

# DCD Lease to Own Proposal

June 2012 update

# Resolution adopted by Common Council

- Directing the Department of City Development to create a plan to sell City-owned tax-foreclosed properties to qualified tenants.

# Analysis of the Resolution

- Existing and qualifying tenants.
- Increasing number of tax foreclosed properties.
- Obstacles faced by prospective owner occupants.
- Benefits of occupied units within neighborhoods.
- Expansion of DCD's Lease to Own efforts.

# Current process to sell to tenant

- 1) DCD refers tenant to a non-profit specializing in property rehabilitation. Tenant purchases through the non-profit.
- 2) DCD refers tenant to a Homebuyer Counseling Agency primarily for credit restoration.

# Recent sales to tenants

- Property #1 Acquired 3/1/10 – sold 9/1/11 (15<sup>th</sup> district)
- Monthly rent: \$ 450
- Rent collected: \$ 7650
- Expenses: \$ 2831
  
- Property #2 Acquired 3/1/10 – sold 3/3/11 (7<sup>th</sup> district)
- Monthly rent: \$ 500
- Rent collected: \$ 5,100
- Expenses: \$ 9,387
  
- Property #3 Acquired 7/28/08 – sale pending (15<sup>th</sup> district)
- Monthly rent: \$ 475
- Rent collected: \$ 19,100
- Expenses: \$ 643
- (Tenant working with CBO to purchase)

# Current Inventory

- Total residential properties: 639
- Vacant: 478
- Occupied: 156
- Yet to be determined: 5

# Prospective lease to own candidates (current tenants)

- 20 current tenants interested in purchase and paying at least \$500/month rent
- Several working with homebuyer counseling agencies

## DCD lease to own proposal

- City would enter into an Amended Lease with tenant up to 2 years.
- Minimum rent payment would be \$500 (or \$12,000 over 2 years).
  - Rent payments cover program and rehab costs.
  - Property conveyed to tenant for \$1 at end of 2-year period.
- The selected property would need less than \$15,000 in rehab.
- The City would invest up to \$10,000 in targeted big ticket rehab items.



- A partnering Housing Agency and rehab specialist would be utilized.
  - Establish and monitor “Individual Homebuyer Plan” for tenant.
    - Implement credit counseling and budget classes.
    - Teach basic home repair and maintenance techniques.
  - Establish a scope of work for the property renovation and oversee renovation work.
- Tenant completes classes, training and required sweat equity
- City contracts for and monitors rehab work.
- A final code compliance walk through would occur prior to closing.
- Closing takes place with a \$1 sale price.

# Tenant Qualifiers and Responsibilities

- Qualified tenant makeup:
  - Be in good standing with the existing base City lease.
  - Meet all the City's general sales requirements.
  - Generally capable of paying \$500 in monthly rent.
  - Provide accurate financial information.
- Tenant Responsibilities:
  - Maintain snow and grass to city standards.
  - Communicate building maintenance needs to staff.
  - Adhere to the Individual Homebuyer Plan (IHP)
    - Sweat equity
    - Budgeting and Credit classes
    - Learn and complete basic maintenance activities.

## DCD Lease to Own Proposal - Building Qualifiers

- Eligible structure:
  - 1 or 2 unit dwelling (duplexes to be converted to a single unit must apply for and receive appropriate permit).
  - Property restoration scopes of work will generally be less than \$15,000.
  - Properties should generally have a solid foundation and roofing. Building repairs, not complete system replacements, are needed to stabilize the building.

## Budget Impacts

- DCD proposes a \$150,000 Capital Budget ask for the 2013 budget cycle.
- A Rehab Housing Specialist at an annual cost of approximately \$75,000.
- A Homebuyer Counseling Agency would be paid \$500 for each successful closing.
- \*The rent provides a partial source of funding for this program.

# Tenant Options for Homeownership

- 1. Traditional cash or mortgage financed purchase
  - Tenant not requiring assistance to purchase.
  - Without property being marketed, City and tenant agree on a timetable for the property to be purchased.
  
- 2. Lease to own program as proposed
  - City enters into a amended and longer term lease agreement with tenant.
  - City makes a monetary investment into property (up to \$10,000) that would not exceed rent collected.
  - A Housing Rehab specialist would coordinate efforts between the tenant, housing partner and DCD Real Estate.
  - Rent collected would help fund portions of the program.