City of Minneapolis Foreclosure Response Housing Investment Analysis: 2008-2014

CORPORATE F/A/C/T/S/
Finance/Accounting
Consulting & Training Solutions

Minneapolis
City of Lakes

LISC
Local Initiatives Support Corporation
Helping neighbors build communities

Prepared for:

The City of Minneapolis
Residential & Real Estate Development
A work unit of the Department of Community Planning & Economic Development

Sponsored By:

Local Initiatives Support Corporation

Presented by:

Corporate F.A.C.T.S.

Front Cover: Home Ownership Works, Photo Credit: PRG, Inc.

Contents

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Minneapolis
City of Lakes

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November 2, 2015

Community Stakeholders,

On behalf of the Community Planning & Economic Development Department (CPED) for the City of Minneapolis, the Residential & Real Estate Development Work Unit (RRED) is pleased to present this report on the impact of our Foreclosure Recovery strategies since 2008. Minneapolis was hit hard by the housing crisis and Great Recession when foreclosures increased dramatically. The City received five NSP awards through Minnesota Housing Finance Agency and the U.S. Department of Housing and Urban Development (HUD). The NSP resources were combined with other city, state and foundation resources to address foreclosed or abandoned properties in the City. Most importantly, resources invested successfully returned families to these vacant homes.

The City invested $115 million in housing development (new construction and rehabilitation), land banking, home improvement loans, and down payment assistance to homebuyers. A majority of these investments were concentrated in areas hardest hit by foreclosure to restore a healthy housing market and increase impact in these target areas.

RRED commissioned this report, through partnership with the Local Initiatives Support Corporation and Corporate F.A.C.T.S., to analyze the impact and outcomes of our investments. It is the intention of the City to use the results of this analysis as the framework for continuing the stabilization work that these investments have jumpstarted. Additionally, the City will seek input and build consensus with city officials, funders, and affected communities to determine how to best dispose of remaining RRED managed properties and allocate future program funds.

Minneapolis is starting to see home prices approach or exceed pre-recession values in certain neighborhoods. But we still have more to do to ensure all families and residents have the opportunity to live and own homes in safe and vibrant neighborhoods. We look forward to working with you to create more opportunities for homeownership and increase the quality of life in all neighborhoods.

Sincerely,

Elfric K. Porte, II.
Manager, Residential & Real Estate Development

Executive Summary

Neighborhood Stabilization Program, Photo Credit: Alliance Housing

One of the primary objectives of the City of Minneapolis Residential & Real Estate Development (RRED) work unit is to develop sustainable neighborhoods and communities. From 2008-2014 the City of Minneapolis invested $115 million in neighborhood stabilization efforts to address blight, build and rehabilitate affordable housing, maintain existing owner occupied homes, and provide new homeownership opportunities. Of the $115 million, RRED directly invested $40 million into single family homeownership and low density (eight or fewer units) rental housing projects. RRED's $40 million of project investments leveraged $126 million into neighborhoods, assisted over 800 families achieve the American dream of homeownership, and produced just over 400 units of affordable rental and owner-occupied housing. This report highlights the accomplishments over the last seven years, the impact of RRED's investments, lessons learned, and recommendations for continuing the important work of building and sustaining strong neighborhoods.

At the peak of the foreclosure crisis, Minneapolis experienced a rapid plunge in housing values and a precipitous drop in housing demand. The Twin Cities was in the top 10 highest rated metropolitan areas for fraudulent mortgage activity in the country which contributed to the recession. In response to the foreclosure crisis, RRED created a neighborhood investment strategy focused on housing development, down payment assistance, mortgage financing, blight reduction and other revitalization measures. The plan was bolstered by state, federal, and philanthropic investments aimed to address the residual effect of the recession.

Green Homes North, Photo Credit: Greater Metropolitan Housing Corporation

Investment Highlights

Executive Summary

The investments were guided by a well-designed plan carried out by a cadre of partners including, community-based organizations, private and non-profit developers, contractors, counseling agencies, and several City departments.

The Results of the Investment Strategy are Impressive!

Outcomes from the $115 million of City of Minneapolis investments are summarized below:

- $32 million in first mortgage loans were funded through mortgage revenue bonds , which served 266 new homeowners.
- $15 million was invested to provide home improvement loans to 1,620 owner-occupied homes for needed health and safety repairs; homeowners served by the program had an average income of $36,000 per year.
- $16 million was spent to acquire 477 vacant or abandoned residential properties, demolish 258 blighted structures, and maintain property until it is redeveloped. Of the 258 properties demolished, 20 received new construction financing from CPED. The remaining vacant lots are slated to be sold for new home construction or held to be assembled with additional sites for larger development projects. A portion of land banking investments were provided to CPED's Regulatory Services Department; outcomes of those funds are not included in this report.
- RRED invested $34 million in housing production, creating a total of 429 housing units: 277 ownership units and 152 rental units . The rental units will remain affordable to families at or below 50% of area median income for 15 years.
- RRED helped 710 homeowners purchase a home with $7 million in down payment assistance (of the 710, 175 homeowners purchased a home where the cost was subsidized).
- Over 40% of homeowners that received down payment assistance and 60% of homeowners that purchased a subsidized home were people of color and a range of incomes were served by the homeownership programs. Very low income households below 50% AMI, low income households between 50-80% AMI, and moderate income households between 80-120% AMI were served relatively equally by homeownership program activities.

Over $29 million of the $115 million invested was spent on down payment assistance and subsidized housing development focused in nine neighborhoods with the highest concentration of mortgage foreclosures and households living in poverty: Folwell, Jordan, Hawthorne, Willard-Hay, Near North, and Harrison in North Minneapolis and Central, Powderhorn Park, and Bryant in South Minneapolis. The analysis found that:

- The nine targeted neighborhoods in Minneapolis experienced a higher rate of appreciation in housing values than neighborhoods with similar characteristics that did not receive significant investments. However, RRED investments touched only a small percentage of housing values making it difficult to attribute the difference solely to RRED investments.

Executive Summary

Moving forward, if additional funding is not secured, RRED will experience a 63% reduction in its budget for low-density housing as programs financed by federal stimulus dollars and mortgage revenue bonds are depleted. RRED manages nearly 600 vacant lots and structures that require disposition. Many lots were acquired with Neighborhood Stabilization Program funds, which requires disposition within 10 years of grant closeout.

RRED is actively marketing all of its inventory, however financing for value and affordability gap is a continued need. How and where limited resources are invested in the future poses several challenges and opportunities. The following recommendations are offered for consideration:

1. Direct a significant portion of available resources to clearly defined target areas of 15 blocks or less. Selected target areas should take advantage of and dispose of vacant properties or land owned by RRED.

2. Utilize HUD's Neighborhood Revitalization Strategy Area (NRSA) tool which allows Community Development Block Grant (CDBG) funds to be used in non-traditional ways.

3. Within NRSAs, expand home repair loan program to allow all families to participate, irrespective of income. Use CDBG as a credit enhancement in partnership with a financial institution to increase the amount of funds available.

4. Adopt a more comprehensive approach to neighborhood revitalization. Proactively partner with other community builders and city agencies to improve target neighborhoods.

5. Deploy a more comprehensive strategy for rental development to provide choices for a range of income levels and promote de-concentration of affordable housing.

6. Allocate a portion of affordability gap financing for city-owned properties in stronger market areas, where development subsidies are not required, to provide low-to-moderate income families the option to live in high opportunity neighborhoods.

7. Broaden the pool of resources available for community development utilizing City funding to leverage private and philanthropic capital.

Green Homes North

Home Ownership Works

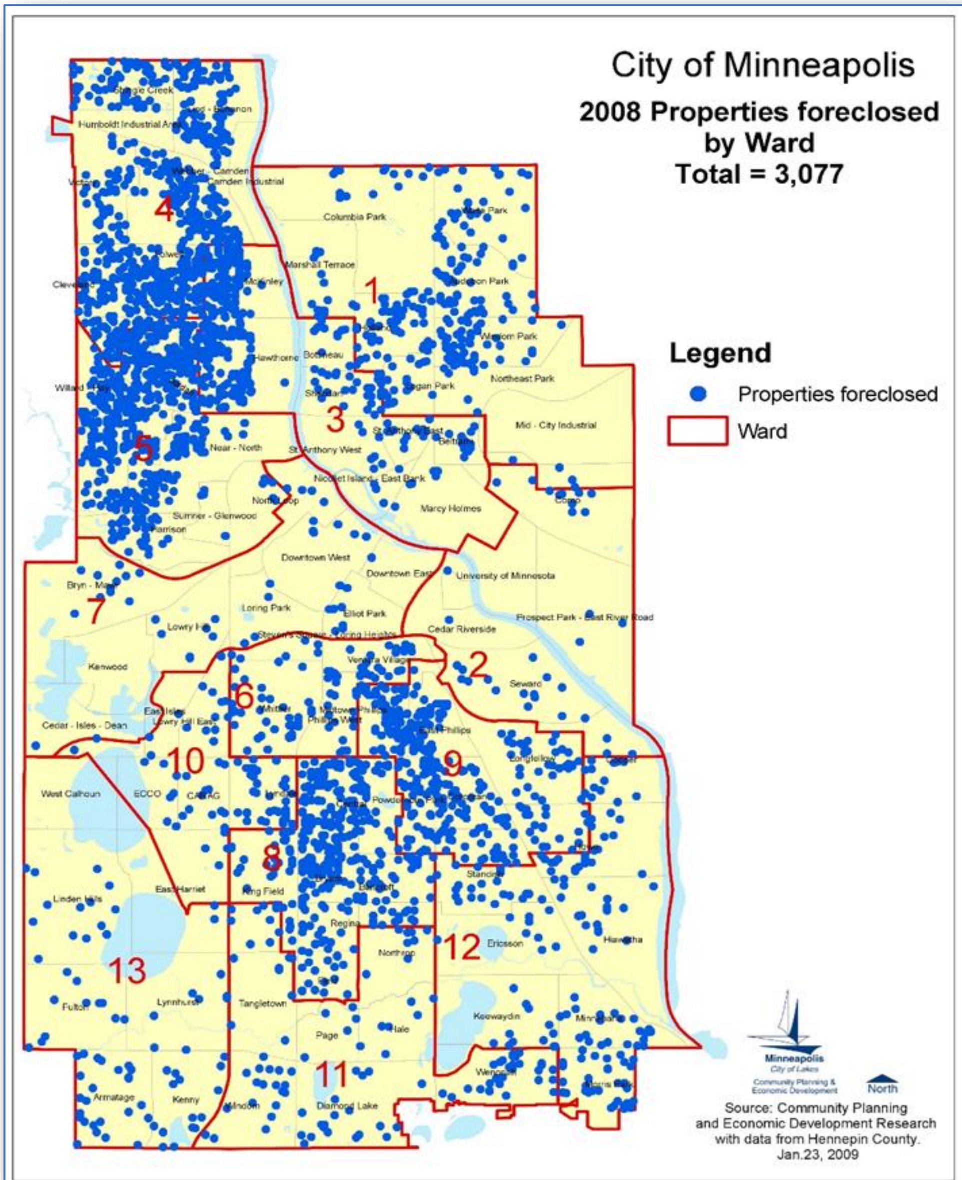
Neighborhood Stabilization Program

Photo Credit: Twin Cities Habitat for Humanity (top), PRG, Inc. (middle), Alliance Housing (bottom)

Green Homes North, Photo Credit: Project for Pride in Living

Investment Analysis Report

Overview of Low Density Housing Investments



Investment Objectives

The rapid plunge in housing values across the country and a drop in housing demand resulted in high numbers of foreclosures and abandoned properties. The Twin Cities was in the top 10 highest rated metropolitan areas for fraudulent mortgage activity in the country.

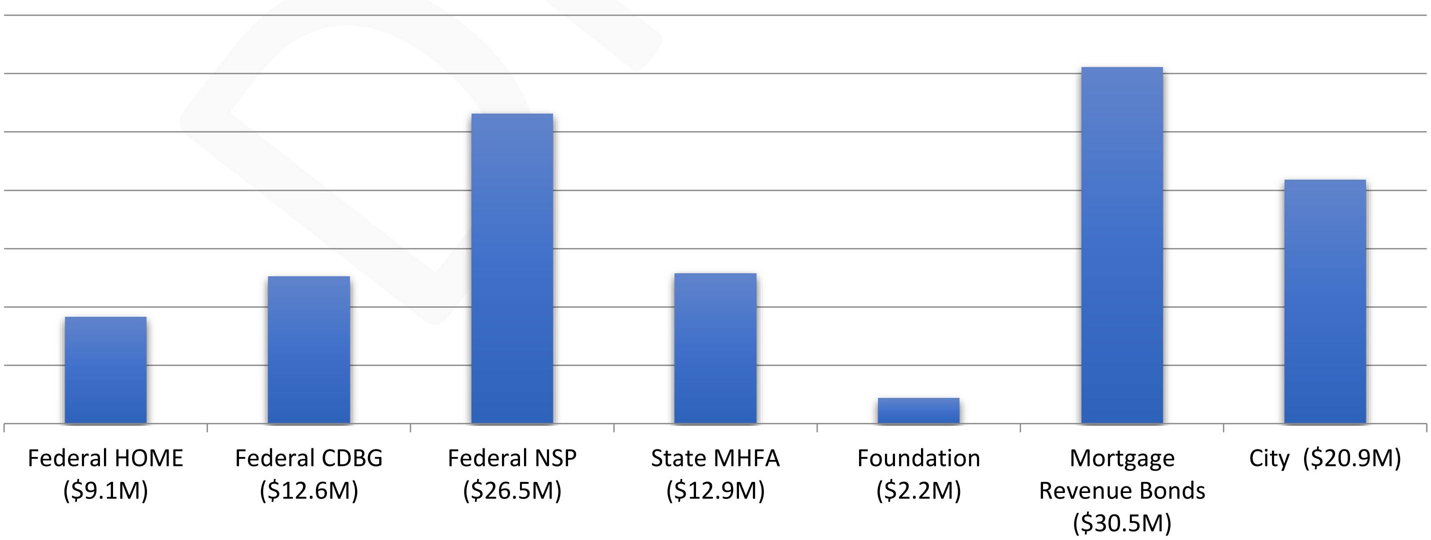
To prevent the spread of blight and to stabilize the most challenged housing markets, the City of Minneapolis designed a market intervention strategy. The strategy utilized a variety of funding sources to address conditions in the areas most affected by foreclosures including: owner-occupied housing development, down payment assistance, home repair loans for homeowners, rental housing development for very-low income families, and demolition of blighted vacant properties that were not feasible for rehabilitation.

Overview of Low Density Housing Investments

Source of Funding

- A total of $115 million was invested from 2008-2014
- The City of Minneapolis leveraged $51 million of local funding with $64 million from state, federal and philanthropic sources to invest in low-density housing, such as single family homeownership and small rental projects, and neighborhood stabilization
- The Neighborhood Stabilization Program (NSP), one-time stimulus funding granted to the City by HUD and MFHA, represents $37 million or 32% of total funds

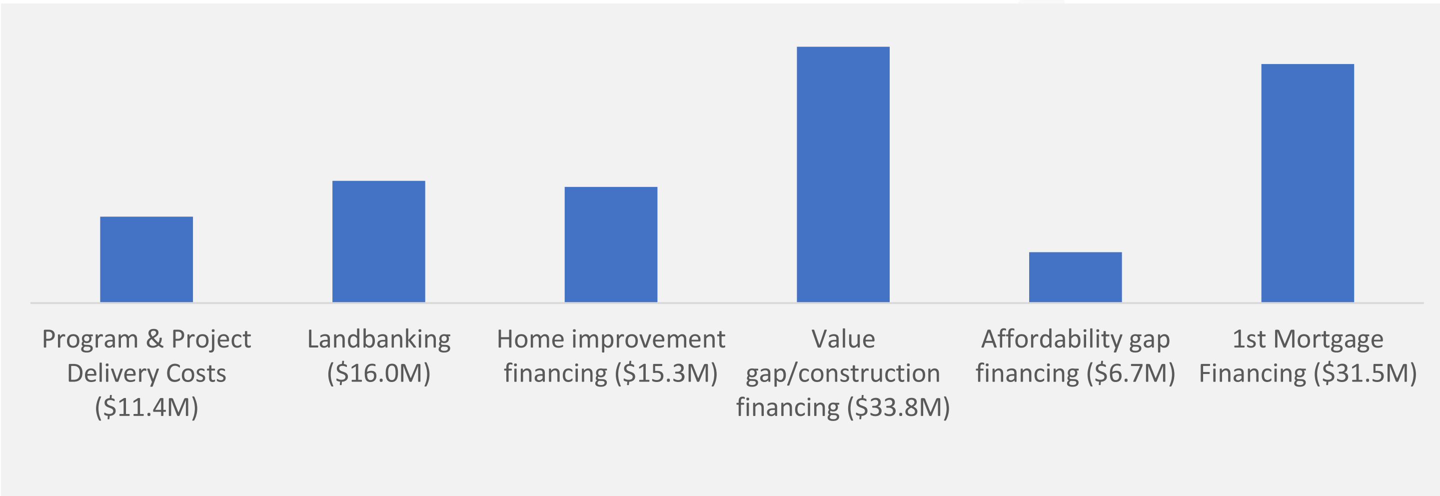
Neighborhood Stabilization Program, Photo Credit: Twin Cities Habitat for Humanity



Sources and Funding Leveraged For Low Density Housing Investments 2008-2014

Investment Programs

City of Minneapolis investments totaling $115 million supported five main program areas:



- **1st Mortgage Financing – $31.5 million**
  First mortgage loans to new homeowners requiring repayment

- **Affordability gap financing – $6.7 million**
  Down payment assistance to qualified homebuyers

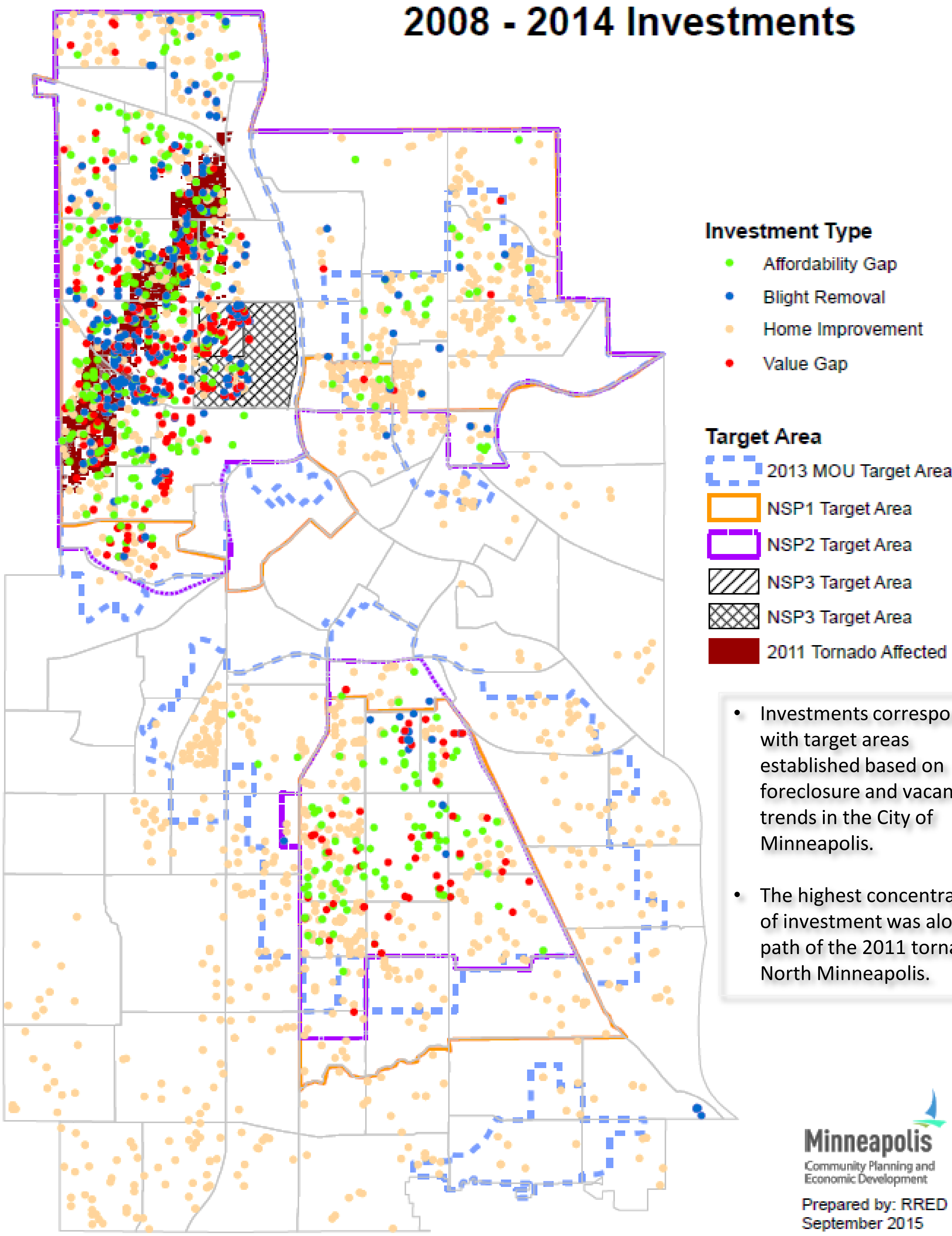
- **Value gap/construction financing - $33.8 million**
  Forgivable loans that 1) closed the gap between development costs and appraised values, 2) ensured rental units remain affordable for 15 years, or 3) provided construction financing that is repaid at closing.

- **Home improvement financing - $15.3 million**
  Loans provided to owner-occupants for home repair

- **Landbanking - $16.0 million**
  Acquisition and demolition of blighted structures
  Vacant land is sold for new home construction or held (land-banked) for assemblage for larger development projects

- **Program & Project Delivery Costs - $11.4 million**
  Costs incurred by the City to administer the programs, acquire property , oversee development projects, and monitor compliance

Investment Programs



- Investments corresponded with target areas established based on foreclosure and vacancy trends in the City of Minneapolis.
- The highest concentration of investment was along the path of the 2011 tornado in North Minneapolis.

Analysis of RRED's Investments

Investment Results

The following analysis is based on the $40 million that RRED directly invested in the production of housing and down payment assistance. The analysis was limited to these investments because programs such as mortgage financing and home repair activities are important, but impact and leverage is difficult to measure.

Purpose

- Evaluate the accomplishments and impact of RRED's investments in single family and low density rental projects from 2008 – 2014
- Determine if layering multiple program investments in targeted areas caused a greater impact
- Use data analysis to inform future investment decision-making

Scope

- Quantify and map public/private investments
- Review and analyze market impact of concentrated investments
- Conduct best practice research to inform strategies moving forward
- Suggest strategies the city and neighborhoods can deploy to continue this important work

Process

Compiled investment information from the following programs:

- Neighborhood Stabilization Program (NSP) I, II, and III
- Home Ownership Works (HOW) Program
- Green Homes North
- Minneapolis Advantage Program

Sources that funded the programs summarized above included federal HOME, CDBG, and NSP from the U.S. Department of Housing and Urban Development (HUD), state CHIF and NSP from the Minnesota Housing Finance Agency (MHFA), foundation funding from the Family Housing Fund, Federal Home Loan Bank, and Wells Fargo, and City of Minneapolis funding.

Conducted a market analysis for 9 target neighborhoods and two control neighborhoods using the following housing market indicators:

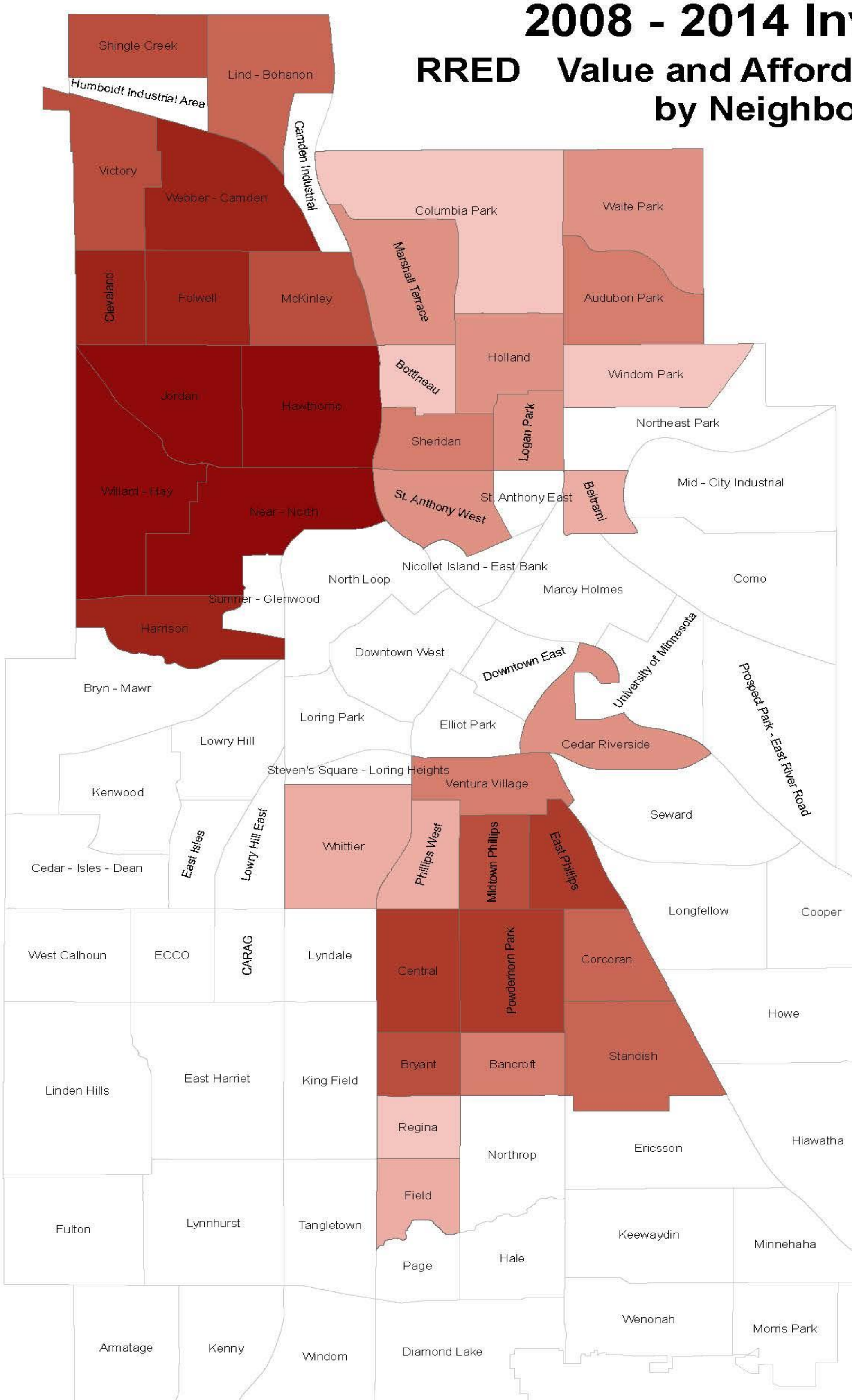
- Price Per Square Foot
- Sales Price
- Percent of Distressed Sales
- Sales Volume

Compared and contrasted City of Minneapolis investment policies and impact to national and state performance and best practices across the country.

Used data analysis and information gleaned to develop strategies moving forward

2008 - 2014 Investments

RRED Value and Affordability Gap Funding by Neighborhood



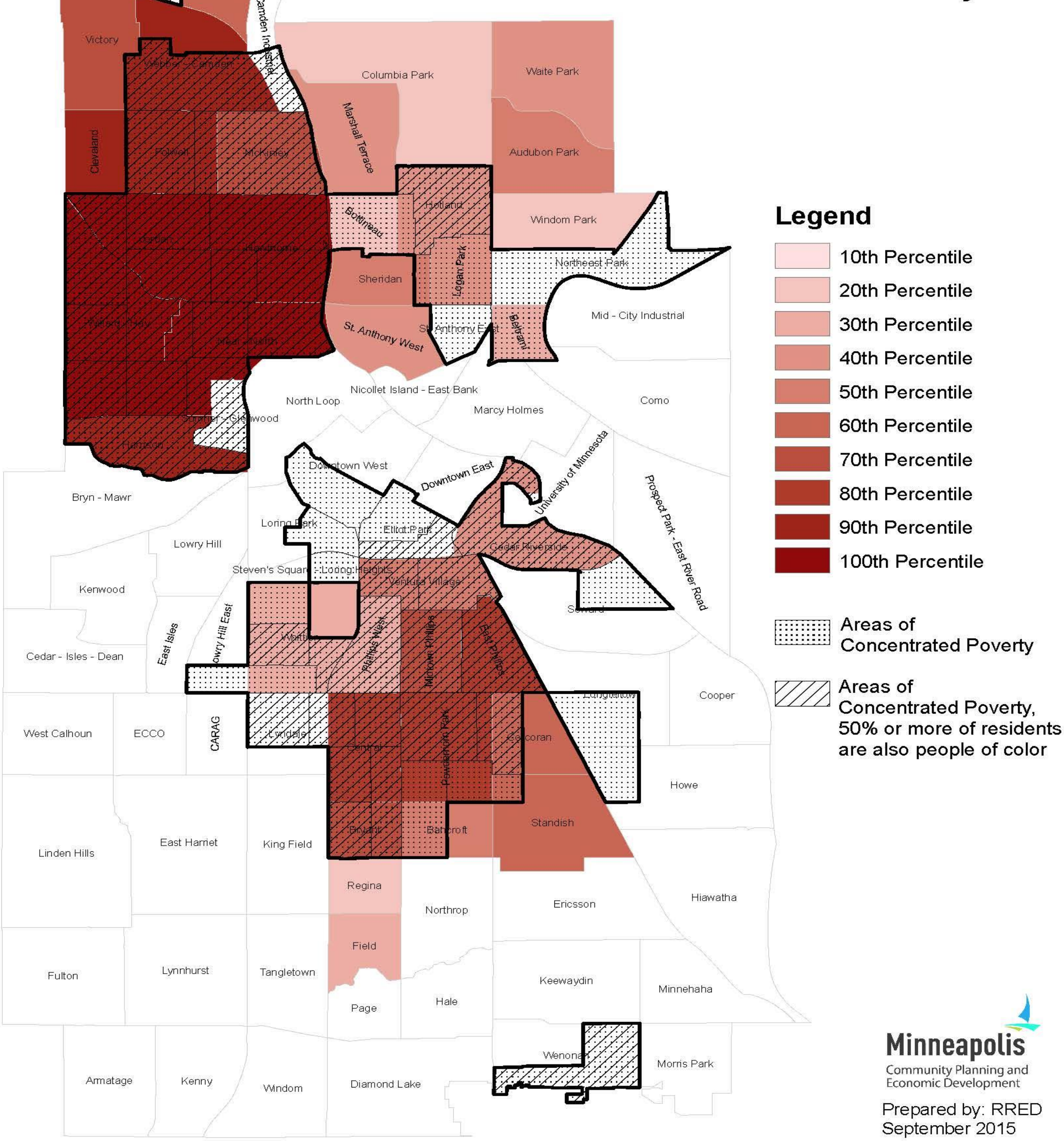
About 72% or $29 million of the $40 million RRED invested were focused in nine neighborhoods with the highest concentration of mortgage foreclosures and households living in poverty: Folwell, Jordan, Hawthorne, Willard-Hay, Near North, and Harrison in North Minneapolis and Central, Powderhorn Park, and Bryant in South Minneapolis.

Minneapolis
Community Planning and Economic Development

Prepared by: RRED
September 2015

Recent Investments

RRED Value and Affordability Gap Funding and Areas of Concentrated Poverty



Analysis of RRED’s Investments

Affordability Gap Assistance

RRED provided $7 million in down payment assistance, also referred to as affordability gap funding, to 710 home buyers. Affordability gap helped homebuyers purchase homes valued at a total of approximately $75 million. Affordability gap investments were able to leverage $10 in mortgage financing for every $1 in funding.

Affordability Gap Leveraged Investments

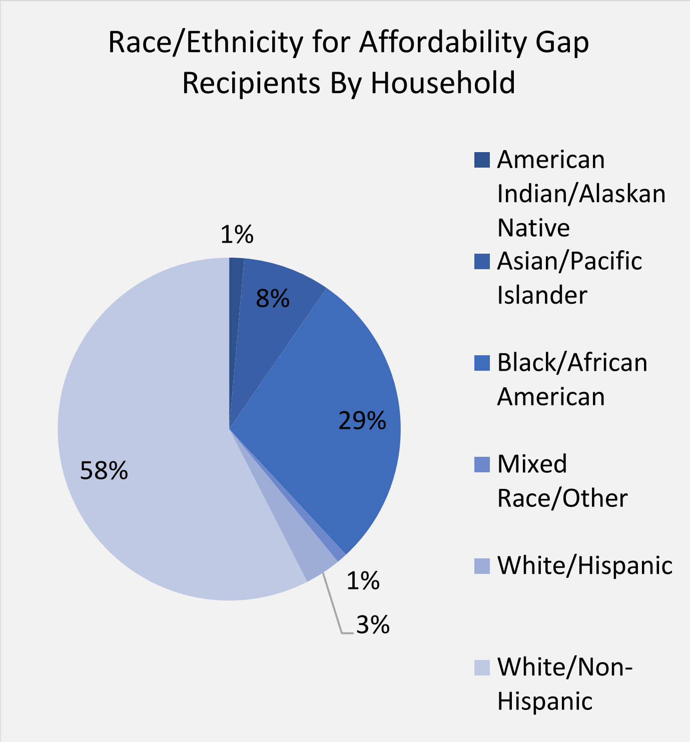
Total Affordability Gap Funding	Homeowners Assisted	Estimated Sales Value	Mortgage Financing Leveraged
$7 M	710	$75 M	$69 M

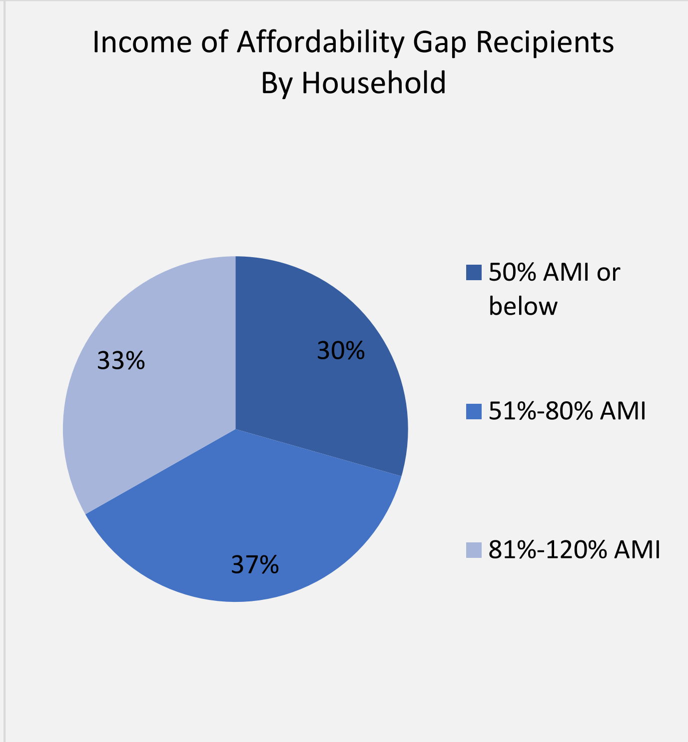
Based on average sales prices.

Green Homes North, Photo Credit: Greater Metropolitan Housing Corporation

Analysis of RRED's Investments

Affordability Gap Assistance: Who was Served





- Nearly 40% of homeowners served by RRED's affordability gap funds were people of color. Hispanic and American Indian households were the least represented demographic served by these programs
- Affordability gap assistance served a range of incomes, relatively evenly providing service for very low income (below 50% AMI), low income (51-80% AMI), and moderate income (81-120% AMI) households
- 70% of households served were 1-2 person households and 18% were 3-4 person households. The remaining 12% were households with 5 or more people
- 65% of households that received affordability gap assistance were previous Minneapolis residents, and 35% were residents that moved into Minneapolis typically from another city in the metropolitan area

Analysis of RRED's Investments

Value Gap Assistance

Of the $34 million in construction financing and value gap funding, $26 million provided funding to subsidize the difference between cost and value

- There were a total of 277 ownership units served with value gap funding, at an average of $57,000 per unit for rehabilitation projects and $71,000 per unit for new construction projects

- Funding was also provided for 152 units of rental housing, at an average per unit investment of $59,000

- Value gap funds were more targeted than affordability gap funds, with 76% of value gap funding invested in the nine target areas

Green Homes North, Photo Credit: ArtSpace

Value Gap Funded Projects

	Owner Occupied	Rental Units	Total	Private Financing Leveraged
Value Gap Only	102	152	254	
Value Gap & Affordability Gap	175	N/A	175	
Total	277	152	429	$46 million

Based on average sales prices.

Analysis of RRED's Investments

Property Tax Increases

Value gap funded projects have a direct impact on annual property taxes generated as vacant or new properties are developed. Pre-purchase appraisals were recorded for a majority of projects that received value-gap funding. The estimated annual increase in properties taxes was valued at $1.2 million based on a tax rate of 1.39% and 1.79% for ownership and rental projects, respectively. The $26 million of city subsidy into these neighborhoods will be recouped over the next 20 years through the improved tax base.

Estimate Increase in Property Value and Property Taxes on Value Gap Projects

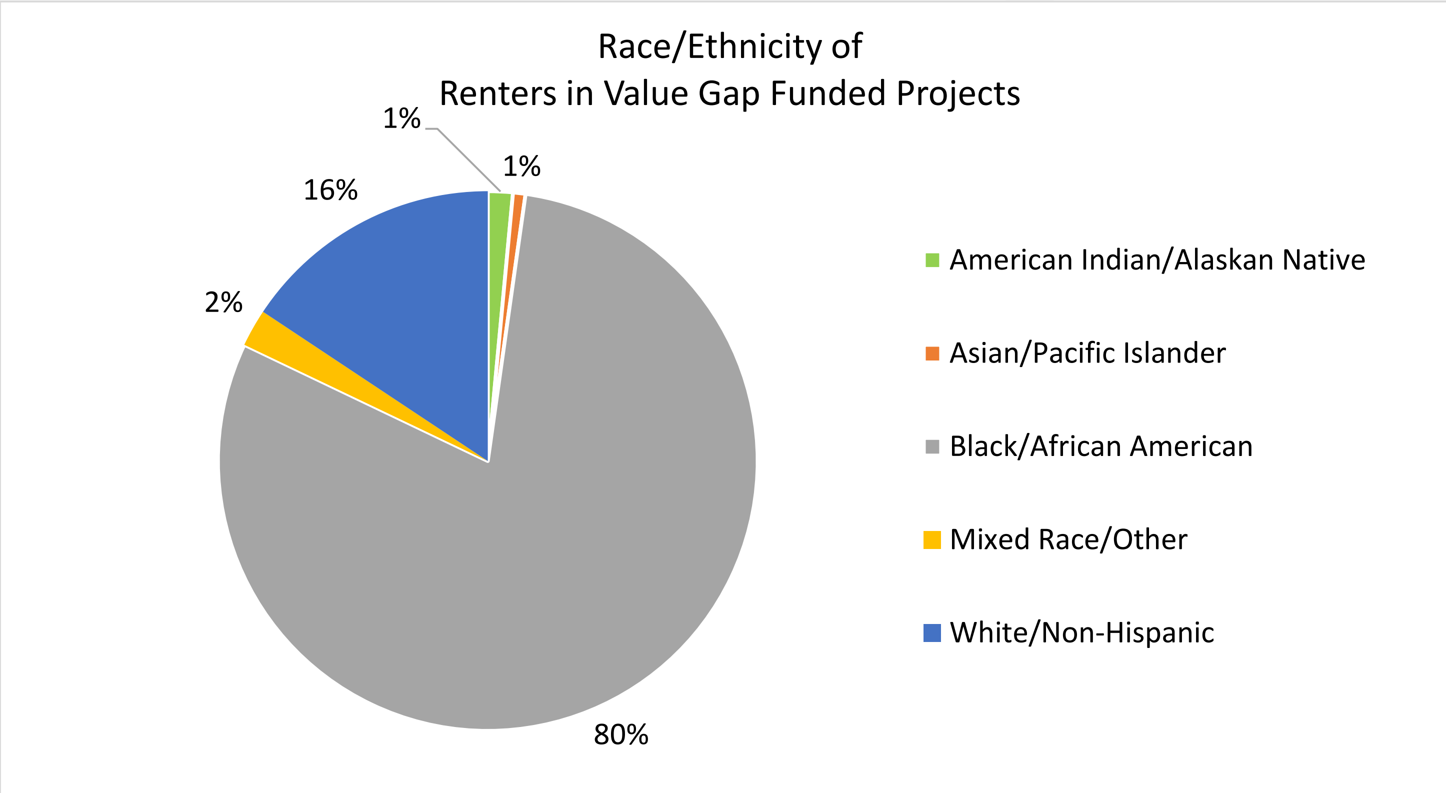
	Est. Increase in Property Value	Tax Rate	Est. Annual Increase in Property Taxes	Est. Average Increase in Property Taxes Annually Per Property
Ownership (277 units)	$67 M	1.39%	$0.9 M	$ 1,300
Rental (152 units)	$17 M	1.79%	$0.3 M	$ 2,000
Grand Total (429 units)	$84 M		$1.2 M	

Based on average sales prices.

Neighborhood Stabilization Program, Photo Credit: Alliance Housing

Analysis of RRED's Investments

Value Gap Assistance: Residents Served

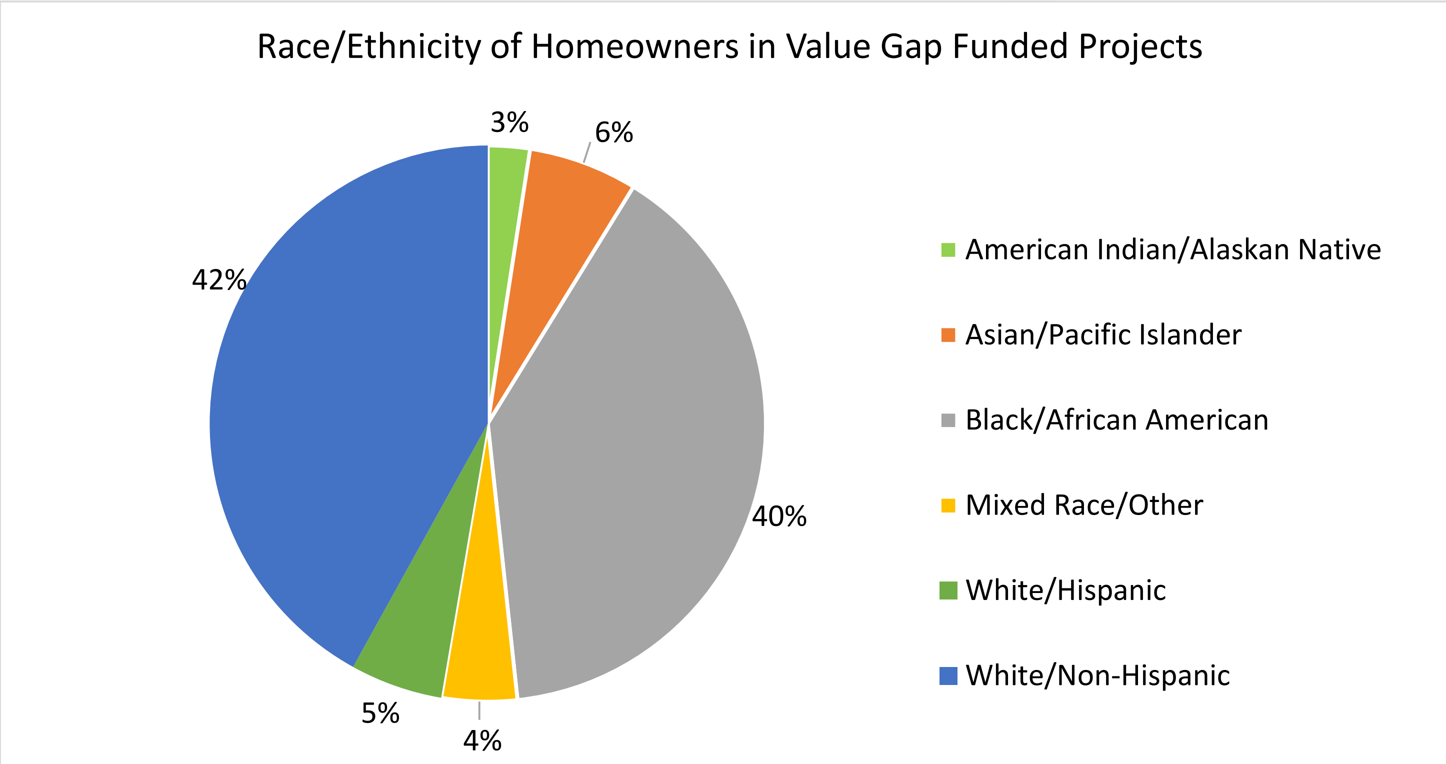


Value Gap Assistance - Rental

- 80% of households that occupied low-density rental projects were Black/African American households, very few American Indian, Asian/Pacific Islander, and no Hispanic households were served by rental housing
- 100% of recipients were very-low income households, with income at or below 50% of area median income (AMI). The program was designed to meet the requirement of the Neighborhood Stabilization Program that obligates serving families with incomes at or below 50% AMI with 25% of grant funds received
- Rental units were more likely to be occupied by existing Minneapolis residents (88% of renters)
- All rental units will be affordable for households at or below 50% AMI for 15 years

Analysis of RRED's Investments

Value Gap Assistance: Residents Served



Value Gap Assistance – Ownership

- Nearly 60% of homebuyers that purchased an RRED subsidized home were households of color
- Developers that offered extensive pre-purchase counseling or atypical financing options had a proportionally higher rate of service to communities of color (84% rate of service) than developers that relied on conventional financing
- Value gap assistance for ownership served a range of incomes, relatively evenly providing service for very low income (below 50% AMI), low income (51-80% AMI), and moderate income (81-120% AMI) households
- 70% of households served were existing Minneapolis residents and 30% moved to Minneapolis from within the metropolitan area
- Approximately 20% of ownership units will be maintained as perpetually affordable to households at or below 60% or 80% AMI

Market Impact

In addition to the direct impacts that RRED's investments provided, this analysis also looked at the impact these investments had within neighborhoods where they were concentrated. Similar analysis was conducted by HUD and the Minnesota Housing Finance Agency.

A national study commissioned by HUD of select NSP recipients found:

- No statistically significant differences in housing market outcomes between NSP tracts and control tracts. Market indicators studied included: vacancy rates, housing tenure, volume of sales, and housing sale prices
- NSP investments may not have been sufficiently concentrated within census tracts. On average, NSP2 treated seven properties per tract
- NSP grantees tended to acquire properties that required more substantial rehabilitation and properties located in difficult development areas with less investor interest

Source: Evaluation of the Neighborhood Stabilization Program 2, Commissioned by HUD

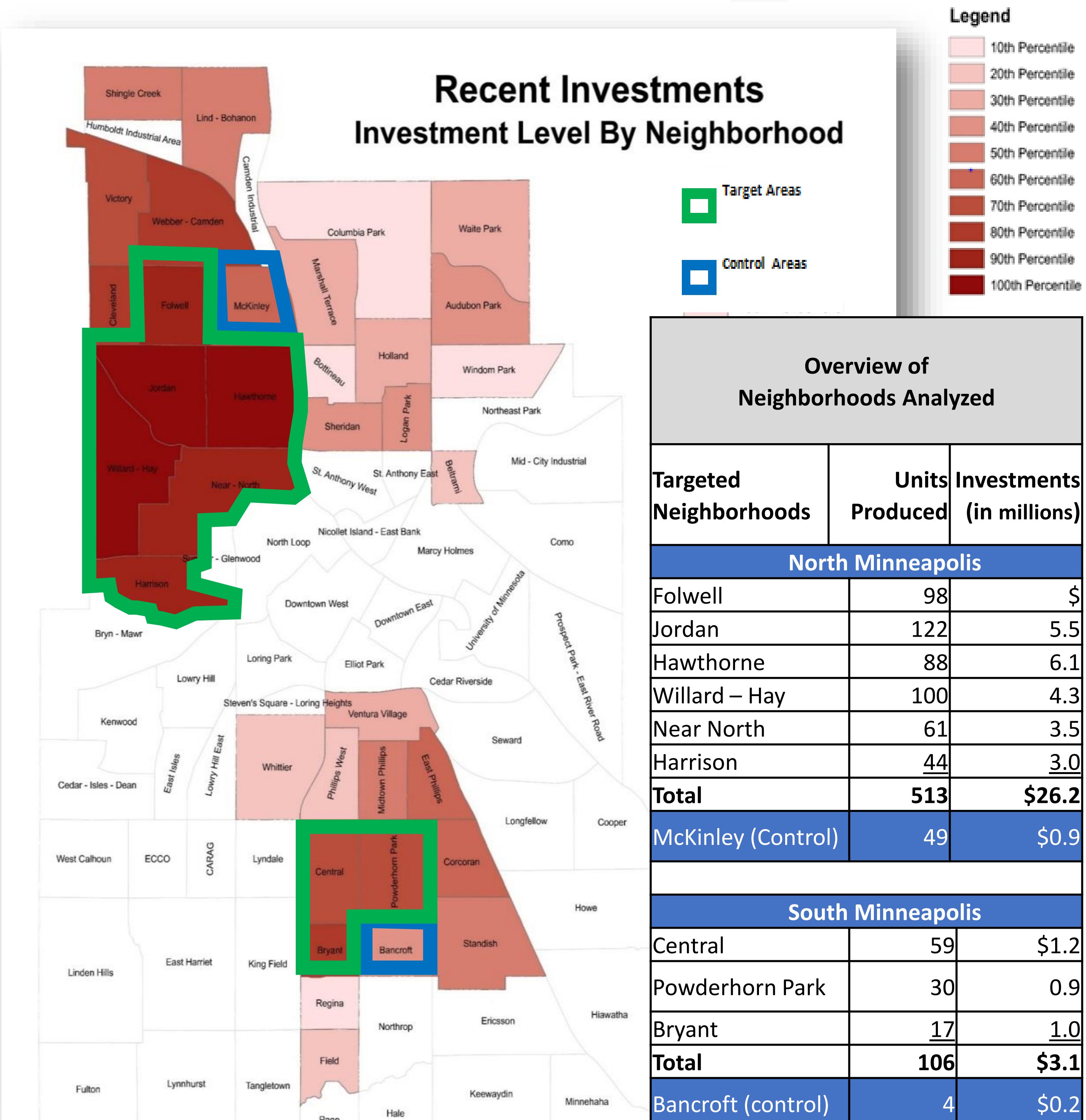
A statewide study commissioned by MHFA of select NSP recipients found:

- NSP activities were clustered in high-need communities
- Targeted activities have had a positive impact on the housing market position relative to communities with similar characteristics and foreclosures but little to no NSP activity
- In neighborhoods with targeted NSP investments when compared to communities with little to no investments:
  - Home sale prices declined less
  - Foreclosure rates declined significantly
  - Vacancy rates declined

Source: Preliminary Impact of the Neighborhood Stabilization Program in Minnesota, Minnesota Housing Finance Agency; 06.25.2014

City of Minneapolis Market Analysis

$29 million or 72% of RRED's $40 million of investments were concentrated in nine neighborhoods in North and South Minneapolis. Market data from these nine neighborhoods were compared to control neighborhoods in North and South Minneapolis, McKinley and Bancroft respectively.

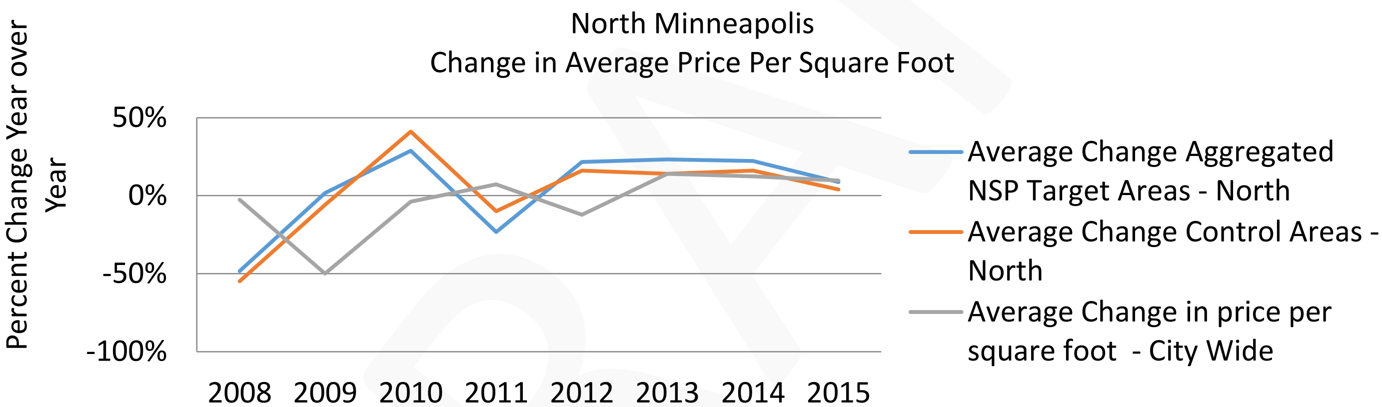


Overview of Neighborhoods Analyzed		
Targeted Neighborhoods	**Units Produced**	**Investments (in millions)**
North Minneapolis		
Folwell	98	$
Jordan	122	5.5
Hawthorne	88	6.1
Willard – Hay	100	4.3
Near North	61	3.5
Harrison	44	3.0
Total	**513**	**$26.2**
McKinley (Control)	49	$0.9
South Minneapolis		
Central	59	$1.2
Powderhorn Park	30	0.9
Bryant	17	1.0
Total	**106**	**$3.1**
Bancroft (control)	4	$0.2

North Minneapolis Investment Impact

Investments were more concentrated in North Minneapolis where more significant differences are seen between target and control neighborhoods as compared to South Minneapolis. After seven years of concentrated investments, market analysis in North Minneapolis showed:

- Price per square foot in target areas increased at a higher rate than the control neighborhood
- Hawthorne, Willard-Hay, and Near North 2015 sales prices have rebounded to exceed 2007 levels
- North Minneapolis neighborhoods tended to have lower sale prices and lower rates of homeownership than South Minneapolis neighborhoods (with the exception of Willard-Hay). Neighborhoods with lower rates of homeownership also tended to have lower average sale prices



Source: Minneapolis Association of Realtors "Infosparks Market" online data base of brokered single family home sales from 2007 to June 2015

Sales subsidized by RRED ranged from 4% to 9% of total sales in the six target neighborhoods. When total RRED's investments were considered, they impacted 4.7% to 12.7% of the total properties in the six neighborhoods. Although these areas received the most investments, it was still relatively small when compared to the size of the neighborhood.

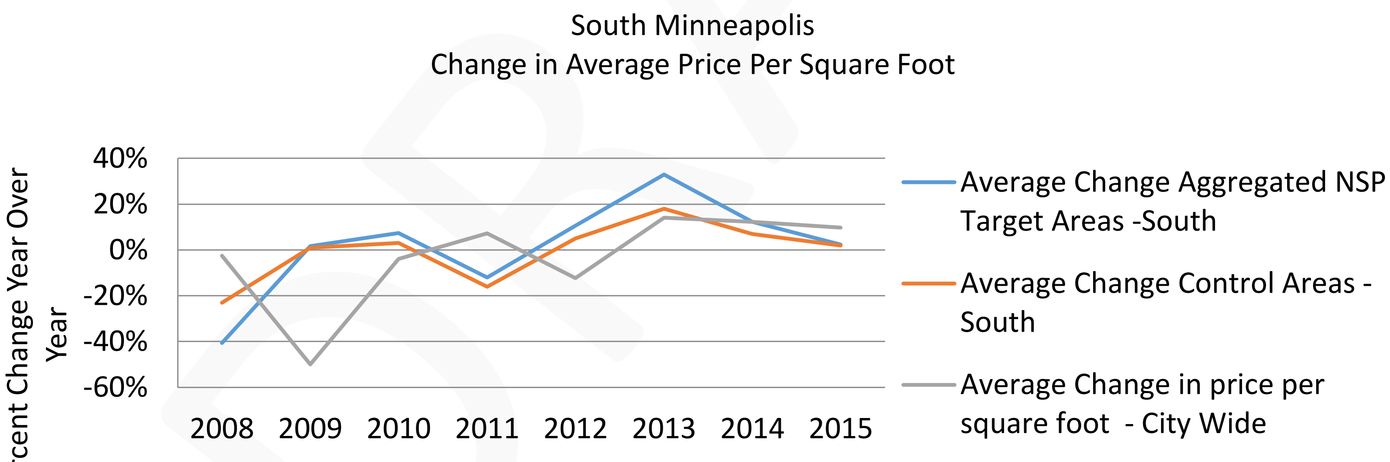
Given the small percentage of sales that are attributable to RRED's investments, it is difficult to associate the market improvements solely to the investments with the exception of Harrison and Hawthorne. In these areas, RRED's sales were 9% and 8% of the market, respectively. Total RRED's investments compared to total properties in these neighborhoods were 12% and 13%, respectively. The greater concentration of RRED's investments likely had a positive influence on both the increased percentage of owner-occupied properties and improvement of the overall neighborhood market.

Note: Additional market analysis included in Appendix

South Minneapolis Investment Impact

In South Minneapolis, when compared to the control neighborhoods, areas with concentrated investment:

- had greater declines in price per square foot in the early years of the recession
- experienced year over year increases in value at a faster rate between 2011 and 2014, and are now leveling off
- achieved faster rates of appreciation based on Price per Square Foot
- experienced a lower percentage of distressed sales between 2013 and 2015
- appear to be recovering at a faster rate than North Minneapolis neighborhoods based on assessor's data of taxable value (total market value)
- tend to have significantly higher average sale prices, and higher rates of owner-occupied properties (as represented by homestead status)



In South Minneapolis, RRED's investments and sales subsidized by RRED ranged from 2% to 6% of total properties and total sales in the target neighborhoods. Investments were less concentrated in South Minneapolis when compared to the size of each neighborhood. Thus, it is difficult to attribute the market improvements to RRED's investments given the small percentage of RRED financed project sales.

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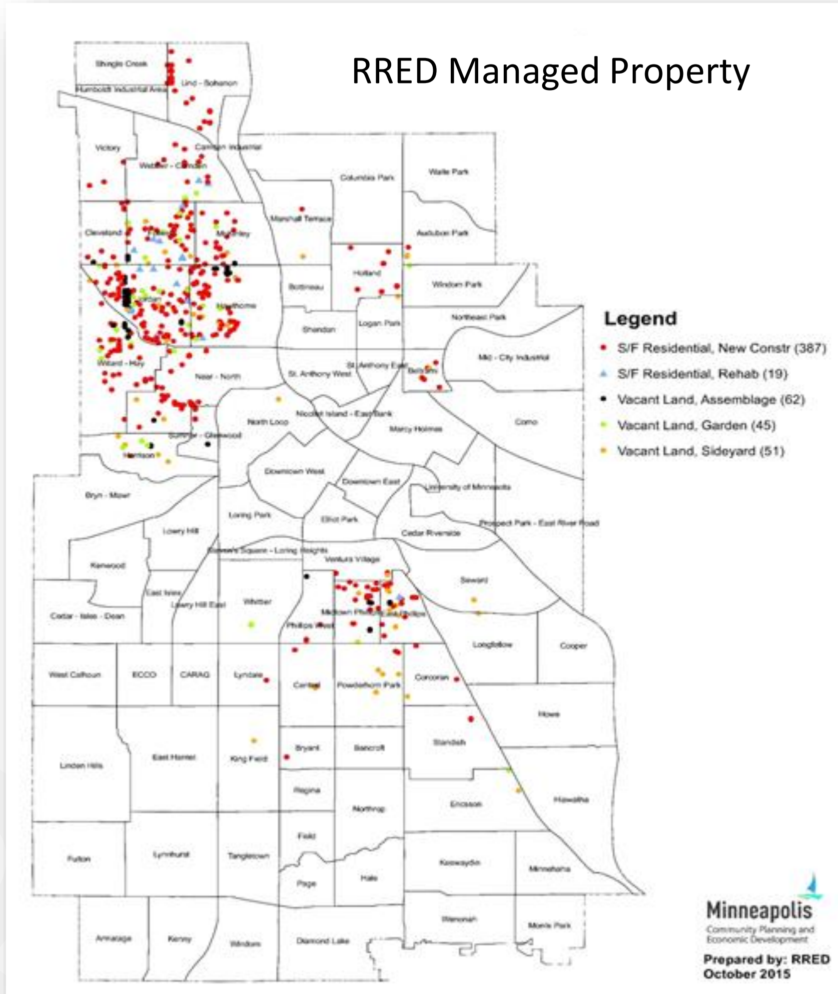
Looking Ahead

Green Homes North, Photo Credit: Peyser LLC

Looking Ahead

Vacant Property Disposition



- RRED manages 564 parcels of land heavily clustered in North Minneapolis.
- 387 vacant parcels or 69% of total properties are suitable for new single family housing development.
- 19 parcels have vacant structures that are prioritized for rehabilitation.
- 62 parcels are land-banked to be assembled for larger development projects.
- Total costs to dispose of RRED properties is estimated at $31.6 million, if RRED continues its historic trends of investment.

Estimated Disposition Costs

Parcels	Value Gap Subsidies per Unit	Value Gap Subsidies	Affordability Subsidies per Unit	Affordability Subsidies	Total RRED Investments
387 New Construction	$71,000	$27.5 million	$7,500	$2.9 million	$30.4 million
19 Rehab	$57,000	$1.1 million	$7,500	$.1 million	$1.2 million
Total		$28.6 million		$3 million	$31.6 million
62 Land Banked					TBD

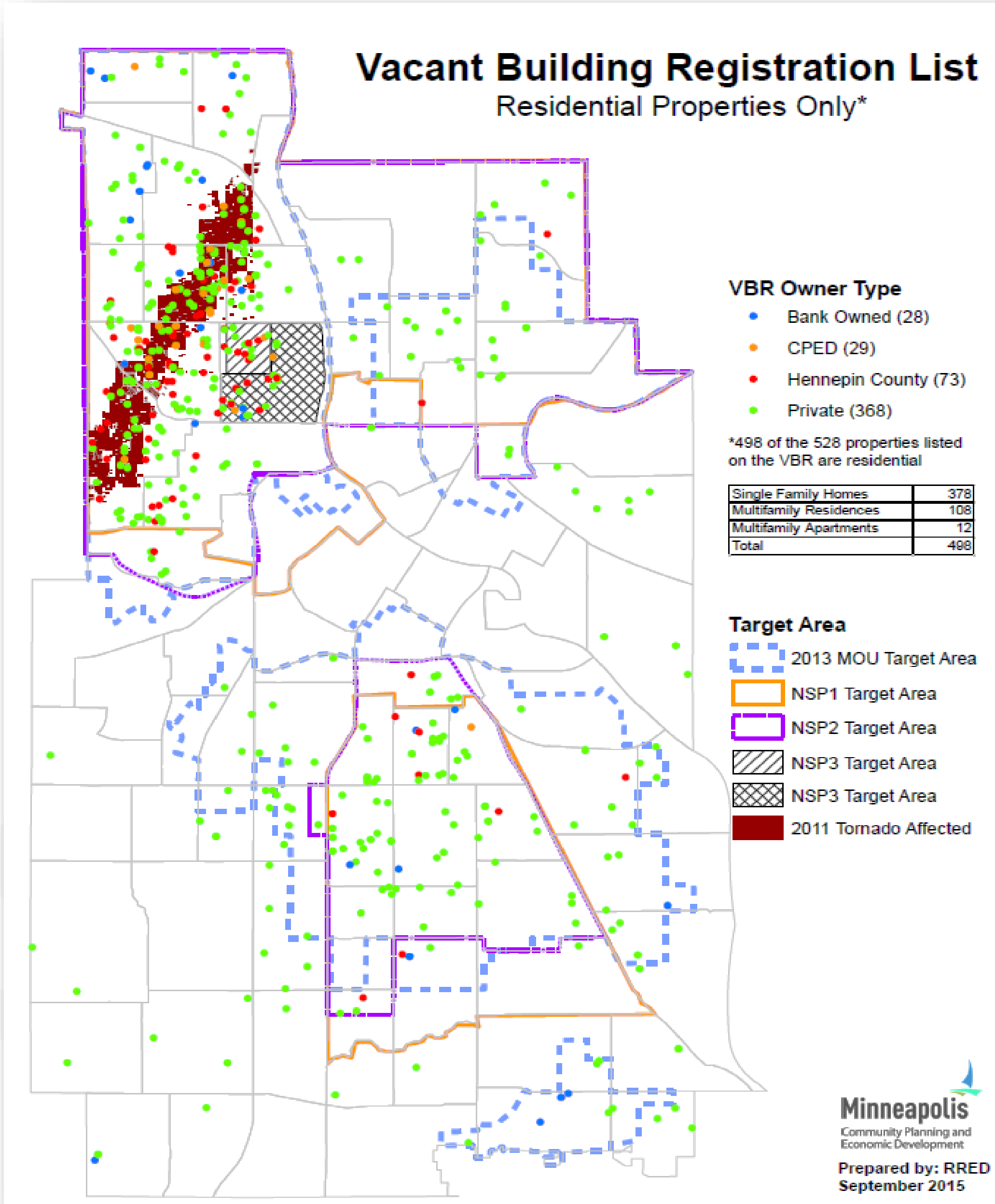
Per unit Value and Affordability subsidies based on average costs from 2008-2014; note that in stronger markets less subsidy is required. Costs may also be offset by property sales. Estimates for land banked properties not included.

Looking Ahead

As of September 2015, there were:

528 registered vacant buildings

498 are residential



- Vacant buildings continue to be an issue in the City of Minneapolis.
- The City of Minneapolis owns 6% of the 498 residential vacant buildings; a majority of them have been approved for sale through RRED's Vacant Housing Recycling Program
- 74% of registered vacant buildings are privately owned; their rehabilitation and occupancy is dependent on the private owner's interest to invest in their property or sell

Looking Ahead

Resource Availability

With the ending of NSP, Minneapolis will experience a significant decrease in funds available for housing investments. Only $1.9 million is projected for RRED's low-density housing budget for 2016, a 63% reduction in funding compared to the average annual budget during the past seven years. With these limited resources, RRED must continue efforts to stabilize and revitalize neighborhoods while also creating a disposition strategy for vacant properties owned by the City.

RRED Value Gap and Affordability Gap Financing Budgets

Funding Type	2008-2014 Average Annual Budget	Projected Annual Budget
Federal HOME	$ 1.00	$ 0.40
Federal NSP	$ 2.50	$ -
State MHFA	$ 1.20	$ 0.50
Foundation	$ 0.04	$ -
City	$ 0.30	$ 1.00
Total	**$ 5.04**	**$ 1.90**

Projected annual budget based on 2016 budget pending approval by the Minneapolis City Council

New resources and significant leverage is required to meet affordable housing demands, to dispose of City-owned properties and to address other blighting influences in target neighborhoods. Consideration should be given to alternative forms of financing such as bonds or real estate investment trusts, using City resources to leverage private capital and partner with the non-profit community to attract philanthropic capital. The City could build on existing partnerships with the Twin Cities Community Land Bank, local CDFIs, corporate entities and foundations to form a $100 million pool of capital to finance housing activities.

Best Practice Research

Best practice research shows that targeted investments achieve faster increases in housing values, reduction in crime, improved family stability, and greater opportunities for economic advancement than non-targeted strategies. Several cities and states highlighted below embrace targeting as a policy and investment approach with good results.

In Richmond, Virginia, the city channeled 80% of the city's federal housing funds (between $6 million and $7 million annually) plus other resources into 6-12 block areas within seven neighborhoods. An evaluation study revealed that highly focused public and non-profit investments resulted in significantly higher property values in these neighborhoods. Housing prices appreciated at a rate 9.9 percent faster than the citywide average. Furthermore, prices in non-targeted blocks, but within 5,000 feet increased 5.3 percent faster suggesting that the effects of investments reach beyond the target area.

Looking Ahead

When making a final decision on target areas, several factors should be considered:

- The selected area should be concentrated and manageable at 15 blocks or less
- Natural boundaries should be considered
- Active neighborhood organizations, businesses and residents that can be engaged

Best Practice Examples

Neighborhood Investment Program Houston, TX	Neighborhoods in Bloom Richmond, VA	Target Investment Neighborhoods Milwaukee, WI	Michigan State Housing Development Authority, Neighborhood Preservation Program
.8 – 1.1 square miles	7-12 block impact areas within larger target areas	8-12 blocks	15 blocks

"Neighborhoods in Bloom is a City policy that directs public and nonprofit investments to specific neighborhoods with the aim of attracting and sustaining additional private capital."

The Ripple Effect: Economic Impacts of Targeted Community Investments

Looking Ahead

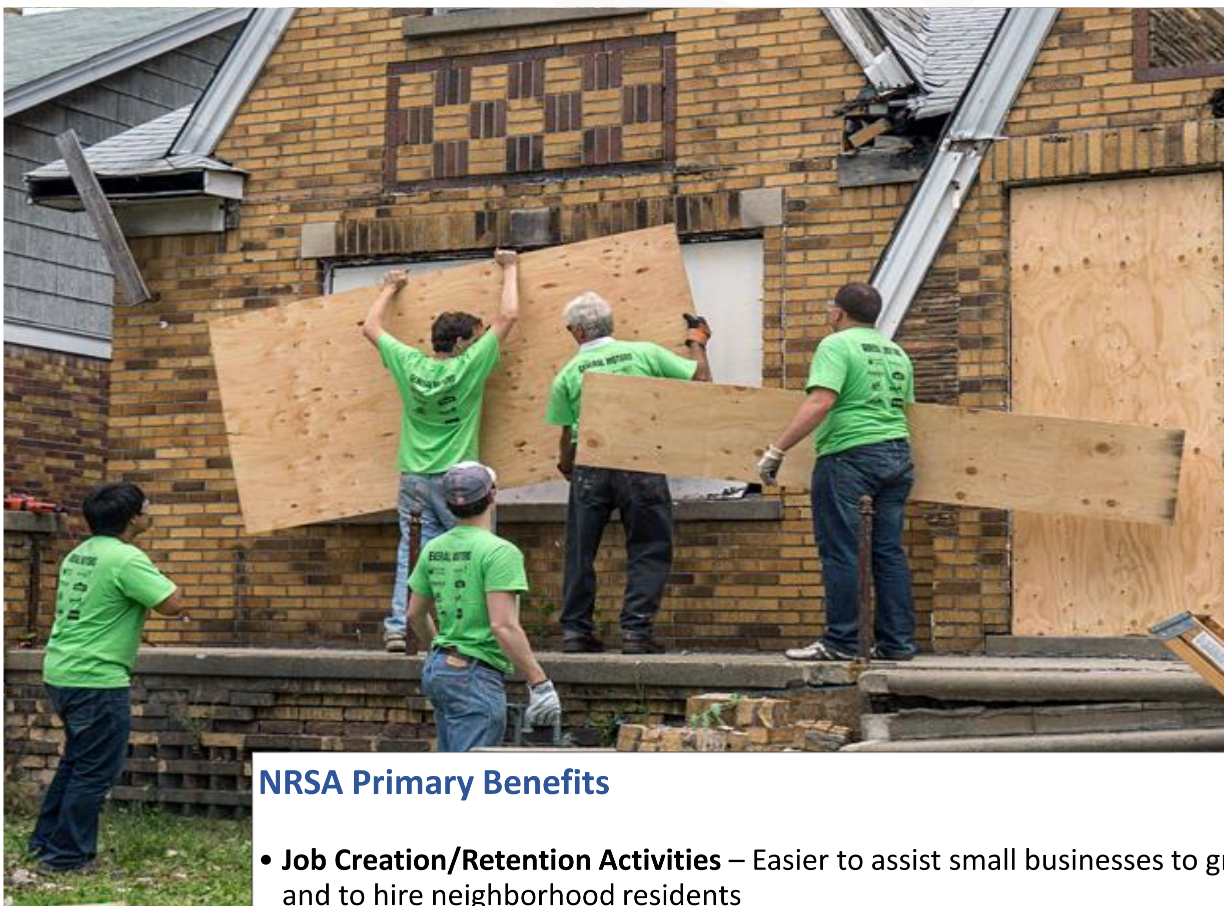
Recommended Strategies for Consideration

Direct a significant portion of available resources to clearly defined target areas of 15 blocks or less. Selected target areas should take advantage of and dispose of vacant properties or land owned by RRED.

- The City's vacant land can act as a catalyst for neighborhood development helping the City to dispose of vacant land and build sustainable strategies to protect this investment. Land purchased by NSP has a 10-year window for disposition making it imperative to address these parcels.

Utilize HUD's Neighborhood Revitalization Strategy Area (NRSA) tool which allows Community Development Block Grant (CDBG) funds to be used in non-traditional ways.

- NRSAs offer a number of benefits and allow for a more balanced approach to neighborhood development including assisting families of all income levels, offering special economic development incentives and allowing more investments in public service activities. HUD rules that govern NRSA will guide the City in the selection of target areas.



NRSA Primary Benefits

- **Job Creation/Retention Activities** – Easier to assist small businesses to grow and to hire neighborhood residents
- **Housing Units** – All families, irrespective of income, can be assisted

Looking Ahead

Within NRSAs, expand home repair loan program to allow all families to participate, irrespective of income. Use CDBG as a credit enhancement in partnership with a financial institution to increase the amount of funds available.

- A key to neighborhood stabilization is to create an environment where existing residents want to stay even when there are other options. By investing in wealth building activities, such as homeownership, income levels rise and neighborhoods are more balanced. Providing low cost incentives, such as a home repair program, creates an opportunity for existing residents to benefit from neighborhood investments.

Adopt a more comprehensive approach to neighborhood revitalization. Proactively partner with other community builders and city agencies to improve targeted neighborhoods.

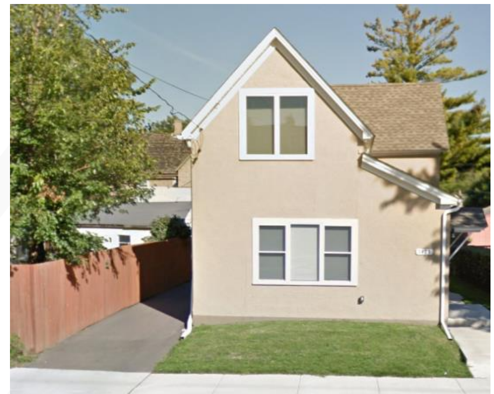
- Physical development is just one facet, albeit an important one, in building communities. Factors such as safety, economic development, family stability and education are examples of other quality of life elements that comprise healthy neighborhoods. Comprehensive strategies are the backbone of NRSAs.

Green Homes North Net Zero Home, Photo Credit: Twin Cities Habitat for Humanity

Looking Ahead

Neighborhood Stabilization Program

Neighborhood Stabilization Program



Neighborhood Stabilization Program

Photo Credit: Urban Home Works (left), City of Lakes Community Land Trust (middle), Greater Metropolitan Housing Corporation (right)

Deploy a more comprehensive strategy for rental development that provides more choices for a range of income levels and promotes de-concentration of affordable housing

- RRED's investments were focused in areas of concentrated poverty, in part due to requirements of leveraged state and federal funding programs. The City should seek to diversify the multi-family housing options to serve families with a range of income levels. Serving a wider range of income levels will also attract equity investments such as 4% low-income housing tax credits, decrease the amount of subsidy required per unit and bring more balance to racial and social inequalities in housing development.

Allocate a portion of affordability gap financing dollars for City-owned properties in stronger market areas, where development subsidies are not required, to provide low-to-moderate income families the option to live in high opportunity neighborhoods

- Although the city can sell a portion of its inventory to developers that do not require value gap subsidies, the affordability gap funding should be extended in stronger market neighborhoods to further efforts to de-concentrate poverty.

Broaden the resources available for community development utilizing City resources to leverage private and philanthropic capital

- If historic trends of investment continue, the cost to dispose of the City's current inventory exceeds $30 million not including properties being assembled for future development. At current resource levels, it would take an inordinate amount of time to address these properties let alone invest more comprehensively in neighborhoods.

  The City should seek opportunities to generate more revenues for the industry through sale of bonds, attracting real estate investment trusts (REIT), increased utilization of 4% low-income housing tax credits and use of credit enhancements. Collaborations with community based organizations should attract more philanthropic investments. Leveraging additional resources can also support RRED's emphasis on addressing racial and economic equity gaps in homeownership programs.

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Appendix

Definitions

Affordability Gap Financing

A forgivable or deferred loan that finances the difference between the appraised value of a house and what a homebuyer can afford to pay. In Minneapolis affordability gap financing is typically requires homebuyers to live in the home for five years and offered to homebuyers with an income below 120% of area median income.

Area Median Income (AMI)

This measurement is calculated and used by The U.S. Department of Housing and Urban Development (HUD), who is required by law to set income limits that determine the eligibility of applicants for HUD's assisted housing programs. The income limits are expressed as a percentage of the Median Family Income (MFI) and are adjusted by metropolitan area and household size. The table below is the 2014 Fiscal Year HUD Income Limit for the area labeled Minneapolis-St. Paul-Bloomington, MN.

Area Median Income	1 person	2 person	3 person	4 person
50% AMI or below (very low income)	$29,050	$33,200	$37,350	$41,450
80% AMI (low income)	$44,750	$51,150	$57,550	$63,900
120% AMI (moderate income)	$69,720	$79,680	$89,640	$99,480

Source: U.S. Department of Housing and Urban Development 2014 AMI table State: Minnesota.

Blight Removal

Blight removal is the acquisition and demolition of vacant, abandoned structures that are determined to be infeasible to rehab.

First Mortgage Financing

The City of Minneapolis used several programs to provide first mortgage financing incentives and loans to homebuyers. The programs were funded with tax-exempt bonding authority.

Green Homes North Program

An initiative to construct 100 new construction homes in North Minneapolis within 5 years. Homes are certified through Enterprise Green Communities or similar green certification programs. The initiative was launched in 2012.

Appendix

Definitions

Home Ownership Works Program (HOW)

Program established by the City of Minneapolis that is funded through HOME funds. Vacant or abandoned buildings are purchased and rehabilitated or new homes are constructed on vacant lots through the program to stabilize communities. Funds are allocated annually.

Minneapolis Advantage Program

A discontinued program that provides down-payment and closing cost assistance to purchasers in the City of Minneapolis. The program was funded through a variety of sources from 2008-2014, including foundation, federal, and state funds.

Neighborhood Stabilization Program (NSP)

Program established by the U.S. Department of Housing and Urban Development (HUD) to purchase and redevelop foreclosed and abandoned homes to stabilize communities hardest hit by the foreclosure crisis. There were three rounds of funding; NSP 1, NSP 2, and NSP 3.

Value Gap Financing (Homeownership)

A forgivable loan that covers the difference between total development costs to construct or rehabilitate a project and what the project is worth when it is completed. Value gap financing is forgiven if the home is sold to the homeowner for less then cost to construct or rehabilitate it.

Value Gap Financing (Rental)

For rental properties, value gap financing is a forgivable loan that ensures rental units remain affordable and to income qualified tenants for 15 years. If the project is refinanced or sold during the 15 year affordability period, the loan is repaid.

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