

CITY OF OAKLAND

AGENDA REPORT

FILED
OFFICE OF THE CITY CLERK
OAKLAND

TO: Office of the City Administrator
2011 DEC 13 PM 1:04
Deanna J. Santana
FROM: Community and Economic Development Agency
DATE: December 13, 2011

RE: An Informational Report On The Status Of The Projects Funded Under The
Neighborhood Stabilization Program 1 Grant.

SUMMARY

This is an informational report on the status of the projects funded under the Neighborhood Stabilization Program 1 (NSP1) grant.

FISCAL IMPACT

This report is for informational purposes only and proposes no changes to the projects funded under NSP 1 grant. Therefore, there is no fiscal impact.

BACKGROUND

On September 29, 2008, HUD released the allocation and the notice of implementation for the \$3.92 billion allocation of the Community Development Block Grant (CDBG) Neighborhood Stabilization Program (NSP) funds. The City of Oakland received an allocation of \$8.25 million to implement a Neighborhood Stabilization Program (NSP). NSP1 grant funds were awarded as follows:

<i>Oakland Community Land Trust (OakCLT)</i> Acquisition, Rehabilitation, Resale of Single Family Homes.	\$5,025,000
<i>Project Pride</i> Rehabilitation of a Multifamily Rental Project.	\$ 903,637
<i>Drasnin Manor</i> Rehabilitation of a Multifamily Rental Project	\$1,159,031
<i>Homeownership Counseling</i> Pre-purchase counseling, general homebuyer education and post-purchase education.	\$ 250,000
<i>NSP Administration/Technical Assistance/Marketing</i> Administration costs of administering the NSP 1 grant.	\$ 913,000
TOTAL	\$8,250,668

Item: _____
CED Committee
December 13, 2011

KEY ISSUES AND IMPACTS

Oakland Community Land Trust

The Oakland Community Land Trust (OakCLT) and the City, under the Neighborhood Stabilization Program (NSP), have been working together closely over the past two years to implement an innovative and challenging program to acquire and rehabilitate foreclosed homes to provide permanently affordable homeownership for low income families, using a community land trust model. Under this model, a community based organization – the land trust – acquires properties and retains ownership of the land, selling only the improvements while providing a long-term leasehold in the land. The land trust provides community control to prevent speculative flipping of properties while offering low income families an opportunity to become homeowners with modest gains in equity.

Implementation of this program has been more challenging than expected. To meet these challenges, CEDA staff formed a multi-disciplinary team to implement this program, involving senior staff in the areas of housing development, housing rehabilitation, homebuyer assistance, community development, and policy and program management. This team meets on a biweekly basis with OakCLT's development team to discuss progress and coordinate efforts while ensuring that NSP program requirements are met. This team continues to work with HUD for technical assistance around the implementation of this program.

Acquisition of Properties

Acquiring properties, especially the right property, proved to be more difficult than expected. When the program was first announced, it was generally assumed that banks would seize the opportunity to readily dispose of their large inventory of foreclosed properties, particularly those located in highly distressed neighborhoods. In practice, however, banks sought to dispose of properties in a manner that leaves NSP-funded purchasers at a distinct disadvantage.

It was extremely challenging to identify properties where the combined cost of acquisition and rehabilitation were within a range that didn't require excessive subsidies to permit resale. Prices need not only be competitive in today's depressed market, but must also be sufficiently below market to be affordable to the target population, households with incomes at or below 60 percent of median income. Moreover, the NSP regulations require that affordability be maintained for the longest feasible time, and these resale restrictions require additional discounts in order to be marketable.

However, despite these difficulties, OakCLT has acquired seventeen (17) properties within East Oakland. The attached chart (*Attachment A*) provides the addresses of the properties acquired by OakCLT, the date acquired, and the price of the properties acquired.

Rehabilitation of Properties

The majority of the vacant, foreclosed properties located in Oakland suffer from years of deferred maintenance, as well as the increase in vandalism seen often in recent years in homes which were vacated in unfortunate situations, left vacant for months, and sometimes having been inhabited by squatters. The result is that the average cost of rehab on these properties, at prevailing wages as required by NSP, often exceeds \$80,000. This reality creates an additional strain on the program. While the market price of homes in the NSP zones has dropped by as much as 75% since the height of the market in 2007, the cost of rehabilitation is exorbitant, often exceeding the asking price of the home. The City's loan agreement with OakCLT currently provides for a maximum subsidy of \$85,000, slightly higher than the subsidy permitted under the City's first-time homebuyer programs. Staff may consider increasing this subsidy limit as it appears the rehabilitation cost have increased and may be needed to ensure resale.

OakCLT has completed the rehabilitation of eight (8) of the acquired properties and is under construction of one additional property. The attached chart (*Attachment A*) also provides information on properties completed, properties under construction, the start of construction and the cost of the rehabilitation to date.

Resale of Properties

The market conditions in East Oakland, specifically in the census tracts in which OakCLT is permitted to use NSP resources, have changed since the program was designed in the fall of 2009. During the last 20 months, home prices in the East Oakland zip codes have dropped. During the first quarter of 2010, the median home prices of non-REO/non-short sale 2 bedroom/1 bath homes was \$136,500; in 2011 that number has dropped to \$113,750. In addition, the total number of non-REO transactions has dropped from 32 to 24 during the respective first quarters of 2010 and 2011, even though the median price of homes simultaneously dropped by more than 16%. During the same time, crime in the subject neighborhoods remains consistently high. Furthermore, the economy has failed to rebound. Because of the crime and deteriorating neighborhood conditions, we hear more and more prospective purchasers tell us that they are interested in purchasing a land trust home, but not in the areas the homes are located. Of the people who remain interested in purchasing a home in these increasingly challenging neighborhoods, few are credit-qualified.

No one is more motivated and interested in selling OakCLT homes than OakCLT. However, in order to be competitive in the current market, the asking price of the rehabilitated units will require a reduction. OakCLT is faced with the reality of East Oakland, namely that home prices continue to fall. Recent articles addressing both National and local real estate trends predict (1) that current prices will continue to fall overall, and (2) that the real estate had microclimates, some of which (like San Francisco and Fremont) defy the odds in one direction, others of which (like East Oakland) are much more problematic than even the discouraging regional and national trends. This suggests we might want to prepare for the possibility of significantly worsened market conditions in East Oakland over the next few years.

Even if OakCLT drops the prices down to what the market should bear, they may not be able to sell all the houses acquired. The number of people willing to buy a home in these troubled neighborhoods continues to shrink. And within that shrinking pool of interested East Oakland homebuyers, even fewer have the capacity to buy a home. Many grantees and NSP developer partners have begun exploring the possibility of implementing lease purchase programs to address this specific issue of declining market conditions coupled with the shrinking pool of eligible buyers.

Given these stark realities in the OakCLT program, we believe the lease purchase is an important direction to consider and we are currently working with a HUD Consultant who is providing technical assistance on developing a comprehensive long-term and interim disposition strategy for OakCLT.

Despite the declining market, OakCLT has sold three (3) of the eight (8) rehabilitated acquired properties. The properties sold are 9703 Birch St.; 2063 86th Ave.; and 7863 Plymouth St.

Project Pride

Project Pride (2545 San Pablo Ave.): Affordable Housing Associates (AHA) and East Bay Community Recovery Project (EBCRP) received \$903,637 of NSP funds to rehabilitate the Asasha Hotel on San Pablo, an abandoned and foreclosed property which had been vacant for many years. The project has started rehabilitation and is expected to be completed by mid 2012. The project is creating 20 units for women who are dealing with substance abuse issues and who have children.

Drasnin Manor

Drasnin Manor (2530 International Blvd.): East Bay Asian Local Development Corporation (EBALDC) received \$1,159,031 of NSP funds to rehabilitate Drasnin Manor, which had been abandoned by its previous owner, OCHI. The property has been acquired by EBALDC, and they are currently putting together additional financing for the rehabilitation. Because the project also has received Redevelopment Agency funds, the current suspension of redevelopment activities has delayed the start of construction for this project. They plan to start rehabilitation in early 2012.

Administration

The administration funds cover the costs of oversight and monitoring of contracts; development and submission of required monthly performance reports to HUD.

Homeownership Counseling

A contract was entered into with Unity Council for service provision to low-income buyers with pre-purchase counseling, general homebuyer education and post-purchase education.

RECOMMENDATION AND RATIONALE

Staff recommends continuing the implementation of the projects funded under the NSP 1 grant.

ACTION REQUESTED OF THE CITY COUNCIL

Staff requests that the City Council accept this informational report on the status of the projects funded under the NSP 1 grant.

Respectfully Submitted,



Freya Blackwell, Assistant City Administrator
Community and Economic Development Agency

Prepared by:
Michele Byrd, Deputy Director
Housing and Community Development

APPROVED AND FORWARDED TO
COMMUNITY AND ECONOMIC DEVELOPMENT
COMMITTEE:


Office of the City Administrator

City of Oakland
 CEDA: Housing and Community Development
 Residential Lending and Rehabilitation Services
 MSP1: Oakland Community Land Trust
 Project Data

Project Address	Type	Construction Status	Sold	Acquired	Construction Start Date	Notice of Completion Date	Acquisition Cost	Soft Costs to Date	Rehabilitation Costs to Date	Total Costs to Date <small>(Acq. Cost, SC, Fees, etc.)</small>	Projected Subsidy	Local Hires
1822 88th Avenue	NCST-WFB	Complete	N	12/17/2009	5/13/2010	7/13/2010	99,716.66	12,881.44	73,386.21	185,984.31	148,000.00	20.00
8000 Olive Street	MLS	Complete	N	12/11/2009	3/16/2010	7/2/2010	84,623.00	21,438.12	92,760.00	198,821.12	136,000.00	20.00
9703 Birch Street	NCST-CHASE	Complete	Y	4/15/2010	6/10/2010	9/2/2010	74,028.65	60,822.05	97,160.94	232,011.64	83,392.62	20.00
2063 86th Avenue	NCST-CHASE	Complete	Y	4/23/2010	6/10/2010	9/2/2010	103,992.00	51,398.12	97,074.00	252,464.12	135,000.00	10.00
8315 Dowling Street	NCST-FHLMC	Complete	N	6/7/2010	7/27/2010	10/21/2010	61,571.00	31,679.33	85,255.00	178,505.33	120,000.00	10.00
7862 Plymouth Street	FNMA	Complete	N	6/22/2010	9/20/2010	2/2/2011	79,111.45	42,108.65	97,950.25	219,170.35	278,000.00	20.00
9525 Birch Street	MLS	Pending	N	7/29/2010	Not Started	N/A	70,259.00	21,969.78		92,228.78	220,000.00	4.00
2215 55th Avenue	FANNIE MAE	Complete	N	7/30/2010	10/25/2010	3/25/2011	107,081.00	18,778.58	69,326.77	195,186.35	130,000.00	15.00
7139 Holly Street	MLS	Pending	N	8/12/2010	Not Started	N/A	97,568.00	23,159.67		120,727.67	178,000.00	4.00
6831 Eastlawn Street	NCST	Complete	N	8/13/2010	10/26/2010	10/24/2011	95,119.00	24,589.91	130,889.31	250,598.22	165,000.00	20.00
9411 Empire Road	NCST	Pending	N	8/13/2010	Not Started	N/A	107,591.00	19,465.35		127,056.35	80,000.00	4.00
9401 Cherry Street	MLS	Under Construction	N	8/20/2010	7/5/2011	Pending	108,011.00	10,574.51	164,930.00	283,515.51	250,000.00	10.00
2355 Church Street	FNMA	Pending	N	9/9/2010	Not Started	N/A	86,718.00	20,953.29		107,671.29	150,000.00	4.00
688 Tyler Street	NCST	Pending	N	9/9/2010	Not Started	N/A	89,753.00	20,633.36		110,386.36	135,000.00	4.00
1851 70th Avenue	NCST	Pending	N	9/28/2010	Not Started	N/A	89,907.00	15,209.93		105,116.93	165,000.00	4.00
1222 89th Avenue	NCST	Pending	N	10/29/2010	Not Started	N/A	84,726.00	22,685.58		107,411.58	150,000.00	4.00
2035 80th Avenue	MLS	Pending	N	12/23/2010	Not Started	N/A	83,952.00	27,607.68		111,559.68	175,000.00	4.00
TOTALS:							1,523,727.76	445,955.35	908,732.48	2,878,415.59	2,698,392.62	10.41 Avg. Local Hires