



KNOWING YOUR ROLE

HOW NONPROFITS CAN BE A PART OF THE FORECLOSED PROPERTIES CONVERSATION IN THE EAST BAY



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Images: Formerly foreclosed homes developed by Hello Housing and owned and Managed by HCEB.

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INTRODUCTION

The foreclosure crisis hit half a decade ago but its repercussions are still being felt by cities across the nation. In November 2013, Bloomberg Businessweek questioned whether the United States is reentering another housing bubble, as markets such as the Bay Area are setting record high home prices which continue to rise beyond the reach of many households.¹ One of the most significant repercussions is the large volume of single family homes that have been acquired by institutional investors and others with access to private equity capital. This ownership concentration of single family housing stock has already significantly raised the market rate for rents in markets hit hardest by foreclosure.

These properties are coveted by private actors, the public sector, and nonprofit organizations alike as a significant real estate portfolio opportunity in the aftermath of the foreclosure crisis. Nonprofit developers and affordable housing organizations, along with federal and local governments have been seeking the acquisition and management of single-family homes in order to stabilize the housing market in local communities. With the collapse of Redevelopment Agencies in California and the general decline in federal funding for affordable housing, nonprofit developers and affordable housing organizations should consider the opportunity to use single-family properties on scattered sites as an alternative supply of affordable housing.

This report aims to help guide nonprofits in the East Bay that are interested and engaged in foreclosure recovery and neighborhood stabilization with best practices to address the challenges of building a scattered-site rental portfolio. Even though this report focuses its findings on nonprofit developers in the East Bay, it is also important to acknowledge the various ways to approach these topics of affordable housing and the foreclosure crisis.

Some background on the current post-foreclosure situation in the East Bay is needed to provide context about the various conditions and highlight current challenges approaching these vacant and real-estate owned (REO) properties. From there, pragmatic solutions are recommended to help nonprofit groups figure out

what avenue is sensible, financially feasible, and will lead to a successful operation. These solutions highlight the need for nonprofits to have organizational flexibility, balance their community development mission with a private-sector mentality, and understand local market conditions and policies that factor into acquisition and management. The report concludes with interviews with four entities – Hello Housing, Housing Consortium of the East Bay, Federal Reserve Bank of San Francisco, and the City of Oakland – to highlight emerging best practices in the East Bay.

BACKGROUND CONTEXT OF EAST BAY

The Bay Area has been one of the hardest hit regions in California for foreclosed properties, leading to decreased property values and subsequent loss of tax revenue as well as a growing concern for blight and health for communities immersed in foreclosures. However, the East Bay has seen significant variation in current conditions. For example, in Richmond, over 400 homes are in some status of foreclosure.² Foreclosed properties are spread throughout Richmond, with a substantial amount in affluent neighborhoods such as Point Richmond and Marina Bay – but these neighborhoods have seen little blight due to their desirable waterfront locations and local amenities.³ The housing market there is bouncing back, whereas low-income communities of Richmond with many foreclosed homes, such as the Iron Triangle neighborhood, continue to struggle. According to UC Berkeley's Center for Community Innovation, cities with newer homes as a large segment of their real estate portfolio – such as Antioch and Richmond – are seeing the market recover more quickly. Cities such as Baypoint and Pittsburg, with older homes located in poorer neighborhoods, are having a tougher time bouncing back.⁴ Oakland, the largest city in the East Bay with a wide range of housing types and neighborhoods, has seen wild swings in value and great variation between neighborhoods. In many of these hard-hit cities, lenders have not provided security and maintenance for REO properties, perpetuating blight and decreasing the value of real estate nearby.

A growing issue for all involved is “zombie” properties – foreclosed homes lost in an intermediary state of vacancy

1. Weise, Karen. “Are We Already Back in a Housing Bubble?” Bloomberg Businessweek 07 Nov. 2013: n. pag. Bloomberg Businessweek. Bloomberg L.P., 07 Nov. 2013. Web. Nov. 2013.

2. Palomino, Joaquin. “Zombie Properties Spread in Richmond.” East Bay Express: 09 Oct. 2013. Web. Oct. 2013.

3. Said, Carolyn. “Pricey Homes in Richmond's Eminent Domain Plan.” SF Gate. Hearst Corporation Inc., 20 Aug. 2013. Web. Oct. 2013.

4. Perkins, Kristin. A Snapshot of Foreclosure in Contra Costa County. Rep. Center for Community Innovation, July 2008. Web. Oct. 2013.

before a finalized foreclosure. Owners vacate their homes in the midst of the foreclosure process, abandoning the property without realizing they are still liable for property taxes and any other expenses that come with home ownership. During this process, the previous owner may still be liable for the property and the lenders following through with the foreclosure do not maintain the property. This backlog of properties is a growing issue in cities such as Richmond and Oakland, where the amount of underwater mortgages is high. With an abundance of “zombie properties” comes with a loss in potential revenue in taxes for the cities. Blighted properties also devalue the local housing market. During this process, not only are the homes in limbo but the postponing of foreclosures affects the ability for homeowners to recover. The families that were displaced also have a hard time rejoining the housing market, with their subsequent poor credit. With less real estate on the market due to zombie or vacant properties and demand still high, the costs of the small supply of local properties are rising sharply.

Distinctive in the East Bay is Oakland, a hot market with a housing stock averaging about 50 years old. During the second quarter of 2013, Oakland has become the city with the second highest increase in rising rents nationally, second only to San Francisco. Of the over 10,000 foreclosed homes in Oakland, 81% have reverted to REO status due to lack of capital. But due to its location and relative affordability, Oakland lately has been a very attractive market.⁵ Taking a closer look, private financial institutions and investors have been moving into Oakland with the cash needed to acquire real estate in bulk. Investors captured 42% of foreclosed homes in Oakland since 2007 and 93% of these homes are located in low-income communities. Private investor Community Fund LLC works primarily in East Oakland. It flipped 120 homes as of October 2011, where the average net profit from selling the home reached \$70,721. Another private investor, REO Homes LLC, acquired homes in West Oakland at an average cost of \$128,000 – selling them on average for \$315,000 for an average net profit of \$187,000 per home.⁶

This type of investment is not unique to Oakland. 2011 marked the year when financial institutions and investors started to buy REO real estate for a low price in bulk.

While private investors start acquiring REO and vacant properties, they tend to wait to rehab and sell them until the market recovers in order to capture higher value in their sales. During this process, homes continue to become a source of blight for communities. Simultaneously, the acquisition of real estate by these private developers is tightening the supply of available housing stock, driving up housing prices 64% from Q2 2012 to Q2 2013 in Oakland.⁷ Private investment has become a major source of concern for nonprofit developers, as private capital absorbs another opportunity for affordable housing and continues to destabilize the local economy. The transition of ownership to private investors, many of whom are based out outside of the areas where they are active, is changing the face of neighborhoods, especially places like West and East Oakland with historically high rates of homeownership by people of color. The speed of neighborhood change and displacement has quickened as out-of-town investors take control of local assets and new renters arrive, many of them transplants from San Francisco where skyrocketing rents are driving out both new and longtime residents.

ISSUES TO CONSIDER

These local conditions in the East Bay make it a challenge for nonprofit organizations and developers to participate in the single-family market, but it is imperative that they do so, to advance their mission of providing different types of affordable housing for residents in need. Given shifts and reductions in funding sources, managing foreclosed scattered-site housing is a relatively new area to explore for affordable housing. Nonprofits can help stabilize these communities by holding these properties as locally-managed, well-maintained affordable assets. Below are issues to consider for nonprofit developers in the acquisition, rehabilitation, and management of foreclosed scattered-site housing.

The foreclosure crisis in the East Bay created a wave of displacement among homeowners and left damaging effects on local communities. Yet, from this foreclosure crisis came an opportunity to provide affordable housing through single family homes. With new opportunities came new hurdles, as most nonprofit developers had little or no

5. Lin, Margaretta. “Demonstration of Oakland Property Registry.” Preserving Affordability through Property Management. Federal Reserve Bank of San Francisco, San Francisco. 16 Oct. 2013. Lecture.

6. King, Steve. Who Owns Your Neighborhood? The Role of Investors in Post-Foreclosure Oakland. Rep. Oakland: Urban Strategies Council, 2012. Who Owns Your Neighborhood? The Role of Investors in Post-Foreclosure Oakland. Urban Strategies Council, June 2012. Web. Sept. 2013

7. US Department of Housing and Urban Development. Office of Policy Development and Research. Comprehensive Housing Market Analysis for Oakland, CA 2012. HUD User, 01 Mar. 2012. Web. Sept. 2013

experience handling scattered-site properties, especially single family homes. Given the conditions of the East Bay housing market since 2007, nonprofit developers and other organizations had to consider various issues when acquiring, rehabbing, developing, or managing single-family REO properties. These issues are outlined below – and of course in each market, local nonprofits face external political and economic challenges along with these internal challenges. Many of these issues reoccur throughout the entire process.

CHALLENGES IN ACQUISITION

Access To Property – Competition with Private Investors and Lack Of Initial Capital

Due to poor credit scores following a foreclosure, tightening of lending standards, and the rise in price due to tightening of available housing stock, homeownership has moved out of reach for many moderate-income families. Nonprofits are facing similar challenges. Access to capital has been the crucial component for nonprofit developers in acquiring scattered-site foreclosed properties. Most nonprofit developers had relied on federal funding to acquire properties and current financing has been scattered throughout various programs. Without substantial capital accessible as one streamlined source, smaller nonprofits lose to private investors and private equity firms using cash to dominate the real estate market. Even with a short sale, which gives an opportunity to acquire a property at a lower price, private investors outbid cities and nonprofits.

The Neighborhood Stabilization Program (NSP), created in 2008 through the U.S. Department of Housing and Urban Development (HUD) as part of the federal stimulus package, aims to stabilize communities by providing grants for the acquisition and redevelopment of foreclosed homes. NSP targets specific geographies defined by census tracts on a basis of greatest need factors (e.g. highest rate of foreclosures, subprime mortgages, abandoned homes, etc.). However, these targeted tracts limit the geographic area and subsequent volume of properties nonprofit developers can work with. As a part of its implementation, NSP reevaluates where to allocate funds based on a formula that looks at the number of

foreclosures in vacancies in census tracts. Over time, NSP tracts can change to a new targeted geography, leaving a community that was initially within the census tract now without funding. As communities lose NSP capital, nonprofit developers also find themselves unable to continue their efforts in those communities, relocating to the new targeted neighborhoods. In addition, obtaining NSP funding required an initial 10% discount from the seller to the buyer. This has since then been negotiated down to 1%, but this discount is still a challenge for nonprofits.

Some nonprofits with specific real-estate expertise were able to capture REO homes in partnership with local jurisdictions and capital, but the numbers have been limited. For example, only 16 properties in Oakland were sold through the National Community Stabilization Trust's First Look program in 2012, and the NSP-funded Oakland Community Land Trust got off to a very slow start in reselling rehabbed homes (though as of February 2014, it had acquired 17 houses and have 15 of those under contract with lower-income families).⁸ While a crucial piece of the puzzle, municipal restrictions and federal funding also can inhibit quick and streamlined action. As this federal funding resource for acquisition winds down, nonprofit developers need to find new alternative sources of funding to flexibly compete with private investors.

New Type of Housing Portfolio

With most nonprofit developers accustomed to acquiring one large multifamily property, they now have to learn how to acquire multiple single-family properties. Nonprofit developers now have to work with multiple mortgages, multiple due diligence processes, and the like. Each home can be situated in a different local market, creating a difficulty in streamlining acquisition process. In addition, the sheer increase in volume for a nonprofit developer's portfolio requires more capital for not only the acquisition but the hard costs and soft costs that come with each site.

Regulatory and Policy Barriers

Nonprofit developers also encounter regulatory and external factors that make scattered-site housing tough properties for acquisition. As discussed, nonprofits cannot compete

8. Darwin BondGraham, "The Rise of the New Land Lords." East Bay Express, February 12, 2014.

with well-capitalized private investors solely on their own. Most turn to federal financing and partnerships with local municipalities for subsidies, loans, and grants. Nonprofit developers, when selecting what housing stock to acquire for their portfolio, need to be cautious of municipal boundaries, as properties in multiple cities and counties might create legal and ownership issues. With various governmental financing comes a variety in regulations. Each program has its own set of procedures and layers of approvals. The process of acquiring financing takes time and tends to be too slow to compete with private investors. Federal funding, as important as it is for nonprofits in competing for acquisition, is difficult to work with. Most policies and funding programs are implemented without the flexibility needed for adjustment with local economies and current housing market conditions.

CHALLENGES IN REHABILITATION

Once the properties are under the ownership of nonprofit developers, new challenges arise. Rehabilitation and development of REO homes becomes a difficult process as most REO and vacant homes are poorly maintained. Older housing stock, such as that in Oakland, often needs considerable renovations that require substantial capital. When acquiring multiple houses, nonprofit developers – many of whom are used to working with architects and contractors to create buildings designed to a specific program – now need to consider properties with various styles and materials. The lack of standardization between multiple properties and the new need to invest in multiple large purchases such as laundry machines and furnaces increase the cost of rehabilitation. Similar with the acquisition stage, policy regulations make it difficult for nonprofit developers in the stages of property rehabilitation and development. Code compliances for rehab such as those mentioned in FHA lending guidelines demand standards for nonprofit developers that go beyond what private investors have to accomplish.

CHALLENGES IN PROPERTY MANAGEMENT

Property management for nonprofit developers has traditionally been focused on large multifamily style complexes that bring some economies of scale. Now, as some developers are moving from managing from large multi-unit buildings to multiple single-family houses, the financial and operational challenges of management can become a hindrance to their work. The geographic location of each property is a new factor to consider for property management, as driving and gas mileage become a factor in budgeting. Unpredictable costs – such as carpet replacement – are also magnified and have a higher chance of occurrence with these separated and often vacant properties. With financial difficulties come new concerns for organizational capacity. Nonprofit developers have had a hard time with the need to operate various scattered-site housing units, as their staff was initially suited to manage one or a few locations. The increase of separate managed properties also increases the likelihood of various maintenance problems to arise concurrently, stretching staff thin. Scattered-site management typically can cost 25-30% more than managing traditional multifamily buildings. However, done right, scattered-site property management can break even with the more customary management of multifamily properties. Housing Consortium of the East Bay, a nonprofit developer dedicated to providing affordable housing for those with special needs, finds the operations cost of its NSP-funded Ashland properties to fall between two other small multifamily apartment complexes of theirs.⁹ This is possible due to improved energy efficient measures incorporated into the properties as well as efforts to encourage energy-saving behavior by tenants.

Strategies for Nonprofit Developers

Despite all these challenges, nonprofit developers can have success in capturing these scattered-site single family homes as affordable assets if they create a thorough plan for acquisition, rehabilitation, and management.

9. Lounds, Darin. "The Business Case for Property Management." Preserving Affordability through Property Management. Federal Reserve Bank of San Francisco, San Francisco. 16 Oct. 2013. Lecture.

Understand Regional Economy and Local Market

Before initiating acquisition, nonprofit developers need to understand the market conditions and current situation of potential properties. That means understanding the housing market and the local economy in targeted neighborhoods – as discussed before, rents or home prices can vary quite a bit from one neighborhood to the next especially in mixed-income places like Oakland and Richmond. Internal factors of the neighborhood such as supply and demand, the desirability of stock, public safety, transit accessibility, and area's current economic stability are important to assess. Job growth, population trends, and the community's relation to the city at large are also important factors to consider in the selection of REO homes. Partnering with data-focused organizations such as Urban Strategies Council, or paying for proprietary market information may be worthwhile to gain deep knowledge of “micro-markets.”

Develop a thorough Acquisition Strategy

Nonprofit developers should know not to push the limit of how many properties an organization's staff and capital can handle. During the acquisition process, it is imperative to understand the targeted volume of properties for a developer. Depending on financial feasibility and capacity, it might make sense to bundle mortgages or look into other parallel tracking of purchases. By pooling or having multiple properties in the same timeframe, the program income and revenue gained from one property can cross-subsidize others in a nonprofit developer's portfolio.

Streamline Renovation and Development

Rehabilitation and renovation can become beneficial instead of a hurdle through streamlining and efficiency measures. For example, selecting and purchasing standard fixtures might bring higher up-front costs but easier maintenance and a smaller inventory during the management process. Developers should take into consideration overhead costs and code compliance during renovation stages. A thorough plan before acquisition will help streamline costs. For example, know the style of kitchen, appropriate a budget for new appliances, and salvage items that do not need much repair.

Property Management as Asset Management

Long-term asset management is at the heart of a nonprofit's success. Even before initial acquisition and transaction, nonprofit developers need to plan for long-term property maintenance. Efficiency is key for management: items

such as a maintenance truck, planning routes, and fixed maintenance schedules all help consolidate costs. If the capacity is not feasible, nonprofit developers should look to contract their property management elsewhere.

Partnership is Key

Collaboration is essential in order for a successful nonprofit developer. Partnering with local jurisdictions, other nonprofit organizations, and private institutions will create a stronger platform for acquisition, rehab, and management. With public funds running dry or hard to obtain, public-private partnerships should be considered for initial acquisition capital, maintenance costs, or management costs. Collaboration provides the ability to highlight an organization's strength while the partner balances weaker points of expertise and experience. It is imperative that nonprofit developers know their role in partnerships. If you are a small developer, use your advantage of flexibility and partner up with larger organizations and private investors who have the capital for acquisition. If you know your niche, make it a strength that is attractive for partnerships. Collaboration with private developers needs to proceed with the utmost organization. Understanding motives behind each party involved and setting a concrete business strategy will help build a relationship where everyone can meet their goals.

Other strategies – Policy, Partnerships, etc.

Assist in other elements of the development process. Nonprofit developers need to assess the current conditions of their local markets in order to gauge if current financial and organizational capacity can fit those needs. If development is not feasible there may other opportunities to facilitate success with other organizations. Technical assistance and financial counseling with tenants is crucial in ensuring a successful operation. Community Housing Development Corporation (CHDC) and East Bay Asian Local Development Corporation (EBALDC) are just two of the important nonprofit entities that in addition to developing properties, provide financial education, down payment assistance and pre- and post-purchase counseling for qualified families of REO homes. Intermediaries like LISC and Enterprise Community Partners provide financing assistance but also can advise on issues like “green” property management and transit-oriented development. It is best to either collaborate with nonprofits with technical expertise or, if feasible, become another helping hand in counseling and assistance.

Advocate for Policies that Prioritize and Integrate Affordable Housing Development and Foreclosure Mitigation

As important as acquisition and development is local policy that helps facilitate success and includes nonprofits. Nonprofit organizations need to advocate for proactive policy that reflects and encourages collaboration with community-based organizations and local residents. Well-designed policy can help change private investor behavior, create leverage with financial institutions to ensure their community development investments are directed to city priorities, and can create more opportunity for affordable housing. For example, Oakland's vacant property registration ordinance was developed with the input of community-based organizations and has resulted both in revenue for the city through fees, and in lenders cleaning up their REO properties to avoid those fees (see the City of Oakland case study). "First look" programs, where occupants of REO homes and nonprofit organizations have the opportunity to purchase a property before it goes on the general market, have had some small-scale success. Oakland is pushing to bring this approach further through its Community Buying Program. Nonprofit developers and organizations that work in another East Bay city could reach out to their local municipality to implement policies and programs such as these.

Tap into Local Housing Elements

It is also important to inquire about Housing Elements in the cities you work in – this is the section of a jurisdiction's General Plan that deals with identifying sites, policies, and programs to accommodate housing needs at all income levels. Most municipal housing departments may have affordable housing policies in place for rental housing but might not have the same level of policies in place for homeownership, particularly in the realm of foreclosure response. Too often, creating or preserving affordable rental housing and promoting and preserving homeownership, are seen as completely separate endeavors. It is important for advocates and nonprofits to take a holistic look at the city's housing policies, as expressed in the Housing Element, planning and building codes, and other relevant ordinances. Housing Elements in local jurisdictions should include language that supports partnerships with nonprofit organizations, collaboration with the private sector, and robust input from community stakeholders. The

Housing Element may be of particular interest since cities are required by the state department of Housing and Community Development to update their Housing Elements in 2014.

Team Up with Cities and Community Organizations

With local jurisdictions handling high volumes of properties, nonprofits should present themselves as a resource for swamped city departments. Programs such as Hello Housing's Hello Stewardship assist in affordable housing program administration for local governments. It is important for nonprofits to engage with the range of affordable housing strategies with cities to see how city policies and partnerships can help nonprofits claim these foreclosed properties as affordable assets. In addition to establishing strong ties with local jurisdictions, nonprofit organizations should ensure that the community is involved from the start. This can involve reaching out to stakeholder groups as well as community-based institutions, including faith congregations, organizing groups, policy think tanks and other advocates. These groups add great influence and expertise to the technical and financial knowledge brought by nonprofit housing developers.

Share Successful Experiences and Strategies

The opportunity to share best practices and create relationships is a must for successful nonprofit developers. Events and talks give the chance to hear how other nonprofit developers are finding success – or tackling challenges – in acquisition, rehab, and management of scattered-site housing. Nonprofit organizations such as the California Reinvestment Coalition bring over 200 organizations together to collaborate on stabilizing local communities and advocating with financial institutions. Homeownership SF focuses more on practice, bringing together homeownership and foreclosure-oriented nonprofits in San Francisco. Working groups such as the City of Oakland's monthly Housing Strategies Group, the bi-monthly Foreclosures & Affordable Housing Committee convened by East Bay Housing Organizations, and continuing sessions and publications by the Federal Reserve Bank of San Francisco are existing platforms to create regional and local dialogue. Attending existing meetings, or creating new forums if needed, is crucial to figure out how affordable housing developers can help mitigate the foreclosure crisis.

FURTHER RESEARCH AND NEXT STEPS

This report specifically aims to provide nonprofit developers in the East Bay with insight in acquiring and managing single family homes in the wake of the foreclosure crisis. This is one of many complex issues surrounding the aftermath of the foreclosure crisis, and further research is needed. Future areas to study involve how nonprofits work with cities to obtain data sources about these properties. Sources of proprietary data are expensive and hard to obtain. Collaboration with municipalities is important to provide a relationship between nonprofits and mortgage servicers such as Nationstar and Selective Portfolio Servicing. It is also important to highlight the progressive and unique efforts of cities such as Oakland and Richmond by discussing their efforts in relation to work done nationally. The City of Oakland's Community Buying Program and its distressed mortgage notes and servicer agreement sales pilot program are fairly new. With time, it will be important to evaluate and perhaps re-tool these developing programs. Regular assessments of the work done by local governments and nonprofit developers will help not only showcase successful strategies but highlight next steps for all involved in providing affordable housing.



PROMISING PRACTICES

Interviews from the Field

Nonprofit developers, local city governments, federal agencies, and private organizations are responsible for working together to capture these foreclosed scattered-site properties as affordable assets for communities in the East Bay— collaboration is the key. While difficult, there has been some success already in converting foreclosed properties into affordable housing for local households. The following case studies and interviews demonstrate how some groups are mitigating the foreclosure crisis and developing strategies for nonprofits to acquire, rehab, and manage single-family housing.



Jennifer Duffy

*Director of Business Development
Hello Housing*

Flexibility and Nimble Actions; Private-Sector Mindset; Long-Term Scope and Strategy

Hello Housing started in 2005 as a developer that had a private-sector mentality from the beginning. In its first two years of operations, this nonprofit developer acquired and renovated sixty-one homes in nineteen cities across the Bay Area that had to be custom designed to meet the needs of individuals with physical limitations. Not only did the organization need to create a renovation strategy that would enable the complete redesign of an existing home, but the acquisition process required the approval of multiple stakeholders at a time when sellers were entertaining multiple offers and refusing to extend escrow timeframes to meet the regulated approval process required of the organization. This early experience created expertise and efficiencies within the team that positioned Hello Housing to hit the ground running when the foreclosure crisis hit and revitalization strategies were needed for single family homes across East Bay communities. Hello Housing conveyed ownership of these initial homes to three local, nonprofit developers who own the long-term affordable assets and conduct property management services for the residents.

Director of Business Development Jennifer Duffy takes pride in Hello Housing's ability to be flexible and work with changing housing policies and the landscape of the local housing markets. Due to its relatively small size, Hello Housing has the nimble internal capacity to work quickly and flexibly. They do not have the financial, regulatory, and organizational layers of a larger institution that can impede swift and selective decisions. Hello Housing also embodies not just a mission but a business-like

approach that guides its work. With this mentality, Hello Housing acknowledges its priorities while also adapting with each project and program. Innovation and flexibility are crucial for Hello Housing as it continues to adapt to current conditions in the world of real estate.

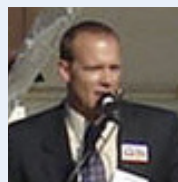
Hello Housing has had success in effectively acquiring, rehabbing and selling REO homes throughout Alameda County, knowing how to handle multiple sites across a large geographic area. Hello Housing's acquisition strategy dedicates a lot of time up front before even buying homes to create a standardized system of property evaluation based on their future targets. Every aspect—from kitchen and flooring materials to contractor selection—is planned. Processes are put into place to streamline lender requirements and stages of approval to ensure the efficient delivery of funds will occur throughout the development. The acquisition strategy then becomes a tool for a streamlined process. Another aspect of Hello Housing's strategy is to cast a big net in the pool of real estate. Instead of focusing all resources on a property that might not even be attained, Hello Housing first bids on a large volume of properties. After there is feedback that the acquisition is likely, Hello Housing then assesses each house to see if it is viable and fits with its program. Once its own the property, Hello Housing tends to dedicate majority of its resources—time, finance, and staff—to a small section of its portfolio.

Hello Housing's strategy for acquisition and rehabilitation of REO homes involves collaboration with private developers and lending institutions. From the very onset of the NSP program, Hello Housing worked with a local Community Development Financial Institution (CDFI) to leverage additional capital, allowing the organization to increase its impact within communities three-fold. With public funding hard to attain and drying up, Hello Housing also acknowledges the importance of collaboration with private developers to sustain its work in affordable housing. Hello Housing sees an economy of scale that many private developers achieve

that allows for some projects, initially turned down due to high construction costs, to actually pencil out. Collaboration with any partner requires due diligence and clear expectations. Hello Housing's expectations with its partners, and outcomes for the properties developed together, are established through a legal contract that outlines the standards of renovation that must be achieved and the target population that must benefit from the partnership. Hello Housing monitors the whole process with for-profit developers, visiting sites, reviewing construction documents and ensuring the end disposition of these homes go to households who income qualify. When Hello Housing learned that private investors were looking for more inventory, it used its experience and position as leverage to start the conversation with these for-profit developers. Duffy explained the importance of collaboration with private institutions to best use Hello Housing's capacity and achieve its nonprofit mission.

While Hello Housing had experience and capacity from the onset in the acquisition, rehabilitation, and management stages of REO homes, the initial challenge it faced was property resale to low- and moderate-income families, a common challenge for similar efforts (encountered, for example, by the NSP-funded Oakland Community Land Trust). This new challenge was not a development issue but one of marketing: how to attract working families into a housing market that was so uncertain? In 2009, housing prices were falling, lenders were not lending and most programs created to subsidize potential new homebuyers targeted households at 80% of area median income (AMI) and below. The NSP program was new, it had a broader AMI target (up to 120% AMI) and was being implemented differently by organizations across the East Bay. In an effort to better understand the marketing challenge, Hello Housing worked with fellow peer nonprofit developers to create a regional marketing strategy that would highlight benefits of the NSP program, new homes that were available from different developers, and the community lenders that were interested in providing loans for first time homebuyers. This collaboration with peer developers involved the creation of a homebuyer survey – sent out to homeownership counseling agencies and mailing lists from various developers and municipalities – to better understand what potential homebuyers were seeking, how they were learning about real estate opportunities and what were the biggest barriers they faced to buying a home. Working with a grant, Hello Housing was able to develop HomeHub.org, a website platform for marketing affordable homes for income eligible households, created with general language that is jargon-free and inviting for

anyone without expertise in housing and real estate. As the NSP program comes to an end, Hello Housing plans to work with fellow peer developers, organizations and cities to repurpose the website to continue as a one-stop location to learn about affordable housing opportunities throughout Bay Area communities.



Darin Lounds

Executive Director

Housing Consortium of the East Bay

Success in Specialization; Quality Property Management

Housing Consortium of the East Bay (HCEB) is a nonprofit affordable housing developer that creates inclusive communities for adults with developmental disabilities or other special needs through quality, affordable housing. HCEB oversees properties in twelve cities in Alameda and Contra Costa County, working on acquisition, rehabilitation, and property management. With the foreclosure crisis hitting the East Bay and the end of Redevelopment funds, HCEB has had a difficult time accumulating financing for the development of new, multifamily housing projects. Like many nonprofits, this led HCEB to reevaluate its role in creating and preserving affordable homes. HCEB recognizes its operational strength and funding opportunities in property management and uses its niche to partner with other nonprofit developers. Like Hello Housing, HCEB is a small, nimble organization. In fact, a section of its portfolio is in collaboration with Hello Housing. Hello Housing was awarded development capital through NSP, and HCEB followed up with operations and property management of shared housing for single adults who meet eligibility requirements for state Mental Health Services Act funding, knowing that its role as a niche nonprofit developer/owner provides access to specific funds for management of affordable housing for special needs populations.

HCEB's property management for scattered-site housing has been recognized as a model of success. Its scattered-site housing costs are similar to the costs of operating small-scale multifamily properties, showing that the transition to scattered-site property management can be achieved. Its approach to property management lies in collaboration, communication, and planning. HCEB works with regional nonprofit maintenance companies and specialty vendors in order to provide time-sensitive services to their various properties. A strategy crucial to success lies earlier on with the acquisition of homes. Before obtaining a property, HCEB assesses the piece of

real estate to see if it fits geographically and financially with its portfolio as a whole. Clustered properties create an efficient property management model, as the proximity of properties to each other reduces response times and travel expenses.

There are now efforts to duplicate the scattered-site special needs housing model across the East Bay. Alameda County will utilize HCEB's model for a few properties created through the California Community Transitions Program. The program provides opportunities for people living in skilled nursing facilities to move into affordable rental homes. Collaborating with HCEB and other affordable housing developers, Alameda County is moving people from long-term care facilities to quality, affordable community-based rental housing combined with relevant support services. Looking forward, HCEB acknowledges the need for more public assistance and public-private partnerships. These partnerships are essential in providing resources for nonprofits to acquire, rehab, and operate formerly foreclosed properties. For-profit models do not ensure the property's long-term affordability and quality condition. Bringing properties into an affordable housing portfolio is not only important for tenants but also essential in stabilizing local communities caught in the wake of the foreclosure crisis.



Lena Robinson
*Regional Manager,
Community Development
Federal Reserve Bank
of San Francisco*

Access to Capital; Successful Policy and Partnerships; Regional Awareness

Lena Robinson is a regional manager in Community Development at the Federal Reserve Bank of San Francisco, in which she covers the area of northern California. In this capacity she works to increase access to capital, credit and banking services for low-income communities and households. Robinson has been an active partner in crafting strategies to deal with the foreclosure crisis in the East Bay since the housing market bubble burst in 2007. Throughout the crisis, the Federal Reserve Bank of San Francisco has provided foreclosure data on delinquencies, subprime lending activity, and locations of REO properties to partners throughout its nine state footprint so that these partners could most effectively target resources. These resources may have been helpful to the various consortiums and grantees who applied for competitive grants in the second and third rounds of NSP funding.

From Robinson's perspective, access to capital is the number one barrier for nonprofit developers in acquiring scattered-site foreclosed properties and stabilizing the local housing market. Most nonprofit developers turn to public funding to source their acquisition of properties, which carries a number of regulatory strings and hurdles that impede their ability to nimbly compete with cash buyers. For example, FHA lending and HUD guidelines require a compliance standard for rehabbed properties beyond what private investors would likely do with the same piece of real estate. Hello Housing, after its round of NSP funding has been used to acquire, rehab, and sell their properties, is now seeing program income. Yet, they are unsure if this capital is still tied up in regulations and policies. Robinson acknowledged Hello Housing's inquiry as a clear example of how federal programs and policies at times can limit action for nonprofit developers.

Robinson challenges nonprofit developers and cities to take a more proactive and collaborative stance, applauding nonprofit organizations such as HCEB and Hello Housing as well as the City of Oakland for their leadership and efforts. However, there are not enough organizations like those mentioned to help manage these scattered-site properties. Robinson encourages the notion of nonprofit collaboration with the private sector as public funding is drying up. It is important to realize that nonprofit developers cannot achieve their mission of preserving affordable housing without patient and flexible capital; and that may need to come from a variety of sources.

Robinson also stresses the importance of knowing the local market conditions in context of the region at large. Nonprofit developers, with limited capacity and capital, need to be strategic in selecting where they put their resources and efforts. Successful nonprofit strategies for scattered-site housing begin with understanding neighborhood housing demands, most often working in "warm market" communities. Nonprofit developers also should consider factors such as job growth, the volume and quality of local amenities, and accessibility to transit when selecting properties.

The Federal Reserve Bank of San Francisco is gearing up for a consumer finance survey it conducts every three years. Robinson is hoping that the report will help reveal data and information concerning long-term repercussions from the foreclosure crisis in the East Bay that could help inform interventions going forward.



Margaretta Lin

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Municipal Leadership; Proactive Policies:

Margaretta Lin oversees foreclosure recovery programs within the City of Oakland. This local jurisdiction has been acknowledged in the East Bay as a leading example of a city government taking a proactive stance against the foreclosure crisis, with assertive programming early in the aftermath of the housing market crisis. The City of Oakland is leading the East Bay in showing the importance of cross-partnerships with the private, public, and nonprofit sector. Knowing that it has the political capital to work with the financial institutions and government-sponsored enterprises (GSE), Oakland plays a strong role as a broker between developers and lenders.

The City's newest foreclosure response, the Community Buying Program, initiated an organized and collaborative effort to mitigate the damaging effects of vacant homes and prevent displacement of residents struggling with foreclosure. The Community Buying Program connects abandoned properties with developers who can purchase and rehab those homes and then help find low- and moderate-income homebuyers or renters. Hello Housing is the program administrator, working to facilitate various nonprofit and for-profit developers dedicated to working on scattered-site properties. With Oakland taking leadership, the biggest hurdle now is the lack of nonprofit developers comfortable with scattered-site housing. The structure plans to have Hello Housing eventually independent of the City once the communication with the financial institutions has been established. The program also aims to have a large influence in hard-hit neighborhoods in Oakland. With these robust goals the city needs a high volume of nonprofit developers with expertise and efficiency in handling scattered-site housing.

The Community Buying Program is aligned with other efforts to tackle the city's foreclosure problem. In 2011 the city changed its regulations on property registration, implementing an ordinance that encompasses a higher volume of houses affected by the foreclosure crisis. Most municipalities require the registration of REO vacant properties. The City of Oakland included vacant and occupied properties of both REO and Notice of Default homes, asserting its proactive approach. The city monitors the condition of all registered homes and

can fine property managers if they are not maintaining or have not registered their liable properties. For example, in Fiscal Year 2012-13, mortgage servicers registered 2,310 properties, and the City inspected 1,075 properties and directly collected over \$1,000,000 in registration fees and other charges – revenue that can be used to accomplish affordable housing goals. The City's effective enforcement also resulted in a 94% timely property abatement rate. The City has also implemented a promising but small program known as ROOT (Restoring Ownership Opportunities Together). Partnering with nonprofit Community Housing Development Corporation, the program aims to purchase foreclosed homes with occupants still in place and write down the mortgage to a level that ensures long-term stability for the household, and has assisted several residents since early 2013.

Dialogue and communication are at the forefront of Oakland's efforts. The Housing and Community Development Department and the City of Oakland are in communication with other city governments in the East Bay about modeling Oakland's program structure and implementation. The City made it a priority to work with advocacy and policy groups including ACCE, Causa Justa::Just Cause, Urban Strategies Council, and EBHO to ensure that community voices are heard and political considerations are taken into account – these groups and many other stakeholders are convening through monthly Housing Strategies meetings. These partners also share space and resources at the Housing Assistance Center established in 2013 as a one-stop shop for residents seeking help with foreclosure, rent disputes or other housing issues. The City of Oakland has also reached out to a number of developer groups to assess their interest and capacity in these programs.

These leaders are just a few of the innovative people making change through their organizations and jurisdictions. Through collaboration, flexibility and innovation, nonprofits can find a successful role in turning problem properties into affordable housing opportunities.

FURTHER INFORMATION

East Bay Housing Organizations thanks Citi for its ongoing support of this research and our convenings of the Foreclosures & Affordable Housing Work Group.

For more information on Hello Housing, visit: www.HelloHousing.org

For more information on the Housing Consortium of the East Bay, visit: www.hceb.org.

For more information on Community Development at the Federal Reserve Bank of San Francisco, visit: <http://www.frbsf.org/community-development/>

For more information on Housing and Community Development at the City of Oakland, visit: www2.oaklandnet.com/Government/o/hcd/index.htm

For more information on East Bay Housing Organizations, visit: www.ebho.org.

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