

# Models for Reusing Distressed Properties

Bruce Gottschall, Executive Director  
Neighborhood Housing Services of Chicago

NYU Furman Center for Real Estate & Urban Policy  
May 2, 2008

## Neighborhood Housing Services of Chicago

- Mission: Neighborhood Housing Services of Chicago creates opportunities for people to live in affordable homes, improve their lives and strengthen their neighborhoods.
- We do this by:
  - Educating and preparing new homeowners for success
  - Lending to help people buy, fix and keep their homes
  - Sustaining home ownership through foreclosure prevention services
  - Preserving, rehabbing and investing in housing
  - Building powerful and enduring community partnerships
- NHS started in 1975 to combat redlining in Chicago
- Created or preserved 26,923 units of housing through:
  - Lending
  - Rehab
  - New construction
- Directly invested \$388 million

## NHS of Chicago

- 9 target communities
- Community building and neighborhood reinvestment strategies
- Block and institutional organizing
- Home ownership training and counseling
  - Pre-purchase
  - Post-purchase
- Foreclosure prevention

## Neighborhood Lending Services Licensed Mortgage Bank

- Lending to families and individuals to: buy, fix or keep homes
- Tool to fill lending gaps to create reinvestment
- City-wide to low/moderate income borrowers
- Neighborhood Lending Program:
  - CBDG subsidy funds to leverage private funds and create investment and affordability

## NHS Redevelopment Corporation

- Direct real estate ownership and development
  - Tool for neighborhood reinvestment
  - Fix problem vacant properties
  - Create visible investment to set standards for improvement
  - Provide affordable housing opportunities
- Multi-family rental rehab and new construction (tax credits, etc.)
- New home construction to encourage homeownership on vacant lots
- NeighborHomes: purchase, rehab and resale of vacant 1-4 unit properties for sale to owner occupants

## NHS – HUD ACA Experience

- Results
  - 100 properties purchased in two neighborhoods (Back of the Yards – 27 Chicago Lawn/Gage Park – 73)
  - 2 ½ years duration
- Impact
  - Stabilizing blocks by transforming vacant buildings into community assets
  - Providing affordable homeownership opportunities for families
  - Ensuring buyers are well-prepared to be successful homeowners
  - Leveraging other investment to create impact – the Green Bungalow block at 6400 South Fairfield

ACA Model Block  
Green Bungalow Homes  
Before



ACA Model Block  
Green Bungalow Homes  
After



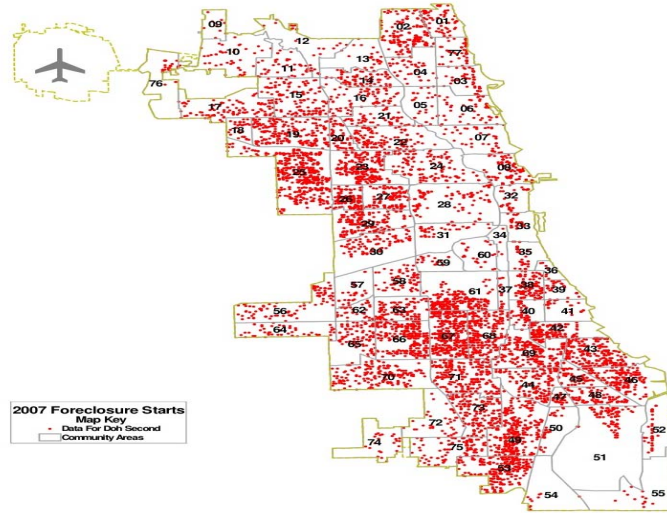
## Ingredients of Success

- Negotiating acquisition price (re-appraisal)
- Subsidy available for appraisal gap
- Get all buildings in the focus area in timely and planned manner
- Market was appreciating, but homes were still affordable

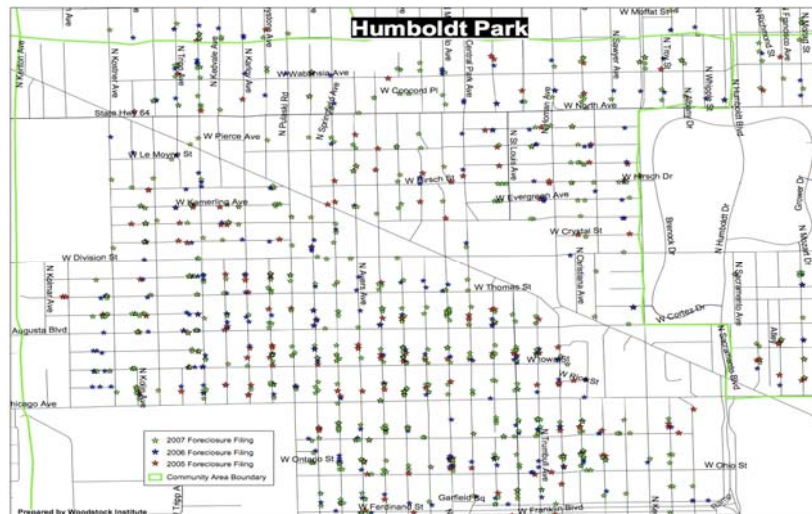
## Recurring Issues

- Appraisals – acquisition cost
- Market value – after rehab
- Rehab standards & costs
- Subsidy sources – appraisal gap
- Feasibility
- Affordability & revitalization – neighborhood specific strategies
- Property location & selection
- Marketing & sales

# Subprime Foreclosures and Vacant Buildings Rehab and Sale



# Subprime Foreclosures and Vacant Buildings Rehab and Sale



## Home Ownership Preservation Initiative: Goal & Results

- **Goal**
  - To address rising foreclosures in Chicago's low- and moderate-income neighborhoods in order to preserve sustainable homeownership for Chicago residents and to reclaim foreclosed homes as neighborhood assets
- **Results**
  - 1,776 foreclosures prevented
  - 9,300 families counseled
  - 348 properties reclaimed

## Results of NHS Rehab Resale Activity

- Average per building sold 2004-2008

Fiscal Year	FY04	FY05	FY06	FY07	FY08
<b>Acquisition</b>	\$28,887	\$37,654	\$43,700	\$64,922	\$24,177
<b>Rehab</b>	\$145,648	\$143,855	\$117,145	\$151,228	\$113,471
<b>Subsidy</b>	\$29,859	\$35,260	\$20,315	\$24,489	\$20,000
<b>Sales Price</b>	\$138,255	\$138,523	\$129,613	\$186,144	\$130,525
<b>Average Developer Fee (per property)</b>	\$6,418	\$7,726	\$11,215	\$5,517	(\$12,877)

- Annual total costs \$5 – 10 million
- Holding inventory needs ongoing \$4 – 7 million

## Vacant Properties Purchased at a Discount From Servicer REO Over Three Years

- Lender A - 6
  - Lender B - 5
  - Lender C – 2
  - Lender D – 2
  - Lender E - 2
  - 5 others – 1 each
- Very difficult to negotiate doable price  
-Investors / speculators paid more

## Recurring Issues

- Appraisals – acquisition costs
- Market value – after rehab
- Rehab standards & costs
- Subsidy sources – appraisal gap
- Feasibility
- Affordability & revitalization – neighborhood specific strategies
- Property location & selection
- Marketing & sales

## Other REO Issues

- Securitization issues
  - Who decides?
  - Investor interests?
- REO division as separate cost or profit center
  - Independent from other parts of servicer
- New market reality - softer
  - Who determines price?

## HSBC REO Pilot Program YourHome Counts

- REO Pilot Program coordinated in conjunction with HOPI where HSBC donated 4 properties to NHSRC for rehab and resale to owner-occupants at or below 80% AMI
- NHSRC accepted property as-is and assumed responsibility
- NHSRC met conditions – “REO Disposition Program Participant Qualifications”
- Per the terms of the agreement, NHSRC is allowed to earn a reasonable and customary developer’s fee which is defined as 15%
- Any financial gain over and beyond the total costs and developer’s fee shall be deposited into a down payment and closing cost escrow to be utilized for future affordable housing initiatives
- Lender received credit for as-is appraised value of property as contribution

## Troubled Buildings Initiative Receivership

- Troubled vacant buildings cited by the City of Chicago are prosecuted for building code compliance issues that could lead to potential demolition
- The Municipal Court of Cook County to prevent demolition can appoint a Receiver
  - The Receiver's role is to analyze the economic viability of rehabilitating the property
  - Court's decision to demolish or allow the Receiver to commence rehabilitation
  - The Receiver's Cost to Repair the subject are recorded as a first position lien against the real estate by issuance of a Receiver's Certificate
    - The Receiver's lien position is only subordinate to tax liens
- To date we have an active caseload of 140 properties and have reclaimed over 70 properties
  - We define success or reclaimed property as buildings that have achieved building code compliance through the either the direct or indirect involvement of NHSRC

## Troubled Buildings Initiative Receivership



- Date of appointment: 10/18/06
- Date of general receivership: 12/19/06
- Final court date: 2/6/08

## City of Chicago Foreclosure Mitigation

- The City of Chicago is currently working to develop a quasi-governmental entity charged with facilitating the transfer of vacant properties from lending institutions to approved partners as part of a larger effort to put foreclosed properties back into productive use.
- Its primary goals will be to:
  - Get properties up-to-code and occupied.
  - Implement a strategic and operational disposition plan that supports healthy neighborhoods.
- Working in close partnership with on-the-ground organizations in key neighborhoods, its three primary functions will be to facilitate and oversee acquisition; disposition; and property management.

## Current Purchase, Rehab, Resale Issues

- Very soft market
  - Even in formerly okay neighborhoods
- Tightening credit availability
- Overall holding costs
- Decreasing sales prices
- Increased subsidy needs or lower acquisition cost
- Rental single family - option
- Lease to purchase options
  - Subsidy needs
  - Management and counseling costs
  - Subsidy to cover costs of those lease to purchasers who don't become the owner and need to replace with new