1979 anti-displacement competition. As Figure 2 illustrates, the problem of housing affordability for lower income renters or buyers was the result of growing commercial and retail development in central business areas that replaced residential with commercial properties; gentrification; condominium conversion; lack of new construction; speculation in residential properties and high interest rates; or uncertainty about the future of lower priced housing located within a large redevelopment tract.

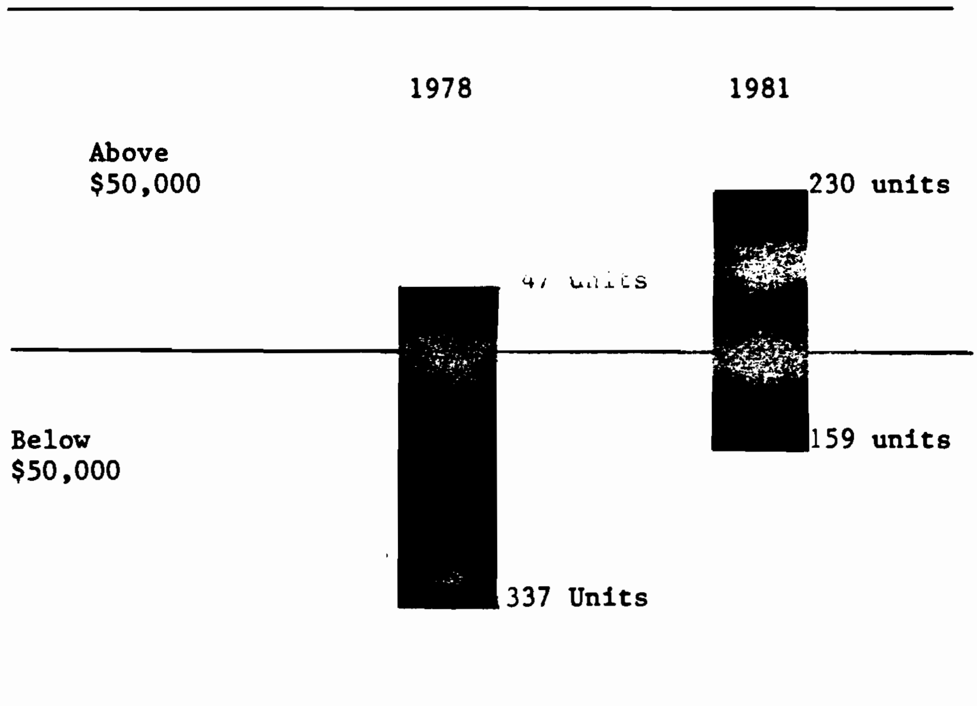
Figure 2

PROBLEMS ADDRESSED BY THE ANTI-DISPLACEMENT GRANTEES

Downtown Housing replaced by Commercial and Retail Growth	Denver Seattle Los Angeles
Gentrification	D.C. Jubilee Columbia,S.C.
Condominium Conversion	Brookline D.C. Jubilee

EXHIBIT V

CONDOMINIUM SELLING PRICES - Brookline Massachusetts



Mortgage Funds

Since the end of the state's one-year reduced rate mortgage commitment, the program has sought a range of creative financing, from short-term variable-rate mortgages to seller-provided mortgages. In six months with the long-term fixed-rate funds, the program made 10 equity transfer payments. In six months without them, the program made 7 payments. No funds were available during part of 1982 and no payment could be made until MHFA mortgage funds were released after the fall bond issue. The relative ease of payments utilizing a guaranteed mortgage pool versus the difficulty of payments locating first mortgage funds on a case by case basis underscores the value to the assistance program of ample, reliable, reduced-rate mortgage money.

The failure of managers of the program, of the state mortgage agency, and of the local bank to coordinate schedules increased the program problems in a high-price, high-interest and low mortgage money housing market. The local bank through which the equity transfer mortgages passed from the state to recipients was eager for publicity about the bank's community involvement through the program, and bank managers wondered why the program did not make assistance payments as quickly as possible, even if the program ran through its grant in the first year. Federal and state guidelines prevented the state from committing funds for longer than a year. The program established a two-year schedule during which it planned to make payments regularly, and the program director wondered why the local bank and state mortgage agency could not commit mortgage funds over the entire period.

The clash of interests -- in the short-term placement of funds versus the measured payment of assistance -- led to an unnecessary challenge for the program. It also emphasized that agreeing on the ends of a program does not ensure that bankers and planners who cooperate in developing it will also agree on means.

The program staff first estimated that 250 households might qualify for assistance. Besides the three factors of high condominium prices, high interest rates and low availability of mortgage money, several others reduced the number of qualified households. For one, the state's financial requirements were not sufficiently flexible. To qualify for a state mortgage, a household could spend no more than 28 percent of its gross income on principal, interest, and taxes. In all ETA assisted cases that requirement is met because of grant assistance. If grant ceilings had been higher, an increased number of lower income families could have been served. A household might be willing to pay as much as 33 percent, having realized that the availability of public transit in Brookline reduced the amount the household would have to pay for transportation, for example, but the state would not qualify the household for a mortgage. Since Federal guidelines allow a household to pay more than 28 percent in rent (Section 8 permits 30 percent) and tax benefits of home ownership reduce the real cost of a mortgage, the state limit seem rigid, even to state agency representatives, and ripe for change.

The program might be expanded by making rehabilitation available to moderate as well as low-income households. If households were able to add the value of "sweat equity" or personal work to the value of their unit equity for purposed of downpayment for rehabilitation, the program would be able to reduce the size of payment per household, and, thus support more households on the same amount of funds.

How To Operate

The Brookline program has worked well. The program's non-profit organization, run by a board of community minded people (originally appointed by the program, now self-perpetuating) with a focused interest in housing, protected the program from the controversy surrounding conversion, and from the machinery of municipal government. Directors and members of the thirteen person board include a housing consultant, two attorneys, a banker, several community-development managers, the head of the state's municipal association, representatives from the town planning department, and others. The structure of the small program staff (an informal advisor who designed it and sits on the board, a full-time director and secretary, and a part-time intern) may not be a model for larger ones like it; but the Brookline staff's attention to detail, commitment to counseling and making equity transfer payments, and interest in establishing a sustainable agency that offers related benefits of equity assistance, reduced rate mortgages, rehabilitation, and other subsidies do establish standards for similar ventures.

The staff director views counseling as essential for helping clients make informed decisions on both purchase and the problems arising after purchase. The counseling program has been integrated with other staff functions: For example, answering questions about renting versus owning involves counseling. Current program participants were once anti-conversion (one put a "Buyers Beware" sign in her window), and think the counseling they got was useful, even necessary. Although evidence in support of counseling is anecdotal, the director feels that the education and support offered during counseling have been a major factor in reaching the goal of over 30 purchases.

THE COLUMBIA, SOUTH CAROLINA HOME LOAN CONVERSION PROGRAM

THE COLUMBIA, SOUTH CAROLINA HOME LOAN CONVERSION PROGRAM

SUMMARY

The Columbia, South Carolina Home Loan Conversion program was designed in response to problems caused by displacement of lower income individuals from an inner-city neighborhood under-going revitalization and gentrification. It also addresses the problems caused by an acute shortage of rental units for lower income households in Columbia.

Specifically, the program offers 20 year no-interest loans to elderly, handicapped or low to moderate income home owners on a fixed income to subdivide their houses, creating one or more new rental units, and to rehabilitate the entire house in order to correct code violations, improve energy efficiency, and improve appearances. Maintenance and management of the renovated property is the responsibility of the Columbia Housing Authority.

In return for the interest-free loan the homeowner agrees to rent units to tenants eligible for assistance under the HUD Section 8 Moderate Rehabilitation program. The Columbia Housing Authority collects rental fees directly, subtracts the cost of maintenance as well as the loan repayment and returns the balance to the home-owner. The expectation is that the homeowner will realize a net increase in income of $30 to $35 per month, even allowing for increased taxes and insurance premiums.

One interesting aspect of this loan-conversion program design is the multiplicity of purposes served. The project supports neighborhood revitalization by helping people on fixed incomes to rehabilitate homes. It also allows individuals on fixed incomes who face rising costs due to inflation or gentrification or both to remain in their homes and neighborhood by converting part of their homes to income-producing dwelling units. It adds to the city's stock of low to moderate income housing at a much lower cost than new construction, and it can provide affordable rental units for people being displaced, possibly within the same area where they have been living. The program reverses the process initiated by private investors who purchased large older homes in areas being gentrified and converted them from rental units back to their original state as single family homes. Reversing the process for an existing homeowner in a revitalizing area protects the owner from displacement, extends the rehabilitation effort, and creates new rental units.

After two years of operation, the program has resulted in 5 completed or planned conversions instead of the anticipated 12. Program staff have found that the lead time involved in bringing each home into the program is much longer than anticipated.

Furthermore, certain program requirements appear to have been more stringent than necessary, limiting participation. The key factors affecting the use of the program by homeowners, however, is homeowners' financial fears about accepting an additional mortgage on their home despite the promise of increased income, and their social concerns about the race and class of tenants who are eligible for public assistance.

Despite the implementation experience of limited participation, the genuinely innovative program offers an effective, low cost strategy for rehabilitating homes that would otherwise go without maintenance, and creating new rental units at a cost significantly lower than new construction.

BACKGROUND

Events Leading to Creation of the Home Conversion Loan Program

Columbia's plan to help 12 single-family homeowners create rental units in their houses as well as rehabilitate their homes grew out of a neighborhood revitalization program of the mid 1970s. The Home Conversion Loan project was specifically designed to increase the number of low and moderate income rental units in response to controversy and concern over displacement of lower income renters within the City, particularly in areas undergoing gentrification.

The most visible expression of this concern is contained in an Administrative Complaint prepared by the "Elmwood Citizens Against Removal," a neighborhood association. The Complaint was filed with HUD in 1979 as Columbia applied for its fifth year of funding under the Community Development Block Grant (CDBG) Program. The neighborhood association fought HUD approval of the Grant on the grounds that the City's use of CDBG funds in Elmwood Park was causing "massive" displacement, particularly of black, low and moderate income households.[1]

Although a detailed investigation by HUD in 1979 refuted most of the assertions made by the citizen's group about the City's intent, its

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1 Low and moderate income households are households in which the gross income does not exceed 80 percent of median family income for the area as determined by HUD. At the end of 1981, the median family income for the Columbia metropolitan area was $21,600.

method of determining the number of low income renters in the City, and the consequences of a revitalization program in Elmwood Park, HUD approved the CDBG grant with special conditions. The special conditions attached to Columbia's CDBG funds reflected Federal officials' concern over the low rental vacancy rate in Columbia, displacement caused by revitalization of inner city neighborhoods, and the low rate of construction of new low and moderate income housing.

The Elmwood Park area was the main focus of original concern, and the key target area for the Home Conversion Loan Program.

Elmwood Park Revitalization Project

An inner city neighborhood on the northwest fringe of the central commercial district of the City, Elmwood Park was once a fashionable neighborhood characterized by well-shaded streets lined with a combination of stately or good-sized 19th or early 20th century wood frame houses. As new growth in the metropolitan area became concentrated in suburban areas, the neighborhood fell into serious decay and disrepair. The 1970 Census indicated that only about 30 percent of the housing was owner-occupied. Many of the larger old homes were subdivided into rental units. Nearly a third of the neighborhood residents were over the age of 62. The neighborhood's boundaries were defined by encroaching highway and commercial developments. People familiar with local conditions in the early 1970s report that the area became prey to vandalism and traffic in drugs.

In the mid 1970s when HUD policies encouraged neighborhood and central city revitalization, Elmwood Park was an obvious candidate for a rehabilitation program. The City's Community Development Department designated Elmwood Park a neighborhood strategy area (NSA) and planned a revitalization program consisting of code enforcement, slum removal and housing rehabilitation, and promotion of home ownership as a means of halting the deterioration of the neighborhood. CDBG funds were used in six programs that supported the renewal of Elmwood Park and other City neighborhoods:

- <u>CDBG Loan Program</u>

  Individuals interested in purchasing and renovating homes in Elmwood Park could apply for a matching grant of up to $5,000. CD funds could be used for a maximum of 50 percent of the rehabilitation cost. Real estate fees were paid directly through grant funds.

- <u>CDBG Rehabilitation Grants for Lower Income Families</u>

  Lower income households in areas targeted for community development are eligible for a grant of up to $10,000 to make repairs which bring houses up to the minimum standards set in the City's housing codes.

- <u>CDBG Investor Grants</u>

  Owners of rental, residential properties in targeted areas are eligible for up to $2,000 per dwelling unit (or 50 percent of repair costs -- whichever is less) as an incentive for owners to make necessary repairs, bringing units to minimum housing codes.

- <u>CDBG Matching Grants</u>

  Owners of homes located in target areas and in need of repair to meet minimum standard housing requirements are eligible for a grant covering 30 percent of the cost of rehabilitation (or $4,500, whichever is less).

Later in the revitalization program, the city also offered rehabilitation loans to low and moderate income families through the HUD Section 312 Loan program.

Because of Columbia's commitment to reversing the deterioration of the area, individuals who could afford to purchase and renovate Elmwood Park residences were attracted by the style and quality of construction of many Elmwood Park homes, by the downtown location, and the opportunity to renovate an old house. Some purchased houses that had been divided into rental units and restored these structures to their original single family use. Renters displaced by these actions receive government relocation assistance if Community Development funds were used to finance the rehabilitation.

The Community Development Department achieved its purpose: Elmwood Park's decline has been arrested. It is once again a stable middle income neighborhood with at least 50 percent of the homes owner-occupied. As was the case before revitalization, the neighborhood is biracial.

Supply of Housing for Low Income Households

Unlike the citizens who opposed neighborhood revitalization because of its consequences to low income renters, Federal officials recognized neighborhood revitalization as a valid program objective under the Housing and Community Development Act. However, they were concerned about the overall state of the housing market in Columbia and the need for the City to mitigate housing problems caused by displacement. Their concerns went beyond the displacement of Elmwood Park residents.

Housing for low and moderate income in Columbia is in short supply. Columbia's Housing Assistance Plan (HAP) for fiscal year 1980 estimated the rental vacancy rate at 1.1 percent, lower than it had been in 1970. As shown in Table 1, most growth is taking place outside the City:

TABLE 1

POPULATION CHANGE IN COLUMBIA, SOUTH CAROLINA, 1970-1980

	1970	1980	% Change
Columbia SMSA	322,880	410,088	+ 27 %
City of Columbia	113,542	100,385	- 11.6%

Despite the loss of population from the City, there is little "surplus" housing suitable for purchase or rent by low income individuals. The need for more lower income housing maintained to standard building codes is shown on Table 2.

TABLE 2

INDICATORS OF THE AMOUNT AND QUALITY OF HOUSING
AVAILABLE TO LOW AND MODERATE INCOME HOUSEHOLDS, 1980

Number of substandard rental units in Columbia	3,000
Number of families eligible for Section 8 rent-subsidy assistance	14,000
Average number on waiting list for public housing	2,000

Source: Columbia Housing Assistance Plan

This severe shortage of rental housing units was compounded by the difficulties the City of Columbia faced in acquiring or constructing units for use as publicly-assisted housing. The policy of the Columbia Housing Authority has been to disperse assisted housing throughout the City in small numbers in deference to public distaste for large projects. In the past, this policy had apparently constrained the amount of new assisted housing constructed within City limits. In addition, land assembly for new construction has not been easy in a state capital with numerous government buildings that is also host to several significant Federal installations and the state university - all tax exempt public properties. In Columbia, land assembly for housing must compete with public efforts to increase the tax base by supporting new economic development projects.

To underscore its concern about the severe shortage of rental housing, HUD conditioned the 1978 CDBG funding for Columbia, requiring use of the funds to add 150 subsidized units to the City's inventory. To meet this objective, the City used CDBG funds to establish a land banking program for assembly of sites suitable for sale to Section 8 developers. The second major response to the conditions placed of 1978 CDBG funding was the design of the innovative Home Conversion Loan Program.

The Home Conversion Loan Program

With the housing and demographic characteristics of the Elmwood Park neighborhood in mind, the City's Administrator for Community Development created an anti-displacement housing initiative. The objectives of the Office of Community Development were to:

- Increase the number of rental housing units within the City, particularly in areas where displacement had occurred.

  The Home Loan Conversion program provided a mechanism for creating new housing units for lower income Columbians at a much lower per unit cost than new construction. By providing the opportunity to subdivide large, older single family homes into two or more dwellings, the conversion program avoided the issue of identifying sites for new construction. It also raised the possibility of relocating people who had been displaced within the same neighborhood.

- Stabilize home ownership for older residents on fixed incomes.

  The Office of Community Development reasoned that residential areas with large old houses that attracted investors or purchasers interested in restoration would also be the type of neighborhood with homeowners on fixed incomes unable to afford the increasing costs of taxes, utilities and maintenance. Indeed, without assistance, some of these individuals could be displaced form neighborhoods undergoing revitalization. They expected that elderly widows would be typical of those on fixed incomes with a significant amount of unused space in their homes. Division of the unused space into one or more rental units could provide these homeowners with the opportunity to remain in a family home, reassure an elderly homeowner that someone else (the tenant) would be near at hand in case of emergency, and provide the owner with sufficient income to cover rising costs.

- Rehabilitate older housing.

  In addition to creating rental units, the Home Loan Conversion program was also designed to allow the owner to bring his or her home into compliance with building codes and make other structural or cosmetic improvements at a modest cost.

PROGRAM DESCRIPTION

Program Design

Using $554,000 in HUD Innovative Grant funds, Community Development staff implemented a loan program for overhoused low and moderate income households (or elderly and handicapped)[2], providing eligible individuals with an interest-free 20 year mortgage loan to renovate their homes, and convert the single family home into a duplex, triplex, or quadraplex. One condition of the loan required homeowners to rent the newly created units to low income tenants eligible for Section 8 assistance. Income form the rental units would then be used by the homeowner to repay the loan. The City has established a revolving loan fund which will allow it to sponsor additional conversions as loans are repaid. The original characteristics of the loan-conversion program are summarized on Figure 1 below.

The project supports neighborhood revitalization by helping people on fixed income to rehabilitate homes. It also allows individuals on fixed incomes who face rising costs due to inflation or gentrification or both to remain in their homes and neighborhood by converting part of their homes to income-producing dwelling units. It adds to the City's stock of low to moderate income housing at a much lower cost than new construction[3] and it can provide affordable rental units for people being displaced, possibly within the same area where they have been living.

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[2] "Overhoused" households are defined by the City as households with fewer than .5 persons per room (excluding bathrooms, foyers, and halls). Elderly households are those headed by someone over 62, and a handicapped household, one headed by someone unable to work for a year or more because of a physical disability.

[3] In Columbia, the cost of constructing a new duplex unit is estimated to be 2.5 times greater than the cost of converting a single family home to a duplex and bringing it up to building code.

FIGURE 1

DESIGN CHARACTERISTICS OF THE COLUMBIA, SOUTH CAROLINA HOME LOAN CONVERSION PROGRAM

Amount of loan funds available per household		$30,000 per unit, interest free
Terms and conditions of loan* * For explanation of terms and conditions to prevent speculation or windfall profits, see below.		20 year repayment period, with deferral clause allowing applicant to defer payments on loan used to rehabilitate the owner's unit until the first mortgage is paid back. No deferred payment is available for funds used to create a rental unit
Eligible Tenants	<u>First Priority</u>	<u>Second Priority</u>
	Homeowners in seven neighborhood areas targeted for community development who are: • overhoused • low or moderate income or • elderly, or • handicapped, and whose home is in a district zoned for multi-family dwellings <u>unless</u> a rezoning proposal is supported by a neighborhood association.	Low and moderate income households within the City of Columbia
Maintenance of rental and owner occupied units	Provided by the Columbia Housing Authority	
Program Targets	<u>Home Conversions</u>	<u>New Rental Units to be Created</u>
	12	16

Source: Innovative Grant Application, Columbia Department of Community Development.

To ensure that the project is actually utilized by the targeted owners, the project design includes requirements to discourage owners from using the non-interest bearing loan in order to make a profit. Owners must have lived in their home for at least a year to be eligible and are subject to financial penalties if the house is sold before the loan is repaid.[4] If owners fail to comply with program guidelines or units remained unoccupied because of actions taken by the owner, the mortgage becomes due and payable.

Financial Structure of the Program

From the homeowners point of view the program is designed to provide sufficient rent under the Section 8 Moderate Rehabilitation Rental Assistance Program to retire the mortgage and also provide a small net monthly income. Although taxes and insurance costs will increase because of the property improvements and creation of additional dwelling units, the program designers calculated that these increased costs would be offset by the decreased utility bills resulting from improving insulation during renovation, and reducing the amount of space for which the owner pays utility bills; renters would be responsible for the utility costs of their own units. The designers calculations were as follows:

TABLE 3

MONTHLY TAX, INSURANCE, AND UTILITY COST CONSEQUENCES OF THE HOME CONVERSION PROGRAM

	Before Conversion	After Conversion			
No. of Units	Taxes & Insurance	Taxes & Insurance	Increased Taxes & Insurance	Decreased Utility Cost For Homeowner	Net Effect
Duplex	$18.82	$40.95	$22.13	$24.00	$1,87
Triplex	$18.82	$59.64	$40.82	$36.00	($4.82)
Quadraplex	$18.82	$82.01	$63.19	$45.00	($18.19)

Source: City of Columbia Innovative Grant Application, revised December 1981. Estimated figures were derived through a detailed series of calculations using hypothetical housing characteristics, and actual assessment rates, tax rates, and average heat and utility costs.

[4] The residency requirement is waived for people who acquire vacant structures after being displaced as a direct result of City actions.

Assuming no financial disadvantage to the owner of increased taxes and insurance associated with duplex conversions, and slight cost increases associated with creating 3 or 4 rental units, the homeowner's monthly rental income, and repayment of the mortgage and maintenance fee payments were calculated to result in a net income of $64.00 following a duplex conversion in which one three-bedroom rental unit was created:

TABLE 4

SAMPLE MONTHLY RENTAL INCOME FOLLOWING A TRIPLEX CONVERSION

	Income	Payments Due	
INCOME			
(from 2 rental units, based on Section 8 Mod. Rehab.)	$264.00		
PAYMENTS			
Management fees:			
1st rental unit		$ 35.00	
2nd rental unit		40.00	
Owner occupied unit		40.00	
		$115.00	
Loan Repayment to City		$85.00	
Total Payment due		$200.00	
BALANCE: MONTHLY NET INCOME TO OWNER			$64.00

Source: Innovative grant application, revised December 1981.

Subtracting the estimated balance of changed tax, insurance, and energy costs (see Table 3) the homeowner would have an increased monthly income of $59.18.

Based on these estimates and earlier estimates by the Community Development Department's specification writers that the average per unit costs of renovation, conversion, and correction of code violations would be approximately $10,000,[5] the original budget for the Home Loan Conversion project for converting 18 structures over a two year period was planned as follows:

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[5] Inflation has caused a dramatic increase in construction costs and, thus, an increase in per unit costs of conversion and renovation. Project guidelines have been revised, necessitating a revision of the anticipated number of total conversions that will be negotiated under the grant. See Section III, below.

TABLE 5

OVERALL PROJECT BUDGET

(two year period)

1. REVOLVING LOAN/FUND ACCOUNT for renovation/conversion loans				
A. 14 Duplex Conversions	X	$20,000.00	=	$280,000.00
B. 2 Triplex Conversions	X	$30,000.00	=	60,000.00
C. 2 Quadraplex Conversions	X	$40,000.00	=	80,000.00
Total Loan Fund Account				$420,000.00
2. Personnel Costs				
A. Specification Writer				
B. Promotion Coordinator				
C. Secretary (1/2 time)				
Total				97,520,000
3. Repair Reserve Fund				10,000.00
4. Contingencies Fund				11,027.00
5. Evaluation Contract (University of South Carolina)				15,453.00
TOTAL				$554,000.00

Program Components and Management

The management design for the conversion loan program requires coordination of a diverse set of individuals and specialized services. Because of the extensive experience of the Community Development Department in rehabilitation and housing grants and loans, it was able to design a realistic management plan for organizing the five key components of the program:

- Selection of homeowners
- Renovation and Conversion
- Tenant Selection

- Advice and Counseling of both Landlord and Tenant Participants

- Monitoring and Evaluation

Selection of Homeowners

Community Development staff anticipated that eligible homeowners would be reluctant to commit themselves to the program without a great deal of reassurance. They expected to find that elderly widows would be conservative about deciding to make structural changes in a family home and that they would be particularly reluctant to enter into a contract that included any possibility of foreclosure on the mortgage, and loss of their homes. They also expected that eligible homeowners would be afraid of renting their units to someone on a waiting list for publicly assisted housing, even if the final selection was in their control. Despite the fact that an informal survey of the target neighborhoods[6] suggested that approximately 160 houses appeared to be suitable candidates for the Home Loan Conversion program, staff were convinced that a vigorous program of promotion and outreach was necessary to attract 12 homeowners fully eligible for the mortgage loans.

Consequently, the promotion plan comprised use of every conceivable method for conveying program information to prospective homeowner participants. The plan included interagency briefings, newspaper notices, new releases, radio and television appearances, community meetings and distribution of promotional literature. The expectation of the Community Development staff was that "selling" the notion of using a public program to renovate and convert a single family home into rental units would be the keystone of successful project implementation.

They made two important assumptions about this promotional effort. First, they believed that the best source of homeowner referrals would be other local, state or independent social service agencies. The program director organized a Task Force of agencies such as the Council on Aging, to formalize regular contacts and encourage outreach by social service workers likely to come into contract with older, overhoused homeowners on fixed incomes. Once interested homeowners were identified, the Home Conversion Program coordinator planned to work closely with those interested, to provide all the information, reassurance, and support necessary to gain a commitment to participate. Second, program staff assumed that getting good new coverage of the first houses renovated, converted, and tenants

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[6] In 1979, there were four target neighborhoods; at present, seven neighborhoods are eligible targets for community development programs, including the Home Conversion Loan program.

placed would be the best form of publicity the program could possibly receive. Their expectation was that the rate of program participation would increase following the first successful conversions.

Renovation and Conversion

Once the program coordinator, working with the homeowner, had established that the title to the property was clear, the land zoned for multi-family use (or zoning variance obtained), and eligibility requirements had been met, the Community Development Department and homeowner entered into a general agreement to convert the home into a specific number of units and undertake renovation.

The next steps are managed by one of the two specification writers from the Community Development Department who follow these procedures:

- Perform cursory inspection of houses

  Specification writers perform a quick inspection of the home of someone interested in the program to determine whether a renovation/conversion is physically feasible within the general per unit cost guidelines.

- Prepare report analyzing feasibility of project and recommending whether or not to proceed

- Undertake detailed inspection

  The cost of new bathrooms and kitchens are typically the aspects of the design that will make or break the feasibility of the renovation and conversion.

- Prepare detailed specifications

- Submit specifications to architectural review

  In order to encourage design solutions for the owner-occupied units that are the best possible for elderly or handicapped people, specifications are submitted to a volunteer architect who reviews cases when his service is requested.

- Invite general contractors to attend a pre-bid conference

- Conduct pre-bid conference at the house to be converted

  The pre-bid conference consists of a walk through the house by the homeowner, specification writers, and contractors discussing each aspect of the work to be done. Frequently, contractors make suggestions for changing the specifications in the interest of lower costs or more efficient design solutions. If everyone present agrees on the wisdom of these proposed changes, they are written into the specifications and distributed to all bidders in writing.

- <u>Analyze cost bids submitted by general contractors</u>

  The specification writers and homeowners compare the cost of the various bids and choice of contractor. The Department recommends the lowest bidder who is both qualified and whose bid falls within 10 percent of the specification writer's estimate; the homeowner is not bound by this recommendation. However, should she choose a more expensive contractor, she must pay the difference in cost between the lowest bid and the chosen one.

- <u>Monitor rehabilitation/conversion work on site at least bi-weekly</u>

  Because of the City's previous experience in using the 312 rehabilitation loan program, a number of Columbia contractors are experienced with small scale custom designed rehabilitation work. However the small firms that specialize in this work often cannot be bonded; consequently, City staff must observe work progress on-site several times a week to discuss solutions to problems as they occur.

- <u>Monitor rehabilitation/conversion work for code compliance</u>

  City code inspectors also visit the site frequently to ensure code compliance.

Tenant Selection

As the renovation work nears completion, and a maintenance management agreement between the Columbia Housing Authority (CHA) and the owner is signed, the CHA will refer up to five prospective tenants from the Section 8 program waiting list (or a person who has been displaced and is eligible for placement on the waiting lists for publicly assisted housing). The final selection of a tenant by the homeowner is accomplished using the following selection guidelines:

- Before referring tenants to the homeowners, the Columbia Housing Authority will select candidates from the waiting list using these screening criteria:

  - appropriate family size

  - ability to pay

  - demonstrated ability to make regular rental payments

  - ability to function without interfering with the rights of others

HOUSING DISPLACEMENT DEMONSTRATION PROJECTS
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- The homeowner interviews tenants using an interview guide provided by the program coordinator.

  The coordinator furnishes the homeowner with a list of 12 questions about current residence, reason for moving, job and working hours, references, pets and hobbies, size and relationship among those who will share the rental unit and record of evictions to guide her discussion.

- Homeowners may request additional information about the tenant's eviction record from the Columbia Housing Authority.

- The homeowner may select any prospective tenant interviewed, but may not discriminate on the basis of race, creed, sex, religion, age or national origin.

- The homeowner must make a final selection within 10 days after interviewing all tenants.

Tenant and Landlord Counseling Program

Because program designers expect that most homeowner program participants to be individuals who have no experience as landlords, nor ever expected to become landlords, the program design includes a counseling service which is available to tenants and landlords throughout all stages of the program. A full-time housing counselor was already employed by the Community Development Department as the Home Conversion Program was begun. She has extended her services to the innovative grant program, including assistance in pre-qualifying applicants, helping the homeowner in minimizing disruption if she must vacate her home during renovation,[7] discussion with the homeowner about the role of the landlord and the role of the CHA as the management agent. She also refers tenants, and is available to assist with tenant selection. She also counsels tenants about their responsibilities and refers them to social service agencies if necessary.

In all housing programs, the services are tailored to the needs of those she counsels; no set program is adhered to. Among the most frequently requested services is advice on home maintenance and financial management.

Monitoring and Evaluation Plan

The City has employed the Bureau of Governmental Research and Service of the University of South Carolina to document the implementation of the program. Because a relatively small number of

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[7] The Department owns a house that is used by people temporarily displaced.

homeowners and renters will become involved in the demonstration grant program during its first two years, the evaluation team will have the unique opportunity to interview almost every individual directly involved in the Home Loan Conversion program as a means of understanding (1) how homeowners and tenants respond to the program; (2) whether the estimated cash flow to the homeowner matches original expectations; and (3) how the program could be developed for wider application within Columbia; or (4) utilized by other jurisdictions. Because of the highly innovative nature of the experiment, this evaluation study should provide useful insights.

Although the program and management design is conceptually straightforward, the implementation phase demonstrated that the program was also legally, administratively, and socially a very complex program.

PROGRAM IMPLEMENTATION

Participation Rate

As shown on Table 6, the rate of participation in the Home Loan Conversion Program has proved much lower than expected. After nearly two years of program operations, a total of five homeowners, all elderly black widows, entered contracts to use interest free loans to rehabilitate their houses and create new rental units:

TABLE 6

COLUMBIA, SOUTH CAROLINA HOME LOAN CONVERSION
PROGRAM PARTICIPATION RATE

September 1, 1980 - June 1, 1982

	Individuals Contacting Community Development Department	Qualified Owners Remaining Interested After Learning Program Details	Owners Actively Participating After June 1, 1982
Total Program Inquiries	128		
• By unqualified owners	77		
• By qualified owners	51	13	5

Out of 128 inquiries received by the Community Development Department in the form of letters, referrals from other agencies, or phone calls, 60 percent of those interested proved to be unqualified to receive loans. The single most frequently encountered disqualifying characteristic of inquirers was their status as landlords and developers. The 51 individuals judged sufficiently qualified to merit a home visit and consideration as participants, all cleared initial screening on three criteria. They were:

- Elderly, or handicapped, or low or moderate income households as defined by Section 8 housing program guidelines; or
- Overhoused; or
- Residing in an area zoned for multi-family housing.

After the first year of program operations, however, it was clear that only a small proportion of those qualifying under these criteria remained actively interested in the program, even after the first conversion was complete. To avoid wasting the program coordinator's time, three additional screening criteria were added. At the earliest stage of the inquiry program staff attempt to learn whether:

- The lot size falls within the legal size for duplex residences;
- The title is clear; and whether
- Necessary renovation is so extensive that costs are likely to exceed the per unit cost guidelines.

After nearly two years of program operations, staff have had ample opportunity to document the reasons that people who showed some initial interest in the program failed to remain active participants.

Barriers to Program Participation

Of those individuals who contacted the Community Development Department for information on the Home Loan Conversion program, approximately 75 to 80 percent were screened out initially or were unable to make a formal program application because of one or more of the following problems in conforming to the design characteristics of the loan/conversion program.

- Applicant not an appropriate recipient of an interest-free rehabilitation loan

  As noted above, a large number of inquiries were received from developers and speculators. Nevertheless, at least an equally large number of inquiries were made by elderly, handicapped, or low income households. Many of these individuals faced other structural barriers to participation.

- Lack of clear title to the property

Many elderly widows were found to hold titles that were clouded by the claims of heirs or other legal complications. In many cases, this legal obstacle could not be removed. In the case of the second house to come into the program, the program coordinator and home owner spent a significant amount of time on clearing title to the property.

- Restrictions imposed by zoning or other location factors

Some applicants were ineligible by virtue of their location just outside the City limits of Columbia. Others fulfilled all requirements except that their homes were not located in areas zoned for multi-family dwellings. Other properties were zoned "multi-family" but had insufficient lot areas, and required a zoning variance. Program staff had anticipated the need to address this issue during the design stage. Rather than seek blanket changes in the zoning statutes affecting target neighborhoods -- a procedure which may have raised fears of speculation and increased residential density -- Community Development staff chose to seek zoning variances for eligible homeowners located in multi-family zones. Applications for variances proved time-consuming and were not always successful.

- Residence requirement

Designed to discourage speculators from taking advantage of the program, the residency requirement prevented several homeowners who met the remaining eligibility criteria from entering the conversion program.

- Guidelines limiting size of loans

When the loan/conversion project was designed in 1979, the cost estimates of approximately $10,000 per unit renovated or created were realistic. By 1982 inflation and high interest rates combined to push construction costs up to a point that rendered these guidelines obsolete. During the latter months of the project potential participants dropped out because the costs of the minimum work needed to rehabilitate and convert their houses exceeded the program limitations and the homeowners own capacity to pay.

It is also true that of the five homes in the program undergoing renovation/conversion, most required more work than program staff anticipated. The exception was the third house where renovation was completed in early summer of 1982. Although the largest of the completed conversions, it was the least expensive because the house had been particularly well maintained by the owner.

To accommodate the rising cost of construction, program staff have proposed to change program target from 18 to 12 conversions, placing the money saved into the contingency fund so that sufficient funds are available to qualified and interested owners. The maximum allowable cost per unit was raised to $20,000.

Fear of changing or losing a family home (or suffering other adverse financial consequences).

For some potential participants, distaste for the idea of subdividing their homes into two or more units outweighed the potential benefit to be derived from renovation, and additional cash income.

Those who did enter the program had no qualms about subdividing their houses, and in several cases, had already been renting out rooms, or a floor of their homes. Their major reason for participating was the opportunity to make renovations and repairs on a basis they could afford. Only one of the elderly widows was eager to have a tenant as a means of increasing her sense of security, but even in her case, access to affordable funds for renovation was the primary incentive to participate.

However, for both those who entered the program and those who dropped out after initial inquiries, financial concerns were important. For example, the third owner to actually embark upon the renovation/conversion program was concerned about whether:

- The cash flow outlined in the program design would actually provide sufficient income to cover the loan and other increased costs such as taxes and insurance;
- There was any possibility that a long term rental vacancy would occur, making it impossible for the owner to meet the loan repayment schedule, or whether
- it was possible that changes in national policy could end the Section 8 program and throw the Home Loan Conversion program into jeopardy.

Although program staff were able to reassure the owner (already committed to the Home Loan Conversion program) that on all these points, these concerns are typical of the financial fears voiced by prospective program participants.

Concern over issues of race and class

From the earliest design stages of the program, Community Development Department staff were troubled by the possibility of homeowners being reluctant to use the interest free loans for renovation and creation of rental units because of the stipulation that the new units must be rented to low or moderate income owners who are eligible for the Section 8 program. They were particularly concerned about this issue in Columbia where the public view of the Columbia Housing Authority has been poor because of the stereotypes associated with large public housing projects built in the past. In fact, the CHA was particularly eager to contribute to the Home Loan Conversion program by becoming the provider of maintenance and management services to converted homes as well as playing a role in the tenant selection process. Through this participation, the CHA director wishes to demonstrate his commitment to dispersed housing opportunities for publicly assisted tenants and the ability of the Authority to provide private homeowners with high quality and timely maintenance and management services.

Despite the program design that included final choice of the tenant by the homeowner, a special fund held by the City for any necessary repairs caused by the negligence of tenants, rent collection by the City with automatic deduction of the maintenance fee, and complete maintenance services by the CHA, a significant portion of people who inquired about the program appeared to halt their inquiries once they learned that they would be obliged to rent units in their homes to publicly assisted tenants. Perhaps the most eloquent testimony to class or racial fear of publicly assisted tenants is the fact that all five current program participants are elderly black women, despite the fact that program staff estimate that there are several areas of the City where white residents on low fixed incomes own properties that are particularly suitable for the program.

LESSONS LEARNED

The Columbia Home Conversion program has proved a genuinely innovative method for combining renovation and creation of new rental units for low to moderate income households at modest cost. However, because of the time lag between program design, Federal funding for the experiment and local implementation, the loan/conversion program has been used to promote low cost rehabilitation and creation of new units rather than an anti-displacement project: the gentrification of Elmwood Park was a fait accompli by the time the project began. Hence, its effectiveness as an anti-displacement strategy has not yet been tested.

It is likely that offering a home loan conversion program during a period when rehabilitation efforts, price increases, and pressures to sell are at their peak would make maximum use of this innovative housing program. Eligible homeowners are most likely to overcome their financial and social concerns and enter the program when the pressures created by neighborhood revitilization are most intense. Application under these conditions may result in higher rates of participation, and prevent displacement of homeowners on fixed incomes.

Use of the program as one local tool for low cost renovation and creation of new rental units is unlikely to create a major local impact in terms of preventing displacement, making significant additions to the housing stock, or rehabilitating homes of low to moderate income households. Although fine-tuning of the program design can no doubt increase participation rates, the financial and social fears that create barriers to participation on a wide scale are probably inherent and insufficiently difficult to overcome to allow this housing strategy a place as a primary means for assisting low to moderate income homeowners and tenants. This does not detract, however, from the value of this innovation as one approach among many that can be effectively utilized by other jurisdictions, particularly given the modest cost of creating new units and rehabilitating homes that would otherwise go without maintenance. From this perspective, a home loan conversion program is a good investment.

Alteration of the specific design characteristics of the Columbia program may open the program to wider use. For example, when stabilizing homeownership for fixed residents in a particular area subject to strong development pressures is not the primary program focus, there may be no reason to limit the project geographically; or define eligible homeowners so strictly that the opportunity to rehabilitate housing and add to the stock of rental units is lost. Further, the program design could include the possibility of adding new rooms or units -- a policy that could add to the number of homes suitable for loans and lessen concern about subdividing the family home.

COLUMBUS, OHIO AREA-WIDE REDEVELOPMENT PROJECT

COLUMBUS, OHIO AREA-WIDE REDEVELOPMENT PROJECT

SUMMARY

The Columbus Innovative Grant used to support a public/private partnership for the revitalization of the Near Northside neighborhood, has significance at several different levels:

- It is a large project--large in area; number of structures; diversity of uses; amount of private and public funds invested. The Innovative Grant of $2,003,100 to support public participation in this essentially private venture is one of the largest ever approved by HUD.

- It is a complex project in terms of techniques used to achieve revitalization. The project involves exterior, moderate, and substantial rehabilitation, demolition of structures, new construction of infill housing on vacant lots, relocation and reconstruction of streets, alleys and small parks, construction of a new shopping area. These techniques are used both for the private market sales and for transfer of public funds to facilitate sale of houses and apartments to low- and moderate-income groups. In this process, there has been some attempt to retain residents in the area. Many of the techniques used to achieve the public transfer are standard and have been around a long time, but they have been packaged in unique combinations to achieve results that have important implications for public policy.

- The project involves a private-public partnership with three main local actors: Olentangy Management Corporation, a real estate subsidiary of Battelle Memorial Institute; the City and its Department of Development; and the non-profit Near Northside Housing Corporation based in the neighborhood. Public-private partnerships have been touted by some as an important national policy to help revitalize or reindustrialize the nation. The examination of such a partnership at the local level offers some interesting insights into the many problems and opportunities in undertaking such a venture.

- The project has been long term, three years rather than the two usually funded as Innovative Grant demonstration projects. The project took over a year to become operational. The large size, complexity and public-private partnership that characterize the project certainly contributed to this delay, but inadequate experience in planning the public portion of the program was one of the most significant inhibiting factors. Basically there were four reasons for the delay: (1) lack of leadership and coordination from the city, (2) lack of necessary technical

expertise in the city and the housing corporation, (3) lack of any objective client profile so that parties involved could be sensitive to client needs, (4) lack of any real motivation on the part of the major actors.

The city and NNHC have completed 100 structures toward their overall goal of 120 structures under the purchase assistance component of the Innovative Grant.

Although all HUD funds had been encumbered by the project at its termination, infrastructure improvements are now just underway and rehabilitation of many residential structures remain to be completed in order for the public portion of the project to reach its goals. The City's Department of Development has a three-and-one-half-year contract to continue the life of the Near Northside Housing Corporation so that its goals can be met.

BACKGROUND

The City and the Target Area

Columbus does not share the "foundry" characteristics of Ohio and of the larger industrial Midwest. It is home to both the State Capitol and one of the largest state universities in the nation, and headquarters to national insurance companies, second in number only to Hartford. It has, therefore, the appearance and reality of a white-collar and professional city. The City has a strong prosperous base of durable goods industries, some of which are government sponsored and are at the leading edge of technology. Columbus is the only growing central city in Ohio, a state that is hardly growing at all (+1.3 percent between 1970 and 1980) because of its heavy dependence on durable goods manufacturing industries associated with the declining automobile and other older technologies.

Known as a conservative city, Columbus has a long tradition of community planning and approaches the business of governing the city with the same professionalism that characterizes its economy. The Near Northside neighborhood, the focus of the HUD Innovative Grant Demonstration, is located between a health and expanding Central Business District (CBD) and Ohio State University (OSU). Typical of many such neighborhoods located in the "frame" area around the perimeter of CBDs, it has suffered the decline and obsolescence associated with decentralization of industry, business and population while retaining the advantages of a strong base of institutions, such as OSU and Battelle Memorial Institute (Battelle). These institutions originally located in the Near Northside neighborhood when land was cheap and the core was more prosperous. Battelle is a prosperous, nationally known research firm specializing in high technology. Its largely professional staff can potentially exert a strong influence on the Near Northside housing market. OSU already influences the neighborhood because students provide a market for existing rental units.

The large picturesque Victorian and Queen Anne houses, when they are not accommodating the large families of the poor migrants from Appalachia, have been split up into rooming houses to accommodate students and the impecunious elderly. The area is transient, composed of small households, typically young, elderly or poor. As a result of the diversity of its composition, the area appears to have an aura of tolerance found in many such areas of transition located adjacent to the core and surrounded by outlying areas of the city. The target area of the city's Innovative Grant extends from OSU and King Street in the north to Third Avenue in the south and from Battelle and the Olentangy River in the west to Neil Avenue in the east, as shown on Figure 1.

The Olentangy Management Corporation Plan

The implementation of a large scale, private development plan by the Olentangy Management Corporation (OMC), a subsidiary of Battelle, in the Near Northside neighborhood precipitated an application to HUD for an innovative grant. The project was conceived and executed because Battelle wished to divest itself of its large property holdings in the neighborhood. By the mid-1970s, it had acquired 533 residential properties with 634 rental units and 65 vacant lots in the Near Northside neighborhood. These holdings comprised 65 percent of the property in an area of over 100 acres and 28 blocks. The city's Innovative Grant proposed to use HUD's funds to work with prospective home purchasers, fitting into this previously established and privately sponsored program and plan.

Battelle had originally acquired the properties in the adjacent Near Northside area for anticipated expansion. Backed up against the Olentangy River to its west and OSU to the north, its only avenues of expansion were in the Near Northside immediately to the east and the south. A number of events including divestiture of $127 million in its investment portfolio forced Battelle to reduce rather than expand its research activities. Because of uncertainty over the future disposition of its property, Battelle's investment in property maintenance lagged and was barely enough to maintain the property at its status quo. When the cost of maintenance exceeded the worth of the buildings, the structures were demolished. Private owners and potential investors in the area were also reluctant to invest in their properties until the intentions of Battelle, the largest property holder in the area, were made known.

One advantage of Battelle's housing policies was that unrealistically low rents for larger homes were maintained, thus enabling the neighborhood to accommodate low-income people with large families. The main disadvantage, however, was that housing in the neighborhood

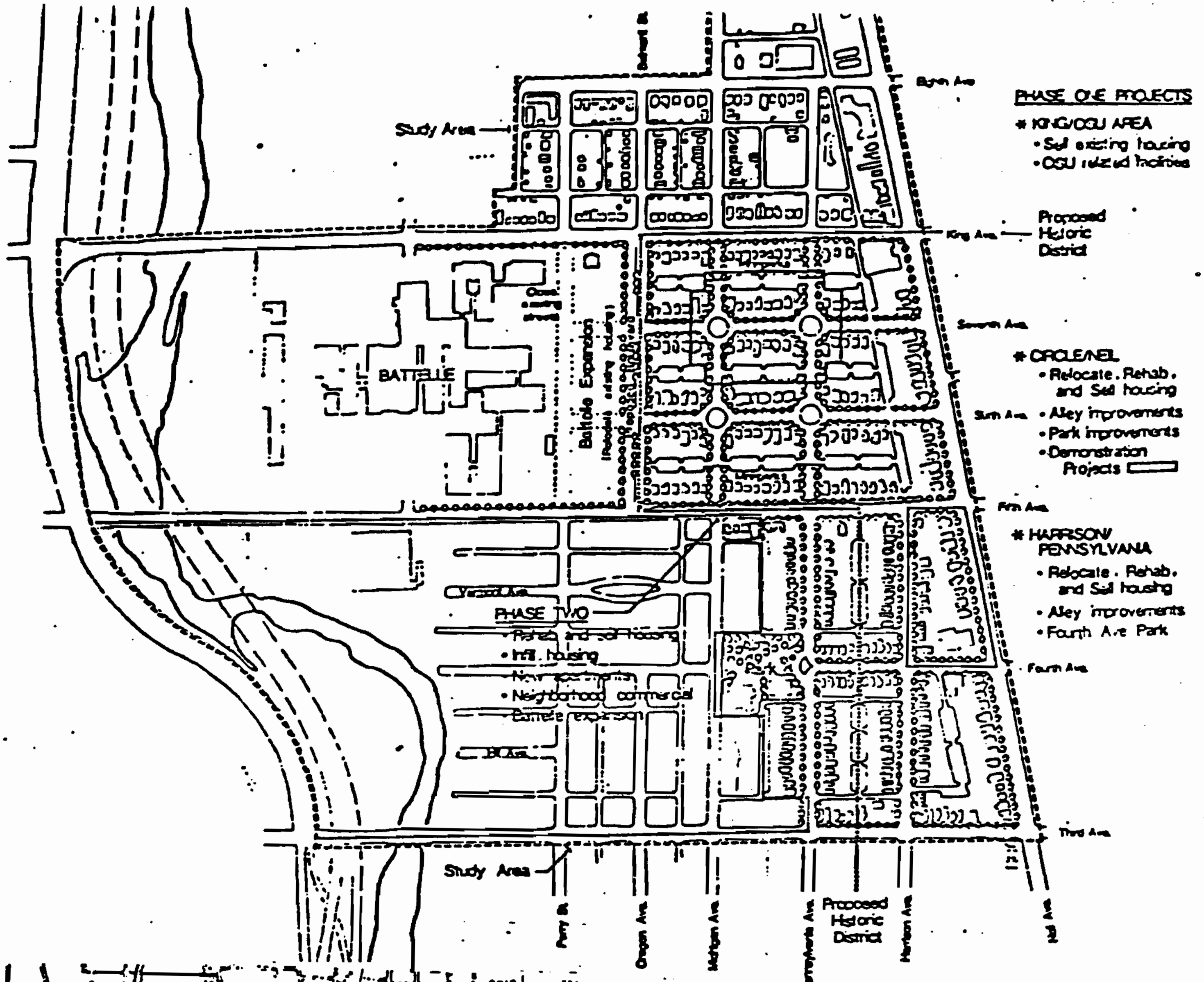
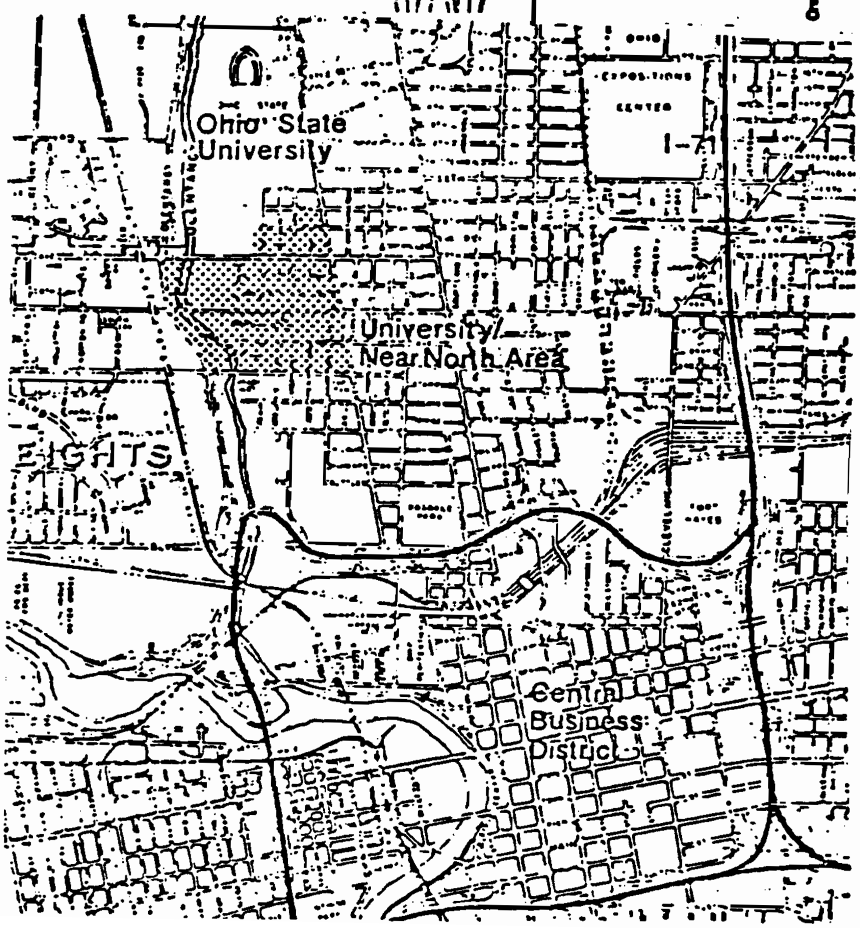


Figure 1

DEVELOPMENT PLAN



Innovative Grant Program Area

LOCATION MAP

1 mile
3/4"

was continuing to deteriorate rapidly. As a result, residents had built up a great deal of ill will toward Battelle as the major landlord in the Near Northside.

In 1976, OMC began to rethink the future of the area. In order to counter deteriorated housing conditions and negative feelings toward Battelle, it chose a long-term development program for the area involving predominantly residential use. During the process of developing the plan, OMC consultants held numerous meetings with neighborhood groups in order to incorporate their ideas into the planning process. Almost all groups participated except the Godman Guild, a neighborhood settlement house activist group opposed to the approach of the plan. Most of the groups agreed on the value of rehabilitating housing, but their concerns eventually shifted to guaranteeing that such housing would continue to be available for existing residents. There was no active dialogue between the city administration and the neighborhood at this time.

OMC's six-year plan for the Near Northside was announced in August 1977 and was generally favorably received, but there were no further attempts to obtain citizen approval or modify the plan by obtaining additional citizen review. Scheduled for completion in 1983, the plan emphasized exterior residential rehabilitation and capital improvements. The plan, which was later to become the main focus of the Innovative Grant, specifically including the following:

- Closing of a portion of Perry Street parallel to Battelle, moving the street further east and expanding it to a boulevard. This would result in the expansion and consolidation of Battelle's property holdings west of the relocated boulevard. The boulevard would provide a new entrance for the Institute and act as a buffer between Battelle and the area to be preserved to the east by means of exterior rehabilitation of 325 residential properties and the construction of 64 new residential structures on vacant lots.

- Relocation and rehabilitation of a number of structures moved from the Battelle area of expansion and the new boulevard right of way.

- Building of a centrally located two-acre neighborhood park at Fourth Avenue between Pennsylvania and Michigan.

- Improvement of the existing east-west traffic carrying capability of existing Third Avenue at the southern boundary of the project.

- Improvement of existing alleys by means of paving and landscaping.

- Building of a five-acre, 63,500-square foot neighborhood shopping facility to an undesignated location south of Fifth Avenue.

Despite the general acceptance of the plan, the Godman Guild and its clients remained concerned about the lack of communication with the neighborhood and the failure to modify the plan in accordance with residents' views. Specifically, the Guild felt there was another alternative to accomplish the Battelle divestiture and, at the same time, avoid displacement: the use of the newly created non-profit Near Northside Housing Corporation (NNHC) to buy and rehabilitate OMC properties for low- and moderate-income persons. They were concerned that the rehabilitation plan included no social goals and had established nor formal commitment to avoiding displacement of existing residents that might ensue from rehabilitation.

OMC, on the other hand, thought that the social goals of those opposing the project were unrealistic. According to this point of view, even if all the profit from rehabilitation were to be removed it was unlikely that low- and moderate-income persons could afford the housing. OMC questioned the wisdom of encouraging home ownership for low-income persons whose meager abilities and financial resources to undertake home maintenance would be strained. It had doubts about the capability of newly created and inexperienced NNHC and its ability to accomplish the complicated task of housing rehabilitation. OMC stated its concern over the social issues and recognized the need for involvement of public funds to achieve social goals, but, as a for-profit business, it was leery of direct involvement in public housing or of becoming a recipient of categorical grants.

As evidence of its sensitivity to social concerns, OMC did agree to provide relocation payments to those displaced, to donate four structures to NNHC as a test of their corporation's rehabilitation abilities, and to hire consultants to conduct a search for public funds or grants that would assist in meeting the physical and social needs of the project. It was reluctant, however, to make any other specific social commitments regarding potential displacement. Based on its actions, it asked the neighborhood to trust its good intentions.

Since the project at this time was viewed as being almost entirely under private auspices with little involvement of public funds, there was general acceptance of the plan; planning issues raised by opponents were largely dormant and unresolved at the time the Innovative Grant was being considered. They were to remain unresolved a year and one-half after the grant was approved.

The Innovative Grant Proposal Development

OMC's consultant study of available Federal grants identified two HUD sources that could be used to facilitate the project; the Urban Development Action Grant (UDAG) program and the Secretary's Innovative Grant Fund. The OMC director and city officials agreed that the Innovative Grant was the proper vehicle to pursue and that the city, rather than OMC, was the appropriate applicant.

By the time preparation of the application to HUD was begun, OMC had begun rehabilitation of 22 structures, contracted to sell housing and land to a local developer to provide 26 units of Section 8 housing through substantial rehabilitation, increased the proportion of its rent role devoted to maintenance to 60 percent, and begun to negotiate with a second developer to provide infill housing on vacant lots. The city allocated $270,000 of CDBG funds for an alley demonstration project as support to the Near Northside revitalization.

The Innovative Grant application resulted from two major concerns:

(1) The inability of the city of Columbus to provide the necessary financing of infrastructure required by the OMC plan; and

(2) The reality that "gentrification" or the displacement of existing low- or moderate-income residents of the neighborhood by higher income groups would occur as OMC proceeded with its plan for exterior rehabilitation of units.

The principle concern of OMC was to obtain a commitment of funds for public infrastructure for the project. The city, on the other hand, was more concerned with a social component that provided funds for assisting low- and moderate-income tenants to remain in the area. As a result, both elements were included in the proposal. Neighborhood groups were not consulted as the city's Divisions of Community Development and Planning in the Department of Development and OMC consultants prepared the proposal, but were asked to respond after the draft of the application had been completed. Through this process, it became clear that some residents were very hostile to the proposal. The city, previously neutral in the process, was now being viewed as villianous because it had allied itself with OMC in a proposal based on OMC plans and assumptions. In order to appease neighborhood groups, a last minute change was adopted allocating $200,000 to support the non-profit NNHC as part of the proposal. In the quest for Federal funds, the opposition was temporarily co-opted.

THE APPROVED INNOVATIVE GRANT PROGRAM

Objectives

The formal goals of the Innovative Grant as stated in the proposal were:

(1) To provide the necessary support for the partnership between public, private and citizen groups already underway, with each partner sharing in the responsibilities and benefits of the program.

(2) To reduce the dislocation of existing tenants by increasing opportunities to purchase present residences or other residential properties within the neighborhood.

(3) To reduce the hardships of displacement through relocation assistance and services.

(4) To minimize the demolition of low- and moderate-income housing resources through the removal and rehabilitation of selected structures.

(5) To provide for fulfilling the public responsibilities for the necessary infrastructure improvements including boulevard construction, park development and alley improvements.

(6) To promote reinvestment in this otherwise declining neighborhood through the above activities.

Formal goals, however, have little meaning when the various parties involved have different motivations that lead to different interpretations and expectations in regard to their achievement. Moreover, obvious omissions from the list were almost as important as the state goals. The four major partners in the innovative grant, each with distinctly different objectives and reasons for participating, were: OMC, the city, the NNHC and opposing neighborhood groups, and HUD.

The Columbus Innovative Grant program, if approved in its entirety by HUD, would be one of the largest such grants ever made. This large, complex and visible project would consume a major portion of HUD's available innovative funds. HUD, therefore, was interested in a project that produced results. It insisted that because community development funds were involved, the city assured that the beneficiaries of the funds would be low- and moderate-income people. HUD, although it was sympathetic to the opposing neighborhood group's position, did not completely identify with or adopt their point of view.

After approval, when the city appeared to be reneging on its goals and OMC began to displace numbers of residents, HUD came to distrust the city, and it started very slowly to increase the methodological and bureaucratic delays. An issue arose as to whether the area qualified as an historical district, a designation opposed by the city and by OMC. OMC felt strongly that adoption of historical preservation standards might increase both costs and delays. For HUD, this issue and the delays resulting from its resolution were useful in gaining time to get the project back on course.

Program Description

The city proposed a program under the innovative grant for $2,003,100 to support the existing public/private partnership for revitalization of the Near North University Neighborhood (the Near Northside) in order to reduce tenant displacement and gentrification. The application was submitted on January 23, 1978 and was approved approximately eight months later on September 18, 1978. It contained two basic components, each with distinct subcomponents: (1) a $997,000 tenant assistance program to reduce impending dislocation of existing tenants and avoid gentrification, and (2) an infrastructure improvement plan of $1,006,100 which would provide the city with the capability to furnish capital improvements and neighborhood amenities. (See Table 1.)

The program was to be accompanied in two phases. The Innovative Grant funds in Phase I were directed towards improvements extending from the OSU-King Street boundary in the north to Third Avenue on the south and Neil Street on the east to an expanded Battelle and Michigan Avenue on the west. Phase II, south of Fifth Avenue and largely west of Michigan Avenue was in the planning stages at the time the proposal was submitted. In addition to the Innovative Grant, the city was expected to invest a total of $418,000 in CDBG funds for infrastructure and services including alley improvements, landscaping of mini-parks, rehabilitation loans and grants, and support services for code enforcement, home maintenance, and winterization. OMC's total investment in Phase I of the revitalization would amount to $2,648,000 including rehabilitating the exterior of 239 units, moving 16 houses, donating land for the relocated boulevard and building a neighborhood park, plus professional fees for design. Other private investments by owners and developers induced by the program were expected to total $13,225,000, largely interior and exterior rehabilitation.

The Tenants Assistance Program provided funds for interior rehabilitation grants ($700,000), a home maintenance and support program for expansion of the existing Mobile Tool Library and loan services to the Near Northside neighborhood; $200,000 in assistance to the NNHC for housing acquisition; removal and rehabilitation to avoid demolition of low- or moderate-income housing; and additional funds for relocation assistance for those displaced by non-government action including a full-time person in the city's Family Relocation Office to provide assistance counseling to those threatened by displacement.

The Infrastructure Improvements component would provide $594,000 for a relocated (Perry Street) boulevard from Fifth to King (see above), a neighborhood park in the vicinity of Fourth Avenue ($178,500), and for lighting, paving, gutter and curb improvements to Third Avenue ($233,400). The city would provide coordination and monitoring of engineering and construction of these public infrastructure items.

TABLE NO. 1

Columbus Innovative Grant, Proposed Targets, Budgets and Changes, 1979 - 1980

	Original Program		Change I (6/27/79)			Change II (7/80)	
	No. (Structures)	Amount ($)	No. (Structures)	Budget ($) Change	Budget ($) Revised Total	Budget ($) Change	Budget ($) Revised Total
I. Innovative Grant							
A. Tenant Assistance Program							
1. Interior Rehab Grants	125-150	700,000	55	(287,500)	412,500	120,000	532,500
2. Home Maintenance Support		13,000		-0-	13,000	-0-	13,000
3. Housing Rehab & Removal	4	200,000	65	287,500	487,500	255,000[1]	742,500
4. Relocation Asst. Services		84,000		118,500	202,500	(51,500)	151,000
a. Non-governmental action		84,000		-0-	84,000	-0-	84,000
b. Relocation Perry Street		-0-		67,000	67,000	-0-	67,000
c. Fourth Avenue Park		-0-		51,500	51,500	(51,500)	-0-
Subtotal	129-154	997,000	120	118,500	1,115,500	323,500	1,439,000
B. Infrastructure Improvements							
1. Boulevard: Fifth to King		594,200		(67,000)	527,200	-0-	527,200
2. Fourth Avenue Park		178,500		(51,500)	127,000	(90,100)	36,900
3. Third Avenue Improvements		233,400		-0-	233,400	(233,400)	-0-
Subtotal		1,006,100		(118,500)	886,600	(323,500)	564,100
Total	129-154	2,003,100	120	-0-	2,003,100		2,003,100
II. Other Project Improvements (Phase I)							
A. Olentangeny Management Corporation							
1. Exterior Rehab (118-1 Fam; 54-2 Fam, etc.)	223	1,941,000					
2. Moving Costs of Housing	16	352,000					
3. Land Donation - Boulevard		200,000					
Land Donation - Park		125,000				(200,000)[2]	-0-
4. Professional Fee Design		30,000					
Subtotal	239	2,648,000					

TABLE NO. 1 (CON'T)

	Original Program		Change I (6/27/79)			Change II (7/80)	
	No. (Structures)	Amount ($)	No. (Structures)	Budget ($) Change	Budget ($) Revised Total	Budget ($) Change	Budget ($) Revised Total
B. City and Other Public Resources							
1. Alley Improvements & Demo (CDBG)		240,000				7,000	247,000
2. Circle/Mini Parks		79,000					
3. CDBG Support Services		42,000[3]				305,300[4]	347,300
4. CDBG Rehab Loans and Grants		57,000[5]				434,000	491,000[6]
Subtotal		418,000					
C. Other Private Investment							
1. Exterior Rehabilitation	240	1,581,000					
2. Interior Rehabilitation		11,644,000					
Subtotal	240+	13,225,000					
Total	579+	16,291,000					
Grand Total	608+	18,294,100					

( ) - reduction

1. Includes $100,000 for NNHC program overhead.

2. Original proposal indicated $125,000 value, but later the value imputed to land donations was raised to $200,000. This value was dropped with the deletion of the park and used to write down the sales price of properties sold by OMC.

3. Includes Environmental Code Enforcement, Home Maintenance Program, Winterization Grants, Housing Counseling, Fair Housing Services and Community Planning.

4. Includes: NNHC Administrative cost of $50,000 (1978-79) and $107,000 (1980-81); City Administrative costs of $100,000 (1978); appraisal costs NNHC of $8,300 and City costs of $40,000.

5. No specification of sources of funds in proposal.

6. Includes allocation of City Section 312 mortgage funds of $315,000 to the City and $100,000 to NNHC and revolving CDBG City loan fund of about $76,000 available to project.

Aside from the infrastructure improvements, the core of the program was the $700,000 in interior rehabilitation grants to be provided under the Tenants Assistance Program Component for an estimated 125 to 150 households over a two-year period. This portion of the grant was designed to stem gentrification and was the most innovative part of the program. OMC would rehabilitate the exterior of the homes and would give the existing residents first option to buy. The city would give the existing residents a grant equivalent to the cost of interior rehabilitation by a contractor or of the imputed value of their own rehabilitation effort ("sweat equity") up to a maximum of $7,500. The assumption behind the grant was that the burden of the rehabilitation would be reduced and that the down payment requirements on the purchase of the house would be reduced from 20 percent to 10 percent of the selling price. The reduction would occur because the mortgage commitment would be made on an insurable house of standard condition rather than on one with interior deficiencies. Except for the removal and rehabilitation of housing by the non-profit corporation, the remainder of the components were merely extensions of existing programs.

PROBLEMS

After approval of the application, it became immediately apparent to all parties that the proposal as outlined in the grant application, particularly the tenant purchase assistance grant, was technically flawed and impractical. The program lacked both definition and operational detail and was based on mistaken assumptions. Opposing groups criticized the rhetoric of the stated goals in the program design, claiming that the implementation mechanism was incompatible with achieving these goals and would actually aggravate displacement rather than ameliorate it.

The original target of 125-150 households to be assisted had been arrived at arbitrarily and was not realistic. OMC, based on its survey of June 1978, argued that the neighborhood, containing 25 percent college students and 60 percent single households, was largely transient with a 70 to 80 percent turnover. Only thirty percent of the persons interviewed indicated that they wanted to buy. OMC wanted a mix of incomes and did not want to re-institute a poor neighborhood. The more ardent critics felt that any program based on some displacement was unacceptable and they suspected the results of any "captive" survey. Yet other surveys done by the city and NNHC tended to confirm OMC's results. According to the City, many OMC tenants indicated an interest in buying OMC property and only about 69 percent or 46 persons were of low or moderate income. They NNHC random sample survey of 100 households found that there were only 120-130 families who by income determination alone, might be able to buy.

The housing removal and rehabilitation subcomponent did not specify how many homes were to be moved from what locations and for what reasons. No justification was given for the innovative grant being used to fund some traditional City functions, such as relocation or mobile home maintenance service rather than considering these as in-kind contribution of services from the City. Similarly, it was not clear why the infrastructure was necessary as part of the innovative grant, how it was to aid in achieving revitalization, or why the City could not execute these improvements on its own. Finally, the income and other characteristics of neighborhood residents and their intention to buy were not known.

The assumption that the grant would result in a reduced equity payment was made without consulting lenders and later was proved to be mistaken. No feasibility analysis was run before the program was formulated to determine how much the City or the housing corporation could afford to pay for acquiring housing, given existing resources and targets.

It took over a year for all the actors to get in place and involved so that implementation could proceed. Two problems plagued the program from the beginning. First, the resources were not available to facilitate the transfer of housing to low income clients and second, the City did not have any one who could handle the program on a detailed technical level.

PROGRAM MODIFICATIONS

Because of the weaknesses of the program design, and continuing pressures from HUD, the grant was constantly being modified and redefined from January 1978 to April 3, 1980, when the major issues were resolved in a memorandum of agreement among the parties involved. Such an agreement would not have occurred even then if the City and the NNHC had not hired the key technical people with the necessary housing and administrative experience to head their respective portions of the program. Moreover, a new technical representative from HUD was key in understanding the issues and demanding technical solutions.

During the interim period, OMC proceeded with rehabilitation and demolition of structures and by February of 1979 an estimated 38 households had been displaced by private revitalization. As a result, opposition to OMC from the neighborhood intensified. HUD stopped the drawdown of funds, instituted delays and threatened to shut off the entire program. Once the City exerted its leadership and the people with necessary technical skills were forced to get together, there was a sincere effort among all the parties to reach a working agreement.

As a result of these technical and organizational weaknesses and other unforeseen events such as inflation and rising interest rates, the direction of the program was modified in several major ways:

- There was a shift from making direct grants to households to undertake rehabilitation to dealing with the intermediaries such as the City and the NNHC in order to package and perform most of the rehabilitation program for these households;

- The activities of the non-profit NNHC were expanded from the obscure and vague role assigned in the proposal to a major role in providing rehabilitated housing for low and moderate income groups;

- The amount and nature of the grant to be allocated to prospective purchasers was changed from a maximum of $7,500 to $10,000. Its use was expanded to include exterior as well as interior rehabilitation, and it could be applied against the home purchase price;

- There was a shift to federal programs as a major source of subsidy and as a supplement to the grant, e.g., Section 8 substantial and moderate rehabilitation, Section 212 mortgages and Section 235 mortgages;

- As rehabilitation in the Tenant Assistance segment of the program became more costly, infrastructure projects such as the park and the Third Avenue were dropped and funds were shifted to a grant assistance program that sought to stem displacement;

- The program increasingly became a moderate and middle income program. Because of the increasing costs, those income eligible for Section 8 could no longer afford ownership and even middle income residents needed assistance to remain in the area. There was pressure to expand to the higher income eligibility limits characteristic of Section 235;

- A new procedure was adopted for determining the sales price of houses purchased from OMC. The City did the initial appraisal. If OMC agreed, this appraisal became the accepted price; if not, OMC did their own appraisal. If the difference between the two appraisals was more than 10 percent, the two parties agreed to accept a third appraiser's decision; otherwise the average of the two appraisals was taken as the sale price.

- New subsidies were provided by OMC. It agreed as part of the memorandum of agreement to hold sales prices level from March 1980 through September 1981, in spite of inflation and increased marketability of properties as the neighborhood improved. As a result, many OMC houses were selling for an average price of $38,000, while new houses were selling for over $70,000.

- OMC provided a write-down for the gap between appraised value of a house (e.g. $28,000) and what NNHC could afford to pay (e.g. $10,000) for a home. the equivalent $200,000 value of proposed Fourth Avenue land donation was transferred to underwrite this change. The construction of the controversial park, which would have necessitated additional demolition of homes, was postponed.

- The City agreed that in the event the Fourth Avenue Park Project was determined to be feasible and appropriate, that the required funds would become available and the cost would not exceed that originally approved by HUD ($178,000).

- Originally, purchase assistance grants were to accommodate tenants facing displacement in the Near Northside. Criteria were changed later to accommodate residents from outside the area, if such persons had been residents at the time applications for the grant were approved. Eligibility for grant assistance was then expanded to residents who moved to the area after the grant was approved and finally, to those residing in an area five or six times larger than originally considered.

- The proposal was predicated on the rehabilitation of single houses, but in 1981 a major shift was agreed upon with NNHC placing emphasis on the rehabilitation of two-family homes.

- In the original budget the City was to assume all the administrative costs of relocation with about $34,000 provided for the purpose. This amount, however, was cut back to $10,000, with the rest of the money shifted to the relocation payments themselves.

As indicated above, the City focused on the rehabilitation of single family housing, catering to more moderate income clients. Because the market had appreciated considerably, single family homes were being sold for prices too high to make them feasible for low and moderate income groups. Therefore, NNHC, changed its focus to two family units, called doubles. Under the doubles program, one side of the structure was subject to moderate or substantial rehabilitation under Section 8. The other side was owner-occupied and was rehabilitated under conventional mortgage financing.

The City provided NNHC's administrative and overhead budget of $157,000 from CDBG funds. It also provided NNHC with money to purchase properties from OMC and to initiate a cash flow. The maximum amount for the internal rehabilitation grant was increased to $10,000 and was given to the owner to be applied to the total price including both rehabilitation cost and purchase of the house. NNHC rehabilitation often required as much as $25,000 in cash, the total to be paid back by the purchaser at the time of the sale. In such cases, the cost of rehabilitation exceeded the $10,000 grant from the City and the City would, therefore, help NNHC by providing necessary cash.

If the unit was single, the City would use a portion of its Section 312 mortgage commitment to provide the cash flow. In the doubles program, such money was supplied by construction loans and financing from private lenders.

Single Unit Structures

The city confined its activity to singles, but recognized that the $10,000 grant was not enough for rehabilitation of single family units. Under these conditions, the City felt that the Section 235 mortgage program for low to moderate income single family home ownership was required, and an allocation from HUD needed. The Section 235 program had interests rates as low as four percent, but properties had to be rehabilitated and purchased within a specified time. The upper limits of the mortgage amount under Section 235 were $38,000 for a three bedroom house and $44,000 for a four bedroom house. In almost every case the purchase price was right at the mortgage limit allowed by Section 235 regulations. Rehabilitation was costing an average of between $25,000 and $30,000 per structure. Part of the rehabilitation cost was covered by the grant and the remaining portion of the cost was covered by Section 235. In some cases, the Section 235 mortgage limits were not sufficiently high to cover the amount necessary. In such cases, the remaining portion was financed by a City program through a Section 312 mortgage program

Double Unit Structures

In the doubles program carried out by NNHC under Section 8, substantial rehabilitation, mortgage feasibility was established by first determining the rental income, then adding rehabilitation cost and purchase price and finally subtracting grant money. It was then possible to determine the total mortgage amount the owner would have to assume. Under Section 8, the rental price was higher for substantial rehabilitation than for moderate rehabilitation. The high Section 8 rental rates were guaranteed income and usually enough to make feasible owner assumption of the mortgage. Incomes averaging $15,000 to $16,000 were necessary to make this program work. The City received a waiver in order to use the higher Section 235 mortgage income limits, rather than the Section 8 limits.

The process for NNHC rehabilitation of doubles takes over a year before the owner assumes ownership. Construction plus six months of "sweat equity" rehabilitation must occur before the home goes to conventional financing. The NNHC acquires structures from OMC and rehabilitates the rental unit first. The tenant moves in and NNHC collects the rental money. Meanwhile, NNHC has lined up a buyer after having gone through it selection criteria. NNHC completes 80 percent of the rehabilitation in the owner's half of the structure. The prospective owner then has six months to complete the rest. Once the rehabilitation is complete, the prospective owner goes to the bank to get the mortgage financing. The $10,000 purchase assistance grant

Prior to the time of the 1981 agreement that the NNHC would focus exclusively on doubles while the City concentrated on singles, NNHC had done 16 single family units. Thus, NNHC has acquired a total of over 40 houses, of which 24 structures are doubles with 20 of these under construction as of September 15, 1981. The 24 doubles were allocated to NNHC under the Neighborhood Strategy Area allotment for Section 8 rehabilitation. Fourteen were moderate Section 8 rehabilitation and ten were substantial Section 8 rehabilitation.

The NNHC has some completed properties that are ready, but as yet unsold. The construction loans on these properties are not due for two years and, therefore, NNHC has time to wait until interest rates go down before it sells. NNHC should know by December about the level and direction of interest rates. If interest rates do not go down by December, NNHC will sell the completed buildings. The NNHC has been allocated $400,000 in grant money for this project for the 40 structures it has committed to purchase. Under the new target of 65 structures, a total of $650,000 grant money would be required at a $10,000 grant per household. It has a $900,000 construction loan pool commitment of which it has drawn down $600,000. Some commitments are in hand and have not been used, amounting to about $200,000.

The NNHC hopes to go the bankers in January. At that time al the doubles in the current allotment are expected to be completed. NNHC will then present the lenders with one package of 24 doubles. By selling these properties through the lenders, NNHC expects to receive $200,000. This income will be used to purchase on the open market 20 more structures to meetings augmented target of 65 structures early next year, interpreted as meaning March to June of 1982. NNHC hopes to rehabilitate half of these structures, or as many as 15, as doubles. The tentative deadline to reach its goal of 65 structures is March 1983. However, five or more additional months may be needed. The City asserts that NNHC never received a rehabilitation deadline from HUD. In the agreement, NNHC agreed to acquire all the property from OMC by September 15, but HUD never gave a deadline as to when this property was to be rehabilitated. NNHC now has a three and one half year program contract with the Department of Development. HUD's money was encumbered by NNHC in September, the last month of the grant.

Largely as a result of the OMC program, the Near Northside neighborhood is the fastest appreciating market in Columbus. The next properties will not be bought from OMC, and the higher prevailing market rates may present a problem. As a result, NNHC may not be able to buy enough homes in the neighborhood to meet its 65 structure target. They have already purchased about 44 properties (including the 3 donated to the city), but the last 20 may have to be purchased in an adjacent area. This may involve an amendment or minor alteration in the HUD agreement. At present the target area is quite small, and there is some precedent for change, since the buyer area had already been expanded to a much larger area.

The funds for the mobile repair unit and home maintenance have been expended. The section 312 mortgages are no longer available from the Federal government. The Section 235 mortgage program for single family units is no longer available because it is turning into a middle income program. Inflation, rising interest rates, and escalating prices resulting from property improvements in the existing neighborhood may eliminate the few remaining low and moderate income people left to serve. The displacement that was to occur has occurred, much of it prior to the time the grant became operational. Many existing residents who received Section 8 and other relocation assistance have relocated out of the area. The program is now providing homeownership opportunities for people residing outside the area who were never displaced.

Many policy issues are posed in regard to the new directions the program may take: Is the $10,000 grant enough? Should there be more public resources applied to the program? Since this is now an expensive area to make home ownership work, should another neighborhood get the rest of the grants?

The construction of relocated Perry Street began in September. Rezoning for proposed shopping center south of Fifth Avenue has been stalemated. Over this period of time OMC claims to have rehabilitated and sold 79 houses to the City. As of September 1980 it began to construct new infill housing on 60 vacant lots. OMC has sold 27 new houses, mostly south of Fifth Avenue and built right next to buildings, it claims should have been demolished. OMC offered 3 standard models to prospective buyers that are constructed by a general contractor. Vacant lots for infill housing average $6,000 versus $17,000 average for the city. Small newly constructed houses are selling for $65,000. The new buyers are in their late twenties and thirties making $40,000 a year with no children and they cause some friction in the neighborhood according to OMC. As of September, 200 homes worth $8 million have been sold. To date, the average sale price is $45,000 with a high of $120,000 and a low of about $5,500. OMC purchasers are moderate to middle income persons, who are required to make a 20 percent downpayment, on an average about $8,000. OMC estimates it will spend 3 million dollars more on infill housing and an additional $3 million on rehabilitation for 35 buildings and 39 vacant lots remaining.

LESSONS LEARNED

The lessons learned from The Columbus Innovative Grant can be categorized as both substantive and administrative. The substantive issues focus on whether the goals of the project have been met in regard to preventing displacement or gentrification through the provision of low and moderate income housing. If so, what specific techniques are useful and applicable to other areas facing similar problems and what policy implication do they have for other projects? The administrative issues are those that might facilitate the project in its operation and meeting its goals quickly and effectively. These include planning, flexibility and ways to make the public-private partnership work.

Substantive Lessons

Columbus has been most successful in promoting reinvestment in this declining neighborhood. OMC claims to have already invested $8 million in the neighborhood, and expects to have invested about $14 million dollars by the time the project is ended. The City, on the other hand, has committed a $900,000 construction loan pool of which $600,000 has already been drawn. About $274,000 dollars of CDBG funds have been allocated to alley demonstrations and improvement, as well as over $100,000 per year for administrative expenses of NNHC. HUD has allocated to the City and its NNHC $400,000 in grant money for purchase assistance and a total of about $650,000 in purchase assistance funds are expected to be spent by the time the project is ended. By the official end of the project in September 1981, the visible signs of physical improvement were impressive: OMC has improved and sold 200 homes and constructed 27 new homes on vacant lots; the City and NNHC have rehabilitated or have rehabilitation underway on about 100 residences; the relocation of Perry Street and its reconstruction into a boulevard have been initiated; the alley improvement paving has been completed and landscaping remains to be done.

The accomplishments in regard to the rest of the goals, however, are somewhat mixed. The reduction in tenant displacement and neighborhood gentrification has largely not occurred. Some of the specific objectives that relate to this general goal have been met; others have been only partly met. In this regard, it is important to note what the objectives do not directly say or imply. The provision of low and moderate income housing is only alluded to indirectly in an involuted statement of an objective in the proposal. This, however, is a mute point since a significant portion of the neighborhood is low or moderate income and no reduction in displacement can occur without provision or low and moderate income housing. Some demolition of low and moderate income housing and some displacement was assumed. The project was only to reduce or minimize such occurrences. In regard to relocation nothing was said directly about the income characteristics of those relocated or about the desirability of relocating residents within the target area. The latter distinction, however, may seem picayune, since given the lower income character of the neighborhood and the desire to reduce dislocation and displacement by encouraging residents to purchase within the area, relocation should be occurring within the neighborhood.

Finally, a word of caution in interpreting goals, and objectives is in order. The HUD Innovative Grant is meant to be a demonstration program. In the proposal, the grant is not ever referred to as a demonstration, nor did any of the participants appear to view it as such. It was largely seen as a subsidized palliative to reduce adverse effects (e.g., displacement) and provide positive benefits (e.g., public infrastructures). The proper interpretation of a demonstration, however, would be to allow that large number in terms of targets would not necessarily be achieved, but that what was important was the demonstration of benefits or procedures in a small way with the possibility of this replication elsewhere on a larger scale. Indeed, the 120 structures targeted by purchase assistance are only 22.5 percent of all the residential properties owned by OMC.

Considerable displacement has occurred as a result of the revitalization efforts of OMC. Consequently the neighborhood has become gentrified. A major portion of the gentrification has occurred simply because the lion's share of the rehabilitated or newly constructed structures that have been sold, belonged to OMC and OMC Has catered largely to a moderate to upper middle class clientele. OMC's 200 rehabilitated homes have averaged $45,000 while new homes have averaged $65,000, with most of the buyers making more than $40,000. Undoubtedly some displacement occurred because of demolition of homes for shopping areas, roads or parks during the delay in getting the public portion of the program. OMC continued its program despite these delays. There is no agreed upon complete count of displacement. The City knew that as of February 1979, 38 households had been displaced, while OSU estimates 150 cases of displacement. Undoubtedly the delay reduced the housing available for purchase, as well as the number in the potential pool of purchasers eligible for the home assistance program. Because of fewer available purchasers, the City reduced its target for purchase assistance to 55 structures.

The program, despite its problems in preventing displacement, did succeed in demonstrating substantive principles, techniques and procedures that, if applied at a large scale and under right circumstances, could modify or counter trends toward gentrification:

- <u>The project did minimize some displacement of low income persons without any apparent negative effects on gentrification.</u> In many cases low income persons are living in rehabilitated housing right next door to middle class persons in improved housing without any negative consequences on the general desirability or marketability of the neighborhood, disproving the hypothesis that bringing low income people into an area automatically disqualifies it for any improvements that may be generated from gentrification and diversification. Part of this success may be due to the tolerant nature of the neighborhood at the beginning with its large proportion of students reenforced by the in-migration of a particular type of professional who is also tolerant. For those communities who believe in diversified neighborhoods and view gentrification as a positive factor as long as it is sensitive to the needs of low income residents, the Columbus project provides a valuable and positive lesson.

- The project provided a useful example of how to innovatively put together a variety of basically standard techniques to reduce the price of housing to within the reach of low and moderate income persons. In the City's single family rehabilitation, purchase price subsidies, purchase price write- downs, the innovative grant, Section 235 mortgage program and, in some cases, Section 312 mortgage (or low interest CDBG loans) were combined to reduce the cost of housing. In the doubles program, the same purchase price subsidies and write-downs were combined with the innovative grant, Section 8 substantial and moderate rehabilitation funds, CETA or neighborhood work crews, sweat equity and conventional mortgage financing.

- The real opportunities for low and moderate income persons were created by the doubles program in particular. From the City's point of view a new class of homeowners and investor landlords was created who would never have been homeowners at all, but who now have a stake in the future of the neighborhood and can benefit from the substantial property appreciation from revitalization occurring in the area. At the same time the doubles program provided new opportunities for rental of standard condition units in an area which, because of revitalization, was experiencing a real shortage of rental housing. Moreover, the rental program in the doubles provided an opportunity to reach a residents with lower income levels than was possible in the home ownership segment of the same program.

- The project showed how a city can leverage private capital with public funds and sweat equity, on a one time grant basis rather than on a permanent 30 year subsidized basis. This happens because the final mortgage is arranged through private lenders after the innovative grant and other write-downs have been applied. By using conventional financing, new owners are not segregated as a special group. Moreover, the more dependent NNHC became on private lenders, the quicker it was able to move. Once it established credibility, it never had trouble with certain lenders.

- The purchase assistance grant provides other innovative examples of the use of subsidy funds. The compromise public-private appraisal procedure, the donation by OMC of funds equivalent to the value of a park to NNHC in order to eliminate the gap between purchase price and what the purchaser could afford, and the agreement to hold the agreed upon appraisal value constant over a number of years all helped to reduce the purchase price for the non-profit NNHC, making the project more feasible for low and moderate income persons.

The funding of public infrastructure is perhaps a less successful and appropriate function of an innovative grant. It is not clear in the Columbus proposal just how the infrastructure was necessary to increase the marketability of the neighborhood. The infrastructure, particularly the relocation of Perry Street and the Fourth Avenue Park, would result in demolition of housing that could be considered as a resource for training low and moderate income persons in the neighborhood. The demolition resulting from infrastructure and suspicions about the motives behind a relocated Perry Street did, indeed, become issues of concerns to the neighborhood that overshadowed at first even the tenant assistance component of the project. A relocated Perry Street was justified on the basis that it would eliminate through traffic from the neighborhood, would separate Battelle and its parking from the rest of the neighborhood, would give Battelle a new entrance and would allow Battelle to consolidate its parking. The neighborhood and others suspected it was designed to provide access to a shopping area further south that would result in more neighborhood demolition and disruption.

For other local governments contemplating a large scale project with similar capital improvements, several lessons are paramount:

- The effect of large scale, space consuming infrastructure on improving the marketability of other improvements going on in the neighborhood must be weighted against the housing it will displace and must carefully be justified in any prior planning or feasibility study.

- If public infrastructure is justified and accepted in terms of neighborhood improvement, it is most appropriate as local contribution to the project. Mechanisms for assigning capital improvements to various neighborhoods are the usual province and responsibility of the city as part of its community development plans and capital budgeting procedure.

Administrative Lessons

One of the major goals of the Columbus project--to support the public, private and neighborhood partnership--is seen as a procedural goal more properly treated under administrative lessons. The different expectations, the unequal resources, and the varied degrees of experience of the various parties involved in the partnership contributed to serious delays in implementing the project. The primary reason for delay, however, was the lack of the necessary detailed planning and the necessary feasibility study. Furthermore in the effort to apply, many of the conceptual features of the proposal were not adequately corroborated by experts. The whole process suggests several administrative lessons that can be learned from the Columbus project:

- For a partnership among the City, the private sector and the neighborhood to work, the resources of the various parties should be more or less equal. In this regard, various actors in the partnership should bring something that the others need to make the neighborhood development project a success. This interdependency contributes to a positive motivation towards the project and a willingness to make it work. In Columbus, OMC had far more resources in terms of money, property and expertise than the other parties involved. It therefore, did not need the other parties to the innovative grant as much as they needed it. Partly for this reason for the first year and a half, the innovative for this reason for the first year and a half, the innovative grant was merely a graft onto a detailed plan developed by OMC and its consultants. The City, under the press of time and with less planning resources, was painfully aware of this inequality. It, therefore, accepted many of the assumptions of the private plan that were later to become controversial. Its only leverage in the partnership was the public funds for capital improvements the grant offered. The neighborhood groups had the least resources of all and were initially divided as to what they wanted. The most vocal among them knew what it did not want, but not did not have the financial or technical resources to develop a positive program as part of its deal in the partnership. Its technical arm, the NNHC, had only recently been organized and had no track record and, therefore, brought very little credibility. It was only when the technical resources of the City and NNHC were upgraded with new directors and all parties could begin to speak to each other on a technical level that a deal could be struck in sufficient operational detail to make the project work.

- Leadership for the private-public partnership must come from the sponsoring department of the City. This necessity results simply from the fact that public funds, both federal and local, are being committed to a private project. The private sector must need and want the public funds sufficiently to be willing to accede to the City's leadership. If such is the case, and the City or sponsoring agency has the necessary capability and expertise, this is the only logical agency to lead and coordinate the various groups and protect the public interest. In Columbus, the private sector needed capital improvements. Its need for the tenant assistance portion of the plan was much less clear cut. The purchase assistance plan was necessary to dispel a bad image and diffuse neighborhood opposition. Because of the unequal resources among OMC, the City and the neighborhood, the City found it necessary to accede its initiative and leadership to OMC.

- Planning for projects proposed for an innovative grant must be at a sufficient level of detail to become operational when the grant is approved. It only a few points in the proposed project need clarification and future detail, this requirement can be satisfied by approving the grant subject to the condition that these details be cleared up. If the general concept of the project is generally too abstract, then the proposal could be accepted as a pre-application with the provision that final acceptance would be forthcoming when a new, more detailed application is submitted. The latter procedure is now commonly followed by HUD in its application approval process. A proposed project should be considered operational when at a minimum:

-- Each segment is explained clearly in sufficient operational detail to make clear who is responsible and how administratively the segment is to be carried out;

-- The experience and track record of the various parties is demonstrated by resumes and organizational summaries of accomplishments;

-- The quantitative targets in the proposal are justified and detailed, and quantitative needs assessment and profiles of the neighborhood are completed;

-- Procedures involving private lending institutions have their approval and signed endorsement;

-- Procedures for purchasing and disposing of property are spelled out in detail among the parties involved;

-- It is demonstrated the goals of the program are appropriate to the needs and the character of the target area;

-- The geographical delineation of target areas is justified and shown in detail;

-- Criteria for selection of eligible properties or persons are detailed.

Most of the above requirements were not met by the Columbus application and resulted in delay of over a year before the project could be implemented. Once a common level of expertise and experience could be applied to the project, it took a little over a month of intensive work to work out these operational details.

DENVER RESIDENTIAL DISPLACEMENT STRATEGY PROJECT

relatively short time in which to select agencies to administer the programs and to prepare detailed implementation plans. The CD agency wanted to avoid a complicated sponsor selection process and to initiate the programs as quickly as possible. Thus it decided to select existing organizations and agencies which had worked with the CD agency, had credibility in the community, and were familiar with the types of program being funded.

PROGRAM DESCRIPTION

Denver's innovative grant project has five program components with a total of eight program elements. Chart 1 shows the area of Denver where each targeted program is located. Figure 1 shows the project organization, the sponsors of each program and provides a budget summary of the project.

Barth Hotel

The Barth Hotel program component will provide low cost housing in downtown Denver for low income elderly people who are displaced. It is sponsored by the Ecumenical Housing Corporation (EHC), a non-profit corporation created by the Colorado Council of Churches in April 1979. The Barth Hotel was purchased in March 1980 and will be completely rehabilitated. Until financing and rehabilitation arrangements are completed, it is being operated as a transient hotel. Because of rising property values, EHC decided to purchase the 78 room Barth, a smaller hotel than had been originally contemplated. The project is behind schedule and rehabilitation of the hotel has been stalled because of financing and cost problems. The original budget for this component was $785,000, but because of unanticipated rehabilitation costs, the total development cost is expected to be about $1.2 million. Innovative grant funds of $350,000 have been allocated to the Barth. Long term financing was to have been secured from either a private lender or from HUD's 312 loan program but both possibilities failed to materialize. EHC is now financing the project with a combination of: (1) industrial revenue bonds issued by the CD agency in the amount of $770,000, (2) syndication of a 49 percent interest in the project to private developers (3) general fund raising and money reprogrammed from the Belmont School project. Rehabilitation will be completed in 1984.

Housing Counseling

This component provides centralized sources of information and counseling related to housing and displacement problems for low and moderate income households. It is funded by $175,000 of innovative grant monies and a contribution of money and in kind services from the Denver Board of Realtors. It has four different but related elements:

DENVER RESIDENTIAL DISPLACEMENT STRATEGY PROJECT

SUMMARY

Rapid growth, the redevelopment of its downtown core and the rising cost of housing had led to substantial displacement of low and moderate income households in Denver. The City's innovative grant project is designed to test the effectiveness of four anti-displacement strategies:

- Increasing the supply of housing available to the displaced;
- Preventing displacement by converting rental housing to cooperative ownership;
- Providing housing information and counseling; and
- Promoting homeownership among renters by making available home purchase counseling services and financial assistance.

Denver was awarded an innovative grant of $985,000 in April 1982. It leverages more than $3 million in grants and loans from public and private sources including the Colorado Housing Finance Agency, the Colorado Division of Housing, the CDBG program and the Piton Foundation. The Community Development (CD) agency is the recipient of the grant and the coordinator of the project. Denver's innovative grant project was originally made up of five different program components which are administered by various public and private agencies.

- Rehabilitation of the Barth Hotel by Ecumenical Housing, Inc., a non-profit sponsor, to provide housing for elderly single people in the downtown area;
- A multi-faceted housing and displacement counseling program offered by the City's Human relations Commission, the Denver Board of Realtors, and three neighborhood organizations;
- A subsidized mortgage assistance program for first time homebuyers sponsored by three neighborhood organizations;
- Conversion of the Belmont School to housing for the elderly sponsored by the Denver Housing Authority, (a project eventually dropped) and
- Conversion of the Russell Park Court Apartments to cooperative ownership under the sponsorship of the Metro-Denver Urban Coalition

The programs which provide counseling and home purchase assistance have been implemented on schedule, without major problems and for the most part have been used extensively. The programs involving housing rehabilitation ran behind schedule and have encountered problems in acquiring properties, securing long-term financing and dealing with rapidly rising acquisition, interest and rehabilitation costs. These problems have forced sponsors to reconsider their development plans, restructure financial arrangements and seek out new sources of capital.

Denver's experience in planning and implementing its innovative grant project provides a number of valuable lessons for other communities considering similar undertakings.

The Denver project demonstrates that assumptions made during the project design phase about administrative burden and ease of implementation should reflect the significant variations in time and difficulty required to establish programs of a different character. The Denver programs that involve purchase and rehabilitation of buildings have been far more complex, time consuming and administratively burdensome to implement than those designed to provide public services.

Denver's experience also suggests that budgets for construction related projects need to be prepared carefully by persons expert in the development process and likely financing sources need to be identified at an early point in the planning process. Largely because of the uncertainties at the application stage, cost estimates and budgets for the building related programs proved to be inaccurate and prospective financing turned out to be unavailable. These problems have delayed implementation of the building programs. Once these problems were recognized, sponsors have tried to develop innovative financing arrangements but they are hard to package and require a great deal of time and expertise to create.

Although more careful planning would have lessened the problem created by underestimated costs, the project would, in any case, have been affected by unforeseen events. Denver's project illustrates the effect that unanticipated circumstances can have on program implementation. The rising costs of property, rehabilitation, and financing the problems in securing long-term financing all increased the difficulty of developing feasible that would provide affordable housing for low and moderate income households.

In planning large scale building projects consideration needs to be given to the possibility that there may be unforeseen costs and provision should be made for adequate contingency allowances or for access to supplemental funding. Because an innovative grant project budget cannot be increased, Denver's building projects have had a difficult time coping with unanticipated costs and securing supplemental funding which has delayed implementation and increased administrative responsibilities of program managers.

Program management resources need to be allocated according to the complexity of the program components. Because of the large number of programs and sponsors involved in the Denver project and the modest administrative resources of the CD agency, managing and monitoring the project and developing the implementation agreements among the parties has been an administrative challenge. It might have been even more difficult if Denver had chosen new, rather than existing agencies and organizations to sponsor programs.

BACKGROUND AND OBJECTIVES

By 1978 it became apparent to city officials that displacement was becoming a major problem. Direct causes included: the conversion of rental properties to condominiums and owner occupancy; demolition of residential structures, particularly hotels occupied by elderly households; and the rehabilitation of several Federally assisted housing projects. Indirect causes included: increased demand for housing caused by population growth and the increasing cost of housing and utilities. Low and moderate income renter households were particularly susceptible to displacement because they were least able to afford the increasing rents and utility costs and had to compete for a shrinking supply of low and moderate income housing.

In response to several well publicized incidents of displacement of elderly occupants from residential hotels, in 1978 the CD agency identified displacement as a high priority area for research and attention. In December of that year a special City Council - Administration committee was established to study the problem. At the committee's request, the Planning Office and the Office of Policy Analysis of the City prepared a report, Residential Displacement in Denver, which analyzed the problem and suggested anti-displacement strategies and program initiatives. These strategies were used as the basis for developing the innovative grant proposal.

With innovative grant funds the CD agency proposed to test five different anti-displacement approaches in terms of their effectiveness in mitigating displacement and their feasibility for replication in Denver and other communities. It was thought by the City that such a comprehensive approach would be particularly attractive to HUD. Whenever possible the City sought to take advantage of and build on other available funding sources, particularly below market mortgage money from the Colorado Housing Finance Agency.

When the innovative grant application was submitted, program sponsors had not been identified and budgets were based on Planning Office cost estimates. Once approval was received from HUD, the CD agency had a

Chart 1. Map of the City of Denver Census Tracts
Identifying Innovative Grant Locations

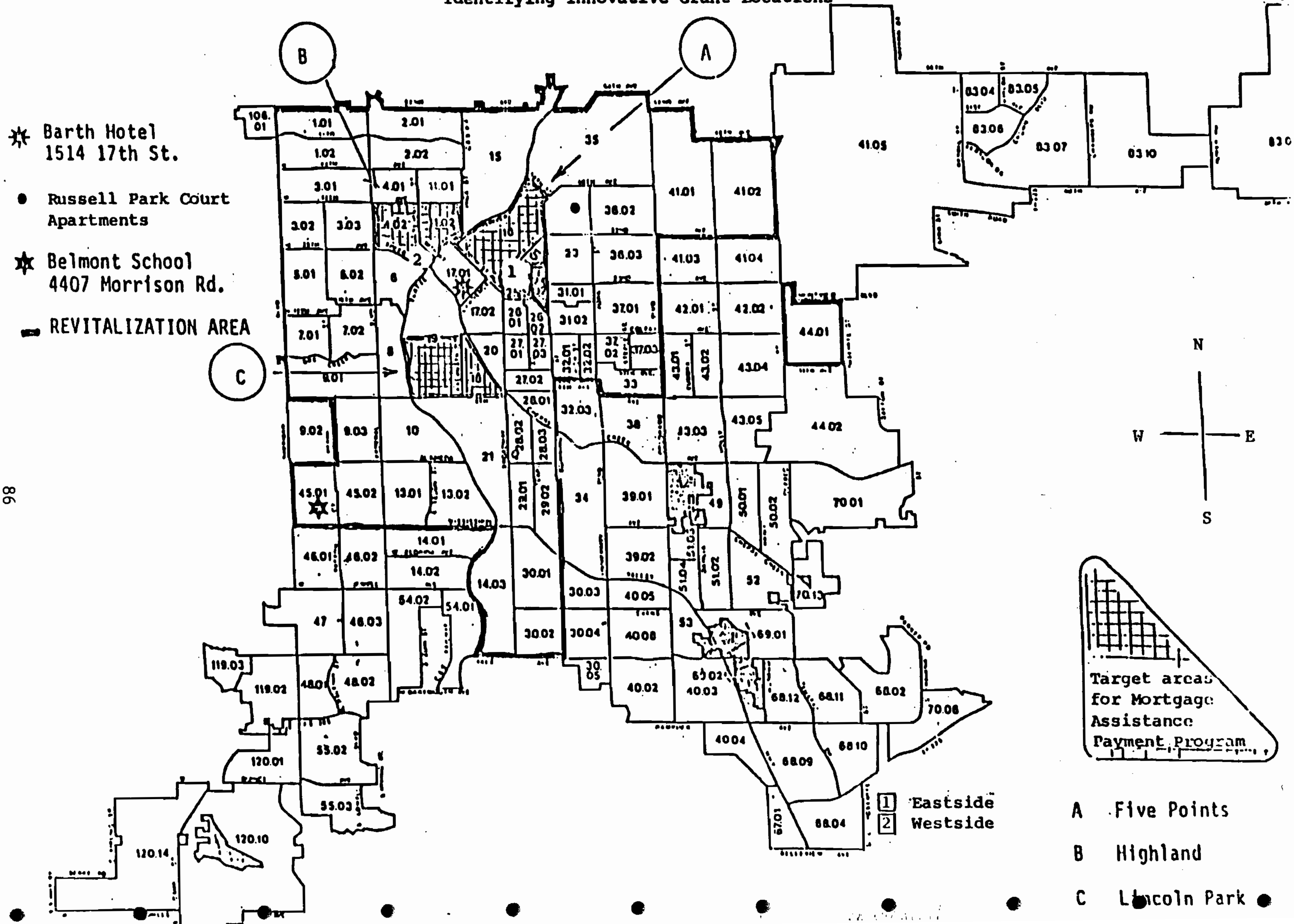
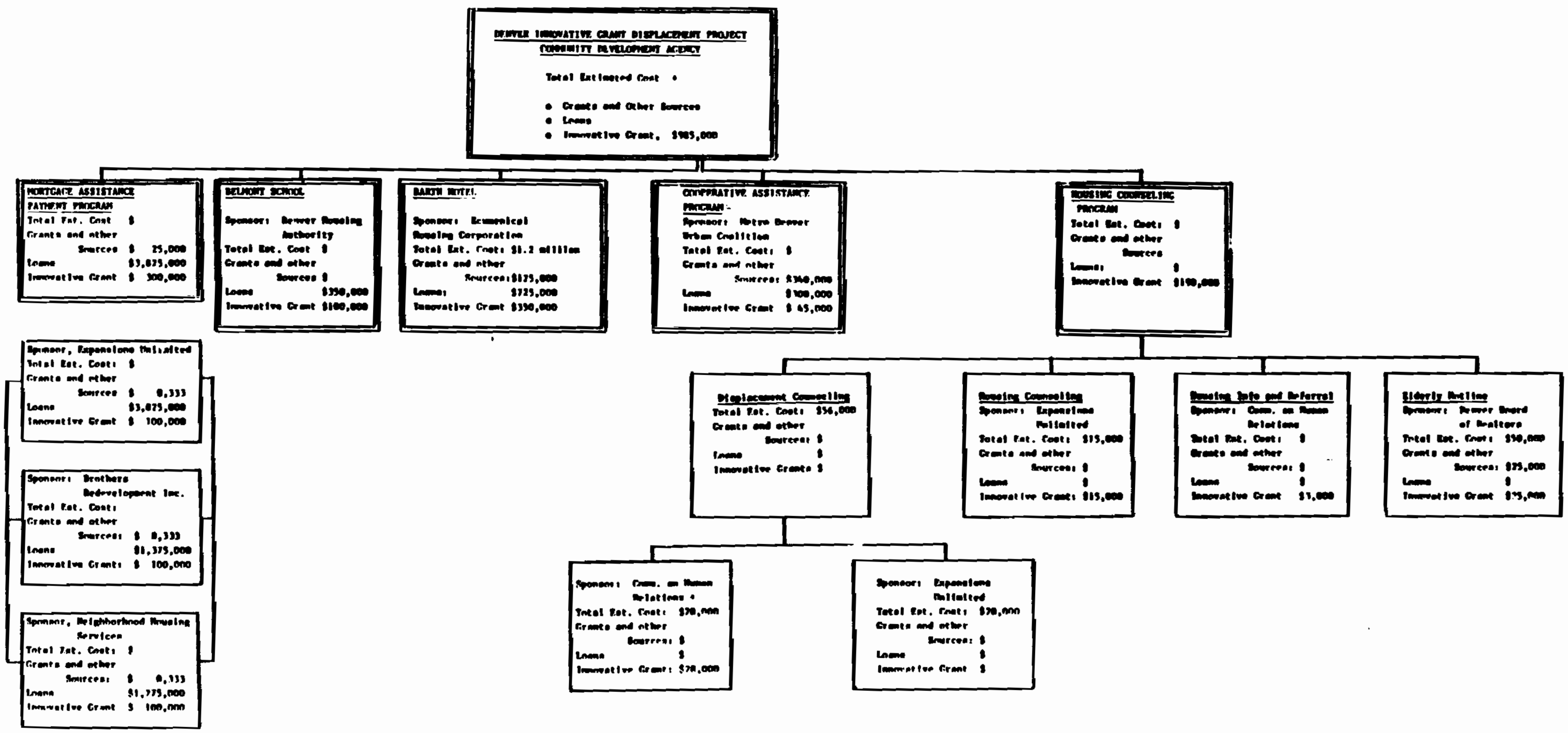


FIGURE 1

Summary of Budget and Organization of the Denver Innovative Grant Displacement Project



* Represents two year budget.
* * Budget does not include uncompensated administrative expense furnished by sponsors.

- a housing information and referral telephone service sponsored by the City's Human Relations Commission. It began in June 1980 and in its first year handled about 9,000 inquiries, primarily related to landlord tenant problems and information about housing availability.

- a displacement counseling service for West Denver sponsored by the Human Relations Commission and a displacement counseling service for East Denver sponsored by Expansion Unlimited, a neighborhood non-profit group organized to revitalize the Five Points area. The East Denver program began in October 1980 and the West Denver program in November 1980. Originally the Metro Denver Urban Coalition provided the counseling on the Westside, but because that area of the City is predominately Chicano, the CD agency concluded that the Coalition did not have sufficient credibility or experience to generate demand for the service, and consequently turned the program over to the Human Relations Commission.

- an elderly housing hotline sponsored by the Denver Board of Realtors. It provides information and related assistance on housing that rents for less than $250 per month to low income people over 60 years of age. It was set up in February 1980 before Denver was awarded its innovative grant. Records are maintained on 600 buildings which are identified from lists of owners called every month, from owners who call to list vacancies and from referrals from government agencies. During the first eighteen months an estimated 500 people have been helped to find housing. This has been the most successful of all the counseling programs and is responsible for finding housing for about 30 persons a month. The program is growing in terms of the client served and funding support. The City of Aurora, the Board of Realtors, and the CDBG, all support the hot line.

- a home purchase counseling service which supports another innovative grant program, the Mortgage Assistance Payment Program, and is provided by three neighborhood non profit organizations: Neighborhood Housing Services in the Highlands neighborhood; Brothers Redevelopment, Inc. in the Lincoln Park Urban Action Grant area; and Expansions unlimited in the Five Points neighborhood. While the form of each organization's counseling program differs, all generally cover such topics as the responsibilities and concept of homeownership, selecting a home, budgeting, and home maintenance. The service began in June 1980.

Mortgage Assistance Payment Program

The purpose of this program is to demonstrate that a subsidy program directed to promoting homeownership can be an effective strategy to reduce displacement among low and moderate income renters. The program is administered by Neighborhood Housing Service in the Highlands neighborhood, Brothers Redevelopment in the Lincoln Park Urban Development action grant area and Expansions Unlimited in the Five Points neighborhood. The program began in June 1982 and each organization was provided with $100,000 of innovative grant funds for mortgage interest subsidies and an allocation of $900,000 of 8 7/8 percent mortgage funds from the Colorado Housing Finance Agency (CHFA). Subsequently $25,000 from the Colorado State Division of Housing and the Piton Foundation was divided up among the organizations for down payment grants. No innovative grant funds were provided to cover administration of the program.

The interest subsidies are calculated based on household income and can reduce the effective interest rate to as low as four percent. The maximum period of subsidy is 10 years and each year the initial interest rate subsidy is reduced by the equivalent of one-half percent. Eligible households have to be renters, have incomes less than $18,500, unless elderly or handicapped, have assets of less than $3,000 and have lived in the neighborhood for at least 90 days. The sales price of a home could not exceed $60,000. By September of 1980 the mortgage funds have been committed to 63 buyers. A second phase of the program was funded with an additional $375,000 of CHFA mortgage money for each neighborhood and with remaining innovative grant and downpayment grant funds. By early 1984, 80 households had been helped to buy homes.

Belmont School

The purpose of this component is to convert a surplus school to residential use and to provide additional housing and support services to low income elderly. The Belmont School is a one story building located in the Westwood neighborhood, and the project was being sponsored by the Denver Housing Authority. At the time the innovative grant proposal was submitted to HUD, the City had hoped to rehabilitate another school, the Ellsworth School, using the 312 loan program and had selected Seniors in Community Living, a non-profit group, to develop and run the facility. When the school board changed its mind about selling the Ellsworth, the Belmont was selected as an alternative school building. Because Seniors in Community Living did not like the location of the Belmont, the CD agency selected the DHA as an alternative sponsor. The original budget was $230,000, of which $100,000 was innovative grant fund. Current cost estimates range up to $720,000. The original plan called for the creation of 20 living units in the existing building and construction of a new wing with 20 additional units.

The project has been stalled because the cost of rehabilitation was underestimated, expected financing was not available, and a public housing development commitment could not be secured from HUD. The CD agency, HUD and DHA were not able to agree on a development scheme that would both achieve the objectives of the grant and be financially feasible. Among the options considered have been: (1) development of an emergency housing facility, (2) construction of 135 units of new public housing and use of the building as a support facility, (3) development of the site as a park, (4) use of the building as a shelter for adjudicated youth and (5) finding a temporary use for the building until housing development funds are available. The HUD area office's position has been that innovative grant funds must be used for the purposes intended, providing low and moderate income housing, or the funds will have to be reallocated to another program or returned to HUD. In the end, the $100,000 in innovative grant funds were reallocated to the Barth Hotel project.

Cooperative Conversion Program

The purpose of this component is two fold: (1) demonstrate the feasibility of developing a cooperative housing project for low income tenants in order to avoid their possible displacement and (2) develop within the Denver community the skills and experience to assist other groups in undertaking similar projects. The Metro Denver Urban Coalition is the program sponsor. Because no building had been identified, the application did not estimate the cost of the program; however, the innovative grant budget contained $20,000 for training and $25,000 to option a property.

After screening 17 buildings the Russell Park Court Apartments was selected as the building complex to convert to cooperative ownership. It consists of eight one story buildings in good condition, each with four one bedroom units renting for $125 a month. Acquisition and rehabilitation costs are estimated to total $665,00 and on July 31, 1981, the coalition signed an option to buy the property. Trying to develop a feasible financing scheme that would enable the tenants to afford to continue to live in the complex after its conversion to a cooperative has been very difficult and has taken a great deal more staff time than the Coalition anticipated. Commitments for $100,000 grants have been secured from the Piton Foundation, the Colorado State Division of Housing and the CD agency. The remaining costs would be financed with a mortgage, probably from the Colorado Housing Finance Agency. The loan, however, might bear an interest rate of 12 1/2 percent and the Coalition is exploring the possibility of a foundation writing down the interest cost to insure that the tenants can afford to buy into the cooperative.

LESSONS TO BE LEARNED

Denver's experience with innovative grant project provides valuable lessons for other communities about factors that program managers need to consider in planning and implementing similar types of projects. The Denver project is a particularly good illustration of how difficult it is to organize and coordinate building development projects.

Planning

The Denver project demonstrates that administrative and implementation assumptions should realistically reflect the time and difficulty of operating programs of different character. The programs that provide information and counseling are relatively simple, straightforward programs to design and administer, and have been implemented on schedule and with minimal problems. The programs that involve property acquisition and rehabilitation - the Barth Hotel, the Belmont School, and the Russell Park Court Apartments - have encountered many problems, and have been organizationally complex, and administratively burdensome. They have been stalled or delayed by problems related to property acquisition, rising costs, and the inability to put together feasible long term financing packages.

The Denver project suggests that special expertise and more careful planning are needed for programs involving construction than are needed for programs that provide services. Planners need to understand the development process; to the extent possible, know which properties will be purchased; and have identified and attempted to secure long term financing commitments. Detailed feasibility studies need to be undertaken at an early stage in the planning process. This was not possible in Denver's case because the City did not know whether its project would be approved by HUD nor how long the project selection process would take. Because budgets and development plans had to be prepared before buildings were identified, the cost estimates and budgets for the building related programs proved to be inaccurate and prospective financing was not available.

The allocation of innovative grant funds were made before the estimates of cost were firmly established; the City had anticipated that Section 312 financing would be available for the hotel, cooperative, and school projects, but by the time Denver's application had been approved, 312 financing was not available. Sponsors have had to seek out innovative arrangements to finance the higher development costs. Trying to put together such arrangements has required a great deal of effort and has contributed to the delays in the implementation of the Denver construction projects.

In planning large scale building projects consideration needs to be given to the possibility that because there may be unforeseen costs, it is wise to budget for adequate contingency allowances or identify potential supplemental sources of funding. In the Denver project even though many of the programs needed supplemental funding, the amounts required were not necessarily large. For example, as the program evolved sponsors of the Mortgage Assistance Payment Program came to the realization that many potentially eligible homebuyers could not save the downpayment they needed. The CD agency was able to secure

$25,000 from the Colorado State Division of Housing and the Piton Foundation to provide downpayment grants. The Metro Denver Urban Coalition did not anticipate the legal costs that would be involved in developing its cooperative housing project. The Coalition has not identified outside funding sources to cover that unanticipated expenses and has had to underwrite those costs itself.

<u>Many financing and administrative problems were probably avoided by Denver's decision to select existing agencies that were involved in similar activities to sponsor the innovative grant programs</u>. By using existing agencies both the planning and implementation processes were shortened. Once approval was received from HUD, the CD agency had a relatively short time in which to select sponsors to administer the programs and to design implementation plans. Because the CD agency wanted to avoid a time consuming, complicated sponsor selection process, it decided to select existing organizations to administer the programs, and organizations that had worked previously with the CD agency, had credibility in the community and were familiar with the CD agency, had credibility in the community and were familiar with the types of programs being funded. Use of existing organizations such as Brothers Redevelopment or Neighborhood Housing Services has also lent credibility to the services that are being provided and helped to integrate the services into ongoing delivery system networks.

<u>The planning process should include realistic estimates of the management resources that will be required to complete a project</u>. The burden of grant management increases with the number and type of projects and the number of organizations that are involved. Implementation of the programs in Denver has been administratively more difficult and complex than the CD agency anticipated. Monitoring and managing the number of programs and participating agencies and organizations has posed an administrative challenge. Nine contracts and two memoranda of understanding, for example, had to be prepare to spell out the responsibilities of the parties involved. Some of the delay in implementing programs can be attributed to the limited CD staff resources that could be assigned to work on innovative grant problems that arose. The level of management staff resources should reflect the project's complexity and workload it necessitates.

<u>Denver's project shows the importance of securing grants or subsidies if housing is to be developed for low and moderate income households.</u> All of the building projects have faced the issue of developing financing arrangements that are sufficiently inexpensive to allow the project to assist low and moderate income households. Such projects need to receive substantial subsidies in one form or another. The cooperative has been able to secure three $100,000 grants. The Barth Hotel financing involves a large grant out of the proceeds of the innovative grant, and Ecumenical Housing Inc. is considering using tax free bonds to finance a large portion of the development cost.

Implementation

<u>While more thorough planning would have lessened the problems created by underestimated costs, it would not have allowed Denver to escape completely the effects of unanticipated circumstances on program implementation</u>. The rising cost of property, rehabilitation, and financing and the problem of securing long term financing all have increased the difficulty of developing feasible projects. It is doubtful that anyone could have anticipated the dramatic changes that have occurred in the Denver real estate and financing markets over the past four years. When the application was being prepared, it was reasonable to expect that building rehabilitations could be financed through the 312 loan program.

<u>Program sponsors need to respond in a flexible manner to unforeseen events</u>. Because of market conditions the major problems with the Denver project have involved trying to develop feasible projects in a market where costs are rising and financing is unattainable or very costly. These conditions have forced sponsors to rethink their previous plans and to develop new implementation arrangements. Building sponsors have tried to solve their problems by (1) reducing the amount of rehabilitation that would be undertaken, (2) securing additional subsidies in the form of grants from both public and private sources, (3) identifying new sources of financing, and (4) attempting to develop innovative financing arrangements (e.g., private syndication of part of the ownership of the Barth).

<u>Having to rely on multiple sources of financing and innovative arrangements has created a significant administrative burden and cost for sponsors</u>. Sponsors have devoted a great deal more staff time to arranging the financing for the building projects that they anticipated. For example, marshalling public and private financing for the cooperative has been a time consuming and complex undertaking for the Metro Denver Urban Coalition. It has involved coordinating financial commitments from the CD agency, the Colorado State Division of Housing, the Colorado Housing Financing Agency, the Piton Foundation and a savings and loan which will provide interim financing.

<u>Local practices and institutional relationships can pose important barriers to the timely implementation of programs</u>. The preparation of various legal agreements by the city attorney to spell out how sponsors would use grant funds was a protracted process. These agreements turned out to be more complex than the sponsor had expected and lengthy negotiations were necessary to reach a consensus on their provisions. Based on other grant precedents, the City required that the Metro Denver Urban Coalition purchase the Russell Park Court Apartment through the Denver Housing Authority. This meant that a detailed agreement between DHA and the Coalition was needed.

The programs that have been implemented appear to be in demand and have been very well-received. This is particularly true of the information and referral programs. Many people, especially the elderly, seem to need better information about the availability of low cost housing. Many renters seem to need counseling and advice about how to handle landlord tenant issues. Information programs are low in cost per person assisted, and seem to fill an important unmet need.

The Mortgage Assistance Payment program was especially popular and hundreds of renters applied for the limited amount of subsidized mortgage funds that was available. While the Denver experience indicates that a large number of renters would like to become homeowners, objections may be raised about the appropriateness of subsidizing home purchasers. In Denver some concern was expressed about whether there is a public benefit in promoting homeownership for renters, particularly in the case of households who may not be truly in need or only temporarily low income. Consequently, if similar programs are funded in the future in Denver, they will probably establish more stringent eligibility criteria.

KING COUNTY (SEATTLE) CONDOMINIUM PURCHASE PROJECT

KING COUNTY (SEATTLE) CONDOMINIUM PURCHASE PROJECT

SUMMARY

The elderly population of King County, (Seattle) Washington is both growing in number and being increasingly displaced from their homes. Their displacement is due to increased housing costs, condominium conversion, and a shortage of housing units available that meet their needs. The County Housing and Community Development Department (H&CD), using a combination of Innovative Grant, other Federal and private funds, initiated a Condominium Purchase Program in June 1980 to assist those elderly persons living on fixed, limited incomes in securing affordable, decent housing in an increasingly limited market.

The program comprises two components: purchase of condominium units using a one-time public subsidy, and information dissemination through individual counseling to senior citizens whose housing needs were changing because of their own economic situations and the new realities of the housing market. As originally conceived, these two components are complementary elements focused towards a single purpose -- placing elderly individuals in suitable, affordable housing, preferably newly acquired public housing. H&CD administers the program and provides overall management of the two implementing organizations: The Housing Authority of the County of King (HACK) and the Senior Housing Counseling Service within H&CD.

King County has been eminently successful in achieving its primary goal -- providing good, long-term, affordable rental housing for lower income senior citizens, defined by using Section 8 guidelines. The Housing Authority has added 29 units designated for seniors to its permanent housing stock. The average purchase price, below $40,000, permits HACK to charge rents lower than those the tenants had been paying, and also lower than the area's Federal Fair Market Rents. Moreover, the rent structure is designed to ensure a relatively stable rent over the lifetime of the dwelling.

The complementary goal of counseling seniors has had a mixed result. While the counseling component is addressing unmet needs of seniors for information, the intended target audience has not responded as anticipated. The majority of participants have not fit into the moderate income group for which the counseling program had been targeted.[1] Rather, they have tended to be in the lowest income categories and have also been recipients of other assistance programs.

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[1] Moderate income is 60-80 percent of the median area income as used in the Community Development Block Grant program.

Because of this, the Senior Housing Counseling Service has expanded its role to assist a broader income group. However, the Service is still the primary source of referrals to the Condominium Purchase program and has provided about one-third of the tenants for the condominiums, the remainder coming from the public housing lists, from word of mouth referrals and in response to program advertising. The counseling administrators recognize a need to redirect some of their outreach effort and, in addition, counselors see a continued role in assisting the group which has been participating in the program.

BACKGROUND

Displacement of elderly citizens, particularly in urban communities where 63 percent of all elderly live[2], has become a problem of increasing proportions. This displacement has been occasioned by many factors, including conversion of rental units into condominiums, inflation and the growing population of elderly individuals. Those elderly residing in King County, in and out of the Seattle City limits, mirror the national trends. They represent approximately 10 percent of the population, reflecting a 9.8 percent increase in absolute terms since 1970. Forty-three percent of the elderly in King County are below the poverty level. For these individuals and those on fixed incomes above the poverty line, inflation in housing costs and other basic necessities have exacerbated an already difficult financial condition. For a majority of the elderly, housing costs consume greater than 40 percent of their monthly income. As in many parts of the county, conversions of rental units to condominiums rose rapidly in the late 1970s and early 1980s. In 1978 alone, King County received condominium declarations for 3,144 units. The inability of most elderly individuals to purchase their rental housing placed King County elderly citizens in a difficult situation.

In addition to factors reflected nationwide, two further considerations specific to King County compound the housing problems facing senior citizens. The allocation formula for Federal housing funds used for the block grant consortium, of which King County is a part, greatly emphasizes family need to the detriment of housing for the elderly. Based on this allocation, only 15-20 percent of new Federal housing funds each year are dedicated to housing for the elderly. This differential allows 300-400 new family units to be constructed each year, versus 75-100 for senior citizens. These few units for the elderly inadequately address the increasing numbers of elderly in the population requiring housing of relatively low cost.

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[2]Irving Welfeld and Raymond J. Struyk, "Housing Options for the Elderly: in Occasional Papers in Housing and Community Affairs, U.S. Department of Housing and Urban Development, Office of Policy Development Research, 1978, Volume 3.

Not only does the allocation formula limit new public housing units, but King County has very long waiting lists and a very low vacancy rate in the private market; the rate was less than two percent in 1979 when the Innovative Grant proposal was submitted. For senior citizens this low vacancy factor creates an increasing burden since turnover in housing meeting elderly needs is extremely low. The County Housing Authority roughly calculated that to meet the housing demand of all seniors then on their waiting list through turnover would require 20 years, given no increase in the number of units available for the elderly. While new units are being added to the total housing stock, the number of housing starts has dropped sharply, from 4,699 units in April 1978 to 1,735 in 1979.

Recognizing the predicament facing its elderly citizens, King County has taken several steps to ameliorate housing problems of the elderly. The County designated $15,000 of general revenue funds in grants of $300-$400 each to be used to assist desperate elderly individuals. Within this context of concern, the King County Housing and Community Development Department (H&CD) applied for an Innovative Grant. The application proposed addressing elderly housing needs by a two-pronged approach:

- HACK would use a variety of public and private funding options to purchase a minimum of 30 housing units which would be rented at an affordable rate to elderly tenants. The units would become part of the public housing stock and would be managed by HACK.

- H&CD would provide counseling over an 18 month period to 1,400 seniors having housing problems. Five types of counseling were to be offered: housing finance, legal information, tax information, referral to other social services and information on relocation options.

For the housing component three groups were designated as in special need:

- Renters who resided in units scheduled for conversion,

- Renters who needed better housing at a better price, and

- Homeowners whose needs had changed.

Individuals in need of counseling were seen as those living independently in an adequate housing or those forced to live with others although capable of living alone. These individuals were not using existing aid programs and were able to care for themselves but needed assistance in identifying ways to improve their housing conditions within their existing financial resources. Many of this group, although of modest income, were individuals with middle class values, training and experience, such as retired teachers. This group tended to view existing public housing as an unacceptable alternative.

The target population income criteria was set at 60 to 80 percent of the median income. In the Seattle area this would allow an income ceiling of $12,700 for single person households and $14,550 for two person households. This income group was selected because the estimated unit rental of $200 or more would be an extraordinary burden for those at the very lowest income level of 50 percent or less of the median. These very low income persons were, for the most part, already receiving other aid and were eligible for existing public housing.

In the intervening year between submittal of the application and final award of the grant, many changes occurred that caused the County to reconsider the proposed financing options. Two key Federal programs, Section 8 and Section 235, upon which five of nine options were based, had been cut back. Two additional events occurred that were to cause further changes in the proposed activities. King County passed a law that greatly diminished the conversion rate of rental units. What had been perceived as the central cause of elderly displacement ceased to be the primary displacement agent. Displacement remained a problem, but the pressing cause became not one of inability to buy a converted unit, but rather rising costs in general. Secondly, the demand for housing market was flat due to a combination of inflation and rising mortgage rates. Avid condominium construction in the late 1970s, in association with a stagnant housing condition, resulted in a large surplus of condominium units sitting on the market.

An increased potential for purchase of units at very favorable prices by the Housing Authority had been created. This now advantageous position far overshadowed the many alternatives for assisting the elderly included in the King County proposal. Thus, the purchase option was selected as the only financial strategy employed by the County to house senior citizens. The test, then, for H&CD's program became its ability to take advantage of a specific opportunity for housing a targeted group of senior citizens -- those individuals who do not require continuing social services and a variety of cash subsidies, but who are not financially secure enough to provide themselves with decent, affordable housing. Although the original proposal had intended help for those affected by conversion, the halt in conversions changed the focus to providing better, more affordable housing for renters.

It was a test for which the County was well matched. With H&CD as overall program manager, the Housing Authority as purchasing and rental agent, and development of a Senior Counseling Service, 29 one-bedroom condominium units were purchased and rented, and approximately 900 King County seniors have received individual and group counseling on housing alternatives. H&CD and HACK developed a low-cost, leveraged financial program that is timely and predicated upon sound relationships among the entities both directly and tangentially involved in the grant program.

ELDERLY HOUSING PROGRAM MANAGEMENT

One critical factor influencing the success of this grant project was that each of the implementing entities both understood and agreed with the project goals. None of the project goals was at variance with the overall mission of any entity nor with other specific programs. Each entity was fully committed to fulfilling the intent and the specific activities of the project. Even where the purchase and counseling activities were not coincident, the goals of both were perceived as common to all involved. This common perception provided a foundation for a commitment to work together. Lacking this unified outlook, the counseling component in particular could have been a useless adjunct to the purchase activity. Approximately one-third of the purchased units were actually filled through referral from the counseling service, one-fourth from public housing waiting lists, and the remaining units by word of mouth and formal program advertising. HACK expects that a continuing relationship will exist with H&CD and the counseling service now that the condominium purchase and rental have been completed.

In part what is remarkable about the relationship among HACK, the Counseling Service, and H&CD is the success in allying established organizations with a newly formed program. This process is often frustrated by concerns over power, influence and control. That the King County relationships have proved so successful reflects a management scheme that had clear lines of responsibility without inherent conflict over short or long-term roles. HACK's role in selecting tenants was not infringed upon by the Counseling Service's referral activity. Instead, HACK has viewed Service referrals as their first source of potential tenants. HACK at all times has maintained full authority and responsibility for tenant selection and will continue to do so in the future rental of the units purchased under this grant.

Sound relationships also emerged based on the confidence each group had in the other's competence. Although the Counseling Service was a new program, the two key actors had been active in civic affairs for many years. One had recently retired from the County Council where she had served for 11 years; the other had long been active as an influential consumer advocate. Both individuals were known to H&CD and to HACK. Their abilities had been well demonstrated prior to formation of the Counseling Service. HACK's success with various housing programs was also quite visible. Thus, in joining together for this project, there was an initial trust among the three groups that has deepened over the lifetime of the grant.

The allocation of management responsibilities by H&CD reflected the capabilities required to complete each activity. Each group's past experiences and abilities were fundamental to achieving a successful program. Through an aggressive development program, HACK had augmented the public housing stock by 10 percent during the past two years and had already been involved in providing and managing housing for senior citizens. The agency's experience included building purchases, construction, maintenance of housing for the elderly and tenant management. HACK's experience enabled its staff to provide clear standards of acceptability for units to be purchased and the qualifications required of tenants.[3]

The Counseling Service leaders had recognized experience in working with consumer groups and with public agencies. Their experience has helped clients to overcome many bureaucratic hurdles to effect a quick and satisfactory solution to many of the problems brought to the Counseling Service. In addition, Service sponsors attend a variety of meetings held by groups concerned about opportunities for senior housing. The service has been adept at informing potential clients of their organization's functions through inexpensive and widely dispersed means. Meetings sponsored by other service agencies, local fairs, and public service announcements on the local media provided free forums to inform people about the Senior Counseling Service. A brochure was produced describing the services provided.

Finally, the management structure permitted a flexibility that accommodated needed changes in the project operation. Efficient oversight by H&CD was structured and implemented to assure that the Counseling Service and HACK were performing their tasks with diligence and that these tasks were, in fact, achieving the project goals. Yet HACK and the Counseling Service have had the freedom to make adjustments in their approach when it was deemed important to do so. Selection of a second set of condominiums occurred only when suitable, desirable units were found. HACK exercised its own judgement in conducting two additional advertisements to secure the last four units. The Counseling Service, too, has been designing changes in its program in an attempt to elicit more responses from lower income individuals and to provide more assistance in the farther reaches of King County. Supervision by H&CD has been sufficient to provide assistance and guidance, but not so great that initiative has been stifled by over-burdensome agency control. The management structure is shown in Exhibit I.

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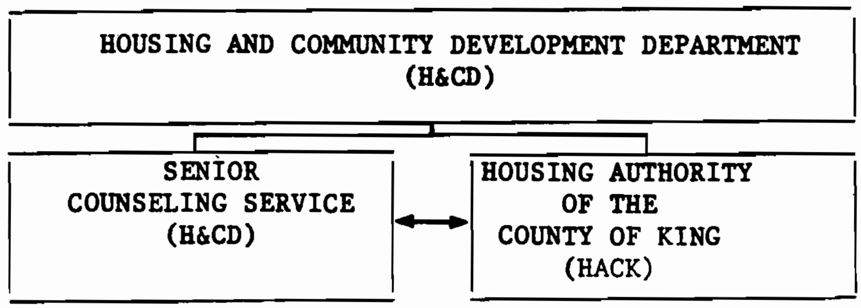
[3]The criteria included: unsegregated, mixed-income developments; nearness to transportation and shopping facilities; close proximity to medical care, recreation, and social services; integration of family and elderly units; accessibility for the handicapped; ground-level units or units in elevator buildings.

EXHIBIT 1

MANAGEMENT STRUCTURE -
KING COUNTY CONDOMINIUM PURCHASE PROGRAM



- Provide Information
- Make Referrals to HACK
- Make Referrals to Other Agencies
- Provide Counseling Sessions

- Develop Purchase Program
- Purchase Units
- Rent Units
- Manage Units

In sum, the management of this project has exemplified many of the finer aspects of project control. There has been a defined organization structure that allows explicit and complementary organizational relationships, avoids confusion of roles and responsibilities, and allows decentralized decision-making where appropriate. This structure, plus the wealth of acknowledged experience of each entity, and the sharing of a common objective helped to engender a set of trusting relationships and a focus of all personal energy toward accomplishing objectives.

TANDEM PURCHASE PROGRAM FINANCING

The Tandem Purchase Plan added units of public housing through the use of public dollars (in this case the Innovative Grant funds) for a down payment and private financing to complete the purchase of privately-owned condominiums.

The program had a $750,000 budget; an additional $10,000 of Community Development Bonus Block Grant money was designated for the analysis of legal issues associated with program implementation. This additional money was not needed and has been reprogrammed to another Bonus Block Grant program. The balance of the $1,160,000 required to implement the program was secured from two private lenders in the amounts of $60,000 and $350,000.

The condominiums were purchased using a turnkey approach. HACK prepared a Seller's Guide described the procedures and format by which owners of condominium units could submit offers for purchase consideration. The Guide also provided HACK's selection criteria and the conditions pertaining to purchase. Advertisements announcing HACK's purchase program was placed in general circulation papers. Fourteen proposals covering 67 units were submitted. Initially three proposals totalling 25 units were selected. A subsequent advertisement brought in two proposals, one of which was selected for an additional 4 units. The 29 selected are disbursed throughout the County. Although 15 are located in a single complex, the total number of units in that complex (108) is large enough to avoid any concentration of public housing as per HACK's stated intent. Table 1 provides details of the purchased units.

A major advantage of this project is that the public subsidy occurs one time -- for the downpayment. Tenant rents are expected to pay for the debt service on the private loan, operating costs, association fees and reserves. The initial rental fee was established at a level slightly higher than that needed to pay off the debt service. Additionally, an automatic 5 percent annual escalator is built into the rent structure. Rent collections exceeding the debt service are placed in an interest bearing reserve account. This 5 percent margin was established to cover a stipulated increase of 2 percent in the mortgage rate at the end of three years. Because the mortgage interest is tax-exempt, and thus lower than market interest rates, it is believed that the margin is more than adequate to meet the cost of tax-exempt financing in 1984. This arrangement provides financial security for the Housing Authority and housing security for tenants.

As indicated on Table I, the rents were one-third less than similar units in the Seattle area in spite of their being greater than the $200 proposed in the application. The average income of those now living in the units is $8,118, well within the established guidelines.[4] The income range indicates that some very low income seniors chose to participate despite the unit cost.

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[4]This average masks the fact that 16 out of the 29 renters are in the lowest income category with incomes at 50 percent or less of the median. Despite this, there have been no late payments. Only two tenants have chosen to move. One moved to public housing at lower rent and the second chose new housing on his own because he was "too far from the action in Seattle."

TABLE I

CONDOMINIUM PURCHASE

	Harbour Villa	Slater Park	Campus Green	Echo Cove
No. of Units Purchased	5	5	15	4
Purchase Price/Unit	34,000	40,800	34,364	40,000
Mortgage/Unit	14,000	14,000	14,000	15,000
Purchase Subsidy (Grant)	20,000	26,800	20,364	25,000
Closing Cost[1] Subsidy (Grant)	673	168	254	514[2]
Sq. Ft. Interior Walls	576	704	598	610
Total Units in Complex	44	52	108	88
Construction Status	Conversion	New	Conversion	New

Total Average Purchase Price $36,188
Market Average Purchase Price $50-60,000

HACK Rentals: 1981 = $235; 1982 = $247/month (without utilities)

HUD Fair Market Rents: 1981 = $455/month
Comparable Prevailing Rents: $450-500/month

Tenant Average Income: $ 8,118
Income Range: $ 3,614 (1 person household) to $13,677 (2 person household)

HACK Administrative Costs: $11,952
Lender Financing Costs: $ 901

Total Purchase Program Cost: $1,071,483

[1] Closing costs, dues, fees, appliances for Harbour Villa; does not include HACK Administrative costs.

[2] Includes three months association dues reserve account.

The original proposal sought to leverage the public dollars 100 percent, half the purchase cost being paid by the public entity and half by the private loan. This goal included the hope that tenants meeting Section 8 rental guidelines would be allowed by HUD to pay up to 40 percent of their income in rent. An analysis by H&CD had concluded that seniors were paying this percentage and more for housing without including assistance payments from relatives. The level of rent contribution was critical to the level of public investment in each condominium for a given purchase price per unit. The higher the rent contribution, the lower the public subsidy per unit and the greater the number of units that could be purchased. However, HUD determined that tenants could not pay more than 30 percent of their income in this program. The public subsidy was increased from 50 percent to 60 percent of the unit purchase price because the increased cost in financing necessitated a larger amount of purchase subsidy to keep rents at an acceptable level. In spite of the necessity for this increased expenditure, HACK was able to purchase 29 units, just about the original goal of 30. The purchases of the first 25 units have a mortgage of $350,000; the last four units have a mortgage of $60,000. The financing terms are shown in Table II.

TABLE II

TAX EXEMPT FINANCING TERMS

<u>First 25 Condominiums</u>		
o Innovative Grant	$535,000	
o Lender's Loan	$350,000	10.25%, 30 years, Renegotiable rate in 3 years.
Total Purchase Price	$885,000	
<u>Last 4 Condominiums</u>		
o Innovative Grant	$102,835	
o Lender's Loan	$60,000*	12.0%, 3 years, loan amortized over 30 years.
Total Purchase Price	$162,835	

*The County has sufficient funds to pay off this loan if they choose; it could also refinance the loan in three years if better interest rates are available at that time.

Though the public subsidy is a large percentage of the purchase cost, the costs are a one-time expenditure. A comparison made by H&CD of the Condominium Purchase Program with three King County Section 8 new construction projects showed that the condominiums were purchased at a lower cost, have a lower administrative cost, and were obtained at a significantly faster rate than the Section 8 units. Moreover, H&CD expects that from the perspective of Federal public expenditures, this front end, one-time subsidy will prove to be substantially lower than other public subsidy programs that have recurring payouts.

No formal economic analysis has been performed to support this intuitive assertion. However, one can point to several assumptions that, were they to be correct, could bolster this view. For instance, if inflation continues at recent historical rates causing increases in the cost of money, the rents on a unit, and the cost of purchasing or construction, units purchased today could be economically advantageous. These advantages, however, may not continue to be realized because the condominiums purchased under this program have a variable rate mortgage. If the degree of fluctuation in the rate is substantially above the 2 percent estimated increase, planned rents will not be sufficient to cover the full debt service. If the rents were to be raised sufficiently to cover an unexpectedly high debt requirement, recurrent subsidies could be required to keep tenants in their homes, although the rent structure has attempted to build in protection against such a possibility. In addition, public ownership may not provide the tax advantage enjoyed by private owners though public ownership does provide the advantage of a tax exempt mortgage. Yet, even if the long-run economic advantage for front-end purchase cannot be guaranteed, it does enable independence from Federal programs and assures capital ownership.

The Tandem Purchase Plan expanded the value of the public grant dollars by interesting private investors in the program. This private investment, coupled with private payoff of the debt and payment for ongoing costs, is the keystone of this project. Given recent historical evidence of spiralling inflation, a front-end payment makes a very attractive proposition.

The counseling element has exemplified a low cost approach, too. A portion of the grant, $85,740, was allocated for an eighteen-month effort. A little more than half of the counseling budget was specified for supporting two counselors half time. In fact, the expenditure rate has been lower for staff than had been anticipated. The counseling has been extended for six additional months in order to fully expend the money designated for this purpose.

Paid staff have been assisted by up to sixteen retired volunteer seniors who were recruited on the basis of their knowledge of real estate, banking and finance, and law. These individuals have provided in-home counseling assistance wherever required in the county.

Because King County is as large as the state of Delaware, large distances have had to be covered to meet client needs.

The Tandem Purchase Plan has proved to be a low-cost program administratively. Combined administrative costs paid out of the program budget for HACK, the Counseling Service, and H&CD totalled a modest 6.4 percent. No new entity was created to manage either the purchase or rental portions of the Plan. These responsibilities were delegated to HACK which was largely able to roll in the grant program duties to its existing activities. Volunteer services kept the Senior Counseling Service an inexpensive activity. No costs were included for H&CD management, review, and supervision.

A TIMELY PROGRAM

An important constituent of this Innovative Grant was the ability of the grantee to capture a market opportunity. This suggests that the local housing market was well understood by both H&CD and HACK. While it is true that all but a single option contained in the proposal became infeasible, it is also true that both H&CD and HACK had to be prepared to act with alacrity in order to acquire units at a price reflecting the buyers' market in the County.

The King County Innovative Grant Tandem Purchase Plan has met its basic objectives. One of the outstanding advantages of this program has been the quickness with which housing units have been added to the public housing stock. In a mere four months HACK advertised for, reviewed, and purchased the first 25 units. Rental was accomplished two months after the mortgage papers had been signed. This is four times faster than the average 2-year construction project. The greatest beneficiary of swift additions to the housing stock is the client, who typically waits inordinately long periods for public housing. During the waiting period -- 5 years on average in King County -- changes in the clients health status can alter to the point where she or he is unable to take advantage of a unit once it becomes available. Given that one objective of public housing is to serve senior citizens, the factor of timely service and assistance is well met by this project's approach.

The Counseling Service is also a time-sensitive component of this program. Client calls are answered promptly and counseling is arranged in a timely manner when requested. May service users have required general information, referral to other social service agencies more capable of resolving client concerns, or someone to run interference with another agency. The assistance provided through the Counseling Service has responded to each individual's needs and has done so expeditiously, even though the clients have expressed needs different from those anticipated.

REPLICATION

The Tandem Purchase Plan and the Senior Counseling Service are workable in combination and as separate elements. They mutually address a problem recognized by the community and are means for resolution supported by that community. In King County these elements were effectively joined under a single management scheme. In their parts and as a whole they provide a sound model that can be replicated. Not only can the model be repeated, but the result has been so positive that perhaps opportunities ought to be sought for so doing. H&CD is preparing a "How-To" guide for other jurisdictions interested in operating similar programs.

Replication of this project, however, depends heavily on the commitment of public and additional private funds, and given these funds, on an excellent understanding of market conditions and opportunities. King County will be hard pressed to set aside almost $750,000 from its own revenues for another Tandem Purchase program. Other localities will find similar difficulties. But if the money is made available, banks may be receptive to sharing in public/private financing schemes. Adeptness in these financing approaches also relies on available, appropriate residential real estate. Where the money and knowledge exist, this project can be repeated with success.

Knowledge of the needs and desires of the client group to be served is another important aspect. The approach to condominium selection appropriately emphasized the needs and considerations of self-sufficient senior citizens. Purchased units for this program were ones for which tenants could be easily found. Counseling service activities have also adapted to the expressed needs of seniors. Neither HACK nor the Counseling Service made presumptions about the needs of elderly in King County, but used their past experience to provide real data upon which to base their program.

There are some additional aspects of the Counseling Service that should be noted. Though the Counseling Service was established to assist elderly with low to moderate incomes to resolve housing problems, the Service users tended to have very low incomes and used the Service for many problems beyond those that were the focus of the grant. Potential clients did not distinguish between housing and other problems associated with being a senior citizen. Nor did they recognize the Service as intended for a specific group of seniors only. (The program sponsors believe that the intended client group did not respond because of pride, a desire for self-sufficiency, and an unwillingness to ask for government assistance.) Though the goal established by the program, was not met due to alterations in the program's housing approach and market conditions and because of the non-responsiveness of the intended client group, the Counseling Service has demonstrated that there are unmet needs in the elderly community for information, guidance, and direct assistance. Cognizant of their actual clientele and service opportunities, the counseling service program is adding new approaches in its final six months of operation.

LOS ANGELES SKID ROW TRANSITIONAL HOUSING

LOS ANGELES SKID ROW TRANSITIONAL HOUSING

SUMMARY

The Los Angeles Skid Row is a 50-block section within the downtown area. Of the 10,000 individuals who reside in Skid Row, 10 percent lack any shelter more substantial than a doorway or alley. The residents of Skid Row are indigent, unskilled, and largely unemployed. At least 30 percent are reported to be alcoholics.

Gradual expansion of the Skid Row area has created problems for downtown merchants whose shop doorways are used for night shelter and whose customers are discouraged by the presence of Skid Row residents during the day. In response to the merchants' concerns, a multifaceted Skid Row redevelopment plan was developed and approved. One organization involved in the redevelopment plan is the Skid Row Development Corporation (SRDC), a nonprofit group whose activities include economic development and housing projects.

In a bold attempt to recognize the economic and social problems faced in Skid Row, SRDC is developing a 150-bed Transitional Housing complex. This facility will provide temporary shelter, meals for residents, employment and social counseling. The complex will direct its efforts to those living on Skid Row who have no shelter. Participants in the Transitional Housing program will be connected to medical and social services provided by local, state and Federal agencies.

The Transitional Housing complex will have fiscal and programmatic support from other SRDC projects. A light industrial center, for example, will provide job opportunities with private firms and rent revenues to SRDC. A housing development near Skid Row could provide permanent shelter for Transitional Housing clients and will yield rent revenues to SRDC.

Eventually, SRDC hopes to be self-sufficient in all its projects. In the early years of the Transitional Housing SRDC revenues will be insufficient to cover its costs. The Community Redevelopment Agency of Los Angeles (CRA) currently provides the majority of operational funding for SRDC. CRA is expected to continue its financial support of the Transitional Housing project until SRDC is self-funded. SRDC is actively seeking donations from foundations and businesses; it is also engaged in special fund raising events.

Project proponents anticipated that funding for the first year of Transitional Housing operation would be provided by fund raising and SRDC operations revenues from the preceding two development years. Volunteer contributions from promised fund raisers and rent revenues from other operations did not meet expectations, causing the SRDC to

seek additional support from individual corporate donors, and from the CRA.

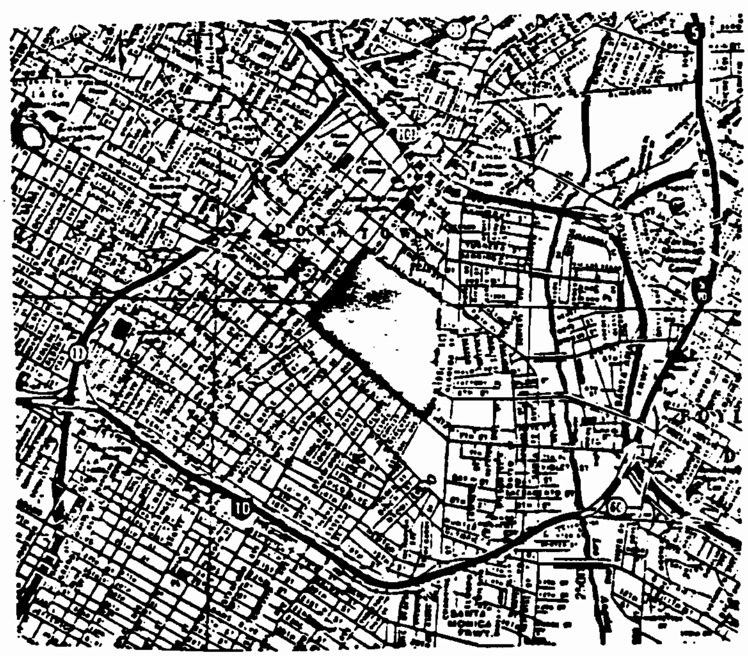
The schedule called for start of the counseling program in Spring 1983. That schedule has allowed for the hiring of the facility director, development of the operations plan, and at least two months to complete acquisition of furnishings, to hire and train staff, and to develop a working relationship among the staff prior to opening the doors to Transitional Housing clients.

An evaluation plan will be developed and implemented that will provide information about the program's success and permit the staff to make adjustments in the program.

BACKGROUND

The Los Angeles Central Business District encompasses a 50-block area known as Skid Row (see map, Figure 1). Skid Row is generally regarded by outsiders as an area to be tolerated but avoided -- one that is violent and crime-ridden, impinging on the more successful districts it adjoins. Typical of similar districts elsewhere, the Los Angeles Skid Row is populated by the community's poorest permanent and transient residents. There is a large incidence of alcohol dependency and increasing drug abuse; but most of the permanent residents are simply impoverished, unskilled, and unemployed. For many Skid Row is a last resort. For some, it is a preferred life style.

FIGURE 1
LOCATION OF LOS ANGELES' SKID ROW DISTRICT



Of Skid Row's population of 10,000 indigents. most are permanent residents. Until recently the population has been almost entirely male, but in the past few years there has been an upsurge in the number of women living there. Almost 1,000 men and women regularly sleep in alleys, doorways, and vacant lots, unable to pay for shelter in the many hotels or few apartments within the area. Some are able to obtain temporary shelter (1-5 days) at the only other available housing - the missions.

A 1980 Skid Row housing census showed 6200 habitable units and a vacancy rate of about 2 percent. Shelter opportunities have been increasingly compromised by an accelerating rate of housing loss. Of the 1160 units lost since 1976, 620 were demolished in the last half of 1981.

Reasons for the housing loss include fires, deterioration, purchase for other uses and increasingly stringent seismic safety ordinances. The few new units constructed in Skid Row (135 in 1981) have higher rents than those that were destroyed.

During daylight hours, the homeless are wanderers whose range includes at least 100 square blocks in and around Skid Row. Few residents of Skid Row hold permanent jobs. For the most part, the Skid Row lifestyle and the absence of skills preclude residents from holding long-term employment.

Merchants whose businesses are adjacent to or near Skid Row have been concerned over the negative influences of its residents on the merchants' business operations. Their concerns include the presence of individuals sleeping in shop doorways, the associated refuse, and a perceived loss of business directly attributable to the Skid Row population. In the mid-1970s a substantial effort to improve these adverse conditions was initiated by the merchants and local planning officials. The result has been a redevelopment plan endorsed by leaders of the business community, local merchants, and the leaders of City government. The primary objectives of the plan are to contain the outward growth of Skid Row and to develop programs within the area that will address problems of insufficient shelter, drug and alcohol dependencies, poor nutrition, unemployment, personal safety, and blight.

Among the several organizations charged with carrying out this ambitious plan is a private, nonprofit entity formed in 1978, the Skid Row Development Corporation (SRDC). It was established to provide planning, technical assistance, and economic development services to the Los Angeles Skid Row community. Its operating funds are provided by the Community Redevelopment Agency of Los Angeles. One of the several programs initiated by SRDC, the Transitional Housing Project is designed to meet housing and employment needs of the area's homeless men and women. Unlike the very brief stays available at Skid Row missions, the Transitional Housing project is part of a program to improve the overall living conditions of homeless Skid Row residents. Transitional Housing will provide temporary sleeping accommodations, meals, and social service counseling. The counseling is intended to assist clients in locating jobs, in resolving problems that prevent clients from maintaining jobs, and in establishing permanent residences outside of Skid Row. It is also intended to locate medical and financial assistance for those requiring it. Complementary SRDC economic development and housing projects are expected to provide realistic opportunities for employment and long-term shelter.

In June 1980, as a result of collaborative efforts between the City, SRDC, and CRA, the City of Los Angeles was awarded an Innovative Grant of approximately $1.6 million for the Transitional Housing project. Of the total, $800,000 was allocated to property acquisition, $254,975 to rehabilitation and furnishings, $216,000 to a two-year meals program (subsequently shifted to reconstruction and replaced by private donations), and $317,596 for administrative costs for two years. The grant has been augmented with a $370,000 construction grant from the Community Redevelopment Agency, a $260,000 bank loan, plus $134,000 in private donations for operations.

PROJECT DESCRIPTION

The Transitional Housing project comprises three major elements:

- Rehabilitation of an existing industrial warehouse within Skid Row into a 150-bed shelter,
- Implementation of a counseling program aimed at social rehabilitation and job referral, and
- Development of a long-term financing program to support program operations.

Construction of the Transitional Housing

The building selected for the Transitional Housing was a vacant industrial warehouse. As renovated, the facility will open in April 1983 with 150 beds arranged both in quads of single bedrooms and in traditional dormitory configurations. It will also contain a kitchen, dining room, offices for administration and counseling, laundry area, and modest recreation facilities.

The rehabilitation construction activity began in March 1982, almost a year later than originally scheduled. The delay was caused by underestimation of the preconstruction schedule, the discovery of seismic instability, and the resultant need to redesign the construction program based on additional engineering analysis.

Almost every stage in this project has taken longer than anticipated. About one-half of the delays were due to inexperience in project scheduling. The engineering analysis and redesign effort, required once the seismic deficiency was discovered during the escrow process, accounts for the remainder of the delay in starting construction. Site acquisition took five and a half months compared to the planned two months. The plan check took eight weeks, not four. This original architectural design required six and a half months instead of the two months scheduled.

The discovery of a major structural flaw, City requirements for access for the handicapped, and to a lesser extent, the delays in the start of the construction program substantially increased the project's costs. Reinforcement of the building to meet the City's seismic safety code alone increased the construction budget 158 percent. The design budget jumped 138 percent over the original estimate. Rising interest rates during the period of the delay caused an increase in the projects total cost.

The increased construction costs were met in part by a transfer of the second year's meal budget and 53 percent of the furnishings budget to the construction activity, and by an additional contribution from the Community Redevelopment Agency, a bank loan, and a foundation donation. Some savings were achieved in the meal program by changing from a catered service to in-house preparation. The difference between the remaining meal service funds and costs necessitated further fund-raising activities. The revised July 1982 budget of $2,870,707 is shown in Table I.

SRDC management decided that the architectural contract would not be procured through a competitive bid procedure. Instead, a nonprofit corporation specializing in providing service to low income communities and to other nonprofit corporations was chosen. SRDC believed that the architectural group's knowledge of Skid Row structures combined with a practice focused toward clients like SRDC made it ideally qualified.

The project architect completed the concept drawings, the working drawings, and the construction budget for the facility after the seismological problems were known. Later the working drawings and budget were reviewed by an architect who was not associated with the project. Revisions were made and the construction contract was put out for a competitive bid. The review cycle appears to have resulted in a sound budget projection, evidenced by receiving bids within the forecasted budget.

In the original concept development it was suggested that construction tasks such as demolition and painting could be accomplished by unskilled labor located within Skid Row. This idea was abandoned once it became clear how difficult it would be to maintain the lengthened construction schedule and to ensure effective construction management.

TABLE I

TRANSITIONAL HOUSING CONSTRUCTION AND OPERATIONS BUDGET AND SOURCES FOR FUNDS

CONSTRUCTION		OPERATIONS	
• Site Acquisition		• Meals (2 years)	
- HUD Grant	$800,000	- Foundation Donations	$135,000
• Conversion		• Administration Program (2 years)	
- HUD Grant	$763,886	- CRA and Donations	$310,636
- CRA* Grant	$370,000		
- Bank Loan	$260,000		
- Meade Foundation	$130,000		
• Furnishings		• Monitoring	$ 6,960
- HUD Grant	$ 17,725		
- Private Donation	$32,500	• Operations Planning	$ 25,000
Subtotal	$2,374,111	Subtotal	$496,596

TOTAL $2,870,707

* Community Redevelopment Agency of Los Angeles

Implementation of a Social and Employment Counseling Program

The overall objective of the operations plan is to develop and maintain an excellent reputation with Skid Row residents, and influential members of the City. To do this, the facility must be regarded as clean, safe, and functional. Recognizing the dual social and economic problems of Skid Row residents, the objectives of providing temporary housing, social and employment counseling are the bulwark of the operations plan. Achieving these objectives requires capable staff and an effective operations program. Both appear to have been achieved.

The counseling program required preparation of an operations plan, including staffing requirements, position descriptions, client intake procedures, counseling staff guidelines, facility management and security procedures. Plan development was a prerequisite to defining the internal and external resources needed by the Transitional Housing facility and to provide adequate guidance to the facility staff. Understanding the importance of the operations plan, SRDC obtained a private donation to hire a consultant with expertise in the social health care field.

The consultant assisted the SRDC in defining the job position for the facility director, in preparing a job opening notice, in interviewing candidates, and in selecting the director. The director, hired 4 months before the scheduled opening of the facility, has 20 years' experience working in probation programs, fund raising, consulting to nonprofit groups and managing a minimum security facility. Early hiring of the director permitted him to be involved with the development of the operations plan. His involvement will increase the likelihood that the plan's intent will be carried out.

An innovative aspect of the operations plan is the staffs' intention to use the facility as a kind of brokerage house for community services. SRDC staff and the new facility director believe that the services of the facility must complement, rather than duplicate, the other services provided in Skid Row. The Transitional Housing management made an informal survey of existing Skid Row social service programs to ensure that complementary services would be provided. The management met with the providers of the existing services and worked out arrangements for referring clients to and from other facilities. For example, the Women's Center has a structured daytime program for Skid Row women. Instead of replicating this activity, the Transitional Housing facility will primarily provide women nighttime shelter. In another example, the Transition House facility will become the focus of Skid Row job counseling activities. Counselors from both the Veterans Administration and the State's employment office will work at the facility to assist clients in finding jobs. Other Skid Row providers will refer their clients to the Transitional Housing job program. Staff reliance on and recognition of existing community resources has been credited with helping the new facility to be welcomed into Skid Row.

Another important element of the operations plan is careful definition of the client population to be served. Because the array of services is limited, it is insufficient to merely open the facility's doors and accept anybody who happens to walk in. Therefore, although clients accepted for Transitional Housing assistance may have multiple social and medical problems, they may not be active drug users, since the program is not designed for drug rehabilitation. Clients may have some alcohol dependency, but they may not be confirmed alcoholics. Other programs in Skid Row focus on alcoholism.

What the new facility will provide is short-term residence for people wanting to change their social and economic condition. Staff will refer clients to other social services in the community and assist them in obtaining welfare assistance for which they are eligible under City and County programs. Job counseling will be a major focus of the program as employment will provide the financial means for clients to become independent. Clients ready for long-term housing will be given the opportunity to rent SRDC housing or, if it is unavailable, they will be assisted in finding other affordable units. While clients are living at the Transition House facility, a structured day program of counseling and chores will be offered. Meals for residents will be provided.

Development of a Long-Term Financing Program

Originally, the funding for the first two years of operation for the Transition House facility was to come from the HUD Innovative Grant (75 percent) and donations from charitable foundations and businesses (25 percent). The increases in construction costs forced SRDC to shift HUD operational funds to renovation. This in turn caused the group to seek additional donations and CRA contributions. A primary goal of SRDC is to operate the housing facility with private funds only.

SRDC expected to obtain funds for the third year and future operations from a combination of the following sources:

- Revenues from other SRDC operations, including rents paid by tenants in other SRDC buildings ($100,000-150,000),
- Fund-raising events conducted by a business and a religious organization ($100,000),
- Rents from Transitional Housing clients ($28,000), and
- In-kind contributions of items such as linens and toiletries.

The third year's funding for the facility was predicated on an assumption that funds from each of the above named sources would accumulate during the first two years of development and operation. However, the revenue and budget projections appear to have been optimistic. The projections are dependent on assumptions concerning occupancy rates of SRDC economic development properties, the number of Transitional Housing clientele who can contribute to their own maintenance, annual donations of $100,000 from the fund-raising events of organizations independent of SRDC, and completion of SRDC economic development projects.

Some of the assumptions provided were ill-founded, leading to revenue shortfalls. Fund raisers were estimated to provide $110,000 per year starting with the first year of the Transitional House project. One organization has not held a fund raiser in the first two years of the project. The second organization has only been able to contribute $4,000 of the annual $50,000 anticipated. Rents from SRDC's economic development projects have not reached expected levels since one of two light industrial projects has not been completed and the other is not fully rented. SRDC is aggressively pursuing additional fund-raising efforts to cover the first operational year of the facility. If the goal of self-sufficient operation is to be reached, a more predictable assured income will have to be found.

In 1979 SRDC estimated the annual operating budget for the Transitional Housing program at about $263,000. By 1982 the revised budget was an estimated $300,000. This budget estimate includes salaries, benefits, facility maintenance, management fee, and meals. The original budget projected revenues ranging from $228,000-$278,000. Even at the high end, the projected revenues do not cover the present projected costs. No contingency for the escalation of costs was included. Expenses for lighting and heating, insurance, building maintenance, and the overall cost of living have risen markedly in the three years since the budget was prepared. To the extent that revenues do not match costs, SRDC will need to seek additional funds from the Community Redevelopment Agency and/or continue to raise donations.

Two clever ways of raising money have been devised by SRDC. One of the problems SRDC recognized was that a donor often wants tangible evidence of his individual donation. Contributing to a large pool of funds spent in unknown ways (such as meals) was unsatisfying to the donor. To counter this problem, the SRDC decided to raise money for specific items that could be observed and that would last for a long time. They sought, for example, a special donation for beds. Once beds were purchased, the donor could come to the facility and see the tangible results of the donation.

A second revenue raising scheme is based on taxing those able to pay for services the facility provides. The Veterans Administration and State employment office will both pay rent for the offices used by their counselors. Clients with incomes from jobs or welfare will also be asked to make contributions to the program.

IMPLEMENTATION ISSUES

The three-year Transitional Housing project became operational in early 1983. Delays in the start of the construction do not allow a full view of the project's most important aspect -- the counseling program. Although evaluative comment on that program would be premature for at least a year, it is evident that the project is congruent with the goals for the community in which SRDC operates. The program is supported by a broad cross-section of business, religious, and government organizations.

The SRDC has been very fortunate to have a keenly adept fund raiser as its executive director. The executive director has been instrumental in obtaining donations from a variety of corporate and nonprofit organizations. When one source has failed, another has been found to replace it. Given the many projects SRDC is developing, self-sufficiency of any one project would reduce the load carried by the executive director. An additional problem is the possibility that donors may be unable to continue to support their program or may become disinterested. A firmer revenue source would alleviate these concerns.

The needs of SRDC are diversifying. Initially, almost its entire operation was dedicated to raising money for funding its programs and for creating political visibility and support for its endeavors. As each of its projects begins to move from concept to reality, the skills and focus of the organization need to grow and become differentiated. Management of the construction requires someone familiar with the practices of the construction trade and an ability to oversee the work being performed. Development and conduct of the counseling program dictate expertise in working with extremely discouraged, unskilled, and often ill clients. Financing involves ongoing fund-raising activities and fiscal management, each requiring different skills.

LESSONS LEARNED

The Counseling Program

Within this project the evolution of the counseling program concept deserves the greatest praise. The initial counseling program presumed that those living in the Skid Row area would eagerly embrace a way out of the area and out of their lifestyle. Moreover, the project assumed that Skid Row residents, whose lives are very unstructured, would be willing to enter a highly structured program of medical care, counseling, and job training.

Two relevant studies, one for Los Angeles' Public Inebriate Program and the other for the City of Vancouver, British Columbia, suggests that both assumptions are unrealistic. The Los Angeles study found, for example, that most people living on Skid Row and in similar locations in the Greater Los Angeles area, are satisfied with their way of life. They do not want to participate in a a more structured alternative. As noted in the Vancouver study, "The most predominant characteristic of Skid Row residents seems to be their desire to be left alone and their refusal to accept society's prevailing values."[1]

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[1]Mervyn, Gil T. and John A. Jessup. Downtown East Side, Social Planning/Community Development Department, City of Vancouver, British Columbia, May 1971.

Moreover, they are accustomed to a transience of residence or work place (to the extent that they hold jobs). Many work long enough, generally at repetitive jobs, to pay for a room, some food, and/or a bottle of wine or liquor.

The Los Angeles study also indicates that drugs are becoming a significant problem in Skid Row. Many individuals have been diagnosed as having a combined alcohol and drug abuse problem which appears to pose a far more difficult emotional and physical recovery process than either abuse problem separately.

As the project progressed, the concepts about the potential Skid Row clientele were significantly refined. SRDC recognized that the highly structured regimen initially proposed would be not appropriate. <u>A better understanding of those likely to use the facility was warranted, along with a clear statement of who the facility will admit and what the staff will do to assist its clients.</u> Issues relative to the participation of drug abusers, length of stay at the facility, the reasons for which a client would be evicted from the facility (e.g., violations of facility rules or crimes), among others, needed to be resolved. This has been accomplished with the development of the operations plan.

One of the goals of the Transition House is to place clients in permanent housing outside of Skid Row. As an adjunct project designed to meet this goal, SRDC has purchased a 17 unit apartment building recently relocated to a community south of Skid Row. These units are now being rented by SRDC to any interested party. <u>Matching the timing and needs of Transitional Housing graduates with the availability of one of these units appears problematic. SRDC realizes it will have to develop other housing resources to meet this program goal.</u>

That the long-term housing goal will not be achieved when the transitional Housing program begins to provide services reflects the complex and broad scheme of which this program is a part. <u>SRDC, the CRA, the City, and the business community have worked together to formulate a complete urban redevelopment plan. It encompasses social, housing, economic, and health goals to be met though the development</u> of many individual projects which eventually benefit one another. Simultaneously, SRDC has been raising funds for the transitional housing facility, for economic development programs and for permanent housing. Each of these projects requires substantial attention and effort. The SRDC deserves recognition for the degree to which it has already met its goals and for continuing to pursue them. Earnest endeavors of all parties and time will be necessary to bring about the full plan.

Construction Management and Budget

Two major difficulties in the construction effort have occurred to date -- underestimation of the construction and acquisition budgets, and the discovery of a major structural problem which also affected the budget. These provide guidance for other organizations undertaking renovation projects.

In budgeting for renovation, a building must be carefully examined to avoid substantial underestimation of costs. In addition, all construction budgets, especially those for renovation, require a contingency to cover costs for problems that may surface during the renovation process. As noted earlier, seismic safety problems in the Transitional Housing project were discovered after the budget had been prepared. These problems are typical of buildings in the Skid Row area and can be reasonably evaluated without removing the interior walls. Elsewhere in the country, local codes cover other types of safety problems attributable to natural phenomena such as hurricanes, soft soils, and heavy snowfall. The cost of bringing older buildings into compliance with these aspects of safety codes can be substantial; in this case it more than doubled the cost of renovation.

As a project that will generate little revenue, the Transitional Housing must rely on fund-raising support, revenues from other projects, and local government contributions. Its major effort for the first two years was devoted to fund raising. This effort has been largely successful even though initial fundraising did not generate anticipated revenue; moreover, it will probably remain a continuing effort of SRDC. Attempting to place reliance for at least half of the operating budget on firm revenues from other SRDC programs is an important goal. If it is achieved, these revenues will help in providing a sound financial base for continuity in the counseling program. The greater the percentage of firm funds for the program, the more likely it will reach its objectives over the long term.

SANTA BARBARA LIMITED EQUITY
COOPERATIVE HOUSING

SANTA BARBARA LIMITED EQUITY COOPERATIVE HOUSING

SUMMARY

Since the late 1970s a severe shortage in Santa Barbara, California's housing for low- and moderate-income families has been forcing many residents to leave the city. In an effort to stem the displacement, the City Council authorized a cooperative housing project in which the tenants will have a limited equity in the property.

In 1980 the City of Santa Barbara, California was awarded an Innovative Grant by the U.S. Department of Housing and Urban Development (HUD) to develop a Limited Equity Cooperative Housing venture for low- and moderate-income families in a Community Development Target Area. This grant in conjunction with a HUD 312 rehabilitation loan, a loan from the City, and a loan from a private lending institution was used to rehabilitate a deteriorated early 1900s bungalow courtyard into 13 attractive and desirable living units known as Las Casitas de Voluntario. The cooperative is a privately owned, though publicly subsidized, complex. Each member in the cooperative purchases stock, or shares, in the cooperative based upon the value of the individual unit that is purchased. Las Casitas is expected to remain affordable housing for low- and moderate-income families because there is a limitation on the equity in the property that can be withdrawn at the time of sale of an individual's shares. This limitation is established both by recent California law and the by-laws of the cooperative. Sale equity in the Las Casitas Cooperative is limited to 7 percent per year per person.

The project goals, as stated in the Innovative grant application, have been met well. An existing housing structure has been successfully rehabilitated. A cooperative organization has been established. Tenants matching both income and ethnic criteria have entered into the cooperative arrangement. To reach these goals, four types of problems had to be overcome:

- Financing
- Construction management
- Interorganizational management
- Development of a cooperative housing instrument.

Perhaps the area of greatest project success is in the manipulation of the project financing. The long period between the original idea and its implementation saw many changes in the financial conditions under which the project had to be developed. Moreover, the project has used money from seven different sources, both public and private. Both the construction and interorganizational management obstacles were ultimately overcome, but with varying degrees of success and satisfaction.

The responsible organizations' lack of experience in similar projects meant plowing new ground and a learn-as-you-go process. While similar cooperative projects had been developed elsewhere, the available information could not make up for inexperience in project management. Project administrators had to count on their ingenuity, vitality, and perseverance in resolving the many problems that were encountered. The new cooperative has been established, but its true test is still before it--its ability to survive as a healthy financial and social entity over some period of time.

This project has used the Innovative Grant funds in a variety of ways, exploiting their potential to the fullest by turning over the grant money many times. The funds have been used to acquire a multiple-unit bungalow courtyard; they were replaced when long-term mortgages were secured. The funds have been used to pay for contractor services and some rehabilitation; again they were replaced by long-term mortgages. The funds have assisted tenants to make down payments for the short and longer term; this money will be replaced by members of the cooperative. Finally, these funds are scheduled to be used for one more important function--as a revolving fund to initiate other projects of a similar nature. Table 1 below shows the flow of Innovative Grant money.

The Revolving Fund is seed money to be replaced by long-term notes when this and subsequent rehabilitation projects are completed. In the Las Casitas project, approximately 85 percent ($175,000) of the Innovative Grant is or will be invested in a Revolving Fund. The city and CHC have managed their project sufficiently well to achieve this objective. The sum is large enough to play an important role in leveraging new projects. The project deserves acknowledgement for this achievement. Time, continuity in local public policy, and market conditions have their part to play in determining if the Revolving Fund can fulfill its longer-term purpose.

BACKGROUND

Santa Barbara is a highly attractive, coastal community approximately 100 miles north of Los Angeles that has long been a magnet for tourists and for those seeking a relatively slower pace of life. In the late 1970s, Santa Barbara began experiencing a serious shortage of housing for low- and moderate-income families. This shortage resulted from the convergence of many factors, including:

- Housing speculation, principally from individuals outside the community. This along with higher interest rates, helped to drive up property values and, therefore, rents.

- State and local growth management policies designed to maintain a low population density, especially outside the central city area.

These policies included a half acre minimum lot size in relatively undeveloped areas.

- Lack of new rental construction, largely resulting from the above factors.

- Disinvestment in existing rental housing, for the same reasons.

- Low vacancy rate (1.14 percent in 1979), largely the result of a slow construction rate coupled with a high demand for housing.

The influence of speculation and limited land available for new construction is amply demonstrated by comparing the cost of living index and the average home price. In 1978 the cost of living index for Santa Barbara County rose to 194 percent; in the same period the average price of homes in the county rose 419 percent.[1] Speculation, zoning regulations, and interest rate increases have significantly reduced the economic desirability of new rental construction as well. In 1978, before the current national housing slump had been felt, new construction starts had dropped 26 percent in Santa Barbara.

Cumulatively, these factors have caused many low- and moderate-income people to leave Santa Barbara to find affordable housing in neighboring communities.

Both city agencies and members of the Santa Barbara City Council have been concerned over this displacement. In 1979 a multifaceted housing program was proposed by the Citizen's Task Force on Community Development and the City's Community Development Department (CDD) to counter the displacement momentum by creating both rental and ownership opportunities for those with low and moderate incomes. The strategies included in this program are: rental housing rehabilitation; a land banking and pre-development loan fund for construction of new housing particularly in areas without a high concentration of publicly assisted housing; a local mortgage revenue bond to finance rehabilitation; rehabilitation with refinancing; and mortgage assistance to prospective low- and moderate-income homeowners. The elements of this program are being implemented and depend on a combination of existing HUD programs, obtaining new public and private financing, and coordination of programs managed by different city agencies. They also rely on an appropriation of incremental tax funds form the city's redevelopment agency, which in recent years has been used for land banking, pre-development loans, and multi-unit rental rehabilitation project financing.

The Innovative Grant provided an opportunity to try an additional revenue for creating housing for low- and moderate-income

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[1]The cost of living index uses a base year of 1967 set at 100 percent.

individuals.[2] Titled the Cooperative Housing Lending Program, this approach was structured to provide:

- Independent and privately owned cooperative housing for those with low and moderate incomes.
- Rehabilitation of existing housing to be used by the cooperative,
- Limited equity in housing units financed in part by cooperative member funds.
- Development of a cooperative management structure, and
- A revolving fund to purchase additional units for rehabilitation and limited ownership.

The cooperative experiment involves investment of both public and private funds to establish independent housing requiring no operating subsidies. Its primary goal is to ensure the long-term availability of low-cost housing through the limitation on equity in the cooperative that can be accumulated by any member.

The site chosen for the Innovative grant project is within a Community Development Target Area. The portion of the Target Area in which this site is located constitutes a moderately stable working class neighborhood with the lowest unemployment rate of the 5 census tracts within the area. In 1975, 91 percent were at or below the moderate-income level. The area has the largest minority population in Santa Barbara—51 percent Spanish surnamed and 15 percent Black. The average minority representation in Santa Barbara is 27 percent. Overcrowding in this area is almost 3 times as prevalent as for the entire city.

To implement the cooperative program required the participation of a nonprofit housing agency that could buy the property, establish a housing cooperative, and manage the construction process. This role was assumed by the Community Housing Corporation (CHC), a private,

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[2]Moderate income = 81-120 percent of area median income. Low income = 80 percent of area median income, or less. Median income for Santa Barbara is: Single person = \$15,750; 2 persons = \$18,000; 3 persons = \$20,250; 4 persons = \$22,500; 5 persons = \$23,900; 6 persons = \$25,300.

nonprofit organization incorporated in 1975 to sponsor the development of affordable housing opportunities. Its director, long active in local housing programs, was instrumental in developing the grant proposal. The CHC was eager to have a position of major responsibility in carrying out the cooperative housing project. It viewed the project both as a valuable experiment that would result in additional housing for low- and moderate-income people, and as a further demonstration of the organization's capability and, therefore, its value to the community.

Accomplishing the Limited Equity Cooperative Housing objectives required a partnership between the CHC and the CDD. Many obstacles had to be overcome for this grant to achieve the successes that did occur, requiring the complementary skills and organizational relationships that each entity possessed. As grantee, the city of Santa Barbara retained an active management role, maintaining lead responsibility for negotiations with the City Council and city agencies and participating in the cooperative member selection process. It provided its administrative services without cost to the project and donated on-the-job labor to guide the completion of the project. CHC, which had some--though limited--experience with new construction, negotiated the financial arrangements, selected the engineering and construction firms, and established the cooperative vehicle and member selection process.

PROBLEMS AND THEIR RESOLUTION

As it progressed from an idea to a physical reality, the Limited Equity Cooperative Housing experiment faced a number of problems with which it dealt with varying degrees of success. These problems fell into four major categories:

- Complex financial arrangements
- Construction management
- Interorganizational management requirements
- Development of a cooperative housing instrument.

Financing

During the year and a half that passed between submittal for the grant proposal and its final approval, substantial changes occurred in the money market. Interest rates rose; banks and other financial institutions became less enamored of holding long-term mortgages; real estate prices continued to soar. CHC directors proved to be astute money managers and, through a complex set of financial arrangement, they were able to meet the financial requirements for purchase, rehabilitation, and the rental of the cooperative.

The financing for purchase and rehabilitation of the cottage courtyard selected for the cooperative housing project was accomplished in two stages. In the first, interim financing for purchase of the property was completed; in the second, permanent financing for acquisition and rehabilitation was secured.

Interim Financing

The two-stage financing mechanism was used primarily to defer interest payments on the construction loan and also because of the timing of the project's development. Before learning of the grant approval, CHC had obtained a small grant from the State of California to develop the cooperative housing concept. With this State grant in hand, CHC began searching for a suitable building. When the courtyard complex on Voluntario Street was located, the asking price and the subsequently negotiated purchase price were almost double the size of the requested, though not yet approved, Innovative Grant. Thus, funds supplemental to the Innovative Grant were needed. In a demonstration of the CHC's resourcefulness, funds were sought from every possible type of lender including public agencies, private lenders, and individual philanthropists. In the end, each contributed to the interim financing of the bungalows that became known as Las Casitas de Voluntario.

CHC's ability to arrange the interim financing was a find example of its ability to garner the commitment of institutions and individuals. The negotiated purchase price of $370,000 was paid in part with $125,000 of Innovative Grant funds. CHC was successful in obtaining approximately 66 percent of the purchase balance from two sources: a private savings and loan institution provided $150,000 on a short-term note; and the remaining $95,000 came from three private individuals within the community who shared the philosophical commitment upon which this project is based. Each of the private loans was scheduled for one year, at rates varying from 7 to 12 percent. (All project costs and funding sources ar shown in Table 1.)

As an adjunct to the interim purchase financing, CDD obtained a loan in the amount of $351,9000 through HUD's Section 312 program. This money, used for rehabilitation of the housing units, is similar to a traditional private sector construction loan in that at the completion of the project, the construction loan would be rolled into a permanent mortgage. Both this rehabilitation loan and the short-term purchase loan were converted near the completion of the project into permanent financing instruments. The 312 loan, however, is one of the more innovative aspects of the project's financial arrangements because of the settlement procedure recommended by HUD.

TABLE 1

COSTS AND SOURCES OF FUNDS*

<u>Costs</u>

1. Building Acquisition	$ 370,000
2. Interim Interest Charges	
-- Savings & Loan ($150,000 at 12 percent)	18,000
-- Personal Loan ($50,000 at 7 percent)	3,500
-- Personal Loan ($25,000 at 7 percent)	1,750
-- Personal Loan ($20,000 at 10 percent)	2,100
3. Loan Processing Fee	2,358
4. Closing Costs	2,972
5. Conversion Costs	21,736
6. Rehabilitation Contract + 5 percent Contingency	440,108
7. Self Help	25,200
8. Planning & Design	17,080
9. Interim Rehabilitation Interest Charges	
-- HUD Section 312 ($351,000 at 3 percent)	7,560
-- City of Santa Barbara	328
10. Drainage System	62,000
11. Stock in National Consumer's Cooperative Bank	16,000
12. Administrative Costs**	74,500
13. Education of Cooperative Members	25,000
Total Cost	$1,090,192

(Continued on page 133)

TABLE 1 (continued)

Sources of Funds

1.	Net Rental Income (Income less operating costs, taxes and interest payments)	$ 20,700
2.	Cooperative Members' Equity (Half paid with loan from Innovative Grant)	48,500
3.	CDBG Grant for Drain	62,000
4.	City of Santa Barbara Loan at 3 percent ***	240,000
5.	HUD Section 312 Loan at 3 percent	351,000
6.	National Consumer's Cooperative Bank Loan at 9 percent-14 percent VRM (Renegotiation year 11 max. 2.5 percent adjustment of previous rate)	216,000
7.	Administrative Costs	
	-- Innovative Grant	30,500
	-- CDBG	44,000
8.	Innovative Grant (Interim financing, down payment loans, revolving fund, and rehabilitation	175,500
9.	State of California	25,000
	Total Cost	$1,213,200

*N.B. Costs and sources of funds do not balance. All costs associated with the project have not been reported.

**Does not include CDD Administrative Costs that were donated.

***No principal or interest paid first 5 years.

HUD recommended using a modified loan settlement procedure in which the grantee was able to draw down the loan fund before the financial closing on the loan. Funds were thus available to pay the construction contractor according to schedule. Yet, delay of the closing (more than one year after loan approval) allowed deferral of interest payments until the final financial closing.

Permanent Financing

The permanent financing converted all of the interim purchase loans and the rehabilitation loan into long-term funding instruments. Payment obligations are the responsibility of the cooperative. The Innovative Grant funds were freed for use in a revolving fund (described later) being replaced by a low-interest, 3 percent loan from a $500,000 fund for low and moderate cost housing established by the City Council. The private lenders were repaid their full principal and interest using the city loan funds. The savings and loan money was replaced and added to with a long-term loan having a lower, though variable, interest rate, from the National Consumer's Cooperative Bank (NCCB), a private lender specializing in loans to cooperatives.[3] The HUD 312 loan at 3 percent was finally closed.

Some of the monies required for the final closing represents equity paid by the members of the cooperative. This equity money was slightly less than 6 percent of the total purchase and rehabilitation costs. A contribution by the members of the cooperative in the form of cash and unpaid labor was an important element of the project concept. Project designers wanted to ensure a commitment to the housing. They believed that a personal and financial investment in the cooperative would develop both a pride in and dedication to the physical structure and the social organization. Member's labor contributions to rehabilitating the courtyard complex were also a necessity born of cost considerations.

The loans are to be repaid by the member's rents. Increases in current rental fees are planned. In fact, the project depend upon the Fair Market Rents (FMR) rising at the same rate as they have done in recent years since about one-half of the units are subsidized with Section 8 certificates. The financial projections prepared for this project estimate a 10 percent increase over five years on FMR rates.[4]

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[3]NCCB was established.

[4]Fair Market Rents are established by HUD for the Section 8 program, a rent subsidy program for low- and moderate-income households. FMR increases for 1979-80 and 1980-81 were 11.79 percent and 10.97 percent, respectively.

If the FMR does not rise as projected, revenues will be insufficient to cover the debt service on the three loans. As an extra assist to the project, the loan from the city is scheduled for no payment of either principal or interest for five years. Though interest will continue to accumulate, the city has specified that at the end of the first five years, any or all payments may be further deferred if the FMR levels are too low to make repayment feasible.[5]

A second basis for uncertainty about meeting the debt service on the loans derives from the variable rate mortgage on the $216,000 loan from the National Consumer's Cooperative Bank ($16,000 of the total represents an NCCB stock purchase, which the bank set as a condition of the loan; the cost is amortized as part of the loan). The first five years' rates are scheduled to graduate from 9 to 14 percent. The rate stabilizes at the fifth year, but renegotiation of the loan is scheduled for the eleventh year. At that time, the rate can be raised a maximum 2.5 percent.

Down Payment Assistance

Each member of the cooperative is required to purchase cooperative shares. This is the member's equity in the venture and gives him or her a legal basis for decision making in the cooperative. In a move to assure that tenants who were able to meet monthly charges but perhaps could not fully meet down payment requirements at the time of closing could participate in this housing structure, the City Council agreed to subsidize up to one-half of the down payments with Innovative Grant funds.

Each loan will vary depending on the size of the unit purchased by the tenant and the amount saved toward the down payment by the family. The repayment terms of these assistance loans are five years at 3 percent per year. Twelve of the 13 families in the bungalow-cooperative have received approval for down payment assistance. The loans from the city are backed with pledged security agreements on each family's market shares.

A rental period occurred from the point at which tenants moved into the partially renovated units until the second financial closing. During the rental period, the members contributed monthly into a savings account opened by the Interim Cooperative Board of Directors to meet the down payments. Payments made by each member were identified within the account. At the second financial closing, the funds were placed into an escrow account because approval by the State's Department of Real Estate of the subdivision conversion had not yet been received. These funds will remain in the escrow trust fund until the Department's approval is obtained. Innovative Grant funds were

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[5] FMR rates for Santa Barbara as of March 1981 were: $321 (1 bedroom); $416 (2 bedrooms); $481 (3 bedroom).

used to fully cover the down payment portion of the financing pending release of the members' escrow account.

Revolving Fund

On of the central objectives of the grant project is to use a portion of the Innovative Grant funds for initiating new cooperative projects. The Revolving Fund is made up of monies used for purchase and renovation of the project which have subsequently been replaced with the acquisition of long-term mortgage instruments. Initially, the fund contains $127,250. This will be augmented in two ways by the down payment assistance fund of $48,250. When the Department of Real Estate Report is issued approving the project, one-half the down payment being held in escrow will be paid into the Revolving Fund. The remainder will be paid into the fund in monthly installments by the members of the cooperative over five years. It is calculated that the Revolving Fund will contain a little more than $175,500 when all repayments have been made.

Construction Management

Managing the building renovation process presented the greatest hurdle for the grantee and CHC. The construction process was a complex one that involved a professional architect and an engineering firm with responsibilities to both the CHC as "owner" of the project and the CDD's rehabilitation staff acting as construction manager. The self-help component, imposed because of cost considerations, contributed to the complexity of construction management, too. Neither the CHC nor CDD had experience with projects of this magnitude in either the number of units or the level of rehabilitation. There were aspects of the construction management that were "firsts" to both entities.

As noted earlier, the bungalow courtyard selected for this project was in a severely deteriorated condition and required substantial renovation, including some demolition of existing structures. The 16-unit complex was remodeled into 13 units each requiring replumbing, new framing of interior and exterior walls, reroofing, and being brought into compliance with local building codes. Barrier-free design to provide access for handicapped individuals to the property and full handicap-accommodation in four of the units were an integral part of the renovation activity. Full handicap-accommodation was completed in two two-bedroom units; two one-bedroom units were designed and constructed to allow for future retrofit to accommodate handicapped tenants. A parking lot, landscaping of the commons area, wood fencing on the property, and new concrete walkways were also needed.

Self-Help

A portion of the proposed reconstruction plans had to be altered at the start of the project because of budgetary constraints. Early in that the owner receives plus the 20 percent rehabilitation that he did with his own "sweat equity" is usually considered by the lender to be equivalent to, or the average of, a $15,000 down payment, with the "sweat equity" being valued on the average from $3,000 to $5,000. When selecting owners, the NNHC does not allow the housing cost to exceed 30 percent of the prospective owner's income. The private lenders consider NNHC's underwriting standards excellent, since the banks usually use 38 percent of income as a criteria.

The construction loans from the bank are in the form of a two year balloon payment, with NNHC paying only interest in the interim. Interest rate terms on the loans average from 14-15 percent for construction. The lenders have agreed to use the same rate for conventional financing with the prospective owner. The Section 8 rental income in the double pays for the interest costs in the construction loan. This is one reason why NNHC tries to get the unit rented quickly.

STATUS OF THE PROGRAM

At the time of the proposal, the NNHC was originally allocated four houses as a target for rehabilitation. After the application was submitted, these structures were rehabilitated with a three percent loan made available by the City. Later, when a new, experienced director took over the corporation, the target was increased to a total of 10 houses. At the time all the parties to the proposal were still at a stalemate, NNHC purchased 9 houses on the open market and rehabilitated and sole three of these to establish credibility. Confident in their expertise, NNHC felt they could meet a target of 20 structures per year. During the delay, OMC was demolishing and rehabbing houses reducing the total houses available. The City, therefore, scaled down its target from a minimum of 125 as stated in the proposal to a total of 55. HUD objected strongly and threatened to cancel the project. The Director of the Department of Development, replied that the goal of 55 structures would be maintained for the City, but that the NNHC target would be increased to 65 to meet close to the original minimum target with a new target of 120 structures. With the signing of the major memorandum agreement, NNHC agreed to purchase 31 structures from OMC. Thus, NNHC had an original commitment of 44 structures: 4 donated by OMC; 9 purchased on the open market; 31 to be purchased from OMC. Compared to the new target of 65, it left a gap of 21 structures. Three of the 31 structures to be purchased from OMC were later allocated to the City leaving NNHC with a purchase target of 28. NNHC then had an immediate commitment of 41 structures (see Table No. 2).

TABLE NO. 2

Columbus Grant Assistance Summary of Target and Progress

		Original Goal (Structures)	New Goal
Tenant Purchase Program		120	120
A. City of Columbus		55	58
1. Transfer Purchase from NNHC			+3
2. Mortgage Closings	( )		
3. Mortgage Commitments	( )		
4. Cases in Process	( )		
5. Cases Pending	( )		
B. Near Northside Housing Corporation		65	62
1. Aquisition of Properties		44	
OMC Donation	(4)		
Purchase Open Market	(9)		
Purchase OMC	(31)		
2. Transfer of Purchase of OMC Properties to City			-3
3. Net Aquisition of Properties		41	
4. Properties Rehabilitated		40	
Single Family Units	(16)		
Double Units	(24)		
(some in process)			
Section 8 Substantial	(10)		
Section 8 Moderate	(14)		
5. Properties to be Purchased			21

the negotiation of the construction contract the original renovation costs were determined to be underestimated. To resolve this budget problem and still accomplish the renovation objectives, several projects were allocated to self-help activities. These self-help, or "sweat equity," activities were to be completed by the members of the cooperative. All of these activities were "finish" items and included the property fencing, landscaping, interior painting, and pouring the concrete walkways. The planned solar hot water component was dropped from the project, though the plumbing for the system was installed in case the residents choose to put the solar system in at a later date.

Once the budget was established, it was adhered to. The contingency fee was used, but the project did not require additional funding to complete the renovation.

Intermingling crews of contractor workmen and inexperienced volunteer residents did cause some extra management considerations that a project performed entirely with contract labor would not pose. It was important to separate the activities of each, both in regard to sharing tasks and timing of complementary tasks. The finish items were designated for self-help to maintain the necessary separation. Arrangements were made to allow volunteer teams into a unit to do the interior painting, for instance, a task falling in the middle of contractor work activities.

Use of self-help also required someone to assume the role of "job superintendent." This need was unanticipated and, by default, became the responsibility of the CDD rehabilitation supervisor. The volunteer labor was unskilled and, for five households, included no men. Self-help projects had to be scheduled around the tenants' employment, causing much of the work to be performed on weekends. Concern for completion of an individual's own home often made it difficult for the supervisor to keep the volunteer staff working efficiently. Comprehensive Employment and Training Act volunteers were recruited to help pour the walkway when the supervisor felt that he did not have enough support from the cooperative members.

Property Drainage System

The most serious difficulty that arose was providing acceptable property drainage. The drainage problem surfaced during the escrow period, causing renegotiation of the sale and extension of the escrow period. There were both on-site and off-site deficiencies, some of which had existed for a long period of time. City policy implemented by the Department of Public Works calls for incrementally upgrading the city's drainage system as new subdivision projects take place. Resolving on-site drainage for Las Casitas came under this citywide policy. Off-site drainage problems occurred as a result of the drainage system built to resolve on-site problems.

During the escrow period, Public Works examined the site and reviewed plans for the project. The drainage remedy posed and approved by Public Works required the construction of a 100-year flood drain starting above the property line and continuing from the courtyard across the street and through another privately owned parcel into a 10-year flood drain. Drain construction necessitated demolition of a garage on the property across the street (for which compensation had to be provided in the form of additions to the house on that lot) and chain-link fencing had to be erected along the new concrete channel into which the drain emptied. When the drain was completed, complaints were made by property owners adjacent to the concrete channel. These complaints argued that the channel prevented adequate drainage from their properties. In agreement with the claimants, Public Works required the project to resolve this new drainage problem. CHC regarded this new problem as one for which the project engineer was responsible. Their recourse was limited by the need to complete the project, and to receive the Department of Real Estate approval. Their recourse was also seemingly limited by the lack of insurance held by the engineer to remedy design errors. A compromise was reached whereby the engineer provided drawings and specifications solving the neighbors' claims and CHC paid for the construction of a feeder line from the properties to the drainage channel.

The drain design was a separate work order that was independently bid from the other construction work to minimize the impact on the strained budget. CHC selected the engineer who had the least cost bid, rather than selecting on the basis of engineering competence. The engineer selected for this work, though inexpensive, made design choices that, due to CHC's and CDD's inexperience, caused problems which were not noted before the design was physically in place. CHC and CDD relied on city plan checks to uncover design deficiencies in each aspect of the project. To their dismay, the grantee and project administrators learned that plan checks will not uncover many important potential--or actual--flaws, including those associated with the drainage system. At a critical stage in project completion, CHC and CDD had to negotiate a compromise solution that met the project's budget constraints, the project schedule, and the financial capability of the engineering firm.

The drainage problem was not simply one of design and implementation. It had cost implications as well. As an unplanned item, the $100,000 needed for this aspect of the project represented about 10 percent of the final project cost. In order to meet the cost, the sales price of the courtyard was reduced by $40,000, and the city provided a Community Development Block Grant for the balance. There was a political cost to the project and the CHC in having to request additional funds. While the City Council supported the concept of this cooperative housing venture early in the project's history, there had been some dissension within the Council concerning CHC and its management ability. Having to seek additional funds put both CHC and CDD in the position of arguing that further public subsidy of the project was appropriate and, moreover, that even though this problem had been unexpected, the project was being well managed. Sufficient support for the project emerged from the City Council to approve the additional subsidy. Meanwhile, the drainage controversy heightened public awareness of the Las Casitas project and reinforced th need, upon completion, for community acceptance of the project's success.

Project Planning

The drainage issue exemplified another aspect of construction management—that of coordinating activities involving other agencies. Construction in Santa Barbara, as in most urban areas, is a highly regulated process. Permits and approvals must be obtained from several agencies in order to proceed from one stage to the next. In this case, state and local agencies were involved. Planning this process is an important aspect of construction management. Failure to do so may cause significant delays, as well as unplanned changes in the scope of work. CHC and CDD expectations about the procedures and requirements of city agencies were often incorrect. It was assumed, as noted above, that city plan checks would uncover design errors and thus provide a form of expert control for the project. Plan checks, however, did not do this. CHC considered hiring a professional construction manager, particularly as the extent of rehabilitation required was realized. However, the budget was insufficient to support this cost, especially with added costs for the on-site drainage. Thus, CHC did not hire a construction manager to provide a review of working drawings and manage the construction activity. For these very reasons, the entire drainage system involved a substantial amount of time and effort to negotiate with and satisfy the Public Works Department.

Multi-Level Management

In order to implement this project, requirements of several agencies of the Federal, state and city governments had to be coordinated. The CHC could not carry out its program independently of these bodies. Two primary levels of inter-agency coordination were necessary:

- Overall project management and support functions shared between CDD and CHC, and
- Fulfillment of regulatory requirements of agencies external to CDD.

The relationship between CHC and CDD is important precisely because it was supportive. As project grantee, CDD was responsible to HUD for the success of the project and, as such, had some supervisory functions. Instead of being viewed by CHC as a constraint to carrying out the cooperative experiment, CDD was seen as providing valuable assistance in critical phases of the project. The two organizations had a sound working relationship based on earlier involvements and on the fact that they shared the philosophical goals of this project. As more and more unplanned activity was required of both entities to complete the rehabilitation of the courtyard, it was the shared concern and commitment to the project that motivated the staff to "go the extra mile." When one key member of the CHC resigned, a CDD staffer filled in, spending many hours of his own time to do all that was required. The primary responsibility was CHC's to carry out this project, but the CDD assisted whenever necessary and without cost to the project.

The shared goals and mutual commitment that characterized the relationship between CHC and CDD were not apparent in the relationships that these two organizations had with other city or state agencies. The difficulty encountered with the Public Works Department is a poignant example of the lack of shared goals. Public Works was brought into the project only when it was absolutely necessary. Unfortunately, the missions and goals of CDD and Public Works have little relationship to one another. The need for a low-cost solution for developing housing was not a constraint or consideration for Public Works.

The management of inter-agency difficulties did not prevent the completion of a successful project. In fact, through perseverance and many "fire-fighting" actions, the goal of developing attractive, low-cost units was achieved. But more attention at the beginning of the project to coordinating activities with other agencies, and to bringing those agencies together as partners in the program, may have meant a smoother and more satisfying process for all concerned.

Development of a Limited-Equity Cooperative Housing Entity

The condition of limited equity in the housing cooperative is the means by which the cooperative will remain affordable to low- and moderate-income persons. As described above, under the limited equity arrangement, each member buys stock in the cooperative, the proceeds of which go for the building's purchase. The stock is the member's equity in the cooperative. The property appreciation, and thus the future equity for each member, is limited to a percentage increase over the amount of the original equity.

A 1979 California law provides a legal definition of a limited equity cooperative, specifies conditions under which such entities shall be formed, and allows for a maximum annual appreciation on equity of 10 percent. The equity can only be obtained through sale of the shares which occurs when a member ceases to be a resident of the cooperative (as in any homeowner sale). The articles of incorporation for the Las Casitas cooperative allow for no more than a 7 percent annual increase in equity, unless improvements have been made to the property. Costs for any harm to the property shall be estimated and reduce the member's equity. By ruling out large increases in appreciation accrued from either speculation or inflation, the housing is expected to remain affordable to low- and moderate-income persons.

Three major steps were necessary for the cooperative to become an operating entity. Living arrangements for individuals living in the courtyard at the time of purchase had to be made. A cooperative Board of Directors had to be established as a legal entity to sign loans obligating the cooperative members for repayment, and to take care of interim responsibilities. Member selection, sales of stock equity, and transfer of responsibilities to the members had to be effected. Additionally, the CHC planned ongoing property and tenant management assistance to the cooperative.

Relocation Arrangements for Existing Tenants

State and Federal laws both require compensation to individuals being displaced as part of a publicly subsidized redevelopment project. Compensation costs are sufficiently high that the grantee selected a building complex where it was believed no displacement would occur. One of the conditions of sale was that there be no tenants requiring relocation. During the escrow period, the city learned that the seller, a religious organization with members living on the courtyard premises, had changed its plans to move everyone to its new northern California location. The city also discovered that two families were not part of the organization.

Federal dislocation guidelines as applied to this particular project were not altogether clear. Since the tenants of the religious organization did not pay rent, were they to be regarded as "renters" under Federal law? Under an agreement arranged by HUD and CDD with the religious group, each of the existing tenants was asked to sign a letter agreeing to forego any benefits under Federal law. The seller also agreed to indemnify the city and CHC for any relocation claims made by its members. With one exception, all members did sign the letter.

The remaining two families were eligible for dislocation benefits. Under these benefits, each family had the following choices:

- First right of refusal for purchase of a cooperative unit as a condition of city law,
- Financial compensation under Federal law, or
- The right to continue in occupancy at the rent paid to the religious organization.

Because the existing rents were significantly below the amount estimated for debt service and property maintenance, this last option was highly undesirable from the perspective of the cooperative. The city agreed, as part of the Section 212 financing, to pay whatever out-of-pocket expenses were associated with the potential dislocation. One family chose not to join the cooperative; the second family did want to participate. The compromise that was agreed to satisfied both parties. The nonparticipant was paid for relocation. The city paid compensation, as required by Federal law (which was later reimbursed by the seller), in the amount of $4,000 to the second family for the period of renovation in which they could not stay in their unit;[6] the couple agreed to pay the down payment for purchase of their unit, and to pay the differential between the existing rent and the new rent under the cooperative. This solution caused no hardship to the family and left the project financially whole.

Establishment of Cooperative Board of Directors

An interim board of directors for the cooperative was needed to manage the development of by-laws, assume financial obligations for purchase and renovation of the property, and select members for the cooperative. The Community Housing Corporation took this responsibility, and directors of CHC incorporated as the board of directors for Las Casitas. This interim board will function until the members of the cooperative elect their own board. This election is planned for one month after the stock in the cooperative has been sold.

Member Selection and Cooperative Participation

Selection of members for the cooperative was the responsibility of a Membership Screening Committee that included CHC (3), the CDD (1), and the Santa Barbara Housing Authority (1). A representative of the Savings and Loan providing interim financing was to be a member of the committee, but was unable to do so. Therefore, the CHC asked another person from CDD to participate.

Criteria for cooperative membership eligibility were established. The committee was quite concerned that each selected household be able to accept and carry out the responsibilities of homeownership in a cooperative context. Acceptance of group decision making and financial responsibility were major factors in the review process. The committee intended to have the membership divided equally between low- and moderate-income families. Also, it wanted a racial mixture reflecting the city's racial composition.

Potential members were sought from those living in public housing and those on the Santa Barbara Housing Authority waiting lists, and through placement of an advertisement in the local newspaper for moderate-income persons. The Housing Authority sent letters to those on their waiting lists and those currently in public housing. Eight

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[6] The property seller was contractually obligated to provide a property free of tenants and indemnified the city against any costs for relocation of existing tenants.

Section 8 certificates (seven city, one county) were available to the cooperative.[7]

One hundred applications were received from Section 8 eligible families; 40 applications were received from moderate-income families. The majority of referrals from the Housing Authority were not people living in public housing or on the Authority's waiting list. Most had Section 8 certificates and were actively seeking housing. When the pre-screening of applicants occurred, it became apparent that these people were the most desperate. Yet, many were screened out at the start because they could not meet the legal, financial, or social conditions of cooperative living. Initial screening of the applicants disqualified others because they exceeded income limits set for the cooperative or because the family was too large for any of the units.

The next step in screening required all applicants passing the first screening to attend an information workshop and visit the bungalow courtyard. The workshop discussed all aspects of the planned cooperative and gave applicants an opportunity to raise questions about participation in it. After the workshops, some applicants indicated their continued interest in pursuing participation. Reasons for dropping out at this stage included concerns regarding finances, the limited equity provisions, and working within a cooperative group; in some cases, housing arrangements had already been found.

Approximately 60 applicants were interviewed by representatives of the Membership Selection Committee (MSC). Contrary to initial plans, applicants were not interviewed by all MSC members. As a matter of policy, the Housing Authority chose not to interview moderate-income applicants. The Authority believed its responsibility was limited to individuals qualifying for public housing assistance and that it, therefore, had no right to quality moderate-income people. The press of time was also a major factor in limiting the screening process. Based on the judgments of each two- or three-person team that interviewed each applicant, 35 people and their families were placed in a lottery to select the 12 tenants. (The thirteenth family was the tenant living on the property at the time of purchase.)

When the finalists were selected, the project's membership goals had been achieved. The membership was split almost evenly between low- and moderate-income families. The racial composition closely paralleled that in the city--38.5 percent minority population at Las Casitas and 27 percent minority in the city. Handicapped people were also included. Characteristics of all members selected from the lottery are shown in Table 2.

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[7] The count certificate was held by an applicant and was not specifically set aside for this project.

TABLE 2

LAS CASITAS DE VOLUNTARIO MEMBERSHIP

Unit No.	Unit Size	Family Size & Composition	Income Level	Ethnicity
1	3/2[1]	3 (2A/1C)[2]	moderate	white
2	2/1	1 A	moderate	white
3	3/1	4 (2A/2C)	moderate	white
4	2/1	3 (2A/1C)	moderate	hispanic
5 A	2/1	3 (1A/2C)	low	hispanic
5 B[3]	2/1	3 (1A/2C)	low	white
6 A[4]	1/1	2 (2A)	moderate	white
6 B	2/1	2 (1A/1C)	low	black
6 C	2/1	4 (1A/3C)	low	black
6 D	1/1	1 (1A)	low	white
7 A	1/1	2 (2A)	moderate	white
7 B[4]	2/1	3 (1A/2C)	low	hispanic
7 C	3/1	4 (2A/2C)	low	white

[1]First number is number of bedrooms; the second is the number of bathrooms.

[2]Figures in parentheses indicate number of adults (A) and children (C).

[3]Existing tenants; not selected by lottery.

[4]Handicapped family member.

As noted earlier, to participate in the cooperative, the selected tenants are obligated to purchase stock. The stock may be "marketed" only after the California Department of Real Estate (DRE) approves the subdivision conversion. This legislatively mandated process required of all cooperative developers has been developed to protect purchasers of property that is part of a subdivision, condominium, or cooperative. The DRE reviews all aspects of the development, including the legal structure and conditions of participation, financing, operations, and the share marketing process. When the development meets all DRE requirements, a report is issued that certifies compliance, thereby assuring consumers of adequate protection if they choose to buy into the cooperative. The DRE review and approval of an application for conversion normally takes from six months to one year. Shares cannot be sold without this approval.

Since the Department of Real Estate application has not yet been approved, stock purchase by the tenants selected for the cooperative has not been possible. Ongoing management remains with the CHC which will transfer all responsibility to the tenants when the shares have been sold and the members elect their own board of directors. Some concern has been raised concerning the ability of the tenants to manage the responsibilities they will inherit, particularly insofar as fiscal management, group decision making, and new tenant selection are concerned. One of the staff integrally involved with the project sees the transition period as the least well though out and most tentative of the entire project. However, for the past year the families residing at Las Casitas have operated an active steering committee that meets weekly to discuss and resolve project issues such as project maintenance and self-help project work. For about six to eight months, the CHC has led management training sessions using material CHC developed for the management of cooperative housing projects.[8] The CHC bookkeeper has also been training the Las Casitas treasurer and steering committee in accounting procedures required for financially managing the cooperative.

A management agreement between CHC and the cooperative for a six-month transitional period of training and assistance has been drafted. The six-month period would begin once the Department of Real Estate approval has been received and the cooperative memberships have been sold. It is anticipated that a second agreement between the two organizations will provide a further year of technical assistance. For this additional year of assistance, CHC would be paid from the Las Casitas operating budget.

LESSONS LEARNED

The key to replication of this well-executed, worthwhile project is in the future availability of public subsidies. This project relied on low-interest government loans for approximately 70 percent of its total construction and closing costs. The remaining 30 percent came from a loan from a commercial lender (approximately 23 percent) and from tenant rents and equity. With the diminution of Federal funds for housing programs, similar projects will have to be carried out with a combination of local and private funding. Approximately one-half of the HUD grant is expected to be available for a revolving fund to initiate similar projects. If less reliance on subsidized loans becomes necessary, conversion rentals will necessarily exclude low-income households.

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[8] A manual is being developed specifically for the Las Casitas project.

The sponsors of this project believe substantial untapped local financial resources exist for future cooperative conversions. In part, the revolving fund provides a modest financial base to initiate new projects. Additionally, other potential financial resources have been proposed which include redevelopment district tax increments, local union pension funds, municipal bonds and county retirement pension funds.

Should the money be available, other considerations for project replicability are in order. One of the attractive features of this project was its ability to accommodate the number of families that it did. Under present zoning restrictions, the density of the courtyard, given the land parcel's size, would be unacceptable for a new construction project. In fact, only seven new units would be permitted. Due to the low-density construction in Santa Barbara, finding other such sites seems quite possible. The opportunity for conversion, however, is not dependent upon the small scale of this building conversion. Larger, multi-family structures offer desirable prospects for conversion, too.

Organizations initiating cooperative projects for the first time can minimize problems by purchasing buildings requiring the least amount of reconstruction and tenant relocation. This project required extensive rehabilitation. Project sponsors believe that they would have been better off selecting a site needing less modification, especially given their experience in construction projects. Two buildings were considered for this project. The trade-off in Santa Barbara was between an inhabited, sounder building versus one which was uninhabited and more deteriorated.

The building originally considered for the cooperative was a new, occupied building. However, during the negotiations for the sale of this structure, citywide voting on a rent control ordinance was imminent. Financial projections that included the effects of rent control for this building indicating the effects of rent control for this building indicated that existing rents would be insufficient to cover the loan debt service and conversion costs. In addition, there was concern that tenants might oppose, and therefore delay, the conversion. Potentially undesirable, long delays and adverse political consequences resulting from tenant objections also were instrumental in CHC's decision to seek an alternative site. Moreover, an objective of this program was to minimize displacement of existing tenants. Gaining tenant cooperation and endorsement of the conversion require both sufficient time to educate the tenants and the consent of the building owner to approach tenants and the consent of the building owner to approach tenants prior to the consummation of the sale. It seemed unlikely that the owner would grant his consent. The many obstacles to successful use of this newer building caused the selection of the less-sound and less-occupied Las Casitas de Voluntario.

When the drainage issue first arose, it was in a conflict situation. Public Works required an expensive solution based on city policy that was developed independently of the needs of this particular project. Substantial extra costs for the drainage system raised political controversy. Greater experience with the Public Works Department might have helped in alleviating some of the problems CHC encountered. Alternatively, as part of a pre-planning effort, Public Works could have been identified as an involved agency and been brought into the process at an earlier stage. At the very least, this would have given more time to resolve whatever differences existed between the agencies, and potentially could have made Public Works a partner in the housing solution at which this grant was aimed.

Early communications with the city departments about the extent of plan check reviews might have alerted CHC and CDD much earlier about the need for better evaluation of architectural and engineering proposals by a construction expert. Because CHC and CDD lacked an understanding of the review process, the extent to which the plan check did not fulfill either of their expectations did not surface until the impacts of construction choices were physically evident.

Several project participants indicated that the construction process suffered from four problems--lack of previous experience, the ambitious nature of the renovation, insufficient pre-planning, and an inadequate budget. Upon reflection, project managers say they would not recommend doing such an extensive renovation project as a first experience; but having run the gauntlet successfully, they are prepared to start another project when one is identified.

One of the pressures felt by this project was the necessity of renting the units as quickly as possible. Quick rental was necessary because there had to be income to cover the debt service on the interim financing; the very tight budget prepared to meet interim financing needs depended on no more than a 2 percent vacancy factor. Project sponsors cite weather conditions as causing delays in the rehabilitation, making occupancy dates uncertain. This uncertainty caused budgetary stress as well as personal difficulty for tenants needing to give notice at their former residence. It would be highly desirable to have an operating budget that allowed for greater flexibility. Tenants who would be interested in joining the cooperative, but were prevented for short periods of time from doing so, could be accommodated. In this project, membership selection was rushed to ensure the availability of rental revenue for the debt service and other operating costs. In future projects, it would be advantageous to remove this pressure.

Depending on the way in which the total costs for the project are calculated, each unit cost between $67,400 and $79,823 mostly from public funds to buy and rehabilitate.[9] Compared to the current average sales price of Santa Barbara homes, which is $158,000, even the higher figure is only one-half of that amount. Estimates for new subsidized construction in this community for low- and moderate-income households are about $10,000 to $20,000 higher than the largest per unit cost for Las Casitas. Thus, for Santa Barbara the project costs can be regarded as very reasonable construction expenditures. Communities with similar housing problems and construction costs should find this approach of interest.

The success of the cooperative is still to be determined. The Santa Barbara experience suggests that there are many people willing to commit themselves to such arrangements as a means to home ownership or stabilization of rental costs. But the viability of this approach, particularly with people inexperienced in assuming the degree of responsibility required within a cooperative, needs to be examined when there is greater operating experience. The evidence at this early date is that tenant members have developed an individual and collective pride in the courtyard. An attractive structure has been developed that obviously enhances the neighborhood. By working together on the self-help projects, a sense of community has also emerged that includes a defined organizational arrangement, interdependence, and responsibility to a group rather than only to one's own self and family.

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[9] Construction and closing costs divided by 13 = $67,400, exclusive of the off-site drain costs; the upper figure includes construction, closing, drainage, administration, and training costs divided by 13. Neither figure reflects the revolving fund of $175,500 used for interim purchase financing, equity loans to members, and construction costs.

SEATTLE, ATLAS HOTEL REHABILITATION FOR LOW-INCOME HOUSING

SEATTLE, ATLAS HOTEL REHABILITATION FOR LOW-INCOME HOUSING

SUMMARY

The City of Seattle's downtown housing has been diminishing as the commercial area has undergone redevelopment. Much of the housing that remains consists of uninhabitable and, therefore, unavailable hotel rooms. Due to city health and safety codes, these turn-of-the-century hotels have been closed to residential use. As housing has dwindled, the age structure of the remaining downtown population has changed. The younger residents found alternative accommodations, leaving a predominantly elderly, poor male population.

Aware of and concerned over the displacement occurring in the downtown area, Seattle officials sought a means for expanding low-income housing within the area. One of the most likely sources for this expansion is renovation of the existing, but closed hotels in the city center for single room occupancy apartments. To demonstrate the public/private venture to rehabilitate the Atlas Hotel. Located in the International District of downtown Seattle, the Atlas Hotel is a 1920s commercial and residential building in which the two residential floors, one office floor and parts of a commercial floor had been closed. Federal and city funds have been provided as a loan to a private party with lenient repayment terms; the hotel will remain under private ownership.

There are two major limitations on the owners' exercise of their rights to the building. The residential portion of the building must be rented to low-income individuals meeting the U.S. Department of Housing and Urban Development's (HUD) Section 8 income criteria; and, if the building ceases to be rented to lower income tenants, all public funds must be repaid immediately.

This project is an opportunity for the city to test a rehabilitation approach that is expected to cost 30 percent less than other rehabilitation programs, as well as being well below new construction costs. Approximately 50 turn-of-the-century closed hotels still standing in Seattle's downtown could be rehabilitated. This project is a model that offers a strong potential for easing Seattle's downtown housing crisis without incurring additional costs of annual public subsidies.

The City's Department of Community Development (DCD) has used a sound construction management approach in the formation of the project. Industry-accepted estimating procedures have been used, permit authorities reviewed the preliminary plans, the the Department has relied on people with long experience in the construction of low-income housing.

Management of the residential operations will be the responsibility of a residential manager representing the hotel owners. The manager will

handle all tenant management issues, including rental of the residential and commercial spaces, complaints, and rent collection.

Substantial delays have hindered the progress of the Atlas Hotel project. Funding was slow in coming. General economic conditions increased the proposed costs. The negotiation process was difficult because the owners wanted to renegotiate their position as construction costs escalated. Two alternate financing schemes had to be developed. Construction activity actually began at the end of 1982, far behind the original schedule, and is expected to take about seven months. Other projects attempting to merge public social goals with private economic objectives may face similarly difficult negotiations and delays.

BACKGROUND

By the close of the 1970s, Seattle's downtown hotel and apartment housing had been substantially reduced. Demolition of older buildings and closings for safety and energy code violations in that 10-year period created a 50 percent loss--31,000 units--in the total stock of downtown housing. Buildings closed for code violations were ineligible for Federal rehabilitation programs because the rooms did not conform to Federal size standards. Many of the closed hotels were demolished. New high-rise commercial buildings are replacing most of these hotels, further reducing the availability of downtown housing.

With the loss of housing came a gradual but large-scale displacement of residents. Those displaced often were ineligible for subsidized housing programs such as the HUD Section 8 rental subsidy program for low- and moderate-income households. In one city-sponsored study, more than 13,000 one-person, non-elderly households, mostly in Seattle's downtown, were identified as needing assistance. This represented about one-third of all low-income individuals in Seattle who needed aid. Single, elderly people were also among the displaced. Due to the lengthy waiting period for subsidized housing, these individuals were also unable to obtain assistance in resolving their housing problem. Many of the non-elderly displaced managed to find accommodations elsewhere. But as they did, the concentration of elderly, low-income, permanent residents in the downtown area grew.

The problem of low-income displacement is one of great importance to the city government. At least five studies were commissioned between 1968 and 1973 to examine various aspects of the displacement issue. In 1979, the city adopted a Housing Assistance Plan with a new emphasis. A major part of this plan was a commitment to rehabilitation of multi-family housing in the downtown area.

Seattle's commitment to improving housing for its low-income residents is demonstrated by its large commitment of funds and the diversity of projects initiated in the 1970s. The city was a part of the HUD National Demonstration Section 312 Multi-family Rehabilitation program; it has undertaken two Neighborhood Strategy Area programs, one of which focused on the International District; $70,000 of local Community Development Block Grant funds were provided for development costs of downtown rehabilitation projects; $150,000 from the Block Grant program has been spent on upgrading an occupied single room occupancy hotel; $36 million has been spent on low-income housing projects; $30,000 has been allocated for displacement counseling. The extensive experience resulting from the projects has engendered in the Department of Community Development (DCD) a profound appreciation of the constraints on and opportunities for providing low-income housing.

One of the most serious constraints in developing low-income housing is the extremely high cost of new multi-family construction. Recognizing how formidable a barrier new construction costs posed, the City began looking for opportunities to rehabilitate existing structures. There appeared to be a significant opportunity to increase housing availability by using the rapidly diminishing hotels built in the early 1900s. A 1973 University of Washington study of downtown hotels identified 230 hotels operating in 1960. But as of 1973, 125 hotels had been closed, resulting in the loss of 9,200 units. Today only 50 of the 230 hotels identified in 1960 remain standing.

The Atlas Hotel rehabilitation project is designed to:

- develop low-income housing that requires no ongoing Federal or local subsidies,

- demonstrate the economies achieved in rehabilitating the many structurally sound hotels in Seattle,

- more quickly replace lost housing units that is being done under new construction programs,

- test a joint public/private housing development concept in which the rehabilitated housing units will remain in private ownership.

PROJECT DESCRIPTION

The Atlas Hotel project involves three organizations--the Department of Community Development's Housing Development Division (the Housing Division), the Department of Housing and Urban Development (HUD), and the Mar Wong Trust. Their respective functions are shown in Figure 1.

This hotel rehabilitation project includes four major activities:

- location of a structurally sound hotel in the downtown area;

- establishment of a financing vehicle;
- development of a construction management scheme; and
- identification and resolution of ongoing management issues (such as tenant selection and building maintenance.

FIGURE 1

ATLAS HOTEL REHABILITATION PARTICIPANTS

Housing and Urban Development	Housing Development Division	Mar Wong Trust (Owners)
• Provide $325,000 Section 312 Loan at 11%	• Provide $897,000 in zero interest loans	• Provide hotels as equity participation
	• Manage construction	• Receive income
	• Develop low-cost	• Manage rental
	• Provide additional CDBG funds	

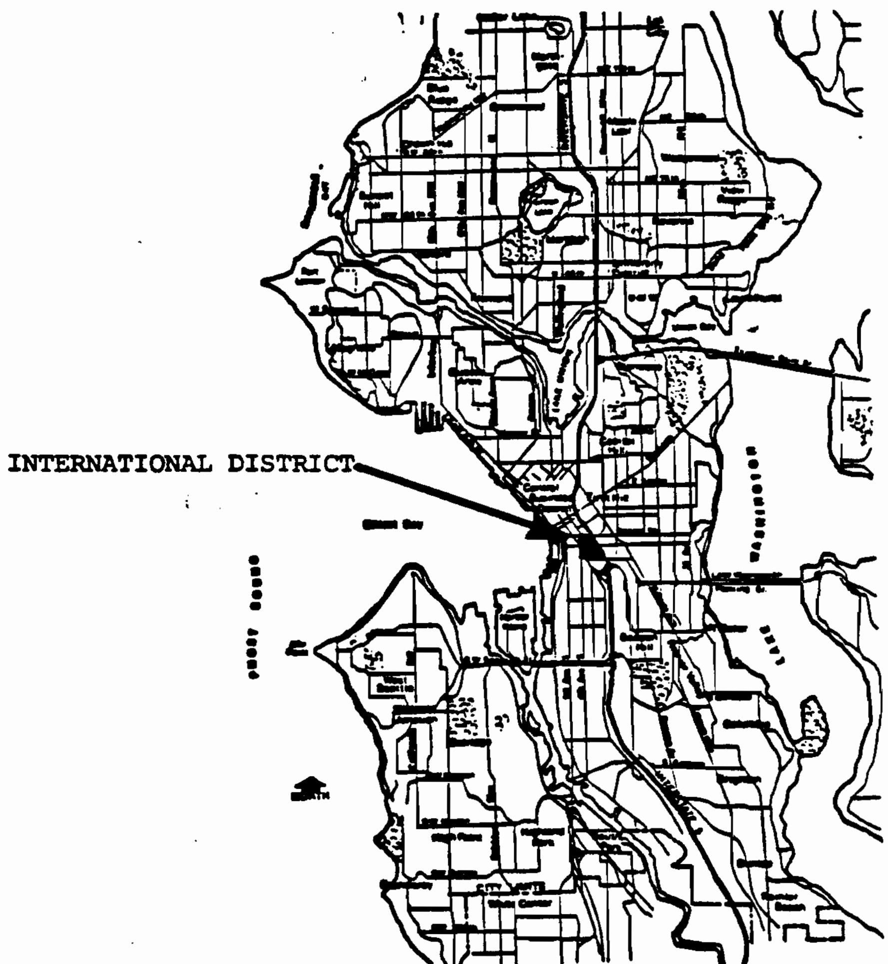
Selecting a Hotel

Among the criteria established for selecting a building was that it be structurally sound. A good basic structure would reduce the cost of rehabilitation, resulting in a lower subsidy and/or a lower rental structure.

The building selected for rehabilitation is located in an area of the central business district (CBD) known as the International District, which is the economic and social center of Seattle's Asian community. (See Figure 2.) The residents are primarily Chinese, Japanese, and Filipino, many recently arrived in the United States; others are third-generation Seattle residents. In 1979, the district had almost 1,400 residents, of whom 92 percent were one-person households. Almost one-half of these residents are over 65; about one-half of them have a mean annual income of less than $3,000.

FIGURE 2

LOCATION OF THE INTERNATIONAL DISTRICT IN SEATTLE'S CBD



the Mar Wong Trust owes the city and HUD an annual payment of approximately $40,000 each. As an added incentive for conscientious repayment of the city loans, the city will forgive $72,000 of the loan if the hotel owners maintain their payment schedule.

Figure 3 presents the current budget schedule. Project managers that repayment on the Innovative Grant and Block Grant loans will be used in a revolving fund for new rehabilitation projects for low-income tenants. In the event that the owners sell the Atlas Hotel, all public funds are to be repaid promptly.

FIGURE 3

ATLAS HOTEL REHABILITATION
PROJECT COST ACCOUNTING

A.	Development and Construction Costs	
1.0	Title Insurance, Recording	$ 2,600
1.1	Appraiser	1,925
2.0	Interim Interest SHA Loan	4,500
3.0	Taxes and Insurance	4,500
4.0	Building Contract (Residential)	941,130
4.1	State Tax on Contract (6.4%)	61,173
5.0	Architectural Fee (Residential)	60,000
6.0	Electrical Vault	12,000
7.0	Electrical and Windows	70,000
8.0	Contingency/Reserves	50,000
9.0	Miscellaneous	12,500
	Total Construction Cost	$1,221,328
B.	Administrative Costs	
1.0	Overhead and Salaries	$ 49,000
2.0	Project Evaluation	10,000
3.0	Relocation Reserve	2,000
	Total Administration	$ 61,000
	Total Project Cost	$1,282,328
C.	Financing	
1.0	Community Development Block Grant	$ 319,000
2.0	Innovative Grant	639,000
4.0	SHA Sec. 312 (11%, 20 years)	325,000
	TOTAL PROJECT FINANCING	$1,283,000

Establishing a Construction Management Approach

There are several separate but closely related elements in construction activity. Among the most critical of these are:

- establishing a budget from which to judge bids for construction work;
- obtaining the appropriate permits in a timely and cost-effective manner; and
- managing the construction work while it is in progress.

The Housing Development Division of the City's Department of Community Development recognized that the first major step in controlling project costs was developing a detailed pro forma based on actual prices before putting the project out to bid. This process was accomplished first by having the Housing Division's staff architect and finance manager prepare a statement of development requirements and costs. These were then given to an independent architect who prepared concept drawings and estimated construction costs. A construction firm donated its services to verify the architect's estimates. Both the independent architect and the construction form have had substantial experience with construction of HUD Section 8 projects.

A second preliminary step in construction management is a review of project plans with each of the relevant permitting authorities. This review allows the agencies to comment on the plans and to alert project sponsors to any difficulties that must be faced before granting approval of a permit. The agencies of importance to the Atlas Hotel project are the Department of Construction and Land Use, the Fire Department, and the municipal electric utility--Seattle City Light. While the approval of construction and occupancy permits cannot be granted with preliminary plans, this review is an instrumental step in smoothing the permit process. Review can also save a project money by avoiding costly delays and possible major changes in working drawings.

According to the city building codes, the Atlas Hotel had deficient ventilation and electrical wiring; defective and unsanitary plumbing; improperly installed gas appliances; and inadequate exits. In order to keep costs (and thus rents) down, the Housing Division wanted flexibility in meeting some aspects of the city's codes, especially for lighting, sprinkler systems, and energy conservation. Some compromises were achieved with the city specifications, but the utility responsible for enforcing energy conservation codes insisted that no modification in these standards be allowed.

The Atlas Hotel is one of many hotels in the International District closed as the result of the enforcement of strict fire safety regulations specified in the Ozark Ordinance which was enacted after several hotel fires in the 1960s. (The Ozark Hotel was a victim of one of these fires.) The Atlas was built in 1921 by Mar Shue, grandfather of the present owners. It has three stories, plus a basement, is built of masonry and faced with brick. The hotel's upper two stories contain 88 hotel rooms; the lower two floors consist of retail spaces. Today, the upper two floors are vacant; the commercial spaces on the ground floor are occupied. The building is owned free and clear of any mortgage lien and is one of the four or five largest buildings in the District.

The rehabilitation of the Atlas will result in 46 rental units--28 single rooms, 4 studios, and 14 one-bedroom apartments. Rents will range from $125 to $250 per month. Rents have been set to permit low-income individuals--that is, those with incomes 80 percent or less of the area median income--to find clean, decent, and safe housing.[1] Comparable Fair Market Rents, as established by HUD for its Section 8 program, would be $383 for a studio and $455 for a one-bedroom apartment.[2] The Atlas Hotel rents are set at levels expected to be sufficient to repay the loans from HUD and the city.

The Atlas Hotel also met the criterion of finding an owner interested in working with the city while maintaining his private entrepreneurial interest in the rehabilitated structure. In 1980, the Mar Wong Trust (owners of the hotel) entered into a rehabilitation loan agreement with the City of Seattle. This agreement stipulated that in exchange for city-funded rehabilitation of the upper two floors of the hotel, the owners agreed to maintain the residential units for low-income individuals and to develop a management plan acceptable to the city. In addition, the agreement included a 20-year deferral of the loan repayments predicated on the rental units remaining available for low-income renters.

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[1] The 1982 annual median income for one-person households in Seattle is $21,813. Very low income is $10,906, or less.

[2] Fair market rent is the rent ceiling set for subsidized Section 8 units of specified size within an SMSA or non-metropolitan county group.

Establishing a Financing Vehicle

The project concept, as developed in 1979, had a relatively straightforward financing scheme. The costs were estimated at $889,000: $747,102 for rehabilitation; $78,000 for development; and $64,000 for relocation, project evaluation, and administration. The rehabilitation costs were to be financed in three ways: a first mortgage loan from SHA's Neighborhood Housing Rehabilitation Program ($250,000); a loan from the City using Federal Innovative Grant program funds ($575,000); and a grant from the City's Community Development Block Grant fund ($150,000). The Innovative Grant and SHA loans used for construction were scheduled to be repaid over 30 years at 0 percent and 7 percent, respectively.

This financing approach has had to be revised. Since the project was conceived, interest rates have risen dramatically, and the hotel owners' return on the project became smaller than had been anticipated. Construction costs rose, increasing the amount of money needed to complete the rehabilitation. The owners, dissatisfied with the smaller return, did not want to proceed. To overcome these many difficulties, the city decided to seek a housing syndicate that would invest their own funds in the project, still maintain low rents, and develop a more attractive package for the owners and the city. An invitation for participation was extended to five syndicates and from their proposals a respondent was selected.

The financing package prepared by the selected syndicate was presented to potential investors for approximately five months. When no investor evidenced interest in the project, the syndicate withdrew and the City was once again faced with developing a workable financing scheme. The lack of investor interest has been attributed to the lease provisions between the Mar Wong Trust and the syndicate. Under the provisions of the lease, the investors could not derive a profit from the potential appreciation of the building. Their only economic benefit would have been as a tax shelter.

The new 1982 financing arrangement involves a greater public subsidy into the project and establishes a more attractive package for the owners by deferring and reducing their debt obligation. The city has increased its funding from the CDBG program to $258,000; a HUD Section 312 loan replaced the SHA loan in the reduced amount of $325,000 and dropped the interest rate by one percentage point; the administrative and relocation costs are being fully absorbed by the city, adding $65,000 of Innovative Grant funds to the rehabilitation monies. The net result is an increase of $63,000 in loan funds available to the project and a reduction in interest payments eventually due HUD.

Neither the city's CDBG loan nor the Innovative Grant funds require interest payments. The principal repayments for two of the three loans are deferred for 20 years. From the twenty-first year forward,

Establishing a Management Plan

Before the housing units can be rented, a management scheme must be developed for handling tenant selection, collection of rents, building maintenance, and tenant complaints. While the city is participating financially in the development of the housing units, its goal is to keep the units in private ownership and control. Thus it did not want the responsibility of tenant management. Instead, the Housing Division has stipulated in its agreement with the owners that a management plan must be drawn up that meets conditions established by the City's Department of Community Development and will be implemented by an agent of the owner.

The City has worked closely with the owners to develop a practical and acceptable management plan. As the discussions proceeded, an initial decision was made to hire an outside organization to carry out the building management requirements. The Seattle Chinatown-International District Preservation and Development Authority, a local nonprofit service organization active in the implementation of the Neighborhood Strategy Area Program to fulfill the building manager function. Using a professional management organization with strong ties in the community was regarded as a strong benefit for the project. Although the Development Authority initially agreed to participate, it subsequently withdrew the offer. The City has required the hotel owners to locate another resident manager. A nonprofit group, the International District Housing Alliance, will provide tenant marketing services.

Tenant selection criteria have been adopted. Prospective tenants will have to meet Section 8 income criteria although Section 8 certificates will not be available for the hotel. One of the objectives to the management plan is to retain 40 percent of the available units for those having very low incomes. Many details are still to be worked out such as how to verify annual income, what to do if incomes exceed Section 8 limits, and what should be done with the repayments from the Innovative Grant Loan. The City expects that all questions will be resolved before the completion of the construction work.

LESSONS LEARNED

This project is almost two years behind schedule due to the lengthy negotiations with the owners and the syndicate. The City has acted responsibly by not overreacting to concerns that were raised, by persistently seeking prudent, cost-conscious solutions to the problems that have arisen, and by keeping its original objectives and goals in sight.

The economic framework and organizational relationships between the several entities involved with the Atlas Hotel project have evolved since the project's inception. The original concept involved only the City and the owners. Negotiation between these entities started with the City's decision to help fund a rehabilitation project for low-income individuals that would remain in private hands. As the Federal funding for the project was delayed, the financial structure of the project changed, and with it the interest of the owners in maintaining their participation. At one point, a second appraisal of the building obtained by the owners showed a value on the building far in excess of the appraisal made for the City. This in itself was sufficient cause for the owners to rethink their position: perhaps they would sell the building and not involve themselves with the project at all.

The City was anxious to complete the project. Its staff had spent much time and effort to forge a project acceptable to all sides and to develop low-income housing. When negotiations with the owners had reached the lowest ebb, some consideration was given to locating another hotel for the project. Fortunately, the City continued to aggressively pursue a solution and its persistence has finally forged a financial arrangement acceptable to all parties.

Effecting joint ventures between public and private groups is perhaps more problematic than effecting those projects implemented by either party alone. The difficulty may lie in trying to marry public purposes with private economic interest. In this light, a comparison of the benefits and costs to the public and private partners in this project may be useful in establishing a basis for evaluating the attractiveness of similar projects elsewhere.

The private owner gains three major benefits from this project:

- Monthly rents from the residential units that had not provided any economic return for almost 60 years (annual average net return is estimated at $2,000 per unit);
- No interest payments for the lifetimes of two loans and a 20-year deferred, below (present) market interest on a third loan; and
- Substantial improvement to the owner's property.

The costs to the owner include repayment of the loans 20 years in the future and the different in rents the owner might obtain if rehabilitation were to be accomplished without restriction to low-income tenancy of the units.

The City faces a different set of costs and benefits. To achieve its housing objectives several alternatives are theoretically available involving various degrees of risk. Each must be weighted against the others to determine that solution providing the least cost with an acceptable risk. Low-income could be built by the City perhaps at a higher initial direct cost but with a lower risk of the project failing to achieve completion due to greater project control. Other indirect means such as lease or purchase of existing structures could also be sought. The Atlas Hotel arrangement provides three primary benefits to the city:

- a stock of low-income housing,
- units made available more quickly than through new construction, and
- a test of a housing development scheme for which additional buildings are readily available if the project meets its objectives.

The costs to the City include the lost opportunity to use public funds for other projects that might better achieve its objectives or prove more remunerative, the possibility that the owners will not be able to repay the debt obligation as scheduled, or that they will choose to sell their investment to a party who elects not to maintain the building as low-income rental units. (In the latter case, the City would be repaid its funds under the terms of the loan but would lose the rental housing stock and might face difficulty in reinvesting the returned capital into another housing project.) In evaluating the financial attractiveness of a project, the benefit and costs to both the public and private parties need to be examined.

As the project progresses, there will be several facets worthy of attention. The construction management process--including timeliness, work quality, and budget control--will have significant implications for the project's return on investment. In an era when reliance on private sector involvement in low-income projects is increasingly vital, the Atlas experiment becomes even more significant. The nature of the cooperation between each of the involved entities is likely to govern future decisions over joint venture projects of this type.

SEATTLE, YESLER TERRACE AGRICULTURAL GARDEN --

Allen Morris Hillside Garden Park

SEATTLE, YESLER TERRACE AGRICULTURAL GARDEN

Allen Morris Hillside Garden Park

SUMMARY

In the late 1970s residents of Yesler Terrace, a public housing community in Seattle, Washington, was experiencing multiple economic problems. Because of rising foods costs, residents were having increasing difficulty meeting their nutritional needs. The unskilled youth in the community were ill-prepared to find employment. The appearance of Yesler Terrace grounds also concerned residents, in particular, an undeveloped parcel owned by the City's public housing agency at the edge of the Yesler Terrace property. Members of organizations concerned about the nutritional and employment problems of low income people saw the unused, unattractive land as one opportunity to address several problems facing the community.

In 1980 the Seattle Department of Community Development initiated a $250,000 urban agricultural demonstration project designed to meet both nutritional and training needs of the community by utilizing the previously undeveloped land. A nonprofit social services agency, Neighborhood House, was designated to manage this three-year activity known as the Allen Morris Hillside Garden Park. The garden project today consists of two elements:

- A commercial greenhouse to produce bedding plants, vegetable and flower starts, and

- Individual plots to be rented to residents for growing vegetables.

As a potential added benefit, individual resident growers could market excess produce to provide some income.

The 2000 square foot greenhouse was proposed to provide training opportunity for Yesler Terrace youth and, through sale of its produce to an on-site cooperative, to keep food costs down for residents. Neither of these aims for the greenhouse is now expected to be achieved within the period of the Innovative Grant.

Instead, the business plan more recently developed for the green house specified growing plant starts for commercial sale to other public housing organizations and off-site cooperatives. The greenhouse manager is expected to spend about one-fourth of his or her time assisting residents working on the garden site. Additionally, about 20 percent of the greenhouse will be designated for the residents' use. The role of the greenhouse seems to have changed from that of a substantial community support vehicle to a commercial enterprise with limited direct support for the Yesler Terrace community.

The outlook for the tenant gardening aspect of the project is far more certain than that for the greenhouse. The ongoing success of an adjacent community garden in attracting garden tenants suggest that the Allen Morris Hillside Garden Park will have its complement of resident growers. Within one month of becoming available, the garden plots were fully rented. Moreover, there are virtually no economic constraints, such as the need to hire an experienced manager or find market outlets for the tenant garden plots. Whether or not the green house itself is successful, the gardening plots can continue. Additionally, if resident interest in the garden park is maintained, the goal of aesthetic improvement will be achieved.

BACKGROUND

Origins of the Agricultural Garden Project

In 1978 urban agriculture became a strong political concern of the Seattle government when a new Community Development Department director was appointed. Under this director's auspices, 10 urban agricultural projects were established. In separate efforts, Block Grant money was used to develop a Bulk Commodity Exchange intended to remove middleman costs in food purchases and to start produce markets that operated much like food cooperatives, but also trained volunteers to run a weekly market. The Federal Community Services Agency, ACTION also sponsored gardening projects, a school breakfast program, farmer's markets, and two greenhouse projects for low income people.

In the spring of 1979, the Seattle Department of Community Development (DCD) initiated its own research for suitable projects that would assist low income people to reduce food costs and still maintain a healthy diet. Many of the programs outlined above are a direct result of this effort.

Despite the proliferation of agricultural programs to meet nutritional needs of the urban community, public housing residents were not participating in the City-sponsored programs. Many barriers to their participation were thought to exist, of which transportation to and from gardening sites was paramount.

In the late 1970s the staff of Neighborhood House, a private nonprofit organization that provides social services to residents of Seattle's low income "garden communities," was seeking possible urban agricultural projects to assist low income people in their food and nutritional needs. Two separate concepts originally proposed for the City's Block Grant program became the basis for the Innovative Grant demonstration project at Yesler Terrace. One idea was to improve the appearance of an unsightly hillside at Yesler Terrace; the other was to build a greenhouse at another public housing complex.

PROJECT DESCRIPTION

Yesler Terrace, located adjacent to downtown Seattle, is a 470-unit public housing community built just before World War II. The population of this approximately 1000-member community is 50 percent Black, 25 percent Asian, and 25 percent White; 85 percent of the residents have incomes that are less than 50 percent of the median area income. The facilities and grounds of Yesler Terrace are managed by the Seattle Housing Authority.

In the fall of 1980, the DCD initiated the agricultural park project at Yesler Terrace. The project, named the Allen Morris Hillside Garden Park,[1] is designed to include a commercial (profit-oriented) solar greenhouse with an associated skills training program, and approximately 40 individual, for-fee, open-air garden plots to be cultivated by residents of Yesler Terrace for personal food production. The project concept, joining economic and community development goals, is the result of a cooperative effort between the residents of Yesler Terrace, the DCD, and Neighborhood House.

The economic development component of this project involves the use of the greenhouse to grow plants for commercial sale and to train Yesler Terrace youth in greenhouse horticulture. A manager trained in horticulture and capable of carrying out the training will be hired for the facility. This person will also work with those renting gardening plots adjacent to the greenhouse.

The hillside designated for the Innovative Grant project is on the edge of the Yesler Terrace property overlooking a major freeway. It was an undeveloped, steep parcel owned by the Seattle Housing Authority (SHA) on which a massive thicket of blackberry brambles grew, giving a protected home to a large rodent population. Residents of Yesler Terrace, through their Community Council, had often discussed the possibility of making the hillside more attractive by developing it into a park. However, the residents were unsuccessful in obtaining the money necessary to improve the site. An alternative to park use was suggested by an urban agricultural project successfully developed on a nearby site by another community group.

When similar use of the Yesler Terrace site was proposed by various groups, many residents favored the concept. Those who became active in supporting the project saw an opportunity to meet some of their own food needs, while improving the hillside's appearance. Other residents took a more skeptical view. Some thought the area should be developed as a park. Still others, disenchanted by the lack of financing for past proposals, held out little hope for the new project

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[1] The name of the agricultural park, dedicated in August 1982, is a tribute to a resident who was a keen supporter of this project and who died before its completion.

concept. Yet, a core of interested people remained actively involved. An advisory committee, called the Agricultural Garden Committee, grew from this core support group.

IMPLEMENTATION

The implementation of the Yesler Terrace project requires three related activities:

- Project coordination by a single entity,
- Negotiation and communication with Yesler terrace residents and management and with governmental organizations, and
- Contractual relationships with commercial and volunteer organizations for design, construction, and maintenance.

ACTIVITIES OF NEIGHBORHOOD HOUSE

Neighborhood House has the responsibility for project management. The DCD, as grantee, is maintaining an active interest and participation in the project -- assisting in interagency discussions with the Seattle Housing Authority, HUD, and City permitting agencies. Neighborhood House, on the other hand, provides the staff necessary to select and manage the commercial operation of the greenhouse. It is also responsible for selection of tenants for the individual garden plots.

A central responsibility of Neighborhood House is developing and maintaining a commitment to the project by Yesler Terrace residents. As noted earlier, residents have long been concerned with improving the project site. The solutions put forward over many years by the residents have been typically low-maintenance green space. This project, however, calls for active participation by residents to meet part of their food needs at a low dollar cost but with a moderately high investment of personal time.[2] The project also includes property that must be secured against vandalism and theft, and a productive facility that requires at least one salaried individual. Thus, to be

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2 The first year's rental fee, which includes use of a tool and seed bank, was waived. In succeeding years, Yesler Terrace or other low income public housing tenants can rent small plots for $5, larger plots for $10.

successful, the project requires continuing promotion and a commitment by the residents to the agricultural garden park.

Neighborhood House is also responsible for liaison with SHA, the City's public housing agency. As property manager for the facilities and grounds of Yesler Terrace, the SHA's senior management must approve any project conceived for properties under its administration. Historically, SHA has prohibited vegetable gardening in the public housing garden communities. In contrast, SHA has supported this demonstration project from the beginning. It has provided the land at no cost to the project and has not charged for water and electricity costs.

A final phase of activity for Neighborhood House in this project is establishment of an operating plan for the greenhouse. In the third year of the project, Neighborhood House is conducting a research program that will define the products that can be best cultivated in the greenhouse. Those with the most profitable marketing opportunities will be selected. Early assumptions about the operation of the greenhouse proved inaccurate. In part, this was due to the limited information available on commercial greenhouses heated only by solar energy. Project managers decided to use the third year of the project for research once it became clear that the sponsors had insufficient information and funds to operate the greenhouse as a productive facility on the planned schedule.

Use of Volunteer and Contract Labor

A vital aspect of Neighborhood House's activities is the management of contract and volunteer labor. Contracts with private organizations were used to complete site analysis, design, and construction activities. In addition, the project plans included volunteer labor for clearing the site, plus contributions of services for self-help training, construction management and greenhouse construction. (Contract labor created the foundation and laid water, sewer and electric lines. Volunteer labor was used to construct the greenhouse shell and interior.)

Because the project funds are disbursed by the City, contractor selection procedures must conform to the City practices established in accordance with Federal requirements. Minority-owned and women-owned firms must be selected for a minimum, fixed percentage of the total contractual obligations of the project, 15 percent and 3 percent respectively. Selections made for this project include contracts with a certified minority-owned business (69 percent of construction budget) and with a certified woman-owned business for grounds maintenance (6 percent of budget).

Contributions of voluntary labor are also important components of this project. The original proposal included a contribution by the U.S. Naval Construction Force, the SeaBees, to perform the grading of the hillside.[3] Other volunteer labor was promising to complete the internal construction of the greenhouse including the growing beds.

As the time for the grading approached, the SeaBees withdrew their offer of assistance. For reasons that are not clear to the project directors, senior staff of the SeaBees decided to provide their services to another project. As a result of the SeaBees withdrawal, approximately $12,000 budgeted to staff salaries was added to the general contractor's contract to pay for grading.

The importance of participation by Yesler Terrace residents in this project has never been underestimated by Neighborhood House and DCD. To go forward the project has needed resident support, which Neighborhood staff has diligently sought. Participation was achieved through the activities of the Garden Association, Neighborhood House involvement in Community Council meetings, volunteer recruiting for green house construction (walls and interior), and greenhouse planting.

The primary vehicle for eliciting participation has been the volunteer Garden Association comprised of community residents. The Association has been actively involved in all planning activities associated with the Garden Park and as an advisory committee for selecting supplies, bedding plant production, and maintenance of the park. A major responsibility of the committee has been to develop policies for the selection of garden tenants and garden management. The formally adopted policies include tenant eligibility, plot designation, fees, and use of pesticides. In addition to the development of these policies, the Garden Committee has also been influential in changing materials standards for the green house. The committee is expected to eventually take over full responsibility for the garden management.

A small group of Yesler Terrace residents has helped Neighborhood House to keep the garden project alive since its inception almost four years ago. Overall support by the majority of the community's residents, tempered by a passive wait-and-see attitude born of earlier disappointments, has surfaced only when tangible evidence of progress has been demonstrated. Contractor imposed delays cost the project almost a full year while grading of the park, pouring of the greenhouse foundation, and installation of the water and sewer systems occurred in fits and starts. Meanwhile, volunteers recruited to assist in completing the greenhouse or to provide on-the-job supervision of the contractor had to be repeatedly put off as the sponsors struggled to get the contractor to complete his work. Visible progress occurred so slowly that the Neighborhood House was hard pressed to keep community wide interest in the project.

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[3] The SeaBees routinely perform community development tasks for purposes of personnel training.

Training

Youth living in the Yesler Terrace community are among the most disadvantaged or our society. A large majority fail to achieve high school credentials. Without further education of skills training, they are and will remain unemployed. A prime purpose of the Allen Morris Hillside Garden Park greenhouse was to train youth by inculcating workplace values of responsibility and punctuality as well as to teach specific skills involved in construction and horticulture.

The proposal's training component included four sources of support for the greenhouse: Community Development Block Grant (CDBG); Comprehensive Employment and Training Act (CETA); Western SUN, a regional solar research and development organization funded by the Federal Government; and the federally sponsored ACTION program. One grant was for construction training; the remaining three were primarily for operations.

The CDBG grant paid for a community service organization known as Environmental Works. This group provided 200 hours to train volunteers and oversee their work in constructing portions of the greenhouse. The Western SUN grant is not a direct dollar contribution, but rather an award of consultant time. Consultants have provided four days of community workshops and three days of private consultation for the project's staff, the architect/designer, 10Yesler Terrace residents and 15 residents of other public housing communities.

As the project evolved, some of the training funds became unavailable. CETA funds were lost as a result of programmatic cutbacks. Action funds were time-limited, and due to delays in the construction schedule, could not be fully utilized. Thus a principal goal of the project, job training, will not be achieved unless additional funds are obtained. The loss of training funds has, at least temporarily, stymied the ability to run a training program. The project sponsors, however, plan to initiate a training activity once the greenhouse proves economically successful.

Budget

Several revised budgets have been prepared since award of the Innovative Grant in an ongoing effort to resolve budgetary problems. The revised budgets reflect a reduction in Neighborhood House time by half; substantial increases in budget costs for site design, assessment, and construction; an increase in funds needed for the first year's operating costs; a set aside for potential demolition of the greenhouse; and unexpected costs for legal assistance.

Numerous factors have impinged on the budget as proposed in the fall of 1978. Many were beyond the influence of the project managers;

others may have been more easily controlled. The factors most deleterious to the budget have been:

- Inflation
- Inexperience in budget estimation,
- Inexperience in construction management,
- Withdrawal of some volunteer support, and
- Need for extended legal assistance.

The budget schedule, planned and actual, is shown in Exhibit 1.

Since Federal funding is approximately 91 percent of the planned budget and cannot be augmented, any major changes in line items necessitated finding new funding sources and arrangements.

Critically, the initial budget was underestimated on current costs. this was the first construction project of this size for either Neighborhood House or the DCD unit responsible for this project; both lacked experience in developing construction estimates. The actual budget, reflecting a highly inflationary period, more realistic costs, and an increase in the number of items to be paid for, is substantially higher. The largest errors in budget estimation were:

- Architectural fees,
- Project management costs including the bidding and permit processes, and
- On-site management costs.

Many other items, such as building materials and withdrawal of volunteer support, also contributed to the underestimation of the budget. Materials originally planned for the greenhouse shell concerned Yesler Terrace residents and SHA. The park site is beyond the view of residents' dwellings, making it an easy target for vandals. To mitigate possible damage to the greenhouse, material specifications were altered. This change to more durable, more shatterproof goods caused an important escalation in the greenhouse cost.

When disputes with the construction contractor escalated over improper completion of scheduled items and delays in fulfillment of the contract, Neighborhood House was compelled to obtain legal counsel. Initially, counsel was donated to the project by the firm

EXHIBIT 1
ALLEN MORRIS HILLSIDE GARDEN PARK BUDGET

	Original	Actual
Program Salaries		
HUD	$109,752	$ 58,228
U. of Washington	10,000	0
Site Assessment		
HUD	2,200	3,601
CF & NP[1]	5,000	5,000
Construction		
HUD	108,377	148,050
ACTION	4,500	3,000
CF & NP	7,512	7,512
DOE	0	1,800
Administration		
HUD	23,221	23,221
CDBG	7,945	7,945[2]
Legal Services		
HUD	0	4,500
Neighborhood House	0	4,500
Supplies (Office and Greenhouse)		
HUD	5,000	9,200[3]
Neighborhood House	2,640	2,640
Phone		
HUD	450	450
Travel		
HUD	1,000	750
Repair & Maintenance		
HUD	0	2,000
Bid Advertising		
HUD	200	200
Staff Training		
HUD	0	15,000[4]
TOTAL	287,797	297,597[5]

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1 CF&NP = Community Food and Nutrition Program.
2 This Block Grant money was used for the DCD staff contribution.
3 This category is not directly comparable. Items in the original budget included under construction are included in supplies for the actual budge. Supplies also includes the $2,000 for demolition of the greenhouse, if required.
4 This figure is an estimated value of staff consulting time provided to the project. It does not represent a cash award.
5 Note that though the actual budget total is larger than originally estimated, some line items have been deleted and line item budgets have been shifted.

representing the organization in all other legal matters. The pro bono arrangement was changed to a fee for service basis, however, as time progressed and the dispute remained unresolved. By the end of 1982 almost $9,000 in legal fees had been accumulated. Half of that cost is to be paid with Innovative Grant funds transferred from the operating supplies budget. The remainder of the fee and any future legal costs will be paid by Neighborhood House.

Cumulatively, budget deficits have had the largest impact on the greenhouse manager's salary budget line item. One or two years was expected to provide a reasonable time to make the greenhouse a commercial success and money for the manager was so allocated in the development budget. Since these funds have now been expended for other uses, an exceptional burden falls on the greenhouse to cover all operational costs from day one unless other funds can be found. These operational costs include not only the manager's salary, but also job training and the ongoing greenhouse program.

Project sponsors view the successful operation of the greenhouse as depending on an experienced horticulturist. Project staff are actively seeking funds from additional sources to ensure that at least a full year's salary can be guaranteed. An agreement has been made with the Environmental Intern Program to pay for half of the manager's salary and to help Neighborhood House to find someone for the position. It is up to Neighborhood House to raise the balance of the salary.

LESSONS LEARNED

The Allen Morris Hillside Garden Park project had a three year completion schedule. One year was allotted for design and construction. The final years were to be operational years in which the greenhouse would produce salable plants, neighborhood youth would be trained, and the garden plots would be used by Yesler Terrace residents.

During the 3 years of project activity, many unforeseen difficulties have delayed this schedule. The tenant gardening is well along and an initial planting in the greenhouse has been completed. Although project staff are diligently working to find the means for ensuring the project's success, some objectives of the original proposal have had to be postponed.

Project Scope

The Yesler Terrace Agricultural Garden Project sponsors established a wide range of goals:

- Provide practical opportunities to reduce residents food costs and improve diets;

- Provide a means for youth and elderly residents to increase their incomes;

- Improve the image of Yesler Terrace as an attractive place to live;

- Coordinate public housing recreational and food programs sponsored by the City, Neighborhood House and SHA;

- Create cooperative linkages between Yesler Terrace and other Seattle neighborhoods.

This broad spectrum of economic and social goals has been largely achieved. Yet, project sponsors acknowledge the project may have been too ambitious given staff's limited experience in construction and the very experimental nature of the greenhouse.

The newness of these various activities for the implementing organizations could perhaps have been dealt with one by one. But the combination of activities seems to have been more than they could easily accommodate. Solving any one of the needs identified at Yesler Terrace is commendable. Trying to solve so many at once has truly stretched the capacity of Neighborhood House and the City. Physically, the project will come to fruition, but some important goals have been deferred.

Liaison With Involved Agencies

Several agencies of City government and outside organizations have been involved in making this project work. The SHA and the City permitting agencies have each been important. SHA, for example, gave its permission to use the hillside rent free for a purpose never accepted in the past. That permission was granted by senior officials. Once the project had been awarded, however, staff directly responsible for Yesler Terrace became involved. They were skeptical because they did not believe the project could work. They were concerned that the project would become an eyesore if the greenhouse were attacked by vandals and fell into disuse. Perhaps most importantly, the staff was afraid the project would become SHA's responsibility once the initial funds ran out. With budget allocations covering only 80 percent of the needs identified by SHA, the local administrator and project manager were reluctant to become managerially or fiscally responsible for the project.

Both Neighborhood House and DCD were anxious to avoid additional responsibility for SHA. To mollify SHA staff, the project sponsors informally agreed to set aside $2,000 to demolish the structure if it did not prove successful. Criteria for making the demolition decision were never established. These early concerns have, over time, been largely put aside. With the change in material specifications for the greenhouse and the evidence of continued community and Neighborhood House support for the entire park activity, SHA has recently rescinded the terms of the informal demolition agreement.

The experience with SHA strongly suggests the need to include all levels of an organization likely to be involved with a project. In this case, the SHA area administrator was brought into the project only after the award had been made. Upper management had granted the right to use the land, but the person responsible for overseeing Yesler Terrace had the project imposed on him. While he never halted the project, he did impose the potential financial burden of the demolition set aside which the project could ill afford. Fortunately, after demonstrated accomplishment and a change in area administrator, the project had been relived of this financial obligations. Project staff believe that any future projects must include the involvement of all those likely to be involved at the earliest stages of project development.

Budget

Contractor Selection Requirements

City policies coupled with inexperience in construction management may have influenced the budget. The recent ordinance requiring the hiring of minority-owned and women-owned businesses on a percent of contract basis has a potential for reducing the competitive valuation and control of construction services. If public policy specifies the hiring of a single class of firm, price competition exists only if there are many competitors in that class and there is no price collusion. If only a few firms exist, competitive price effects are diminished. Regardless of specified bidder qualifications any firm seriously considered for selection should demonstrate its ability to meet contractual obligations by posting a performance bond or providing previous client references.

The modest size of the Allen Morris Park project meant, practically, that one firm would capture the entire construction contract. Three firms responded with a quote for services; each was higher than the original budget estimate. The lowest bid from the only firm meeting the City's minority hiring requirements was selected. Unfortunately, lowest quoted price does not necessarily mean a low cost. The quote, high compared to the two-year old budget estimate, was not competitively valued and negotiated. Although price competitiveness can be determined by obtaining price breakdowns form other contractors (non-bidders) to provide a basis for negotiation with the bidding contractor, this procedure was not followed. Because no comparisons were made, the actual cost impact of the bidding requirements and procedure followed cannot be estimated. It could, of course, have been negligible. However, construction management practice has demonstrated that price comparison, is essential to meeting budget targets.

The preconstruction permit approval process also proved problematic to the project sponsors. The City Engineering Department required extensive analysis of the geological stability of the hillside. The Department's analysis concluded that a portion of the site was too unstable for the proposed use and that anti-erosion techniques would have to be applied for this portion of the hillside. Drainage concerns were also raised. After two months of review, the Department's approval stipulating a reduction in the site's usable area was received.

Construction estimating and management were the activities for which Neighborhood House needed the greatest assistance since construction is not a usual activity of the social service agency. The project could have profited greatly from a professional construction estimate which should have been included in the pre-construction budget. This budget should also have allowed for an independent analysis by a soils engineer, an analysis upon which a case for a permit could be based. Pre-construction planning and analysis could have helped avoid the enormous budget shortfall that occurred. Pre-construction costs could not be recovered from HUD funds and the City was apparently not prepared to spend its funds for this purpose. Yet, in retrospect, it is likely that this expenditure would have been recovered in creating a more realistic project budget and activity, analysis, and providing a better basis for contractor selection.

In yet another way, the original budget might have been made more realistic. Project sponsors believe that they should have involved more of the City's talents and resources in the development of the construction program. Other divisions of DCD, for instance, have had extensive construction experience. Their assistance, however, was not sought for the Garden Park. The staff believe that DCD resources could have been available to them if they had asked.

In a sense, the Allen Morris Park has been a testing ground for the conflicts between several laudable social goals and real dollar and social costs. The conflict emerges as an implied result of the City's attempts to right specific social inequities by establishing hiring criteria for City-funded projects. At the same time the City also has nutrition assistance goals for low income individuals. Hiring criteria aimed at employment goals may have imposed real costs on the low income residents of Yesler Terrace through the delay in program operation and possible forfeit of job training due to a high-cost contractor. Believing the City inflexible in this hiring regulation, the project staff did not negotiate adjustments with the one contractor meeting city hiring requirements. Subsequent problems with deficient workmanship and delays cost the project dearly in both money and time.

Financial Stability

When the garden proposal was prepared, Neighborhood House and the DCD staff were optimistic in their belief that the project would be self-sustaining within one year of operation. Their subsequent experience has demonstrated that commercial operation of the greenhouse is a difficult and complex matter. They are certain today that a financial break-even point will not be reached in a single year's operation. A key participant believes the greenhouse will require three to four years to truly "test the viability" of the business. This in itself raises a critical question: on what financial basis will the greenhouse continue?

Two final financial issues involve marketing outlets for, and profitability of, the greenhouse. The Yesler Terrace Cooperative Food Club was to be the primary purchaser of produce grown at the greenhouse and of the excess produce from individual growers. The Food Club would provide a commercial outlet and permit non-produce growing residents to buy at relatively inexpensive prices. However, the Food Club failed after the death of its most ardent participant. Thus, present plans call for selling the greenhouse products to other Seattle cooperatives and public housing kitchens, but contractual arrangements have not yet been made.

The need to make the greenhouse self-sustaining necessitates growing products with higher profit margin than vegetables offer. Therefore, the current plan is to grow bedding plants, vegetable and flower starts for sale to commercial outlets. There is a possibility that the first customer for greenhouse products will be the SHA. The SHA annually buys bedding plants for garden community grounds. SHA and Neighborhood House are discussing the possibility of SHA purchasing the plants from the greenhouse.

Project sponsors see the greenhouse as an educational project. Knowledgeable consultants were sought to aid in planning greenhouse activities. Changes in the original plans developed from this aid as well as from the sponsors' experience with the project. Because general experience in commercial solar greenhouse operations is limited participants are keeping an open commitment to a learn-as-you-go-process.

Construction Management

Construction management was as difficult a problem as any faced by the project. Neighborhood House and the responsible DCD division both recognized their inability to perform this essential task. Consequently, they sought assistance first from a volunteer who appeared to be professionally qualified to do the job. When the volunteer proved to be inappropriate, the duties and contract of the landscape architect were increased to cover the task. Still, this move did not meet the construction management requirement.

The difficulty in getting the right person as construction manager stems from Neighborhood House's philosophical approach, as much as from inexperience. As project manager, Neighborhood House was responsible for all contractor hiring. In addition to the skills needed for the job, Neighborhood House wanted people involved who philosophically supported the project and shared the same value system. A key element of that value system was a trust and honor code. Both Neighborhood House and their construction managers based their relationships with the contractor on that value system. When the contractor did not perform or did not allow full inspection of the work in progress, there was no pressure (such as withholding payment) exerted to bring about compliance. Trust of others by Neighborhood House and their unwillingness to challenge the contractor until serious problems occurred both contributed to the contractor controlling and delaying the job.

Reasons for the project delays by the contractor have been disputed. The project manager feels that the contractor became disinterested in completion due to more lucrative contracts elsewhere. The project managers have had little control during the period of dispute. They provided inadequate on-site supervision and paid too quickly on the contract. Control of the payout is one of the most effective construction management techniques. Used property, it will maintain contractor interest in fulfilling the terms of the contractual obligation. In this case, the penalty provisions of the contract came into effect, but so little money was outstanding that the penalty threat caused apparently little discomfort to the contractor. Neighborhood House employed legal counsel to resolve the issue of completion.

Quality control of the construction process has been a significant issue. When legal action against the contractor finally was taken, a new contractor had to be obtained. Completing the job turned into substantial rework of in-place systems. The sewer and water systems are the major elements in a suit claiming incorrect installations. In one instance, a sock was found connecting the sewer pipe to the main.

Neighborhood House was bounded by its philosophy of trust and the urgency of completing the construction phase. It tried every cooperative approach possible afraid to take any action, such as legal steps, that would stop the job altogether. Uncertainty as to its rights in dealing with the contractor also inhibited Neighborhood House. Many of the construction problems could have been overcome by having an effective construction manager on board.

Using a Nonprofit Agency

The nonprofit agency in this project, Neighborhood House, has performed an invaluable role as project manager. Beyond the day-to-day wrangling with construction activities, its existing relationship with the Yesler Terrace community permitted the agency to develop and maintain community support and volunteer participation. Its closeness to the community probably permits the staff to perform this function more easily and successfully than a government agency.

A question now arises as to project ownership. The City was the official grantee. Is the Garden Park the City's continuing responsibility? The park is on SHA land, but managerial and fiscal responsibility are explicitly not part of the bargain struck between DCD, Neighborhood House and SHA. Does the park belong to Neighborhood House? Does it belong to the Garden Association?

The question remains open though in practice it seems to remain a Neighborhood House responsibility with community involvement. Neighborhood House expects management will eventually rest with the Garden Association, but any funding support will have to come from Neighborhood House or another fiscally sound entity until greenhouse revenues exceed costs. The Neighborhood House Board has voted to continue funding the program, something neither the City nor SHA has offered. Equally important, the suit against the contractor is being fought by Neighborhood House with its own funds. Given the agency's budgetary constraints, this is proving to be uncomfortably taxing. In time, it is hoped that the project will become self-managed and economically self-sufficient. What started out as a joint concept and development between DCD and Neighborhood House has almost silently turned into a Neighborhood House responsibility.

Training

The goal the project is least certain to achieve is specific job training such as for a finish carpenter. However, other training has occurred with positive, unforeseen results. In two instances, volunteers trained to construct the greenhouse walls and planting beds developed a greater confidence in themselves and in their ability to learn. As a result, both have enrolled in training programs that will, in time, lead to employment in the traditional job market. Community members are learning how to manage a program so that the community will eventually be able to take over full control and administration of the Allen Morris Hillside Garden Park.

The Neighborhood House approach to training has been redirected towards helping people to expand their opportunities and personal confidence. This expansion of life skills may lead to jobs or may just provide a satisfaction not felt before. If the greenhouse is eventually able to meet the goals set for it, some direct job training may yet result.

WASHINGTON D.C. FIRST RIGHT PURCHASE ASSISTANCE PROGRAM

WASHINGTON D.C.

FIRST RIGHT PURCHASE ASSISTANCE PROGRAM

SUMMARY

During the mid 1970s in Washington, D.C., extensive revitalization and rehabilitation of the housing stock and increasing condominium conversion resulted in considerable involuntary displacement of low and moderate income tenants. The success of the early rehabilitation efforts began with public funds attracted increasing numbers of affluent home buyers and developers to the convenience of the City and the challenge of rehabilitation. The Federal Era row houses surrounding the Capitol, the older neighborhoods adjacent to the downtown business district and those within a few miles of the White House became especially attractive. Prices escalated, sales increased and in several neighborhoods with multi-unit apartments, condominium conversion became fashionable as well as economically attractive.

To protect City residents, of whom 69 percent were renters, reduce displacement and discourage the speculative buying which was stimulating higher prices, the City government passed several new laws. The Condominium Act of 1976 placed limits on condominium conversion and required tenant approval in lower rent buildings. The Rental Housing Act of 1977 essentially established rent control and gave to tenants and tenant associations the right of first refusal to purchase their buildings when offered for sale. Officials viewed this right as a way of providing significant opportunities for home ownership and for reducing displacement.

In practice, however, tenants with low and moderate incomes often lacked the funds and the expertise necessary to exercise the right to purchase. To help tenants, the City developed a comprehensive Tenant Assistance Program composed of four separate, but closely related programs: The Coop Seed Loan Program; The Home Purchase Assistance Program; The Rehabilitation Loan Program; and the First Right Purchase Program. The total program provides no interest and low interest loans to help individuals and tenant associations put up earnest money, make downpayments, pay the costs of establishing a tenant organization, and carry the costs of conversion and rehabilitation during the interim period between their declaration of intent to buy and their commitment to permanent financing.

The First Right Purchase Program, one of the four parts of the larger Tenant Assistance Program and the subject of this study, was created to assist individuals buying homes for the first time and tenant associations converting rental property to low-equity cooperatives in which the cost of individual units is kept within the means of low and moderate income households. Using a funding pool created by the HUD

Innovative Grant ($3,100,000) and a City contribution ($2,100,000), the City has provided funds to 27 individual tenants to make down payments on single family, cooperative or condominium units and to tenant associations for three earnest money loans and for interim loans to purchase 1,475 units in 23 buildings. An additional $500,000 from Community Development Block Grant funds for fiscal year 1983 has also been committed to continue this program. In all of the buildings, the tenants have been predominantly black, low income and female-headed households, the groups most often and most seriously affected by displacement.

By early 1982, the initial available funds had been committed. Applications are accepted on a continuing basis and projects are funded as money becomes available. Although the loan fund is envisioned as a revolving one, the inability of tenant associations to get permanent financing in the present high interest market has delayed the return of funds beyond the 18 month period originally planned. Regulations are now being amended so that the loan time period can be officially extended. The extension will allow additional expenses beyond these specified in the original plan to be covered during the loan period. The City is also considering allowing some units to be sold at market rate in order to help improve the cash flow of complexes now supporting empty units.

The loan committee formed after the program was underway now evaluates all loan applications and has developed a more conservative approach which has changed the direction of the project. High risk loans approved at the onset of the program are no longer being considered and the committee is demanding that a firm commitment be obtained from a private borrower as a condition for an interim loan. At the same time, private lenders are asking for a definite funding commitment from the City. Closer coordination between public and private lenders would greatly expand the purchase possibilities and decrease processing time. If this program were to be replicated, funds could be allocated according to specific objectives, so that some loans could continue to be high risk, some could be made for longer periods and some for large amounts could be low risk with excellent possibility for return to keep the fund revolving.

Although the First Right Purchase Program has been a vital aid in the District of Columbia, other cities considering a program to make ownership possible for low and moderate income tenants might consider offering a comprehensive assistance program, rather than simply a program of no-interest or low-interest loans. The D.C. government did this by combining the First Right Purchase program with other forms of assistance. An even more fundamental question at this time is whether such ownership is feasible at all without additional massive subsidies if interest rates remain at the present high levels.

BACKGROUND

In the mid 1970s, displacement became a major issue in Washington, District of Columbia, as affluent home buyers and renters began to show renewed interest in inner city housing. The success of the initial attempts to revitalize neighborhoods and rehabilitate housing structures brought about escalating prices, increased taxes and increases in the sale of single family homes and conversions of multi-family units to condominiums. Since 69 percent of Washington's 274,00 housing units in 1977 were rental units, the continuing reduction of the number of available rentals and rising prices made finding decent and affordable housing especially difficult for limited income households. City officials declared involuntary displacement of low and moderate income families as one of their most urgent policy issues.

The revitalization and rehabilitation effort began on a small scale with public funds and expanded quickly as private buyers and large developers took the initiative. Although neighborhoods all over the central city were affected, some experienced more pronounced changes than others. The Capital Hill area with a large stock of Federal Era row homes and the older areas immediately adjacent to the downtown business area containing large, single family homes as well as apartment buildings were especially popular with those who wished to return to city living. The Adams-Morgan area just a few miles from the White House, which had traditionally absorbed the successive waves of immigrants and had a vital neighborhood life, also became an early target for condominium conversion.

In order to protect the large number of renters in the City and to control the number of conversions, the City passed several new laws. The Condominium Act of 1076 strictly limited the conditions under which rental buildings could be converted to condominiums. City officials set a unit rent minimum to qualify buildings for conversion and stipulated that 50 percent of tenants must agree to any conversion. Landlords, however, were able to circumvent the new regulations in several ways. The owners were often able to persuade or offer incentives so that tenants signed conversion agreements without real understanding of the consequences. With the necessary conversion certificate, the owner could then demand and get a good sale price. New owners had the certificate but no obligation to the tenants. Owners could also allow units to remain vacant long enough to qualify for a rehabilitation permit, eventually establish a higher rent for refurbished units and thus bring the rent scale to the level qualifying the building for condominium conversion. Owners could also qualify by refinancing buildings, thus creating a short cash flow. Officials saw clearly that further revisions were needed to make the law work as intended.

Some change was brought about through the Rental Housing Act of 1977 which essentially established rent control and give the tenant or the tenant association the right of first refusal to purchase their building when it was offered for sale. Officials viewed this right as a major tool for expanding home ownership and for combating displacement.

To purchase under the provisions of this Act, an individual tenant in a single family house must make a bonafide purchase offer and be able to arrange necessary financing and go to settlement within 165 days. To become owners of cooperative housing units, tenants in multi-family buildings must form a tenant association, make a bonafide offer to purchase the property including an earnest money deposit, make a downpayment of up to 20 percent, arrange permanent financing, and to closing within 180 days.

These regulations intended to help tenants to become owners posed a number of practical obstacles for low and moderate income persons, most of whom had limited financial resources and limited real estate and business experience. The obstacles facing tenants were these:

- Tenants had little experience with group organization and group decision-making.

- Tenants could not finance engineering studies, appraisals, or legal fees necessary for forming an association and did not have means to borrow funds for the purchase and rehabilitation costs for the building.

- Permanent financing was difficult to obtain within 18 months.

- Carrying costs, principal, interest, taxes, insurance, utilities and maintenance were beyond the reach of prospective low and moderate income share holders.

The comprehensive D.C. Tenant Housing Assistance program was created to assist tenants to exercise their right to purchase under the Rental Housing Act and to upgrade housing stock in revitalizing neighborhoods. The program is composed of four separate but closely related programs: The Home Purchase Assistance Program; the Coop Seed Loan Program; the Rehabilitation Loan Program; and the First Right Purchase Program.

- The Home Purchase Assistance Program (HPAP) allows the City to provide interest free, down payment loans up to $16,000 (revisions under consideration will allow up to $19,000) to assist in purchase of a single family house or condominium or cooperative apartment. This program is available to low income households who do not own their home, and who meet the Section 8 rental income limitation (maximum of $21,600 for family of four) and who have at least $500 of personal assets. Tenants who are involuntarily displaced are considered on a priority basis. This program was initially conceived as a way to provide ownership opportunities in a city where the ownership rate is below 32 percent, but ownership eventually came to be viewed as an excellent way to combat displacement.

- The Coop Seed Loan Program allows the City to provide short term loans to tenant associations where more than 50 percent of the member households are lower income (as defined by Section 8 rental guidelines) to pay costs of architects, organizers, lawyers, engineers or other consultants needed to convert from rental to limited-equity or low-yield cooperative ownership. Seed money loans are at no interest, but become due when permanent financing is obtained.

- The Rehabilitation Loan Program provide for both short-term and long-term loans on a very limited basis at below market interest rates for rehabilitation of tenant-purchased buildings in community development and Neighborhood Strategy Areas.

- The First Right Purchase Program, funded through both Federal and City funds, is described in detail in the following sections of this document.

PROGRAM DESCRIPTION

Program Components

The First Right Purchase Program as originally planned allows the City to assist lower income tenants in single and multifamily units and tenant associations threatened with displacement due to the sale of condominium conversion of their buildings. A total of $5,200,000 in combined Federal ($3,100,000) and City ($2,100,000) funds has been allocated for this program. An additional $500,000 has been added from fiscal year 1983 Community Development Block Grant funds.

Assistance for Individuals

For individuals, the following assistance is available:

- Earnest money loans (allocation of $150,000; $50,000 for assistance to single family properties; $100,000 for multi-family properties)

  The tenant must provide the first $500 and the Department will loan the remainder of up to $2,000 at no interest for the earnest money deposit needed to accompany a purchase offer. (By D.C. law, earnest money cannot exceed five percent of price at the time of contract.) Unless the loan is incorporated into downpayment assistance, it must be paid back at settlement or returned if the sale is not completed.

- Downpayment loans (allocation of $300,000; $120,000 for single family buildings; $180,000 for multi-family buildings)

  These long-term loans have been used for downpayment assistance to enable a total monthly mortgage payment not to exceed 28 percent of monthly income. The tenant must provide the first $500 (if not already provided as earnest money) and the Department will provide the remainder as a non-interest bearing loan for up to $16,000. This amount would be raised to $19,000 under changes now being considered.

  The loan must be repaid when the unit is resold with a prepayment penalty for sale in less than five years. The terms and conditions of loans under this part of the program are identical to those under HPAP.

Assistance for Tenant Associations

Under the D.C. First Right Purchase Program, the City will loan only to tenant associations developing low-equity cooperatives. In a low-equity cooperative building each member is entitled to occupy a unit as long as he or she pays the membership share of the operating expenses, taxes, and administrative and management costs. The monthly share is computed according to a formula based on the square footage of the unit as a percent of square footage of the entire building.

The value of a membership share is the actual accumulated equity which includes downpayment, expenditures in retiring the owner's share of the principal on the blanket mortgage and the value of improvements as specified on an established schedule. When a unit is sold by a tenant, it reverts to the tenant association. In this way, the price of the unit is kept within reach of low income buyers and no tenant directly profits from increased market value of his or her share.

Tenant associations may receive the following types of assistance:

- Prepurchase assistance (allocation of $160,000)

  - Earnest money loans

    Tenant associations with a reasonable chance of obtaining permanent financing that have already raised $500 for each member household are eligible for non-interest loans of up to $1500 times the number of units in the building. The loan can be folded into the permanent financing at the time of settlement or paid back if refunded by the seller.

  - Purchase option loans

    Those associations that need more than the stipulated maximum 180-day period to secure permanent financing are eligible for short-term assistance provided that they can match on a one to one basis each members' share of the option purchase price and that a permanent financing application is in process. The loans have been non-interest bearing and have been for up to $200 per unit per month of extended time up to three months.

- Interim or "gap" financing loans and loan guarantees (allocation of $2,000,000)

  Tenant associations with a commitment from a permanent lender are eligible for interim or "gap" financing to cover developmental costs including acquisition and construction. The loans may be up to $11,000 per unit, but no assistance is provided if more than 60 percent of the units are vacant or are occupied by tenants who do not want to participate in the conversion. The interest rate on these loans may vary by City regulation from one to nine percent of the total loan.

- Management Training (allocation of $60,000)

  A contractor has been selected through a competitive bid process who will provide training for cooperative board directors in corporate and financial management and in building operation and maintenance, including budgeting and accounting techniques. The contractor will survey operational and maintenance requirements of each building as preparation for helping boards to hire professional management and maintenance services. All associations receiving downpayment assistance and/or gap financing will participate in this program even though the component was scheduled for implementation by 1983. The intent is also to produce an orientation and training package for new directors unable to attend orientation sessions. MUSCLE has also provided some basic management training through their counseling process.

Provisions for Non-Participants

The City estimated that 20 to 25 percent of tenants move voluntarily from buildings undergoing conversion for a wide variety of reasons ranging from financial to life style choices. For those who chose to move or who have financial limitations that preclude ownership, the following assistance is available from other City sources:

- Housing locator information;

- Pre-lease code inspections (upon request); and

- Direct counseling to help resolve financial problems, secure other needed assistance and locate decent, safe and sanitary housing.

Tenants who are involuntarily displaced are also entitled to relocation assistance under the D.C. Rental Housing Act, which mandates that condominium or cooperative developers pay moving expenses and rent assistance to eligible low income tenants. If, however, such assistance becomes an expense of a tenant organization under the First Right Purchase Program, that expense, if not paid through other sources, becomes part of the total development cost of conversion and would be covered under the gap financing provision.

Budget

The First Right Purchase Program was originally funded by Innovative Grant Funds ($3,100,000), by District of Columbia local revenues ($2,100,000) and from other private lenders and investors including banks and insurance companies. An additional $500,000 has been allocated to the program from fiscal year 1983 Community Development Block Grant funds. The chart which follows, (Exhibit I) gives a general breakdown of the use of Innovative Grant Funds. City funds are proportionally allocated in the same way. Some adjustments have been necessitated by rising costs and further adjustments are now under consideration.

Management

Overall management of the Tenant Assistance program is handled by the D.C. Housing and Community Development Department. The activities of the First Right Purchase Program are directly managed by the City's Development Corporation (DCDC) and by its non-profit local development subsidiary, the District of Columbia Local Development Corporation (DCLDC). DCLDC predates the First Right Purchase Program as the direct loan granting entity of the DCDC. The two groups have worked closely together and have overlapping boards of directors. The First Right Purchase Program is handled by a staff of three assisted by one part-time employee.

DCLDC is under contract to DCDC to do the initial eligibility review for the First Right Purchase loan applications including income eligibility according to Section 235 guidelines ($25,650 maximum income for a family of four) and availability of escrow money. The City then has final review.

EXHIBIT I

First Right Purchase Budget

Cost Elements	Allocation
Loan Assistance to Individuals:	
- Earnest Money Loans	
o Single family units	$ 50,000
o Multi-family units	100,000
- Downpayment Loans	
o Single family units	120,000
o Multi-family units	180,000
Loan Assistance to Tenant Associations	
- Earnest Money/Purchase	
o Option Loans	160,000
- "Gap" Financing/Guarantees	2,000,000
o Management Training	60,000
Subtotal: Program Activities	2,670,000
Subcontractor Program Operations (loan activities only)	200,574
Grantee Management Expenses	100,495
HUD Mandated Supporting Costs:	
- Independent Audit	18,000
- Program Evaluation	16,929
- Indirect Costs	30,088
- Contingencies	63,916
TOTAL	$3,100,000

In April of 1981 the City established a loan committee in response to the initiative of the Director of Housing and Community Development Department to review and act on all City loan applications. The five member committee now includes staff from the Director's office, the Office of Administration and Management, the Neighborhood Improvement Administration, a Department real estate appraiser, and the Department corporate counsel. Although all members are City employees, they are in different offices and the Director feels a committee can bring a broader perspective than an individual to evaluating loan applications. The committee is, however, requiring more documentation and deliberation, which has resulted in a longer, more complex decision-making process. No loan is approved unless the committee is fairly certain of successful completion of the project as proposed.

Much of the preparatory work with the tenant organizations is done by a community-based, non-profit organization, Ministers United to Support Community Life Endeavors (MUSCLE), under a contract with the City Department of Housing. MUSCLE helps tenant associations to organize as required under the law, assists them in meeting the conversion requirements and advises on putting together a loan package. Two attorneys from University Legal Services work under subcontract to MUSCLE to provide necessary legal assistance to the tenant associations. Consultants, such as engineers, architects and financial packagers for the complicated conversions, may be hired by MUSCLE under their contract or may be hired directly by the tenant association depending on the need and the availability of tenant association funds.

IMPLEMENTATION

The program began to operate and actually made loans ahead of the projected schedule because applicants were already waiting when the program became operational. This unusual situation developed because the technical assistance component for the larger Tenant Purchase Assistance Program and the HPAP down payment program had already alerted individuals and tenant associations. Loan guarantees had already been made prior to sign off on Federal funds in order to keep buildings from being lost and tenants displaced.

Program Changes

At the time this program was designed, condominium conversion was a serious problem in D.C., and the existing control laws were being circumvented. To further aid tenants after the First Right Purchase Program had been funded, the City incorporated some needed changes into the 1980 Rental Housing Conversion and Sale Act. This Act maintained rent control, but it established more stringent regulations for conversion and expanded the time allowed for tenants to meet the purchase requirements. Exhibit II illustrates these time changes.

EXHIBIT II

Changes in Time Allowed Tenants to Develop a Cooperative under Rental Housing Conversion and Sale Act

	1977 Legislation	1980 Revision
To Organize	30 Days	45 Days
For Contracting	90 Days	120 Days
For Settlement	60 Days	120 Days
	180 Days if low-yield	
	60 additional if lender is in decision process	

The time frame is calculated from the day notice to sell or convert is received from the owner.

The 1980 law also requires a tenant election supervised by an outside agent to certify conversion. Tenants now know more about what they are voting for and cannot be so easily coerced. In addition, qualifying certificates for conversion can no longer be passed to a new owner when a building is sold. Buying by speculative developers has, therefore, been discouraged both by new regulations and by the high interest rates on available funds for rehabilitation and conversion. As the condominium conversion rate has declined, displacement has become less of an issue. Now tenants, rather than owners or developers, are initiating conversion requests, and these conversions are not resulting in displacement.

Program staff has made some adjustments and propose others which reflect this changing housing situation in the City. Regulations are being revised to allow the following:

- Use of the program funds for financing tenant initiated condominium conversion as well as market rate and mixed yield cooperatives. In the market rate or mixed yield cooperative, the resale value of the individual share would not be limited except for specified units. This adjustment could improve tenant association cash flow and would allow more flexibility for the sale of the units vacant at the time of conversion. Some units would remain accessible to low and moderate income families, but others could be sold at market rate. Usually the initial investment in the market rate cooperative is ten percent of the unit price, much higher than in the low yield cooperative.

- o Extension of the 18 month loan term. Present loans are not being paid back in 18 months and this change will provide additional time to secure permanent financing.

- o Clarification of operating and other development costs which can be covered during the conversion process when other interim funds are not available.

The formation of the loan committee and the rapid early drain of available funds have resulted in a change in loan granting procedures and philosophy. Essentially, the loan committee has eliminated consideration of the high risk loans initially approved and now applies criteria as stringent as those of private lending institutions. Applicants must have a permanent financing commitment prior to bringing a loan application and must provide some security, usually a lien on the escrow account. Tenant associations are left in something of a bind as both private and public lenders are now insisting that the other agency make the first commitment. When neither will take the risk, the association has little chance of being able to go to settlement. In addition, the documentation required by the loan committee is extensive and decisions have often been delayed well beyond the average time needed by a private lender.

The interest rate to the tenant association for interim loans can vary. Most loans are made at one percent as was the original program plan. A few loans have been at three percent, but the regulations passed by the City allow a rate of up to nine percent. The City makes the decision on a loan rate depending on the ability of the tenant association to pay.

The Department has also chosen to reduce its subcontractors with community-based, non-profit groups working with tenant associations form the original two to a single contract with MUSCLE. This change allows MUSCLE to increase service capacity, to provide consultants as needed, and to simplify the preparation procedure.

Program designers planned the management training component for early implementation. Project staff have chosen to concentrate their efforts on assisting tenant organizations to organize and secure loans and have repeatedly delayed initiating the competitive bid process to select the training contractor. A contractor was chosen in September, 1982, and training is expected to begin in November, near the end of the grant period. All directors of the tenant associations that have been assisted are expected to participate in this training at some time during the six month period of the contract.

Unit Costs

The usual unit selling price has been in the range of $8,000 to $13,000 depending on location, condition and size of the unit, but the City expects an independent appraisal value for any property to be assisted. In general, complexes with multiple bedroom units are more in demand and smaller complexes seem to bring higher prices per unit.

The City has also assumed that the primary lender will essentially control through the usual loan negotiation process any seller's temptation to inflate prices. The loan committee requirement that permanent financing be committed prior to approving a gap loan has strengthened this probability. In a few cases prices in excess of appraisal value have been approved if the tenant association can carry the higher costs. During the first year, the City had to match a developer's offer or lose the building. With fewer developers now interested, the tenant associations can negotiate a better price.

Units Assisted

The number of individuals and units assisted under The First Right Purchase Program cannot be cited in isolation to assess the impact of the program. In most cases additional assistance has been provided through other parts of the larger Tenant Assistance Program, usually the Coop Seed Loan Program or HPAP. During the first year of the FRP Program, 27 down payment loans averaging $9,548.85 were made because HPAP funds usually used for this purpose were not available during that period. During the same period, three loans were also made to tenant associations for earnest money deposits. As anticipated, most of the funds have gone to gap loans. As of September, 1982, these loans have been used to purchase 1,475 units in 23 buildings. Additional funds from the larger Tenant Assistance Program have been used to assist another 79 buildings. In all of the assisted buildings the population is predominately black, lower income and female headed households; in short, the groups most often and most directly affected by involuntary displacement.

As of January 1982, most of the initial available funds had already been committed. Applications have been continuously processed and additional projects have been funded as funds become available. One loan has been returned because the purchase was not completed. Three tenant groups have made partial repayment of loans. This program is predicated on the assumption that the loan fund will become a revolving one, but the pay back period will have to be lengthened if the fund is to continue.

Monitoring and Evaluation

Although the D.C. Housing Department designed a comprehensive evaluation plan, much of it has yet to be implemented. The City, along with MUSCLE is monitoring all the tenant associations served, but many questions remain unanswered.

- o Will individual case studies, intended to give a household perspective to the evaluation, be undertaken as described in the original plan?
- o How will changes in the Section 8 program affect the First Right Purchase Program?
- o Will the loan fund really revolve? What is a realistic pay back time frame?
- o Is the low yield cooperative possible if interest rates remain at historically high levels?
- o How will a change to market yield and mixed yield cooperatives affect the low income residents?
- o Should the goal of keeping low and moderate income residents in the community outweigh the increasing costs of subsidized loans?
- o Is the low equity cooperative an effective anti-displacement strategy? Is it too costly?
- o Since condominium conversion and resultant displacement has drastically declined, should ownership for its own sake be aggressively promoted?

LESSONS LEARNED

The D.C. First Right Purchase Program has helped reduce displacement as part of a comprehensive purchase program which provides seed money, technical assistance, gap financing, down payment assistance, mortgage write down and, in some cases, rehabilitation assistance as well. <u>Other cities contemplating a first right purchase program might have to include all or at least some of the other components of the D.C. Tenant Assistance Program in order to make ownership possible for low income residents.</u> A program which provides only short-term financing is inadequate if write down of monthly payments is a necessity. A program which provides long-term loan assistance, but no seed money or interim loans will be equally ineffective in a tight lending market where tenants cannot get up front financing.

The crucial prerequisite to using ownership as a displacement strategy is the first right purchase law which gives tenants the right of first refusal if owners wish to sell or convert their buildings. Without such a law, owners could sell or convert without ever consulting the tenants, thereby exacerbating displacement problems. The assistance provided under the First Right Purchase program prevents displacement because it provides the means for lower income households to exercise their right under the law to purchase their living units.

The financial assistance provided under The First Right Purchase Program and under the other programs of the total Tenant Assistance Purchase Program can, however, be equally useful whether the City's goal is ownership as an anti-displacement strategy, ownership for its own sake, or a combination of both. The proposed change in regulations in the City to allow aid to tenant initiated cooperatives and condominiums is testimony to the general value of this type of an aid to purchase assistance for lower income households.

The types of assistance provided could also be adjusted depending on specific goals established. Some portion of funds could be reserved for small, high risk loans where little return is expected, but where keeping low and moderate income residents in the neighborhood is a priority. Larger amounts could be allocated for projects needing little rehabilitation and viewed as eventually able to assume market rate loans. Some funds might be used for extending the gap period where changes are good that the project will succeed, but where permanent financing has not been secured.

MUSCLE representatives who have worked closely with the financial packaging have expressed the concern that ownership for low and moderate income families may not be possible when lending interest rates remain above 10-1/2 percent unless additional massive subsidy is made available. This reality must also be fully explored prior to replication of any home ownership program for low and moderate income individuals.

The loan committee is viewed positively by the City, but the Committee's increasing concern for more guarantees and the long loan processing delay prior to decision have presented problems for tenant groups. Meeting the requirement of a definite commitment for permanent financing in the present lending market has been difficult, often impossible. Those working with the City have suggested that more flexibility and a closer financial relationship with private lenders might ease some of this difficulty. Cities contemplating a similar program might consider using loan guarantees or tandem loans as a means of avoiding the demands by both public and private lenders for another institution to underwrite or guarantee the loan.

D.C. officials feel strongly that the interest rate for gap loans should also be flexible, especially in a City such as Washington where there is a great difference in housing costs according to neighborhoods and in the ability of individual tenant associations to meet these costs. If interest rates on loans can be made flexible, they can be adjusted depending on established goals and purchaser needs.

Much of what has happened in D.C. is the result of site specific conditions and the fact that an extensive program which had prepared eligible applicants for participation in this program existed prior to the First Right Purchase Program. Aside from the availability of substantial Federal and local funds, there was significant technical assistance capacity and existing participation of community-based groups. The contribution of all of these elements have been major ones. In addition, the duplication of components in HPAP and First Right Purchase allowed continuous service. When funds were not immediately available in one program, funds from the other could be substituted.

Conversely, the complicated and lengthy process necessary to change regulations in D.C. has hampered implementation of what staff see as necessary alterations to make this program continue to work in an economy and housing market substantially different from that of 1979. In order to respond to client needs, a City should have flexible rules and procedures to adjust for loan pay back time and unexpected needs. Lengthening the gap loan pay back period, however, hampers the development of a revolving fund and may result in a long period where no funds are available.

Although the initial success rate for conversion to cooperatives has been high, officials believe that having the management component in place would have made the conversion easier for the new associations and would have increased possibility of continuing success. Whether the associations will continue to survive and whether they will be able to continue to meet their financial obligations is yet undetermined. The management consultant will help to identify problems of individual complexes and will provide much needed training for cooperative boards unfamiliar with financial and management responsibilities, increasing operating skills. Although the training will be available to all who received funds, the late implementation will make training after the fact for many and may reduce its effectiveness. Program managers expect participation, but did not include such a stipulation in their loan commitments to tenant associations. For optimum success, management training should be available at the onset and participation specified as a condition of funding.

Because applicants were already waiting when the program was funded, the early period was hectic and pressured. Staff point out that a longer lead time would have enabled them to get the necessary regulations passed, to prepare the necessary forms and to adequately train staff rather than borrowing those already on line.

In most cases a program of this size and complexity would need significant outreach to the community for education and recruitment of applicants. Even in the District where there was knowledge about the program, some associations learned of the available assistance too late. Extensive outreach was not vital in D.C. because of an existing program and because of the widespread and immediate need. In other cities adequate funds and staff effort will have to be allocated to public relations and education activities as well as to the administration of the program.

Finally, the geographically widespread implementation of this program may have diffused its impact. Other cities might well select a more confined geographic area, thereby concentrating their response where the need for housing is greatest; halting speculation in a particular neighborhood; maintaining the unique characteristics of a neighborhood; and making the program visible in order to gain additional financial and political support.

THE WASHINGTON D.C. JUBILEE LOW INCOME MULTIFAMILY REHABILITATION HOUSING PROGRAM

THE JUBILEE LOW INCOME MULTIFAMILY REHABILITATION PROGRAM

SUMMARY

Middle and upper-middle income groups rediscovered the inner city low income neighborhood of Adams Morgan in Washington, D.C., causing displacement of low-income tenants. Developers were rapidly buying apartment buildings, upgrading and converting them to condominiums for higher income groups. Gentrification increased the selling prices of buildings, rents of apartments and the turnover of multifamily buildings. The Jubilee Housing Incorporated sought to stabilize the Adams Morgan neighborhood by attempting to save a portion of the area for existing low income minority residents. This church-sponsored nonprofit organization's Low Income Multifamily Rehabilitation Program aimed to acquire and provide fit and livable housing for low income residents of the neighborhood without any displacement.

Faced with what seemed to be an inevitable long term rise in neighborhood real estate values, Jubilee adopted a strategy for the long run retention of low income residents in the area. The strategy involved a commitment to certain processes that: attempted to use volunteer workers from the community to reduce rehabilitation costs and corporate or professional volunteers to provide technical development expertise; demonstrate the ability of low income residents to take responsibility for management of their buildings; and provide an equitable mechanism for low income residents to own reasonably priced units. Jubilee also sought to develop these processes as a model that other church or non-profit groups could emulate in achieving similar aims in other low income areas.

The program focused on rehabilitation. Jubilee used Federal funds to rehabilitate existing low income apartments it owned and to finance the acquisition and selective rehabilitation of other buildings occupied by low income tenants in the target neighborhood. The program funds have directly or indirectly financed the acquisition of two buildings plus the rehabilitation of two other buildings out of five apartment buildings that Jubilee now owns. The program had two components:

- o Jubilee earmarked over half of the Federal funds for the substantial rehabilitation of 90 units in the Ritz and Mozart apartment buildings.

- o A revolving fund was created to fund other acquisitions, allow for some rehabilitation and provide for additional rehabilitation costs incurred in the Ritz and Mozart. Other groups in the area attempting to provide improved multifamily housing for low income groups could also qualify for loans.

Despite the many positive effects of the infusion of Federal funds in accomplishing the rehabilitation of multifamily structures, Jubilee also encountered multiple problems. Some of the conditions attached to the use of funds, such as the requirement for high Davis-Bacon wages, proved to be counter-productive to its social and economic goals. These conditions thwarted achievement of cost-effective rehabilitation and the program's ability to foster responsible and upwardly mobile tenants. The drying up of public funds nationally resulted in increased competition for, and scarcity of private funds necessary to continue the project.

Jubilee's attempt to achieve many physical, economic and social goals at one time may have hampered its ability to excel in the achievement of any one of them. Jubilee's success, however, is most evident in the implementation of its social objectives and processes. Jubilee has been scrupulous in reaching the hard core poor. Similar anti-displacement projects that provide homeownership for the poor have been known to skim the upper ranges of the poor or deal with a loosely defined moderate income group of households. Acting as its own general contractor Jubilee has been able to provide jobs for low income residents. It has attempted to use resident volunteers in management, rehabilitation and operation of the buildings to reduce costs and inculcate a sense of responsibility. It has tried to provide for the social support and growth of its tenants by actively involving them in other of its social programs. Rehabilitation phases were timed to minimize relocation which took place entirely within individual buildings.

The unique accomplishments of the Jubilee multi-unit demonstration results in part, from the spiritual commitment of the sponsoring organization and the methods and strategy Jubilee chose to adopt, rather than the actual achievement of its immediate and ultimate goals. The Jubilee project provides timely lessons on how a national policy of volunteerism and self-help currently being proposed as a solution for local problems actually works when implemented at the local level.

BACKGROUND

The Problem

Problems in Washington, D.C.'s rental housing stock are particularly acute. As the seat of Federal government, Washington is home to many transient residents who create a strong demand for rental housing. A high proportion, about 69 percent, of the 274,000 housing units in Washington, D.C. were rental units in 1977. The number has declined since 1970 and it is estimated that over one-quarter of them are deteriorated or dilapidated. A number of trends are having an adverse effect on low-income persons living in apartment units:

- o Large increases in taxes, utilities and operating costs cause a disproportionate amount of income to be devoted to shelter.

- o Middle and upper income households are beginning to compete with the poor for the older multifamily housing stock.

- o Rental properties converted to condominiums have increased rapidly. In 1979, 73 percent of the 10,794 condominium units in the City were conversions from the existing stock.

These trends have occurred in accentuated degree in the portion of the area in Adams-Morgan neighborhood where Jubilee Housing has been active. A middle class area in the 1950s, the neighborhood became a half empty, low-income area in the cities as large numbers of more affluent residents left the City for the suburbs. The area experienced a revival duing the seventies as professionals began to re-discover the City.

Adams-Morgan is contiguous to areas experiencing substantial increases in the price of single family homes and large concentrations of condominiums. As a result, applications for condominiums conversions in Adams Morgan began to increase in 1978. In 1979, about 10 percent of the applications for conversion of apartments to condominiums in the neighborhood were in the target area. Prices for single family homes in the area already averaged over $100,000 in their current condition. Luxury townhouses were built in the area, adjacent to one of the most deteriorated blocks in the target area. This gentrification caused the displacement of many poor people.

The Formation of Jubilee

Jubilee Housing was incorporated in 1973, as a tax-exempt nonprofit corporation in the District of Columbia. A small group of concerned citizens who had worked on social programs in the Adams Morgan area of Washington, D.C. formed the Corporation. They had established the Potter's House, a neighborhood coffeehouse that serves as an outlet for some of their activities. Discussions about the low income housing problems in Adams Morgan and the idea for a new organization took place in this coffeehouse.

The religious origins of the Corporation are important in understanding the objectives of the Corporation and the strategy adopted in this demonstration. The majority of the group of concerned citizens belong to mission groups of the Church of the Savior, a local ecumenical Christian church established in 1947. The initial Board of Trustees of Jubilee Housing, Inc. were church members. The Church of the Savior sees itself as a ministry whose calling is to provide active support to the poor. It accomplishes its goals through missionary work. The first mission was Potter's House in the District of Columbia and now there are a total of six faith communities.

The Church believes that it should take a strong role as an advocate for the poor and that involvement in the low-income housing crisis is one way to accomplish this. Because working with the poor tends to burn people out, the Church feels that people need a spiritual resource in order to persevere in such service. Service to the poor requires a deep long-term commitment that is successful only when church-related and community based. The Church believes that religious institutions offer a vast resource for funding and voluntary participation.

Jubilee and Rouse

The reknown, expertise and the early personal involvement of certain individuals with the Church influenced the start of Jubilee, the successful application for HUD innovative grant funds and the formation of an advisory group of a high calibre professional advisory group of volunteers. James Rouse, founder and Chairman of the Board of The Rouse Company and American City Corporation of Columbia, Maryland, and a major developer of new towns and commercial projects has a national reputation in real estate development. Although not a member of the Church, he had become an active participant in their activities and became a board member of Jubilee after it was originally founded. He took title to two badly deteriorated apartments, the Ritz and the Mozart, in the Adams Morgan area and provided the initial $150,000 loan for rehabilitation. Jubilee Housing, Inc. acquired these buildings and the rehabilitation loan under a sales leaseback agreement with an option for Jubilee to purchase at anytime for cost, plus funds for rehabilitation, less depreciation.

Initially, in 1973, Jubilee was responsible for the operation of Ritz and Mozart. From 1973 to 1976 Jubilee corrected basic code violations of the Mozart and Ritz through 50,000 hours of volunteer effort. From 1977 to 1978 Jubilee formalized the organization of residents that subsequently formed the base for the multifamily housing rehabilitation program. Through challenge grants and solicited donations, it formally acquired the Ritz and Mozart and paid back the initial rehabilitation loan as a first step in establishing a structure for tenant ownership. It organized management cooperatives with Jubilee having voter representation on the boards of directors of each building. It acquired the deteriorated Sorrento apartment building nearby, initiated rehabilitation and improved rent collections. It created the Jubilee Housing Institute to provide outreach and education in the recruitment of new volunteers. Rehabilitation was the minimum necessary to meet code violations. The apartment buildings remained functionally obsolescent and much needed to be done to improve the living environment. As a result, Jubilee began to look for additional funds for more extensive renovation. James Rouse knew Federal officials at HUD and acquainted them with Jubilee's activities and problems. He helped establish a dialogue with HUD that eventually led to Jubilee's application for an innovative grant.

PROJECT DESCRIPTION

Goals and Objectives

The formal goals of the Jubilee Multifamily Housing Rehabilitation Program are to:

- assist and encourage rehabilitation of deteriorated multi-unit buildings without substantial rent increase or tenant displacement;
- assist and promote greater tenant responsibility and control over their housing environment; and
- encourage responsible investors or non-profit sponsors to provide skills and capital toward rehabilitation of multi-unit buildings benefiting low and moderate income tenants.

Jubilee wanted to accomplish these goals by:

- completing the rehabilitation of two apartment buildings owned by Jubilee; and
- providing a seed fund for the acquisition and initial renovation of other flow income apartment buildings.

In order to meet these goals and objectives Jubilee devised a process or strategy consisting of the following elements:

- Building Management - experienced Jubilee volunteers provided on the job training of tenants in management;
- Rehabilitation - consisted of two elements:
  - initial rehabilitation to acceptable minimum standards while tenants remain in apartment; and
  - major rehabilitation providing improved building safety, security and lower operating costs, stressing improvements in building wide functional systems rather than elegant housing.
- Volunteerism - committed persons to work without pay or to do regular work with only token payments and provide corporate volunteers for technical advice;

- o Social Support Programs - dealt with housing in the context of other social needs: pre-school training, summer camp, thrift store, health program, etc.; and

- o Replication - developed and codified procedures that served as a flexible model capable of being adopted by other groups in their individual situations.

Project Components

The project had two components. Most of the $1.8 million of Federal funds ($914,264) earmarked for the demonstration were for substantial rehabilitation of 90 units in Ritz and Mozart apartment buildings that Jubilee previously had acquired. Jubilee attempted to train tenants in the rehabilitation and management of the buildings. The remaining funds were a revolving fund used to pay for additional rehabilitation expenses incurred on the Ritz and Mozart, acquire and rehabilitate additional buildings in the neighborhood and make loans to other city groups engaged in similar activities.

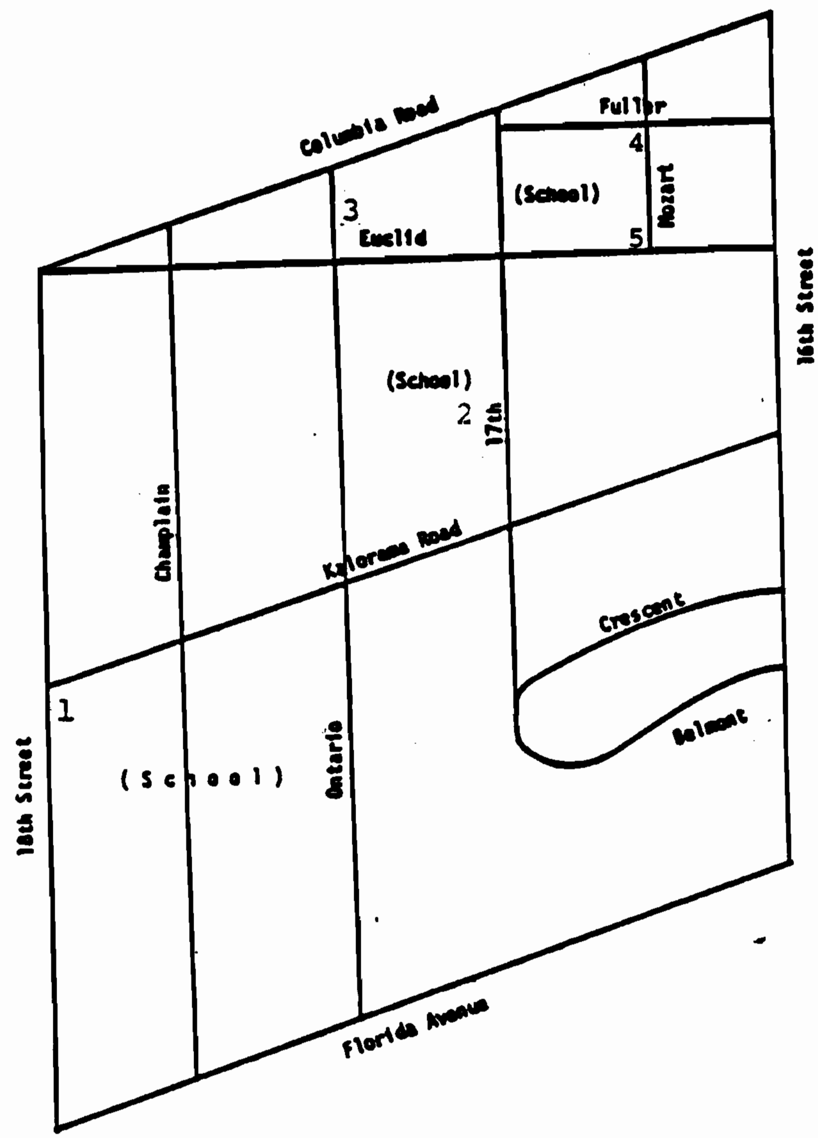
Jubilee spent approximately $202,000 of the half million dollar revolving fund for costs in excess of the amount originally allocated to rehabilitation on the Ritz and Mozart. Jubilee was able to use the remainder of the revolving fund to: make a partial downpayment on the purchase of the 27-unit Ontario Court apartment building; provide refinancing for the purchase of the 32 unit Sorrento building; make and receive payment on a loan to a city tenant association to provide earnest money for a low income cooperative; carry out selective rehabilitation and repair of the Sorrento and Ontario Court structures.

Target Area Characteristics

The target area is located about two miles north of the White House on the edge of the prestigious Northwest residential area of Washington. The target area has a number of embassies, churches and schools. The target area had about 4,300 persons in 1977, about one fourth of the larger Adams Morgan neighborhood population. Its character as the most densely populated and poorest segment of the neighborhood influenced its selection. Most of its 2,342 units were built in the 1920s and almost all are rental units. In 1970, prior to its resurgence, the target area had a median family income of $5,590 compared to $9,583 for Washington. Over one fifth of the target area's residents were below the poverty line and the amount of their income devoted to shelter was, on the average 60 percent greater than that of the City. Its boundaries are indicated on Exhibit I.

EXHIBIT I

Jubilee Target Area Neighborhood and Building Locations



Washington, D.C.
Business District

Dupont Circle
Area

Key - Building Locations

1. Sorrento, 2233 18th Street
2. Marietta, 2418 18th Street
3. Ontario Court, 2525 Ontario
4. Mozart, 1630 Fuller Street
5. Ritz, 1631 Euclid Street

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PROJECT IMPLEMENTATION

Jubilee discovered it needed further internal institutional changes before it could successfully administer and implement the grant. Its broad agenda on what it wanted to do appeared simple, but its own particular economic and social requirements or objectives on how it wanted to accomplish its goals complicated achievement. Each of the objectives -- performing cost-effective rehabilitation, keeping tenant rents low, preventing displacement of tenants, training tenants in rehabilitation and management skills, using volunteer workers and encouraging ownership of units among residents -- individually represented a desirable opportunity to increase the social and economic environment of residents. On the other hand, these objectives often ran at cross purposes with one another in the process of implementation. As a result, Jubilee had to continually adjust its expectations in regard to rehabilitation, acquisition of additional properties and provision of financial and other assistance to non-profit low income groups. Implementation was more complex and took longer than expected.

The Support Group

The original ad hoc group of volunteer professionals who advised Jubilee on rehabilitation was instrumental in starting the project. Rouse, as a member of the group, in December 1978 donated the services of one full-time person from his staff to work with Jubilee. Immediately thereafter, Jubilee formally organized the group as the Support Office within the structure of Jubilee Housing, Inc. At the time, the group represented six firms in construction, real estate, architecture, law and accounting. The purpose of the Support Office was to provide coordinated technical assistance for activities under the Federal grant. The full-time staff person was responsible for management and implementation of the grant activities. Federal grant funds provided an administrative assistant and half-time accountant to assist him. A construction supervisor was hired to oversee day-to-day construction activities.

Advice from the support group took the form of general guidance. For example, it advised on the selection of the architect, but did not draw up detailed specifications. The group developed criteria for bidding and selecting bids as well as plans and schedules for rehabilitation construction work and acquisition of additional Jubilee properties. The original members of the support group were Hyman Construction, Truland Corporation (electrical contractors), John J. Kirland (mechanical contractors), Wilmer, Cutler and Pickering (law), Price-Waterhouse (accounting), and The Rouse Company. Later, Skidmore, Owings and Merrill was useful in planning construction. Coldwell Banker assisted in real estate brokerage and Horning Brothers was called in on issues of property management.

Many persons who contributed were among the busiest in their companies and alloted two to four hours of prime time to attend periodic meetings or donate time as needed. When some members left their companies, they continued as members with their new firms. As a result, new corporate members became part of the support group and membership eventually grew to twenty firms. In addition to Rouse, three of these firms now donate full time employees to Jubilee.

Management of Buildings

Changes in management structure of Jubilee buildings became necessary once activities under the grant began operation. The Institute for Jubilee Housing, originally established in late 1977 to support development of cooperative management in buildings. Its work resulted in the formulation of a separate entity within Jubilee, called Community Management in late 1979 to accommodate new forms of management as the number of buildings grew. When Jubilee had two buildings, it had only one resident manager. In the smaller Mozart building, Jubilee had already established a Cooperative Management Board, supported by a structure of committees organized around specialized topics related to management. After the multifamily program activities began, Jubilee appointed the former resident manager of the Mozart as Community Management Coordinator and adopted the Mozart's cooperative management mode of organization as a universal form when new buildings were acquired. Jubilee staff and experienced residents from older buildings provided residents in new buildings with training in management.

Jubilee's goal to encourage greater responsibility among tenants for their housing environment resulted in the requirement that all tenants spend at least five hours a month on one management committee for their building. There are five such committees of residents advising a paid resident assistant in running each building: the finance committee collects rents and pays bills; the maintenance committee collects work orders and supervises maintenance projects; the legal committee develops building rules and enforcement; the admissions/orientation committee reviews applications for new tenants and orients them; the public spaces committee is responsible for common areas and supervises the janitor.

The Management Coordinator originally had five similarly constituted committees to assist her in management of all buildings. In addition, she supervised a centralized maintenance department for all buildings. Each of the five committees in each building selected a representative for one of the five general committees. The Coordinator, therefore, dealt directly with a total of 25 persons -- 5 committees of 5 members each. The organization became unworkable and the Coordinator now deals with 5 building assistants in managing all the buildings.

Cooperative Ownership

To encourage tenant responsibility for housing, Jubilee during the course of the project, struggled to develop a concept that would enable low income tenants to own their own units. The idea of a low income, non-equity housing cooperative similar in form to a mutual housing association evolved. The process of developing the concept was long, involving Jubilee staff, tenants and numerous consultants. As a result, Jubilee reached agreement on the final structure of ownership only at the end of the program.

Under the scheme, Jubilee and the tenants would incorporate each building as a housing association as a vehicle for owning, operating or otherwise acquiring a building. Each resident is eligible to become a member once he or she met low income limits and other criteria. Each resident member receives a membership certificate and is entitled to occupy the unit as long as he or she pays on a current, monthly basis the membership share of: operating services and expenses, management and administrative costs, taxes and assessments, etc. The monthly membership share for each unit is the total square footage of all units in the building and multiplying it by the building's total monthly costs.

The value of a membership share, therefore, has nothing to do with the equity value of the unit. When membership is terminated the tenant is entitled to receive only his or her initial fee and security deposit at a new value, equivalent to the appreciation of rent, if any. In this way no person walks out with a piece of the equity. The association has the advantage of not penalizing new members by requiring them to pay an increased membership price to make up to any equity paid to an old member when he or she leaves. The Board of Directors that owns and governs each building is interlocking, composed of elected tenant-members and one member appointed by Jubilee, plus one resident of Jubilee. Any sale, refinancing arrangement or change in management would require concurrent of the Jubilee member. The Internal Revenue Service has recently ruled that such an association qualifies as a non-profit organization under Section 501 c-3. This allows the building association to receive tax-exempt donations.

Rehabilitation

Jubilee chose to be its own general contractor in undertaking rehabilitation of the Ritz and Mozart. This method of operation allowed it to maintain better control over the quality of the project and to implement its social goals of training residents and tenants in rehabilitation and minimizing displacement. Avoiding tenant displacements, in particular, required close control. Jubilee isolated groups of apartments by tiers according to the configuration of water and heat supply lines in order to achieve major interior renovation involving these systems. It temporarily moved groups of households in these tiers to vacant units available in the building while rehabilitation was underway. Keeping tenants within the building created construction problems, lengthened the project and made construction more costly. Subcontractors did the same type of work seven times instead of all at once.

Jubilee's first task was to revise the original estimate of rehabilitation costs made by an architectural firm in the proposal. It had substantially underestimated the nature of the work required. After the proposal was approved, the support group assembled a complement of architects and engineering contractors to prepare a new, higher and more realistic estimate of the scope of work and its cost. Many unknowns complicated the task of making an estimate. For example, the group did not know that the conduits for electrical work were either not there or had to be replaced. Estimates proved to be substantially below what mechanical and plumbing work actually cost. The group tended to define the scope of work based on the higher standards of middle class housing rather than use more modest norms in accord with Jubilee's limited objective of "fair and decent housing."

Changes in the estimate of the cost of rehabilitation combined with actual experience in construction necessitated a reallocation in the scope of construction work. The original scope of work proposed to selectively concentrate on common areas, the exterior, mechanical and electrical systems, storm windows and the upgrading of individual kitchens. These types of improvements were intended to lower operating costs, increase safety or reduce functional obsolescence. Jubilee wanted to do plastering, painting and some carpentry in individual units using the "sweat" equity of the tenants. The reluctance of tenants to do volunteer construction work while others were paid for such work, the uneven quality of some volunteer work and the collective desire of the tenants themselves, shifted construction priorities away from common areas to finished apartment units. Jubilee, therefore, added painting, plastering and some carpentry to the scope of work, eliminating common area repairs that were too expensive. Jubilee cancelled major repair of elevators in both buildings, repair of the stucco exterior of the Mozart, re-roofing, modification for entrance security and acquisition of appliances for upgrading kitchens and bathrooms.

Other factors changed the scope of work and increased costs. Both the Jubilee staff and the residents had high expectations about what they wanted. It took them six months to define the project. In a federally funded project, Jubilee had to comply with the Davis-Bacon Act which prescribed the use of higher union labor. Under the Act Jubilee had to use the higher wage rates characteristic of a heavy commercial high rise buildings, because the Ritz and Mozart's height put them in that category. Jubilee could not qualify as a group that had bona-fide training programs and had to pay its workers higher wages instead of apprenticeship wages. It, therefore, employed inexperienced local help at high wage rates. Jubilee had no opportunity to make increased wages contingent on improved quality of work, creating jealousies among tenants and workers and raising wage and job expectations to an unrealistic level.

Under the social objectives of the program Jubilee originally planned to scatter rehabilitation work among large number of part time neighborhood people; but area residents did not like the uncertainty of the work and preferred lower paid jobs that guaranteed 40 hours a week. As a result Jubilee shifted to the use of a smaller fixed pool of local labor. In spite of this and because of the uneveness of some of the work, Jubilee eventually employed a great many people in the neighborhood full or part time. Use of inexperienced labor on the work force elevated costs because greater time was necessary to train them and achieve high quality work, resulting in underutilization.

As a result of the intentional increases in the scope of work and the unanticipated problems, the time necessary to do the rehabilitation was greater than expected, a factor in increased costs. Both buildings were originally projected to be complete in 63 weeks. Jubilee actually completed the buildings in about 90 weeks, with the 30 units in the Mozart completed in almost 10 months and the Ritz' 60 units scheduled for completion in over a year.

The final cost of completed rehabilitation in the Ritz and Mozart was almost 50 percent greater than the original proposal estimate and about 22 percent greater than the revised estimate made by the support group. In the larger Ritz building final rehabilitation costs exceeded the revised budget by about 46 percent. As a result, average rehabilitation costs increased from the original estimate of $9,232 per unit to $14,918 per unit. On the other hand, the Mozart building's final cost was about the same as the support group's revised estimate. The average cost of rehabilitation in this building increased from an original estimate of $10,839 per unit to $13,828 per unit.

The high cost of rehabilitation in the Ritz and Mozart took more of the revolving fund than expected. Rehabilitation of other Jubilee buildings using the revolving fund was far less ambitious and more selective compared to the Ritz and Mozart: $23,500 to replace the boiler and hot water heater in the Sorrento; approximately $4,450 to make roof repairs to the Ontario Court apartment building; $27,000 to plan the future rehabilitation of the Sorrento. Jubilee finally decided that the lack of funding for work on other buildings and the high cost of rehabilitation did not justify its continuation in the role of general contractor.

Financing

Jubilee has not been able to use its revolving fund to establish itself on a self-sustaining basis. The term revolving fund is actually somewhat of a misnomer. Jubilee's inexperience in housing development may have been the reason HUD did not allocate the revolving fund to Jubilee in one lump sum. Instead, HUD required each proposed expenditure receive D.C. government and HUD approval before it allocated funds to Jubilee. As a result, Jubilee lost the opportunity to earn significant amounts of interest. Also, it could not work out schemes for leveraging funds from private lenders in return for deposit of the revolving fund. Loans to the Cardozo group ($1,916) for storm windows and to the Howard Hall Tenants Association ($55,000) for cooperative purchase were made with no interest.

Jubilee used the revolving fund largely for equity investments in the buildings rather than income generating investments. Jubilee invested about one-half of the fund in the rehabilitation of four Jubilee buildings and most, or about 40.4 percent was for additional costs above those originally earmarked for the rehabilitation of the Ritz and Mozart. Jubilee used about one-third of the revolving fund for property financing activities, of which $128,000, or 74 percent, was for partial downpayment on the Ontario Court building.

Equity on all Jubilee buildings is generally high. Exhibit II shows that equity ranges from 26 percent in the Sorrento to about 82 - 83 percent for the Ritz and Mozart. The Ritz, Mozart and Ontario Court buildings that have greatest amount of equity also used the largest amount of the grant funds. Exhibit II indicates that only in the Ritz and Mozart, is operating income sufficient to cover the current debt service. During the next 20 years, costs are projected to result in a deficit of $115,042 in funds to meet debt service obligations on all buildings except the Ritz and Mozart. As a result Jubilee has hired a private consulting firm to investigate ways of using its substantial investment in equity to generate more income and offset adverse trends.

In 1979 and 1980, total non-governmental contributions to Jubilee declined about 27 percent. Foundations or non-profit corporations donated funds providing over half of Jubilee's nongovernmental contributions. Donations from institutions and private corporations appear to be increasing while contributions from individuals have declined. During the first six months of 1981 a new direct mail campaign to obtain individual donations has increased individual contributions. Grants from foundations in this period appear much lower. Private contributions as yet do not appear to be an effective way of meeting mounting deficits.

EXHIBIT II

Financial Characteristics of Jubilee Buildings, 1980

	Ritz Total	(60 units) Per Unit	Mozart Total	(30 units) Per Unit	Sorrento Total	(32 units) Per Unit	Marietta Total	(16 units) Per Unit	Ontario Court Total	(3 units) Per Unit
Costs, Total	1,377,512	22,918	647,108	21,570	224,587	7,018	138,202	8,638	650,866	8,678
Initial rehab	67,802	6,910	33,101	1,103	42,616	1,332	--	--	47,166	629
Other rehab	895,090	1,130	414,830	13,828	--	--	--	--	--	--
Acquisition	414,620	6,910	199,177	6,639	181,971	5,686	138,202	8,638	603,700	8,049
Financing, Total	1,377,512	22,958	647,108	21,570	224,587	7,018	138,202	8,638	288,077	10,699
Indebtedness	236,990	3,950	113,846	3,795	166,065	5,198	86,778	5,424	115,057	4,261
Equity	1,140,522	19,008	533,262	17,775	58,522	1,829	51,424	3,214	173,020	6,408
Debt Service										
Annual	27,702	462	13,338	445	19,020	594	10,068	629	12,000	444
Avail. for debt from bldg. oper.	27,766	463	14,051	468	(14,131)	441	(5,168)	(323)	(9,982)	(370)
Debt Service Deficit	-0-	--	-0-	--	4,889	153	4,900	306	2,018	74

SOURCE: Attachment 11a and 11b, Quarterly Report No. 11, Final Update on Activities and Evaluation of Contract Performance, Jubilee Housing, Inc., Support Group. June 24, 1981.

Impact on Clients Served

Because of a system of phased rehabilitation, Jubilee did not have to displace anyone from their buildings. The composition of the original tenants in the Ritz and Mozart did not change very much during the first years of construction. Since vacancies exceeded relocation requirements, however, 14 new tenants or 7 in each building moved into the Ritz and Mozart during the first year of construction.

Jubilee consciously maintained a policy of serving the poor in all its buildings. As of October 1980, when rehabilitation of the Mozart was largely completed and the Ritz was in midcourse, there was a 14.5 percent vacancy rate due to construction and the necessity to relocate tenants in the 165 apartment units owned by Jubilee. About 83 percent of those occupying units in Jubilee buildings were under the HUD income limits for Section 8 housing, considered to be very low income. The 20 low and moderate income persons remaining fell within the higher income limits of the Section 236 subsidy program. Jubilee used very low income guidelines in accepting new tenants to fill vacant units with priority being given to Washington residents displaced by government programs or private condominiums conversions.

One of the outstanding achievements of Jubilee has been its ability to focus the program on the hard core poor. The $7,500 median income of Jubilee residents is low. About 78 percent of the resident households have incomes that are less than 50 percent of the Washington median income for a family of four. More than half of the tenant population relies on some form of public benefit or other non-wage income for support. For about 30 percent of the residents, welfare benefits are the sole source of support. By almost any market standard, Jubilee rents are low, averaging $156 a month in all five buildings.

A high shelter burden persists among tenants, despite low prevailing average rents. For almost half of Jubilee households, the burden is in excess of 30 percent of their income. Twenty-nine percent of households pay more than 40 percent of their income for rent. It is not clear whether a large portion of tenants can afford future rent increases necessary to bear anticipated increases in operating costs or meet future debt service needs necessary to improve the quality of buildings. In order to prevent the eventual displacement of the poor and maintain the building in good condition, some other form of assistance to tenants will likely be required.

LESSONS LEARNED

Jubilee's broad spectrum of goals reflect an ambitious program, whose goals have not always been mutually supportive in the course of program operation, but provide valuable lessons for other organizations who desire to serve the housing and social needs of the poor.

Jubilee learned that in order to accommodate many of its own social goals and meet the needs of its residents it had to make trade-offs in the way it conducted rehabilitation. As a result, rehabilitation was necessarily selective and Jubilee's physical and economic achievements in rehabilitation were not particularly remarkable in scope or cost-effectiveness. Many factors resulted in trade-offs, and increased the scope of work and the cost of rehabilitation beyond levels anticipated: the social objectives of minimizing tenant displacement and providing tenants with a role in rehabilitation; the inexperience of Jubilee in the role of general contractor; rising rehabilitation construction costs; and the changing expectations on the part of both tenants and management in regard to the level and scope of rehabilitation required.

Rehabilitation by residents was uneven in quality and expensive because of time lost for work not done properly or for training necessary to do the job well. Jubilee was not geared to train residents in rehabilitation activities. The use of local people could be considered a project cost necessary to achieve social objectives. The decision of Jubilee not to pursue its future role as a general contractor was tacit acknowledgement that the cost of carrying out social objectives was too great and that economic feasibility considerations had priority.

The practice of rehabilitating apartments while residents still lived in the building resulted in additional constraints, relocation costs and loss of income from vacant units used to house those displaced. Relocation costs and disruption, however, were less than would occur if residents had to be relocated outside the building in the neighborhood.

Jubilee, by directly participating in rehabilitation as its own general contractor, learned the difficult and arduous tasks of developing specifications and costs for rehabilitation, putting them out for bid and coordinating the work of subcontractors. It learned about the unpredictability inherent in the rehabilitation process and to allow contingencies for it. The diverse and shifting points of view among the general contractor and tenants within the building over the level and scope of rehabilitation led Jubilee to the development of criteria for choosing various types and degrees of rehabilitation.

Acting as its own general contractor, on the other hand, has been expensive, contributing to the high total cost of rehabilitation. Jubilee feels it does not have enough funds or volume of construction to sustain itself as a general contractor on other buildings. In the future it will hire an outside general contractor. However, of the time and money invested in the construction learning curve has not been lost key full time personnel and members of the support group remaining have subsequently used their experience in working with outside contractors. Because they are no longer tied to the provisions of the Bacon-Davis Act, Jubilee has a better opportunity to control construction jobs for participation by its own low income residents.

Jubilee learned that it must create new self-sustaining financial mechanisms to fund projects similar to the Ritz and Mozart. Dealing with the hard core poor has meant that rent levels are necessarily low, covering operating costs and only a small level of debt service on most Jubilee structures. The low income potential of the buildings has been a constraint upon obtaining acceptable financial terms to rehabilitate the buildings. It has been a policy of Jubilee not to incur further debt when the rent paying capacity of the buildings cannot support it. The amount of equity in buildings has, therefore, been relatively high. At the current high costs of acquiring buildings and rehabilitating them, Jubilee cannot afford even below market rate private loans. Government mortgage subsidies place untenable restrictions on the goals of Jubilee. As a result, Jubilee has increasingly had to rely on private contributions. Yet, from 1979 through the first half of 1981, despite large contributions from a variety of foundations and individuals, the trend of private donations has been down.

Jubilee learned that volunteer professional technical assistance was an economic and valuable way to plan and implement the program. Such help compensated for some of its own inexperience as a general contractor. As a result, Jubilee developed a new form of volunteerism not entirely anticipated in the original project design. A support group of specialized business firms and professionals in the areas of real estate, development, construction, architecture, accounting and law provided in excess of 11,000 hours of part-time technical assistance and full-time donated staff. The Rouse Corporation's donation of a full time employee as both Director for the Support Group and as person in charge of development for Jubilee's Housing Institute's construction activities ensured the start-up of the program as well as the quality and continuity of implementation.

Jubilee developed the concept of a low income housing cooperative or housing association but it has not been tested in practice. It will be a more equitable method for maintaining and accommodating future low income tenants. In according with the goal of fostering upward mobility, Jubilee will undoubtedly serve some moderate or middle income residents as the income of some tenants rises faster than others. It would ordinarily be equitable to skew rents according to income, but this would be difficult in a housing association where there are no differentials in ownership based on equity.