Reclaiming Distressed Properties: Implementing the Neighborhood Stabilization Program in Los Angeles

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Presentation Overview

1. Foreclosures in Los Angeles
2. Neighborhood Stabilization Strategy
   a. Walk-In Purchase Assistance
   b. Restore Neighborhoods LA
3. Program Outcomes / Lessons Learned
How Big is L.A.?

The City of Los Angeles covers 498 square miles and could contain the combined geographic areas of:

- Boston
- Cleveland
- St. Louis
- Pittsburgh
- Minneapolis
- Milwaukee
- San Francisco
- Manhattan
Foreclosures in Los Angeles

Total Foreclosures

Jan 2007 to Dec 2009: 36,920 Units
Q4 2009: 4,260 Units (11.5% of Total)

Varies by Region

San Fernando Valley: Single Family Foreclosures
South Los Angeles: Mix of Single Family and Small Multi-Family Foreclosures
City of Los Angeles Foreclosures
January 2007 – December 2009

Quarter - Year

Number of Foreclosures

Total Units: 36,920
Total Properties: 28,596
SFH/Condos: 24,551
MF Units: 12,369
MF Properties: 4,045
Neighborhood Stabilization Program

- Los Angeles awarded allocations of:
  - $32.8 million of NSP 1 funds
  - $100 million of NSP 2 funds

- NSP launched in L.A. April 2009
What Drives LA’s NSP Strategy?

- High Number of Foreclosed Units
- Relatively Strong Housing Market: Single- and Multi-Family
- Existing Housing Tools
- Neighborhood Focus
City of Los Angeles NSP

- NSP funds used to strategically acquire and rehabilitate foreclosed single- and multi-family properties for affordable homeownership and rental housing opportunities within selected target areas

- Two primary components of Neighborhood Stabilization Program:
  1. Walk-In Purchase Assistance
  2. Acquisition and disposition of foreclosed properties through Restore Neighborhoods LA
Walk-In Purchase Assistance

- Modeled after existing homebuyer assistance programs
- Purchase and Rehab assistance for buyers who purchase foreclosed single family homes as their primary residence
- Provides mortgage and rehabilitation loans totaling up to:
  - $125,000 for moderate-income households (<80% AMI)
  - $100,000 for middle-income households (<120% AMI)
- Rehabilitation limited to $75,000
Walk-In Purchase Assistance

Outcomes

• Over 300 lenders, realtors, and homebuyer educators trained in process
• Over 60 homebuyer loan reservations issued
• 18 homebuyer loans closed
• $1.5 million in purchase and rehabilitation assistance

Lessons Learned

• Foreclosure market difficult for NSP homebuyers to participate in
  – Must compete with investors and other buyers
  – NSP purchase discount
  – Often out-bid for better properties
  – Offers accepted on properties needing substantial rehabilitation
  – Cosmetic repairs mask illegal or substandard conditions
  – Difficult securing mortgages for properties needing substantial rehabilitation
Restore Neighborhoods LA, Inc. (RNLA)

- Non-profit property holding and disposition company established to implement NSP in Los Angeles
- 501 (c)(3) California Corporation
- Community Based Development Organization (CBDO)
- Acquires foreclosed properties
- Oversees rehabilitation of properties
- Oversees competitive disposition and sale of properties
- SF homes sold to eligible homebuyers
- Partners with other mission-driven agencies for rehabilitation and disposition of MF rental properties
RNLA Rehabilitation Standards

• Acquires worst, most dilapidated properties
• Substantially rehabilitates properties to current code standards
• Removes all illegal structures and restores garages to intended use
• Replaces major systems (roof, plumbing, electrical, foundation, etc.)
• Adds bedrooms, bathrooms, etc. to accommodate larger families
Green Building Standards

- Enterprise Green Communities rehabilitation standards
- Sealing of building envelope
- Insulating walls, attic, ceilings and floors
- Sealing of HVAC ducts
- Energy star rated windows, lighting and appliances
- Water conserving fixtures
- Drought tolerant landscaping
- HERS rating audits for NSP 2 properties
DeFoe Property
RNLA Outcomes

Outcomes
- 51 properties purchased / escrow
  - Mix of SF and small duplexes totaling 66 units
  - 8 properties currently in rehabilitation
  - 4 properties completed / initiating sales

Costs
- $140,000 - Average Purchase Price
- $180,000 - Average Rehabilitation Cost
- Broker Price Estimates on completed properties
  - $225,000-$260,000 SFR
  - $340,000 Duplex
Program Accomplishments

- Established new non-profit (RNLA) to implement NSP
- 18 Homebuyers assisted with Walk-In Program
- 51 Properties for purchase by RNLA
- $17 million - estimated commitments, including rehabilitation of RNLA properties
- Successful NSP 2 application
- Successful HUD OIG audit
  - Capacity to adequately administer program funding
  - Procedures sufficient to support program activities in compliance with HERA
  - Procedures for monitoring program activities, financial management and procurement functions
  - Procedures and controls adequate to administer the continuation of these activities NSP 2
Program Challenges

• Slow start / ramp-up establishing new non-profit organization
• NSP funds not able to be used for RNLA start-up costs or program advances
  – Start-up costs assistance from Enterprise Community Partners
  – City established revolving loan fund with non-federal funds
• Difficulty identifying and purchasing MF properties for LH 25 requirements
• Preparation of rehabilitation work write-ups time consuming
• Difficulty of NSP homebuyers to participate in REO market
Unique Program Elements

Replacement Public Housing Units

- RNLA is purchasing and rehabilitating properties in the Watts community.
- Properties to be sold to the Housing Authority of the City of Los Angeles (HACLA) for replacement public housing as part of the Jordan Downs Redevelopment Project.
- Homes may eventually provide homeownership opportunities to residents of Jordan Downs.

NSP Website for Homebuyers
Conclusion of Presentation

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http://lahd.lacity.org