



## **NEIGHBORHOOD STABILIZATION PROGRAM (NSP2)**

### **HOUSING RECOVERY STRATEGY**

#### **NSP2 PROGRAM SUMMARY**

On May 4, 2009, HUD released the Notice of Funding Availability (NOFA) for the second round of the Neighborhood Stabilization Program (NSP). Whereas the first round of NSP funding (NSP1) was formula-based, the second round of funding (NSP2) is competitive. The following outlines several features of the NSP2 competitive grant.

#### **NSP2 PROGRAM OBJECTIVES**

- Arrest decline in home values based on average sales prices in targeted neighborhoods.
- Reduce or eliminate vacant and abandoned residential property in targeted neighborhoods.
- Increase sales of residential property and increase median market values in targeted neighborhoods.

#### **KEY DATES**

- May 4, 2009: NOFA issued by HUD.
- July 17, 2009: NSP2 applications due to HUD.
- December 1, 2009: last date for HUD to notify all applicants.
- February 17, 2010: last date for HUD to make funds available.

[www.hud.gov/offices/cpd/communitydevelopment/programs/neighborhoodspg/](http://www.hud.gov/offices/cpd/communitydevelopment/programs/neighborhoodspg/)

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### I. Target Markets for Neighborhood Revitalization

Under this application for NSP2 funding, Pacific Housing, Inc. (PHI) is targeting neighborhoods that can be classified as Areas of Greatest Need. The target areas all have a minimum score of 18 out of a possible 20, under HUD's rating system for Vacancy and Foreclosure. The Areas of Greatest Need that PHI has chosen to target are located in the Cities of Rocklin, Roseville, West Sacramento, Elk Grove, Vacaville and Fairfield.

A primary goal of the NSP2 Program is to stabilize local housing markets. Specific neighborhoods within each market have the potential to either bolster or undermine the overall market. So, we chose to target specific neighborhoods where PHI's NSP2 activities would have the greatest level of impact. PHI is also dedicated to amassing a substantial number of housing units within a target area in order to achieve economies of scale in the acquisition and rehabilitation phases. By achieving these economies, PHI can ensure that NSP2 funds will be utilized in a highly efficient manner.

Specific target properties have not been selected, but neighborhoods and the corresponding census tracts were chosen based on their high concentrations of mixed-use and multifamily properties. Additional consideration was given to communities that are near transportation corridors and job centers. By designating areas that provide alternative forms of transportation, we intend to provide low and moderate income-families with housing that minimizes the need for automobiles. The combination of this high density, low impact strategy with standardized green building practices will produce healthy, energy efficient housing with a minimal carbon footprint.

The guiding principles for Pacific Housing's Recovery Plan are the same philosophies that the Sacramento Area Council of Governments (SACOG) followed in formulating the Regional Blueprint Plan. The Blueprint is a Regional Development Plan that calls for selective placement of high density residential housing near mass transit, job centers and the urban cores. The desired affect is to minimize reliance on automobiles, contain urban sprawl, and increase ridership on public transportation. These ideals are reemphasized in the 2035 Metropolitan Transportation Plan, prepared by SACOG, which can be found at: <http://www.sacog.org/mtp/2035/final-mtp/> The neighborhoods that provide the best opportunities for accomplishing these goals are located near mass transit, and often with an urban core. These are the types of neighborhoods that PHI selected as the target areas for the NSP2 Housing Recovery Program. The

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following is a list of the target neighborhoods, identified by census tract, along with a brief summary of the predominant building characteristics in each area:

### ROCKLIN

0213.03 The east side of Hwy 65 is a new growth area that includes the master planned communities of Whitney Ranch and Twelve Bridges. The decline in these markets has taken a large toll on individual home prices, which in turn have driven down multifamily properties values. The selection of multifamily properties in this census tract is very limited, so we can have a large impact by rescuing a relatively small number of properties.

0211.03 The Rocklin Road and Granite Drive neighborhoods represent an up and coming area of old Rocklin. However, several cornerstone properties have been lost to foreclosure, and the area is struggling to stay commercially viable. The distress in this submarket threatens to undermine the tremendous progress that has been made in recent years, and allow the area to slide back into an impoverished state. Recovering smaller multifamily properties in this section of the City would help it maintain its visual appeal while also putting more consumers within walking distance of the retail centers.

### ROSEVILLE

0208.00 Between I-80 and Vernon St, this area has several multifamily rehabilitation opportunities. There are also multiple abandoned parcels of land that have already been improved for multifamily. Low land values, especially on properties zoned for multifamily, now make it feasible to rescue a property that is a destabilizing force on the surrounding neighborhood.

0210.03 The Sierra View neighborhood provides some of the most inexpensive housing in the area, and the census tract also encompasses Old town Roseville. Multifamily properties are scattered throughout the neighborhood, and the old urban core is situated within a ¼ mile of the rail station.

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## ELK GROVE

The City of Elk Grove consists primarily of single-family housing, with few opportunities for multifamily rehabilitation. However, there are 13 census tracts that qualify for NSP2 based on foreclosure rates. The City's previous planning and redevelopment analysis has determined that there is no specific neighborhood within the City that will act as a catalyst for a market recovery. However, a concerted effort to support home values across all neighborhoods would certainly help to stabilize the housing market overall. Therefore, PHI will focus its efforts in Elk Grove on single-family properties across the following census tracts:

0093.07	0093.22	0096.12
0093.08	0093.23	0096.13
0093.10	0096.04	0096.16
0093.14	0096.08	
0093.15	0096.11	

## VACAVILLE

Specific census tracts have yet to be determined within the City of Vacaville. All parties are currently determining the most effective method for coordinating multiple applications within one market area.

## FAIRFIELD

2523.05 Extending from the west side of Fairfield to the junction of highways 80 and 680, this quadrant has an eclectic mix of property types. It is also directly adjacent to the Suisun City Rail Station, which provides convenient service to Sacramento and the entire Bay Area.

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- 2523.06 Travis Boulevard to Air Base Pkwy, this constitutes the only concentration of housing on the north side of I-80. There is a wide variety of land uses, from the highway commercial district and mid to high-density housing, to the established single-family neighborhoods and farming and pasture lands. A Transit Oriented Development with great access to open space would be a very desirable amenities package for low and moderate income households.
- 2523.07 This is a large census tract that covers a large rural area, but the target area is a smaller portion of the tract that runs parallel to Interstate 80 and includes commercial, mixed-use, medium and high-density housing. The neighborhood has been decimated by both the residential and commercial real estate markets, but it is well located near several job centers with great access to transit.
- 2523.08 North Texas Street has been targeted by the City of Fairfield for redevelopment, because the commercial, motel, and apartment properties in this area have been neglected to the point where they attract criminal activity. This is a common walking corridor for school children, and will eventually be the central portion of "Linear Park", a citywide bike path. Unfortunately, blighted properties represent danger for the children, and they hinder completion of the park. Abandoned properties could be considered "destabilizing influences" in this specific housing market.
- 2523.09 From Air Base Parkway to the Vacaville City Limits, this census tract encompasses older single-family neighborhoods, and an industrial section that has been rezoned for medium and high-density residential. These zoning changes were made in anticipation of the Vacaville-Fairfield Train Station, which is currently undergoing environmental review. This area presents a great opportunity to purchase properties at current values, and being able to enhance the lives of the residents in future years with direct access to rail service.
- 2524.01 There are numerous multifamily properties between West Texas St. and Travis Blvd, along the Interstate 80 corridor. The West Texas corridor leads past Alan Witt, a massive proposed redevelopment project, with mixed-use and apartments buffering the interior single family neighborhoods. The visibility of a rehabilitated project in this

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location would profoundly affect the neighborhood and help to extend the beautification efforts around downtown.

2526.04 From the Solano Mall to Air Base Parkway, there are sporadic pockets of high density housing throughout this neighborhood. Those pockets include PACE, a City lead apartment redevelopment project that was stalled due to the current economy. There is a great opportunity to remove destabilizing influences from this neighborhood while providing additional housing near transit and job centers.

Each of these targeted areas has either a high foreclosure rate or a high vacancy rate, and sometimes both. By focusing on the multifamily properties within each market, PHI will be able to remove a significant number of abandoned or foreclosed housing units from each market area in a short amount of time. Those units will then be provided to low and moderate income households without the need for permanent subsidies, because of the economies achieved in purchasing and rehabilitation. In order to maximize these efficient methods and practices, PHI has developed the following funding mechanisms that will provide tenants and homebuyers with high quality housing under a cost structure that they can sustain over the long term.

### II. Proposed Uses of Funds

Pacific Housing's board and management, along with many in the affordable housing industry, have become increasingly concerned about the disproportionate impact the nation's economic and mortgage crisis is having on lower income and first-time homeowners. As a nonprofit housing organization with experience working with commercial entities and multiple funding sources, Pacific Housing believes its team has the experience and background to create a long-term affordable solution for at least some of the families that have been caught in the economic downturn that is challenging our nation.

As mentioned above, the economies of scale make multifamily properties attractive under NSP2. Therefore, the main component of Pacific Housing's Housing Recovery Program is acquiring multifamily properties, either for rehabilitation or redevelopment. However, neighborhoods are comprised of all housing types, so a focus on multifamily alone may not be adequate for stabilizing a local market. Therefore, in order to properly address the needs of each target market, this application includes financing mechanisms for both multifamily and single-family properties.

Altering the market conditions in a given area is only achievable if the program can recover a significant percentage of the abandoned or foreclosed housing inventory within that market. To achieve this, PHI designed this program to

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recapture all NSP2 funding from each property. NSP funds will only be used for the acquisition and construction phases of each project, and once the properties are either stabilized or sold, permanent financing will take all NSP2 funding out of each project, making those funds available for use on additional projects. This program will continue operating for years to come, so over time we will be able to address nearly all vacant or abandoned properties in each of the targeted neighborhoods.

### A. Permanent Takeout Strategy

As a non-profit public benefit corporation, Pacific Housing, Inc., (“PHI”) has the ability to issue 501(c)(3) tax-exempt bonds on a non-competitive basis. PHI does not need a specific bond allocation from the California Debt Limit Allocation Committee in order to issue tax-exempt bonds as long as bond proceeds are used to further PHI’s charitable purpose. PHI’s charitable purpose is to provide safe, good quality, affordable housing to low and lower income households, which is clearly consistent with the goals of the Neighborhood Stabilization Program.

As PHI acquires, renovates and stabilizes properties under NSP, both multi-family projects and groups of single-family detached residences would qualify for financing using tax-exempt bonds as a permanent funding source (i.e., as permanent mortgage financing). Both Fannie Mae and Freddie Mac have programs under which the respective agency would provide credit enhancement to facilitate the issuance of 501(c)(3) tax-exempt bonds. Proceeds from the public sale of the bonds, which are essentially mortgage-backed securities, are channeled back to replenish PHI’s NSP fund. PHI retains ownership of the properties, and St. Anton Management, Inc., retains on-going management responsibilities.

Bond financing has relatively high transaction costs so the key to the PHI Take-Out program will be to achieve economies of scale through consolidation of stabilized properties. This program will fit best with multi-family properties, but can also work with single-family detached housing through cross-collateralization, single ownership, and single management. Tax-exempt bond financing requires occupancy and rent restrictions that coincide with NSP restrictions and can either be maintained against the property for the long-term or removed when the property is sold and bonds repaid. For a single-family detached housing pool, there could be release prices where homes can be sold and the pro-rated portion of bonds be repaid.

The benefit of this Take-Out Strategy is that the bond funding allows PHI to leverage NSP dollars into additional acquisitions, and this process can be repeated again and again.

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### B. Lease-Purchase Program

Pacific Housing developed the Homeownership Rebound Program using a lease-purchase structure, similar to what was used in the late 1990's by many municipalities for first-time homebuyers. PHI works with households who have already been counseled by a HUD-certified agency as to what their collective incomes allow them to spend on housing. PHI then matches that household with a home that has been acquired and rehabilitated for a price that can be supported by that household's purchasing capacity. The household becomes the lessee of PHI for a multi-year term, typically ranging from 3-10 years. The contract is based on a purchase price that complies with program income targeting, provides a sustainable payment level for the household, and is agreed upon by all parties.

Pacific Housing will establish relationships with qualified third party trustee to receive lessee payments, make debt service payments, and distribute a portion of those funds to a property management reserve account. PHI will initiate a comprehensive maintenance plan for all of the homes under lease-purchase contracts. Payments to the reserve account will be made in lieu of paying property taxes on the properties. With the properties restricted for low and moderate income households, the properties under lease-purchase contract will qualify for property tax exemptions. The amount collected each month for the property management reserve will be equal to the dollar amount of the tax exemption. Therefore, when the contract converts from lease to purchase, the new homeowner will continue paying the same amount. The monthly property management reserve payment will simply be replaced by a property tax payment of the same amount.

Pacific Housing has developed the financial and operational structures necessary to carry out this Recovery Program. Its strategic partnership with St. Anton Partners provides alternative funding mechanisms that may be necessary for acquiring properties at bulk prices. Having access to these additional funding sources may prove to be critical in an ever-changing banking environment. Having the flexibility to utilize outside funding sources for bridge financing will allow PHI to act quickly when acquisition opportunities present themselves, and will help to ensure PHI's success in implementing the NSP2 programs.

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## C. PILOT PROGRAM

The goals of the Homeownership Rebound Program include putting families back on a direct path to homeownership, restoring them to a home within their existing neighborhood, keeping their children in school, continuing the property tax flow, and helping stem the rapid decline in home values. PHI created a pilot program to test the economic viability of the Rebound Program, and the response from community development banking institutions, HUD counseling agencies, affordable housing industry experts and municipalities has been overwhelmingly positive. The pilot program has always been focused on providing housing for low and moderate-income households, and the preliminary target markets were areas within the Sacramento region that had been most deeply impacted by the economic downturn. The program targeted neighborhoods with the highest numbers of REO homes, and those with high default and foreclosure rates. The initial success and acceptance of this pilot program on a localized scale demonstrates that PHI will be very effective in carrying out the NSP2 programs.

### III. Program Budget

The total funding request for this application is \$32,000,000. The breakdown of funding to be spent on each eligible activity, and within each city, is as follows:

<b>Proposed NSP- 2 Budget</b>	<b>Per Unit</b>	<b>Units</b>	<b>Total</b>	<b>% Total</b>
Housing Recovery Program				
Single-Family				
Acquisition	161,000	24	3,864,000	12.08%
Rehabilitation	53,500	24	1,284,000	4.01%
Removal of Blight	14,000	8	112,000	0.35%
Subtotal: Project Admin			3,200,000	10.0%
Multifamily				
Acquisition	69,000	189	13,038,000	40.74%
Rehabilitation	38,000	189	7,182,000	22.44%
Redevelopment	52,000	45	2,340,000	7.31%
Removal of Blight	14,000	70	980,000	3.06%
Subtotal Housing Units		213	28,800,000	90.0%
Total NSP2 Grant			32,000,000	100.0%

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NSP2 Funding Request

