

Proposal for Disposition of 3156 N. 24th Pl.

HACM proposes to dispose of the vacant single-family Scattered Site Public Housing unit at 3156 N. 24th Pl. Milwaukee, WI 53206 to Acts Housing (AHA 1, LLC) at the below Fair Market Value of \$1.00

Background

This property was vacated in 2017, after which it was broken into and had its furnace stolen. Because the gas had not been turned off, the smells prompted a call to the Milwaukee Fire Department which broke the windows to ventilate the house. At the time, HACM's deductible for an insurance claim was \$10,000 which approximated the cost to replace the furnace and the broken windows, so no claim was submitted.

Additionally, there was a lot of existing tenant damage that would not have been covered as a loss by an insurance claim. Items that would need to be addressed before re-leasing included: replacing existing broken windows, torn and missing screens, damaged doors, missing storms, replacement flooring, patching and painting of walls and ceilings, missing cove base, replacement lighting, cabinets, and bathroom vanity.

Deferred maintenance included repairing the foundation, removing overgrown trees, grading, exterior painting, and repairing downspouts. The restoration estimates exceeded \$106,000 in 2018.

HACM had the following options:

1. repair the unit to Housing Quality Standards (HQS)
2. dispose of it at Fair Market Value
3. sell it under its Section 32 Homeownership Program
4. have the house razed

It was clear that \$106,000 greatly exceeded HACM's Scattered Sites budget to turn-over one unit, so repairing the house to HQS was not a tenable option.

Although HACM did not commission an appraisal on the property at the time*, it was understood that homes in the 53206 Zip Code are among the oldest (this house was built in 1894), and have some of the lowest market values in the city. Because of the negative benefit-cost ratio for an investor, it seemed unlikely that this property could be sold at Fair Market Value to, and be adequately renovated by, a scrupulous owner. Either the project wouldn't pencil out, the buyer would lose money on the rehab or, more likely, it would be flipped to a sub-standard rental. In any scenario, the unit would not likely remain as decent, safe and affordable housing.

Similarly, the renovation costs to convert the unit into a Section 32 Homeownership sale would exceed what HACM could reasonably expect from the sale proceeds. Adding the "up-to \$25,000

*Using the 5-year Median Sale Price records for units in the 53206 Zip Code, it can be estimated that the property "as-is" in 2018 would have been around \$10-\$15k.

Forgivable 2nd Mortgage” subsidy that is part of HACM’s homeownership model would result in even fewer funds at closing and a greater financial loss to the agency.

Razing the house seemed an extreme alternative being that it was an otherwise stable building with “good bones”. Razing would also require upfront costs to HACM of \$10,000-\$20,000 and would create another vacant lot in one of the most distressed, high-poverty areas of the city.

None of these options presented a good outcome for HACM. Because of more urgent matters and priorities, the decision-making required for this particular unit stayed on the back burner for years, creating no rental revenue, costing thousands of dollars in snow and grass maintenance, and rendering the unit in even worse condition.

Proposal

A fifth option presented itself through Acts Housing, a 501(c)(3) homeownership empowerment agency in Milwaukee helping homebuyers for 28 years. Acts Housing has been a partner of HACM’s for both its Section 8(y) Housing Choice Voucher Homeownership Program and its Section 32 Homeownership Program for decades. It readies homebuyers through homeowners counseling, credit repair, identification of grants and referrals to lenders.

Acts Housing currently has over 2,000 individuals enrolled in homebuyer education, including diverse demographic groups (64% Black, 22% Hispanic). On average, these households earn 56% of the County median income (CMI).

Acts Housing recently launched Acts Housing Homeownership Acquisition Fund (in collaboration with the Community Development Alliance*) in response to the challenge of absentee investors purchasing large quantities of single-family homes for long-term rentals. The goal of the acquisition fund is to create an inventory of affordable homes for purchase by low to moderate income individuals.

Because it is difficult for first-time and low-income buyers to procure rehab loans in the traditional lending market, Acts Housing created its own Acts Lending Program. The program supports buyers in repairing distressed houses for homeownership by:

1. helping identify appropriate properties
2. preparing professional, comprehensive scopes of work
3. providing purchase-rehab loans
4. supporting sweat equity efforts
5. supervising contracted work

In 2023 Acts Housing was able to help 240 low-income homebuyers through this creative initiative.

The property at 3156 N. 24th Pl. seemed like a good fit for their program. Because buyers are able to invest sweat equity, are not restricted by Davis-Bacon wage requirements, nor subject to

*<https://www.housingplan.org/>

HQS inspections, the repairs can be done much more affordably than if undertaken by HACM.

Their team has viewed the property at 3156 N. 24th Pl., created a scope of work (their rehab estimate is \$59,200), and has deemed the project appropriate for its borrowers under the Acts Lending Program. Acts Housing is eager to acquire this unit and get to work on helping a buyer rehab it for owner occupancy.

Although Acts Housing assists buyers of all income limits, 72% of their buyers are lower income. It is understood that the sale of 3156 N. 24th Pl. would be to a household with income below 80% of CMI, and that a Deed Restriction would be in place to ensure that this condition is met.

Justification for Disposition at Less than Fair Market Value

In a currently tight housing market, the actual “as-is” appraisal for the house came in at \$32,000, which was more than what was expected, given its condition. However, HACM believes the best outcome would be to get the home into the hands of a homebuyer with the assistance and guidance from Acts Housing rather than risk selling it to a private investor.

Acts Housing structures its sales to buyers using the after-repair Comparative Market Analysis (CMA) value less rehab, holding, and closing costs, less a minimum \$5,000 equity interest to buyers.

For example:

Rehab costs	\$59,200
Holding & Closing costs	\$2,000
Minimum Equity	\$5,000
Investment total	\$64,400

With an estimated after-rehab value of \$54,800* this project is still feasible for a family because those under 80% CMI will qualify for down payment assistance grants which should bring the total investment by the family well within the total investment need.

By selling the unit to Acts Housing for \$1.00, the house could be renovated and occupied by a low-income homebuyer with a mortgage less than the area median rents, an outcome in alignment with HUD’s and HACM’s goals.

*https://www.zillow.com/homedetails/3156-N-24th-Pl-Milwaukee-WI-53206/40437666_zpid/