

Strategic Opportunities

The survey of local NSP strategies and those highlighted in this article reveal that successful approaches come in a variety of forms- and no single strategy is best for every community. Also evident is that certain NSP challenges, such as the competition of cash investors, means that NSP communities should be looking at some strategic opportunities to reach their goal of expending NSP funds in a timely manner. The dynamics of the foreclosure crisis and the dynamics of the foreclosure and economic recovery process mean that NSP communities would be wise to immediately assess some strategic opportunities: expanding the target area; targeting multifamily properties; land banking; lease purchase, and better partnering with nonprofits, lenders, and Realtors.



A seven unit apartment complex purchased by the City of Ft. Myers. Once rehabilitated it will be deeded to a nonprofit supportive housing provider for families who are rebuilding their lives after foreclosure, evictions, homelessness and unemployment. Support services include education and training for new careers.

Expand the Target Area

Many communities have drawn their boundaries too narrowly and face a diminished supply of suitable inventory. In some cases foreclosure rates have risen in other neighborhoods warranting an expansion of the initially drawn target areas. If the expansion of a target area is considered, HUD should be notified. The action plan amendment will need to go through the same process as the initial substantial amendment including a 15 day public comment period. The justification for expanding the target areas should be described both through foreclosure data and geographically to describe how NSP funds will stabilize areas of greatest need. The approval process of expanded areas may overlap the initial 18 month deadline for obligation of funds but this will improve the chances for success in neighborhood stabilization over the program horizon of four years.

Target Multifamily Properties

Most of Florida's NSP communities have been focused on single family homes- purchasing one unit at a time. As time is running short, focusing on the purchase of multiple units within one development can be both efficient and less likely to draw competition from the private investor segment of the market. The purchase and rehabilitation can utilize more

funds at one time reducing the transaction costs and efforts. A Realtor specializing in multifamily properties can provide listings and information on the properties history and occupancy. Multifamily rehabilitation and management requires significant capacity and experience however, so it is critical to form the necessary partnerships to

undertake multifamily property acquisition. An extensive analysis of the condition of the building, or capital needs assessment, will indicate the feasibility of rehabilitation and extent of the cost. The area market is also critical to understand for any rental property management. If rental strategies were not included in the substantial amendment, a revision will be necessary.

Land Banking

The land banking strategy that is an eligible use of NSP funds can be a valuable alternative during the critical months ahead as communities run into the 18 month obligation deadline. Because land banking can buy the NSP community up to ten years to develop a property, the strategy can be used to obligate remaining NSP funds during the waning months of the

program. It is important to note that land banking does not satisfy the 25% low income set aside as this must be shown in the closeout of the first phase of the program. The June 19, 2009 NSP1 Federal Register Bridge Notice added language supporting the use of NSP funds for the operation of land banking expenses. This clarification greatly enhances the attractiveness of this strategy.

Land banking can be combined with demolition activities so that properties that need extensive rehabilitation or are located in flood plains can be acquired, cleared and saved for future use. Compounding the value of the land banking strategy is the use of a community land trust to serve a dual role as a designated land bank entity and to ensure permanent affordability of NSP funded properties.

Community Land Trust programs are up and running in many Florida communities. Most were the result of the boom market conditions, providing an alternative to fee simple homeownership at a time when homeownership was out of reach for many in the community. Using a community land trust as the vehicle for land banking is an excellent strategy for land management. The NSP homes that are land banked with a community land trust will be preserved through the market re-bound expected to occur within the next five years. The CLT organization can be a valuable partner as they provide a full range of housing development services as well as the capacity to own and manage land. The CLT, in its role as land steward, acquires, develops or rehabilitates properties and supports buyers with enhanced pre and post purchase assistance.

Land Bank and Land Trust

Land banks and land trusts are defined differently but can be used in combination to implement the NSP long term affordability provisions as well as reserve land for future development as affordable housing. The NSP Rule defines a land bank as a short-term (10 years maximum) means of managing land that may not have a defined purpose and cannot be immediately used due to market conditions. A land trust is a long-term land management tool. The land trust model can be used as a financing mechanism permissible under Eligible Use A of the NSP1.

If land banking is not already one of the NSP communities' strategies, now would be the time to make that amendment; this would be a sound decision that ensures the full use of NSP funding. Coupling the land banking strategy with a community land trust promotes the important public purpose of creating and managing a perpetual stock of affordable housing.

Increase Realtor, Lender, and Nonprofit Partnerships

NSP communities are varied in their approaches to implementing their NSP strategies. Some communities are taking a hands-on approach with the local government taking title to the properties and conducting the rehabilitation through their procurement process using qualified contractors. The homes are then made available to buyers through Realtors or in-house applications. Homeownership counseling is largely conducted by nonprofit organizations that are also providing foreclosure counseling to troubled homeowners.

Realtors have made great efforts to assist buyers but the difficult terrain of identifying properties and making offers on homes that need substantial rehabilitation takes extra effort and lenders are reluctant to escrow rehab funds. Finding financing for families with less than excellent credit has been a tough obstacle in meeting the strict 45 day closing deadlines on the purchase of the home. In those communities with move-in ready homes and willing first mortgage lenders, purchase assistance can succeed but NSP managers need to be watching carefully to ensure that

funds will be obligated in time -otherwise they must quickly develop another strategy.

Local market conditions will determine the success rate for purchase assistance programs. In areas with move-in ready homes and a cadre of committed Realtors who are experienced with the rigors of income qualification, subsidy applications and finding first mortgages can be expected to meet targeted goals. Even so, banks are not lending to homes that need significant repair. Finding qualified buyers under the increased credit requirements is also hampering the strategy. For communities with challenging neighborhood stabilization situations such as homes needing significant rehabilitation, working with nonprofit partners who conduct the acquisition and rehabilitation may prove more expedient.

Some local governments, such as Jacksonville, have relatively few staff and are allowing the private sector to carry out virtually all of the NSP activities. With over 80 homes in process, Jacksonville is not only creating jobs in the community, but saving on administration costs. Pasco and Polk Counties have adopted this type of strategy as well and now have mobilized systems that allow them to focus on compliance while the nonprofits provide one stop shopping for buyers.

Nonprofit housing partners provide the intermediary support required during the acquisition and rehabilitation process so that fully completed homes can be marketed to qualified buyers. The SHIP and Catalyst programs have enabled the development of these community based organizations and existing partnerships have enabled a smooth procurement process to engage them for NSP work.

Lease Purchase Programs

As communities take possession of foreclosed properties, qualified buyers are often in short supply. As an interim measure many are considering using a lease purchase program to allow potential buyers to take occupancy of the home while they complete their purchase qualification process. This type of tenancy

seems to gain popularity when housing inventory is high and financing options are low.

Using NSP funds to purchase and rehab homes and then make them available under a lease purchase agreement can be a good choice but there are many issues to consider. Of critical importance is the recognition that a lease purchase program goes beyond basic rental property management. Rent collection and maintenance are the primary functions but program responsibility in a lease purchase program extends far beyond this.

Potential homebuyers who occupy a home under a lease purchase program have responsibilities including resolution of credit issues, making a down payment, and completing a homebuyer counseling course. Property maintenance can also be their responsibility as a means of preparing for homeownership.

The leasing organization needs to have adequate staff for outreach and intake, collection of rent, counseling and basic property maintenance needs. A significant investment in the acquisition and rehabilitation of the home will be required and the organization must be able to carry that expenditure for an extended period of time until the purchase is complete. Should the tenant-purchaser breach the agreement and be evicted, the organization must be able to shoulder that unpleasant scenario, rehab the house again, and find another occupant. For this reason the organization must be able to select viable purchasers who have a very good chance of obtaining permanent mortgage financing and who have a satisfactory rental history.

The lease purchase model has been rarely used in the recent past in the affordable housing industry. Nationally, the rate of graduation from rental to homeownership has been relatively low which invites a serious review into the viability of the process.

The Florida Housing Coalition is developing a model lease purchase agreement and a training and technical assistance module for future workshops on best practices for lease purchase programs.