

Leveraging Home-Ownership Promotion As A Tool For Neighborhood Revitalization

By David Boehlke

In 1992, Neighborhoods Inc. of Battle Creek, Michigan initiated a large-scale revitalization project with the challenging goal of reestablishing the health of three older target neighborhoods containing a total of 2,400 homes. Like many similar urban areas nationwide, these neighborhoods were typified by land contract purchases, buy-like-rent plans, and ads which trumpeted houses as handyman specials or as properties best suited for conversion to rental.

In the Battle Creek neighborhoods, the level of home ownership had dropped over a number of years and homebuyer demand was slack, although many houses were available for sale with special financing. More desirable properties were located in nearby neighborhoods and the prevailing low interest rates made these alternative houses quite affordable. The three target neighborhoods could not compete for stable homebuyers.

Weak demand led to depressed sales prices which, in turn, established a very low ceiling on the level of home improvements. The properties just had too little value to warrant significant reinvestment. This lack of reinvestment resulted in a generally negative appearance of the blocks which further reduced the interest of homebuyers. Efforts of the city to improve services and enforce code compliance did little to mitigate the downward cycle. Resident leaders were increasingly disheartened by their inability to reverse this disinvestment dynamic.

Responding to continuing decline, a large-scale comprehensive approach was conceptualized as a series of targeted strategies. These included resident leadership training, self-help block projects, demolition of eyesore structures, density reduction and renovation of rental buildings, special rehab lending programs, and a multi-faceted home-ownership initiative. These strategies were coordinated to support the overall goal of healthy neighborhoods. Such neighborhoods were defined as places where it made sense to invest time, effort, and money and where the neighbors were willing and able to grapple with issues affecting the community.

With that definition in the forefront, the board and staff of Neighborhoods Inc. conceived and implemented a home-ownership program intended to help first-time homebuyers buy and repair homes in ways that would significantly strengthen the blocks and lead to long-term neighborhood health.

After studying the real-estate market, local leaders decided that the primary force defining the neighborhoods was that the cost of housing was too low to attract and retain enough stable residents with the resources to maintain and improve the existing housing stock. This lack of market attraction led to lower prices for houses, and the lower prices reinforced the perception that the neighborhoods were failing. Faced with this situation, civic and neighborhood leaders decided to try to attract and retain a much wider range of residents -- though all of the various strategies were structured to promote economic diversity in the neighborhoods.

In essence, local leaders determined that there were four primary ways in which a new homebuyer could directly contribute to the revitalization of an older neighborhood:

- The homebuyer could invest at dollar levels above the current depressed prices -- and thereby drive the market to a more sustainable position.
- The homebuyer could undertake improvements which would establish higher standards of property improvement -- and thereby encourage current and future property owners to also invest in such improvements.
- The homebuyer could present a new image of the neighborhood as a place where people who have choices choose to be -- and thereby encourage current residents to stay and attract others to move in.
- The homebuyer -- bolstered by the significance of the financial and emotional commitment of home purchase -- could join the leadership of the block and the neighborhood, and thereby strengthen the ability of the neighbors to manage the everyday problems of the community.

The second aspect of the analysis by local leaders focused on what to avoid in developing a home-ownership program. They knew that the risks and costs of a large-scale neighborhood revitalization were high, and so they wanted to avoid structuring a home-ownership program in ways that would fail to achieve the overall goal of healthy neighborhoods.

In studying other home-ownership programs, a number of possible features were recognized as potential pitfalls if used in the Battle Creek neighborhoods. For example, in many other locales homebuyers receive assistance to buy and repair houses -- but only to the current appraised market value of the properties. Since these values were already depressed in Battle Creek, this would mean that the buyers would actually be required to keep housing values artificially low.

In other home-ownership programs studied, potential homebuyers were assisted only if their household incomes were below a fixed percentage of median income in the region. In

Battle Creek this would effectively exclude households with enough earnings to own and maintain many of the larger houses. Finally, many other home-ownership programs were marketed only as affordable housing initiatives. The Battle Creek neighborhoods already suffered from negative images, so language had to be avoided that might unintentionally divert middle income buyers elsewhere.

Through its investigation, the board learned that a poorly-structured home-ownership promotion program could potentially undermine the overall goal of neighborhood health. Without careful attention to the local market conditions, a home-ownership promotion program might actually keep housing values depressed, distort the real estate market by attracting only lower income households, and create a perception that the neighborhoods were not places of choice for buyers with choices.

The board was convinced that none of these outcomes need follow from home-ownership promotion if there was a conscious decision to use the process to address the distorted real estate market and to create an environment in which resident leaders could better manage neighborhood change.

What emerged in Battle Creek is a home-ownership promotion initiative that is achieving the goal of supporting neighborhood health. The day-to-day mechanics of the initiative are little different from most home-ownership programs. Pre- and post-purchase counseling are required; there is extensive rehab assistance provided; and special lending is included in nearly every home purchase. What distinguishes the local effort derives from how these tasks are carried out. Each element of the program was refined to support the overall neighborhood goal of achieving healthy neighborhoods in a community where prices were too low to sustain sufficient reinvestment, where property maintenance standards had significantly deteriorated, where the images of the neighborhoods were negative, and where resident leadership was eroding.

Given these neighborhood dynamics, the board and staff instituted a home-ownership promotion program with four defining principles to guide the program and with four cautions to guard against the program undermining the broader neighborhood effort.

The four defining principles became the basis of work with over 400 homebuyers and, by extension, hundreds of borrowers of rehab loans. The four guiding principles are as follows:

Home-Ownership Promotion Should Raise Property Values

In conventional lending, the cost of purchasing a house and repairing it to a quality standard should not exceed the after-rehab appraised value of the property. In the depressed housing market in the target neighborhoods in Battle Creek and in so many other cities, this is seldom the case. This issue of cost exceeding value is often addressed by non-profits through the use of subsidies. Such subsidies do not create a problem if the

effort is relatively modest. The problem arises when the subsidy effort is substantial enough to create new appraisal comparables. Homebuyers - and the appraisal industry - are quick to note if fully rehabbed houses sell for a very modest price. This fact will eventually be reflected in lower prices on standard properties in the neighborhood.

The Battle Creek program facilitates the sale of most properties without any direct subsidy other than what can be provided through flexible financing and reduced interest rates. Nearly all properties financed through the non-profit are purchased by homebuyers and then renovated to 110 percent to 120 percent of appraised value which assures that the property investment is above the prevailing level in the neighborhood.

The appraisal industry is kept informed that homebuyers are choosing to purchase and repair properties ahead of current housing values. This approach has consistently led to higher appraisals and has sustained increased sales prices as the real estate market recovers.

Promote High Standards of Home Improvement And Maintenance

When seeking a neighborhood health goal, it is important to note that every house contributes to the appearance of change. In essence, every house is a billboard selling the new standard. In older urban areas, few neighborhood leaders and potential home buyers are exclusively concerned with whether a house is fully code compliant as long as the property is safe for habitation. As important is whether the house meets and exceeds the locally valued standards for homeowner properties. Current property owners and potential buyers are constantly assessing whether the neighborhood will once again be defined by a homeowner standard of improvements and upkeep.

In Battle Creek, lending and rehab assistance are structured to encourage the customers to carefully consider possible property improvements. After the basic code-related deficiencies are met, the primary focus is on those improvements with significant exterior impact. The staff developed guidelines for helping customers prioritize exterior improvements and devotes extra time in assisting buyers to select paint colors and roofing materials, to plan architecturally appropriate porch repairs, and to improve walkways, fencing, driveways and landscaping to maximum effect. Such improvements are now widely recognized as the standard in the neighborhoods.

Promote Places Of Choice For Buyers With Choices

A home-ownership effort can be used to create the perception that a real-estate market is becoming stronger. One of the best ways to influence perception is to approach each sale as an opportunity to impact the market. As noted earlier, improvements to properties -- especially exterior upgrades -- are extremely important, but it is also important to communicate who is buying. After years of out-migration, there will be a good deal of skepticism about who wants to buy into the neighborhood. Are they buyers without other viable options, or do they have the choice to be elsewhere?

To answer the question, the Battle Creek initiative “markets” the buyers to the wider community. The staff actively introduces buyers to nearby neighbors, places upbeat stories about the buyers in newsletters, handouts, and newspaper stories, and encourages buyers to take high profile positions in community organizations. The emphasis is never on the special interest rates or the low down payments of the buyers. Rather, the focus is on the personal assets the buyers bring to the neighborhoods and the substantial improvements made to the properties.

Previously an upgraded property was compared to a billboard. In that same vein, the homebuyer can be described as the story on the billboard. If marketed well, a few houses and buyers can create the perception that significant change is occurring in the neighborhoods. Neighborhoods Inc. leverages this phenomena by marketing the neighborhoods’ history, uniqueness, and image of neighborliness. Marketing the neighborhoods not only encourages more qualified buyers to apply for loans, but also creates the positive environment that is necessary for neighborhoods to regain long-term health.

Encourage Homebuyer Leadership Roles In The Neighborhoods

One of the most frustrating aspects of a declining neighborhood is the loss of resident leaders to out-migration and the burn-out of on-going leaders due to the continued erosion of neighborhood confidence. This is why enthusiastic homebuyers offer such dramatic reinforcement by reversing the hemorrhaging of leadership and by re-instilling confidence.

In Battle Creek the experience is that in-migration of new leaders and the retention of households that had been considering buying elsewhere strengthen the pool of potential leaders. Further, since the homebuyers are demonstrating a substantial financial and emotional commitment by investing beyond expected levels, there is a growing sense of confidence by residents throughout the neighborhood.

To build on this, the homebuyers are also encouraged to get involved by volunteering in block-based, self-help projects, by joining the block clubs and other community organizations, and by participating in leadership classes and other training initiatives. Experience demonstrates that the role of neighborhood involvement must be introduced early in the purchase process and then reinforced often in order to encourage homebuyers to understand that their commitment is to buy both a house and a neighborhood. The organization cannot be passive and assume that homebuyers will take on leadership roles. The process is complex and requires continuous attention, but it does work.

Guided by these four defining principles, the board and staff also paid careful consideration about what not to do. There were four cautions identified in establishing the program.

Don’t Put A Ceiling On Incomes

Most successful commercial ventures do not exclude customers based on excessive earnings. Indeed, the real estate industry is always seeking buyers with greater disposable income. To reward buyers for earning less and to penalize buyers for no longer being low income is perverse if we are trying to strengthen the neighborhoods. Providing additional services for lower-income customers is a laudable goal, but this does not preclude assisting any customers able to purchase, repair and maintain homes in the neighborhoods.

When Battle Creek leaders asked why programs exclude customers with more income, a common answer was that the funding agencies demand this. Such funders might not be seeking the goal of neighborhood revitalization, but are attempting to meet other social and corporate goals. It is simply not their agenda to determine whether assisting only low-income buyers might actually be an impediment to achieving a healthy status.

In Battle Creek it was determined that assisting only low-income households might injure the neighborhood and thereby the households being assisted. If low-income households were assisted to buy in neighborhoods with little likelihood of equity growth, these households might seriously question the intent of the organization. Since the Battle Creek leadership wanted to promote equity growth, it was decided that extensive flexible financing would have to be available to assure that no homebuyers were excluded because they were not low-income.

Don't Promote Negative Neighborhood Stereotypes

Increasingly, community groups are realizing that language contributes significantly to outcomes. Those communities which describe themselves primarily in terms of their problems limit the marketability of the neighborhoods and the houses. Some neighborhoods are described as safe while others are described as having an active crime watch. It is easier to market the former. Some houses are described as meeting all the requirements of a special lending program, while others are described in terms of their uniqueness and potential for renovation. There is more marketing power in the latter.

The same can be applied to buyers. If the program is structured to serve only people with limited income, participation might carry a stigma. If the program is open to anyone, it is easier to point to all buyers as examples of successful home purchasers.

In Battle Creek, the range of homebuyers is remarkably broad in terms of income, education, past home-ownership experience, employment, and dozens of other criteria. Since there are no income restrictions, buyers have included professionals such as teachers, medical staff and city employees. Other buyers are a bank manager, a State legislator, various school officials, and pastors of local churches. The buyers have also included many people who view themselves as middle class but actually earn less than 80 percent of median income. All of these people felt comfortable utilizing the services of this home-ownership promotion program and sell the program to their peers.

Don't Position Families to Fail

For the good of the neighborhood, a home-ownership promotion effort should be conservative about who it assists and aggressive in managing loan failures when they do occur. We know that good pre-purchase counseling and conservative underwriting of loans are desirable aspects of a sound home-ownership program. Loans that perform well serve the household, the organization, and the community.

In Battle Creek, home maintenance costs are recognized as crucial if the loan is to achieve its community-building function. If the deal is being structured with little cushion for repairs and everyday maintenance, then the potential for a failed loan or a blighted property increases. Such an outcome has profound impact on the neighborhood by signaling low standards of maintenance or rapid turnover in ownership.

If after careful preparation a loan still does fail, the home-ownership program should intervene as soon as possible -- even if this requires maintaining the property during the foreclosure process. A foreclosure is too easily interpreted as a marginal buyer forsaking the house and the neighborhood. A revitalizing neighborhood needs to manage the foreclosure process in order to conserve the property and quickly move a new household into ownership.

Don't Relax Maintenance Standards

Houses do not maintain themselves. The term maintenance-free exists only as part of sales patter. If a home-ownership program is serious about achieving and sustaining neighborhood health, then good property maintenance must be stressed. Quality repairs and thoughtful advance planning can minimize upkeep, but furnace filters need changing, faucets drip, landscaping needs tending, and litter must be picked up if the houses and the neighborhood are to be well-maintained. Seasonal issues such as cleaning gutters and removing holiday decorations must be completed in a timely manner, and vehicles should be parked or stored appropriately if the neighborhood is to be attractive.

Battle Creek leaders knew that they would be held accountable if the neighborhoods reverted to past standards shortly after revitalization. Each homeowner plays a critical role, but the new homebuyers are even more important because they are seen as a bellwether for the future of the neighborhoods. For this reason the Battle Creek initiative makes a substantial investment in home-maintenance instruction, in outreach through the post-purchase counseling staff, and through follow-up loans to recent homebuyers for exterior upgrades and maintenance-related improvements.

A Bold Approach

These eight principles and pitfalls shaped the home-ownership promotion program in Battle Creek, but it must be remembered that this program was only one of many that formed the overall neighborhood intervention effort. Neighborhood Inc.'s leadership fully recognized the risks inherent in any large-scale neighborhood intervention. Just the home-ownership

component itself confronted a number of potential stumbling blocks around such issues as displacement, standard-setting, tax increases, and special lending to non-low income households. These complex issues were in addition to the familiar challenges around securing quality contractors, fairness in loan approvals and denials, delinquency and foreclosure actions, and similar organizational concerns.

For the leaders, the course was clear and was followed consistently. The commitment was that every effort should be made to mitigate the negative impacts of change. This was done with the recognition that non-action or inadequate action carried far greater costs for residents, the neighborhoods, and the whole city.

As the board and staff saw the problem, the failing housing market and deplorable housing conditions were essentially displacing many households while leaving many others captive, unable to retrieve any of their equity. The depressed prices also led to a higher tax rate throughout the city, which in turn promoted more out-migration to the suburbs. It was clear that unless the cost of housing was stabilized and increased there would be more displacement and higher taxes for those that stayed behind.

The challenge to the organization and to the whole city was how to minimize the negative effects of price and tax increases while still assuring that the maximum number of households could participate in the improved health of the neighborhoods. As a response, the city government expanded its efforts to assist low income families through CDBG, HOME, and other programs. Neighborhoods Inc. successfully worked to alter tax abatement legislation to promote more home ownership, utilized both city and state HOME funds for home ownership, and invested heavily in expanding the local capacity of Habitat for Humanity. In addition, Neighborhoods Inc. developed rental units with Low Income Housing Tax Credits and is currently developing a mixed income rental project with AHP funds and reduced interest financing. Moreover, Neighborhoods Inc. was granted and is now loaning out an additional \$1.3 million to low-income households as a Community Development Financial Institution.

All of these actions have served to mitigate some of the negative effects of increased prices and increased taxes and have expanded the number of households served. The process is, of course, still quite imperfect and clearly many households have had to adjust to unexpected change. What is remarkable is the virtual absence of serious complaints; rather, most comments have largely focused on the improved quality of life and the greater stability in the neighborhoods. Recent city-wide surveys of residents have demonstrated increased interest in neighborhoods and a greater willingness to invest public dollars in those neighborhoods.

The clearest measures of this success is the increased value of houses with the return of traditional selling and lending markets, markedly improved standards of home maintenance, more positive images of the neighborhoods as places to live, and much

greater involvement by residents in managing the everyday affairs of the neighborhoods. The extent and impact of these changes would not have occurred if the organization had not been as single-minded in its commitment to using home-ownership promotion as a tool for neighborhood change.

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