



**Request for City Council Committee Action
From the Department of Community Planning & Economic Development**

Date: January 9, 2005

To: Council Member Lisa Goodman, Community Development Cmte

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Presenter in Committee: Edie Oliveto-Oates

Approved by: Chuck Lutz, Deputy CPED Director _____
Elizabeth Ryan, Director, Housing _____
& Development

Subject: Home Ownership Works Program Changes

RECOMMENDATION: Approve the staff recommended changes to the Home Ownership Works (HOW) program as follows:

- Increase the Real Estate Agency Broker Compensation to \$5,000
- Increase the Maximum HOW Buyer Affordability Loan to \$30,000
- Implement the non-profit construction management reimbursement for management of new construction projects
- Direct staff to bring in an amendment to the Real Property Disposition Policy to allow for sale of properties through the Home Ownership Works program to eligible buyers prior to having an identified buyer

Previous Directives: On February 21, 2002 the MCDA Board of Commissioners increased the HOW Broker Participation payment to \$3,500. On January 24, 2000, the Board of Commissioners gave authorization to execute marketing contracts with Northside Residents Redevelopment Council (NRRC) and Powderhorn Residents Group (PRG), in the amount of \$8,500 each, for overall general marketing responsibilities. Plus an additional amount up to \$2,500 for each successful closing as outlined in the HOW Broker Participation Agreement.

Financial Impact (Check those that apply)

- Action is within current department budget.
(If checked, go directly to next box)
- Action requires an appropriation increase to the Capital Budget
- Action requires an appropriation increase to the Operating Budget
- Action provides increased revenue for appropriation increase
- Action requires use of contingency or reserves
- Other financial impact (Explain):

___ Request provided to the Budget Office when provided to the Committee
Coordinator

Community Impact (Summarize below)

Ward: City Wide

Neighborhood Notification: N/A

City Goals: NA

Comprehensive Plan: N/A

Zoning Code: N/A

Living Wage/Job Linkage: N/A

Staff is currently looking at four program changes:

- Increase the Real Estate Agency Broker Compensation
- Increase the Maximum HOW Buyer Affordability Loan
- Implement the non-profit construction management reimbursement for management of new construction projects.
- Amend the Real Property Disposition Policy regarding sale of HOW properties.

Program Summary:

The Home Ownership Works program (HOW) is designed to address the goal of providing home ownership opportunities for residents who otherwise would have difficulty in attaining home ownership. It is also designed to address the problem of abandoned and foreclosed houses. The program also treats properties in need of demolition and new construction. HOW properties are owned by the City of Minneapolis during the renovation/construction period. All properties will meet the HOW program Standards which exceed the minimum city code requirements. The scope of work and construction monitoring are completed by non-profit housing development construction managers. Private licensed general contractors are selected through a sealed bid process to complete the required renovation/repairs or new construction. Additionally, CPED's Construction Management Specialists assist in the preparation of the scope of services, ensure City program requirements are followed, monitor the construction draws and approve/deny change orders. Local funds are used to provide interim financing when necessary.

Target Buyers

Target buyers would be first time homebuyers or buyers who are being displaced due to public action. The annual gross income of the buyer must meet the HOME low/moderate income requirements. The buyers are typically ones who are either trying

to purchase a home, but are having trouble qualifying for a mortgage or identifying a home which will meet their needs in their price range. All HOW properties are sold to owner-occupants. All purchasers are required to attend homebuyer-counseling and Housing Maintenance seminars prior to closing.

Real Estate Agency Broker Compensation

In the past, marketing services for the HOW program had been secured by soliciting proposals from organizations interested in providing these services. The last Request for Proposals (RFP) for marketing services for the HOW program was issued in December 1999. In January 2000, four proposals were received and reviewed by a five-member panel consisting of MCDA staff from the Real Estate, Mortgage Finance, and Housing Development Departments. This panel felt that the proposals submitted by Northside Residents Redevelopment Council (NRRC) and Powderhorn Residents Group (PRG) were very strong in comparison to the scope of services received by two private realty companies.

In February 2000, the MCDA contracted with NRRC and PRG for marketing services of MCDA-owned properties, renovated through the HOW program. NRRC would provide services for HOW properties located in North and Northeast Minneapolis neighborhoods and PRG would market HOW properties located in South and Southeast Minneapolis neighborhoods. The professional service contracts, which outlined the scope of services also, contained an option for a two-year extension, unless terminated earlier. These contracts were extended through February 2004.

In March 2004, CPED discontinued contracting with NRRC due to their inability to list the properties on the Multiple Listing Services (MLS) and negotiated a contract with PRG to market the homes citywide. Since that time, the City has been operating under that agreement.

Over the past two years, with the escalating real estate market staff has identified a longer than usual holding time of completed projects. The current compensation of \$3,500 represents approximately 2% of the average sale price for properties sold based on a sale price of \$175,000. In 2005, sales prices have exceeded \$200,000 which reduces the real estate commissions paid to approximately 1.8% or less, compared to 5-8% in the private market. In addition to the MLS, PRG is expected to market the homes through fliers, advertisements in neighborhood and minority newspapers and hold open houses in an attempt to sell the properties. If PRG produces a buyer without an outside agent they are paid the full \$3,500. If the property is sold through an outside agent the commission is split. PRG receives \$1,500 and the buyer's realtor is paid \$2000.

Staff is proposing to increase the compensation paid per closing to \$5,000. If PRG produces a buyer without an outside agent they are paid the full \$5,000. If the property is sold through an outside agent, the commission is split—\$3,000 to the buyer's broker and \$2,000 to PRG.

Increasing the compensation paid per closing will attract more private real estate agents and their buyers to the program, resulting in reduced holding costs for completed and vacant properties awaiting an offer to purchase.

City Subordinate Financing – Increase Buyer Affordability Loan

Many of the HOW buyers are only able to purchase with direct buyer assistance in the form of a second mortgage of up to \$20,000 provided by the City using HOME funds. As real estate values continue to rise, the gap between sales price and affordability for these buyers widens. Currently, the maximum second mortgage available to these buyers is \$20,000. Staff is proposing an increased amount not to exceed \$30,000 to be provided on an as needed basis. The use of these HOW second mortgages will continue and are needed to keep the properties affordable to low and moderate income households. The recapture provision is enforced through a second mortgage. The second mortgage is repaid from the net sales proceeds at the time of resale. Any repayments received upon sale will be placed into the Minneapolis HOME account for future production or as direct buyer assistance for affordability.

New Construction

Due to the increased costs of acquiring and renovating sub-standard housing, staff has begun the use of new construction in the HOW program. Provided homeowners do the required general and annual maintenance, these newly constructed homes should assure first time homeowners minimal mechanical and structural problems for over fifteen years. Homeowner occupancy requirements for new construction are 15 years. Any sale or transfer of the property from its original owner requires a sharing of the net sales proceeds. Any repayments received upon sale are placed into the Minneapolis HOME account for future production or as buyer affordability assistance.

Additionally, the incorporation of new construction as an element of HOW also assists the City of Minneapolis in the reduction of its buildable lots inventory. The new construction projects will be built on City of Minneapolis parcels and sold to targeted HOW program buyers.

Non-profit Participation

Non Profit participation is a requirement of the Federal HOME program. Buyer outreach, marketing, rehabilitation, construction and buyer counseling are normal functions of developers. However, since the properties are owned by the city during the development process, another arrangement is necessary. For these reasons, the HOW program contracts with the local non-profit community to perform construction management services and marketing. Buyer counseling is also provided by the local non-profit community. The non-profit construction managers are paid a flat fee. With the implementation of new construction the tasks involved have changed significantly. Therefore, staff is proposing that the base contract amount be increased to \$7,000 and that payment for activities required for new construction projects, such as: variances, soil borings, architectural fees, custom plans and prints, surveys, etc. be reimbursed on

the basis of actual cost upon submittal of invoices. Each project will be unique and require a combination of some or all of these activities.

Proposed Amendment to the Real Property Disposition Policy

Based on input from the marketing agent as well as other realtors, staff believes it is appropriate to proceed with an amendment to the Real Property Disposition policy. The amendment will authorize the sale of a HOW program property to an eligible buyer during the marketing period prior to having an identified buyer. This will enable the City to move at a more competitive pace with the private sector.

If the amendment were approved, once the project is completed and an occupancy certificate is issued, staff will bring forward a land sale proposal that will authorize the sale of the property to any income-qualified borrower that meets the guidelines of the program. In the event where there are special circumstances that deviate from the already Council approved sale, a subsequent council report will be prepared for authorization. It is hoped that this will decrease the time period for a buyer to make an offer, close and occupy the property. The resulting impact will potentially be a decreased marketing time.