



Department of City Development
City Plan Commission
Redevelopment Authority of the City of Milwaukee
Neighborhood Improvement Development Corporation

Rocky Marcoux
Commissioner
rmarco@milwaukee.gov

Martha L. Brown
Deputy Commissioner
mbrown@milwaukee.gov

MEMORANDUM

TO: Joint Committee on Redevelopment of Abandoned and Foreclosed Homes

FROM: Martha Brown
Deputy Commissioner

DATE: March 2, 2020

SUBJECT: "Bulk sales" of tax-foreclosed properties

This memo responds to item 6 on today's agenda of the Joint Committee on Redevelopment of Abandoned and Foreclosed Homes.

I believe this communication file is related to a request made of the Dept. of City Development by Ald. Perez in late 2019. He asked for a list of bulk sales involving 10 or more properties. The spreadsheet attached to this memorandum was supplied to Ald. Perez in early December. Because DCD closed one more bulk sale of more than 10 properties on December 18, 2019, after the spreadsheet was provided, I have attached information about that sale on a separate page.

Large scale scattered site purchases

DCD's interest in bulk property sales began as a result of the nationwide real estate recession a dozen years ago, and the creation of the federal Neighborhood Stabilization Program (NSP). NSP provided significant federal funds to assist communities to deal with foreclosure. Eventually, Milwaukee would receive more than \$40 million over three rounds of NSP funding.

In October 2008, the Common Council adopted file 080857, a plan for the expenditure of NSP funds. All expenditures were required to conform with federal program requirements, and there were tight deadlines by which funds must be spent.

At the same time, Milwaukee's inventory of tax-foreclosed improved property, mostly one- and two-family houses, was growing at an alarming rate. The City saw a 6-fold increase in acquisitions between 2007 (79 properties) and 2010 (488 properties). From 2008 to 2019, the City took ownership of more than 5,800 properties.

The Council created the Special Joint Committee on the Redevelopment of Abandoned and Vacant Homes to monitor the City's response to the foreclosure crisis and the use of NSP funds.

The NSP expenditure plan approved multiple strategies to use NSP resources to deal with Milwaukee's foreclosure crisis. The plan set aside NSP funds to support large projects for the development of affordable rental housing. DCD approached both the Wisconsin Housing and Economic Development Authority (WHEDA) and the US Department of Housing and Urban Development (HUD) to determine



whether NSP funds could be used in conjunction with Low Income Housing Tax Credits to encourage developers to buy and renovate groups of City-owned tax-foreclosed properties.

Both WHEDA and HUD gave the green light to this approach. In February 2009, DCD staff shared with the Special Joint Committee its plan to issue a Request for Proposal for developers who had the capacity and interest to buy packages of scattered site tax-foreclosed properties for redevelopment. The RFP attracted responses from 18 firms.

DCD used a two-step vetting process to engage developers in this model.

- Evaluate the capacity of developers. Elements of capacity included the applicant's development history, management history, ability to attract sufficient financing, development team, ability to complete all work within NSP expenditure deadlines
- Evaluate specific project proposals submitted by developers found to have sufficient capacity to perform. Each proposal was reviewed by underwriting committee with representatives of the comptroller's office, CDBG office, and DCD. Funds were pre-committed to approved projects, with the understanding the NSP investment would be made available if the projects received tax credit allocations.

As a result of this process, scattered site projects and NSP funding were approved for the following developers:

- Gorman and Company -- acquisition and rehab for affordable rental, with LIHTC financing (4 projects)
- Layton Boulevard West Neighbors -- acquisition and rehab for affordable rental, with LIHTC financing
- Maures/Brinshore -- acquisition and rehab for affordable rental, with LIHTC financing (2 projects)
- Impact 7 -- acquisition and rehab for affordable rental, with LIHTC financing
- Neighborhood Improvement Development Corp. -- acquisition and rehabilitation for home ownership
- Housing Authority of the City of Milwaukee -- acquisition and rehabilitation for home ownership

All projects allocated NSP funds were closely monitored by DCD and the Community Development Grants Agency, who hired a monitor specifically for NSP activity. Projects also were subject to HUD auditing. Projects that received tax credits are monitored on an ongoing basis by WHEDA.

Even when NSP funds were no longer available, developers have continued to pursue LIHTC-financed scattered site redevelopment of foreclosed property as an efficient way to return vacant houses to responsible private ownership and re-occupancy. In 2019, the Common Council approved the sale of packages of scattered site properties to three developers: Gorman and Company, the 30th Street Corridor Corporation in partnership with Impact 7, and FIT Investment Group in partnership with CMS Contracting.

The Milwaukee Employment/Renovation Initiative (MERI) was designed to encourage scattered site redevelopment and employment of un- and under-employed individuals. The first round of MERI used a \$1 million grant to incentivize the sale and redevelopment of 104 houses. Developer incentives were scaled, depending on the number of hours that they employed workers certified by the Residents Preference Program.

A second round of MERI is now underway. We have made some adjustments to the model, based on what we learned through the initial program. Most of the developers selected for MERI 2.0 are

emerging developers; we hope this program will help them to build their portfolios and capacity, so they are positioned to continue to do development in the future.

Bulk Buyer Sales 5 for \$25,000

In 2012, DCD created a bulk buyer sales program to assist small investors to purchase properties with low market interest. This program allows investors to purchase five properties, each listed for sale at \$25,000 or less, for \$25,000.

All buyers must be registered with the Wisconsin Department of Financial Institutions, provide performance deposits at closing, complete essential repairs to the property within 180 days, and pass standard buyer checks for the purchase of City properties. Investors buying with the intent of holding the properties as rentals must complete the City's landlord training program.

Bulk sales summary

Since 2011, 360 properties have been sold in bulk packages of 10 or more properties. Since 2012, 194 properties have been sold to 35 investors through the 5 for \$25,000 program.

The 554 properties sold in bulk packages constitute 17% of the 3200 tax-foreclosed properties sold by the City of Milwaukee since 2011.