REBUILDING **HOME.**

Community-Driven Single-Family Rehabilitation Models for Long-Term Stability

October 2020

DETROIT FUTURE CITY

Enterprise®

About This Report

Jointly authored by **Detroit Future City** and **Enterprise Community Partners** as a deliverable of the **Detroit Neighborhood Housing Compact**, "Rebuilding Home" provides an intimate overview of the approaches and challenges associated with single-family redevelopment across Detroit's community development sector. Most of the information and data in this report was gathered through first-hand interviews with executive directors and other leaders working to reactivate Detroit's vacant housing stock as part of broader revitalization efforts. This information is packaged into three narrative-style case studies outlining larger rehabilitation programs taken to scale over decades. The report also includes six one-page "insights" that highlight lessons learned from projects completed within the past five years.

Detroit Future City is working to promote a more equitable and sustainable future for Detroit. Through research, community engagement and collaborative action, we advance innovative policies and strategies consistent with the long-term vision laid out in the Detroit Future City Strategic Framework. Current areas of focus include promoting the productive reuse of vacant land and buildings, encouraging the use of green stormwater infrastructure, improving housing conditions in neighborhoods, and increasing economic opportunity and equity for all Detroiters.

The Detroit Neighborhood Housing Compact (The Compact) is a forum for regular collaboration and collective action by more than 80 public, private and nonprofit stakeholders. The Compact's central goal is to increase the availability of stable, healthy, and affordable single-family homes for both renters and homeowners in Detroit. Detroit Future City (DFC) serves as the backbone of this "collective impact" initiative. DFC convenes the stakeholders on a regular basis, provides information and research to inform Compact discussions, and leads the development of policy and action proposals.

Enterprise Community Partners is a national nonprofit that brings together nationwide know-how, partners, policy leadership, and investment to multiply the impact of local affordable housing and community development initiatives. Enterprise's work in the Detroit market focuses on preserving affordable housing, building the capacity of community development organizations, fostering healthy, sustainable homes, and advancing economic and racial equity. Enterprise Detroit believes that every neighborhood has assets—the people, places, and experiences that make each community unique. Enterprise Detroit is a member of the Detroit Neighborhood Housing Compact and co-author of this report.

Definitions

Community Development Organization (CDO): place-based, nonprofit 501(c)3 organization dedicated to neighborhood improvement and/or community service provision, also commonly known as Community Development Corporations (CDC).

Nonprofit Developer: nonprofit 501(c)3 organization incorporated exclusively to engage in real estate development; nonprofit developers are distinct from CDOs in that they are not place-based (they typicallly work citywide) and often do not run additional community programs outside of the physical development of real estate.

Mission-Driven For-Profit Developer: for-profit organization incorporated to engage in real estate development with a stated mission to develop housing that aligns with broader goals for neigborhood stabilization and/or is designed to be accessible to underserved populations.

Contents

REBUILDING **HOME.**

INTRODUCTION

"REBUILDING HOME**"** speaks to the physical rebuilding of Detroit's housing stock, but also to the philosophical reconstruction of everything that "home" should be - **safe, healthy, stable, affordable, and connected to opportunity.**

Photo by Bre'Ann White

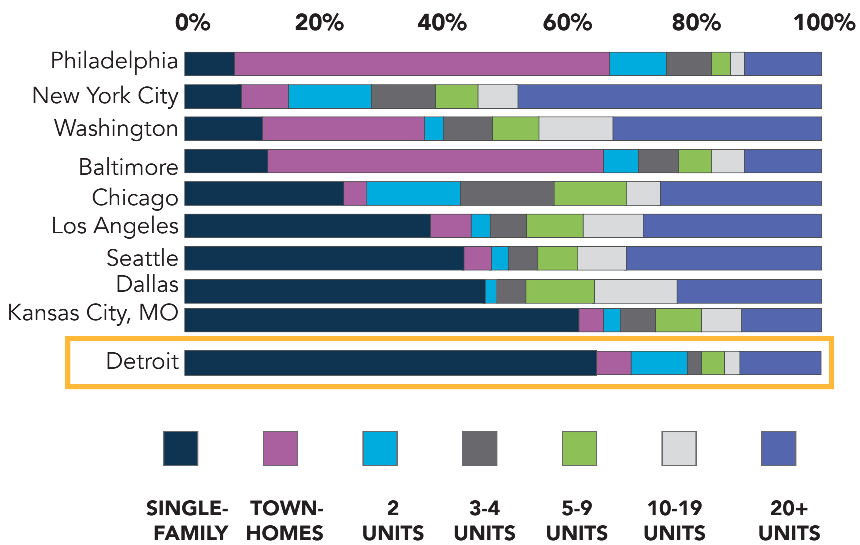
Introduction

Detroit is a city of single-family homes. In the early 20th Century, Detroit built new homes faster than any other major city in the U.S.[1] Today, Detroit still has an exceptionally high proportion of single-family homes, even though the City has demolished more than one-third of its pre-1950 housing stock.[2] **Decades of rapid deindustrialization, population decline, racist land-use policies, racial discrimination, and widespread disinvestment drained an incredible amount of life from Detroit's residential infrastructure.**[3] Detroit lost more than half its peak population between 1950 and 2010[4], which means that, over time, the homes where these residents once lived went vacant. Today, about 17% of Detroit's homes are vacant, and the Detroit Land Bank Authority owns more than15,000 vacant homes.[5]

However, as vacancy grew and market demand waned, passionate neighbors, local community development organizations, and public officials have consistently stepped up to mitigate blight and stabilize neighborhoods. **Though not all of Detroit's vacant houses can be saved from demolition, many can and should be redeveloped to preserve the integrity of Detroit's neighborhoods.**

OCCUPIED HOUSING UNITS BY HOUSING TYPE

Detroit has a higher proportion of single-family homes than most major cities. This means that the overall strength and maintenance of Detroit's housing infrastructure depends primarily on individual homeowners. When Detroit lost more than half its peak population between 1950 and 2010, the homes where these residents once lived went vacant. This presents a challenge that requires specialized intervention with respect to financing and cross-sector partnerships that can stimulate demand and facilitate the reactivation of Detroit's vacant housing stock.



The Washington Post

Single-family houses are the basic building block of most Detroit neighborhoods. We cannot preserve and rebuild our neighborhoods without addressing the condition of this key element of the City's housing stock. This report takes a close look at how several organizations have used single-family home renovations as a tool to strengthen neighborhoods, reduce barriers to homeownership, and provide affordable housing opportunities. **Produced as a collaborative effort between Detroit Future City and the Detroit office of Enterprise Community Partners, this report is intended to support the growth of community-based home renovation efforts by highlighting lessons learned through the experiences of local nonprofit developers and others engaged in bringing new life to old homes.**

Currently, the single-family acquisition and rehabilitation market is largely dominated by investors who buy properties in bulk from the Wayne County Tax Auction and convert them into rental properties that are often minimally rehabilitated and poorly managed. Properties are subsequently thrown into a destabilizing cycle of eviction, turnover, disrepair, and, ultimately, abandonment and demolition. In their 2019 report "Eviction Machine," Joshua Akers and Eric Seymour cite that 60% of properties purchased by the top 20 tax auction buyers will experience two or more subsequent evictions. They estimate that the City of Detroit has spent $34 million demolishing homes purchased by speculators through tax foreclosure. [5]

Tax auctions have created a reliable source of low-cost acquisition for entities whose goals often conflict with communities' needs. Public funds spent correcting these adverse impacts through demolition end up functioning as a form of subsidy for a system that provides little public benefit.

On the other hand, community-based actors who have positioned themselves to align single-family rehabilitation with broader goals for more vibrant, opportunity-rich neighborhoods often lack consistent systems of support to scale their work. This report advocates for a holistic underwriting of the single-family rehabilitation process, one that uplifts community-based actors as entities who bring additional value by integrating home rehabs into larger plans for revitalization. To ensure long-term neighborhood stability, homes should be redeveloped in ways that are responsive to community needs. As this report demonstrates, there is widespread variation in how community-based actors approach home renovation depending on the availability of financing and neighborhood-specific goals and circumstances. Some emphasize market-building, while others prioritize affordability. Some provide wraparound support for new home buyers. Others advance equitable land contract agreements or provide affordable, supportive rental opportunities for residents in need of more flexible options. Many express a deep commitment to strengthening Detroit's neighborhoods by focusing on people, place, and sustained investment over time.

Methodology

This report was developed through a series of interviews with 10 Detroit-based development organizations and a review of renovation project data provided by those organizations. The organizations provided their data in a variety of formats, so direct cost comparisons between organizations was not always possible.

These case studies highlight three Detroit-based nonprofit community development organizations with a long history of home renovation and resale. These organizations have integrated home renovation into their broader neighborhood revitalization programs with impressive results, taking various approaches to resale, rental, and land contract arrangements tailored to the unique needs of each community:

- **Grandmont Rosedale Development Corporation**, serving a collection of five neighborhoods in Northwest Detroit
- **Central Detroit Christian CDC**, serving a subsection of Central Detroit just north of Downtown and Midtown; and
- **Bridging Communities**, serving a large portion of Detroit's west side, with a special focus on the Springwells neighborhood in Southwest Detroit

These primary cases are complemented by a series of insights from smaller community development organizations like **Osborn Neighborhood Alliance** and **Woodbridge Neighborhood Development**, in addition to community-oriented for-profit developers like **Mona Lisa Development** and **Century Partners**. Among the other organizations examined include **Develop Detroit**, a nonprofit developer using an innovative financing strategy, and the **Detroit Land Bank Authority**, which functions as a traditional land bank while also redeveloping a portion of its own inventory through the Rehabbed & Ready program. Southwest Housing Solutions, a nonprofit affordable housing organization, assisted with home rehab cost estimates.

This research engaged **10** organizations with single-family rehabilitation experience in Detroit's neighborhoods.

Combined, these organizations have rehabilitated over **500** homes and their work spans across **16** neighborhoods.

Project Participants

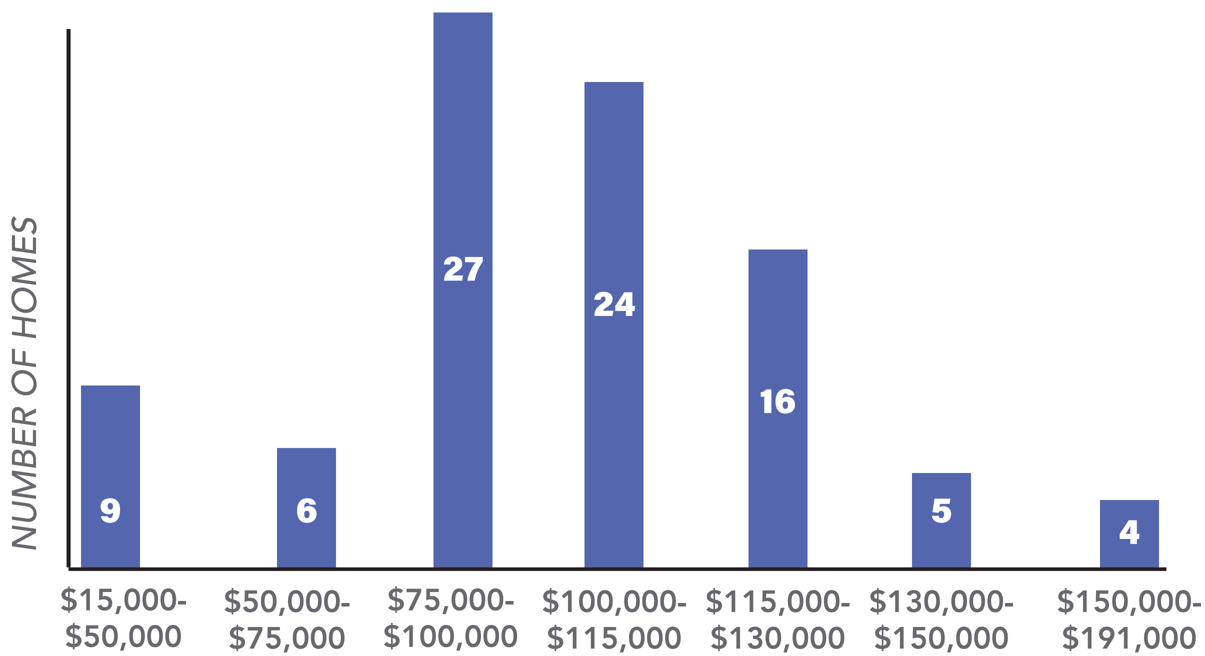
CASE STUDIES: Rehab models taken to scale over decades by three large community development organizations in Detroit.	
GRANDMONT ROSEDALE DEVELOPMENT CORPORATION *Community Development Organization*	Keeping strong neighborhoods afloat through decades of single-family housing stabilization paired with engagement, placemaking, and commercial development.
CENTRAL DETROIT CHRISTIAN CDC *Community Development Organization*	Building a framework for community control, choice, and long-term affordablility in tipping-point neighborhoods.
BRIDGING COMMUNITIES *Community Development Organization*	Pairing modest rehab with equitable land contract sales to reactivate Detroit Land Bank Authority inventory and support affordable homeownership.
INSIGHTS: Six additional rehab models completed within the past five years at various scales by both nonprofit and for-profit entities.	
WOODBRIDGE NEIGHBORHOOD DEVELOPMENT CORPORATION *Community Development Organization*	Managing large historic home rehabilitation to build real estate development capacity, prevent demolition, and fund supportive programming.
OSBORN NEIGHBORHOOD ALLIANCE *Community Development Organization*	Testing the market for low-to-moderate income earners in a softer sub-market with litte private market activity.
DEVELOP DETROIT *Nonprofit Developer*	Leveraging the creative use of New Markets Tax Credits (NMTCs) to finance single-family housing acquisition and rehabilitation.
MONALISA DEVELOPMENT *Mission-Driven For-Profit Developer*	Creative reimagining of Detroit's large, historic homes through thoughtful renovation, communal rental arrangements, unique amenities, and Airbnb.
CENTURY PARTNERS *Mission-Driven For-Profit Developer*	Diverse acquisition/rehab portfolio across three neighborhoods with a focus on placemaking and buyer affordability.
DETROIT LAND BANK AUTHORITY *Nonprofit Land Bank Authority*	Financing gut rehabilitation and resale of Land Bank inventory through a revolving fund as an alternative to demolition.

Though not featured in either the "Case Studies" or "Insights" sections of this report, ***Southwest Housing Solutions****, a larger affordable housing nonprofit, shared cost data from its Real Estate Owned (REO) rehab program, which prioritizes profit-generating rehabs both within the city of Detroit and the inner-ring suburbs, resulting in a stable, geographically diversified portfolio. This cost data is reflected in an aggregated summary table on page 10.*

Summary of Project Cost Data

While itemized cost data were not provided in every case, the following summarizes the hard development costs from **92 home rehabilitations** completed over the past five years by four organizations: the Detroit Land Bank Authority, Develop Detroit, Southwest Solutions, and Osborn Neighborhood Alliance.

HARD CONSTRUCTION COSTS



ACQUISITION COSTS

Acquisition costs will vary widely based on neighborhood market dynamics and the overall condition of the home. Typically, a lower acquisition price will indicate a higher rehabilitation cost. **Most homes in this dataset were completed by the Detroit Land Bank Authority or acquired from the DLBA and therefore do not have an acquisition cost. For the 15 homes that do have an acquisition cost, costs ranged from $1,187-$58,000 with an average of $20,758**. The average rehab cost for this subset of properties was $96,432.

OTHER COST COMPONENTS

SOFT COSTS | **4-5% of hard costs**

Security, project management, permitting

HOLDING/CLOSING | **6-8% of hard costs**

Real estate brokerage costs, utilities and taxes prior to sale of property

CONTINGENCY | **15-20% of hard costs**

Buffer for unforeseen expenses

COSTS BY NEIGHBORHOOD

The following table summarizes cost data by neighborhood from a dataset of 92 homes, though the number of homes by neighborhood varies widely. Most homes were completed by the Detroit Land Bank Authority and therefore do not have an acquisition price. Other contributors to this dataset include Develop Detroit, Southwest Solutions, and Osborn Neighborhood Alliance.

NEIGHBORHOOD (NUMBER OF HOMES)	AVERAGE ACQUISITION COST	AVERAGE TOTAL DEVELOPMENT COST	AVERAGE FINAL SALES PRICE
Bagley (18)	N/A	$108,457	$108,333
Berg-Lahser/Northwest (1)	$11,101	$42,672	$61,500
College Park (4)	N/A	$91,169	$61,425
Crary/St. Marys (23)	N/A	$97,622	$65,317
East English Village (5)	$58,029	$101,162	$141,760
Eight Mile Wyoming (1)	$25,563	$41,557	$80,000
Eliza Howell (1)	$23,330	$36,454	$62,000
Evergreen-Outer Drive (12)	$10,163	$102,704	$74,058
Grandmont-Rosedale (4)	$14,000	$119,098	$118,200
Greenfield-Grand River (5)	N/A	$116,660	$113,380
Martin Park (3)	$24,186	$90,867	$89,967
Morningside (1)	N/A	$164,738	$140,000
North End (5)	$27,000	$148,424	$190,500
Osborn (2)	$1,344	$45,693	$48,000
Schulze (6)	N/A	$96,838	$117,750
Springwells (1)	$40,174	$55,424	$45,174
Average	***$19,574***	***$91,221***	***$94,835***

"A major part of budgeting is managing your timeline. For example, if we are completing a $100,000 rehab and are expected to complete it in 100 days, then our contractors should be able to complete $1,000 worth of work per day."

-Veronica Johnson, *Property Rehabilitation Manager, Detroit Land Bank Authority*

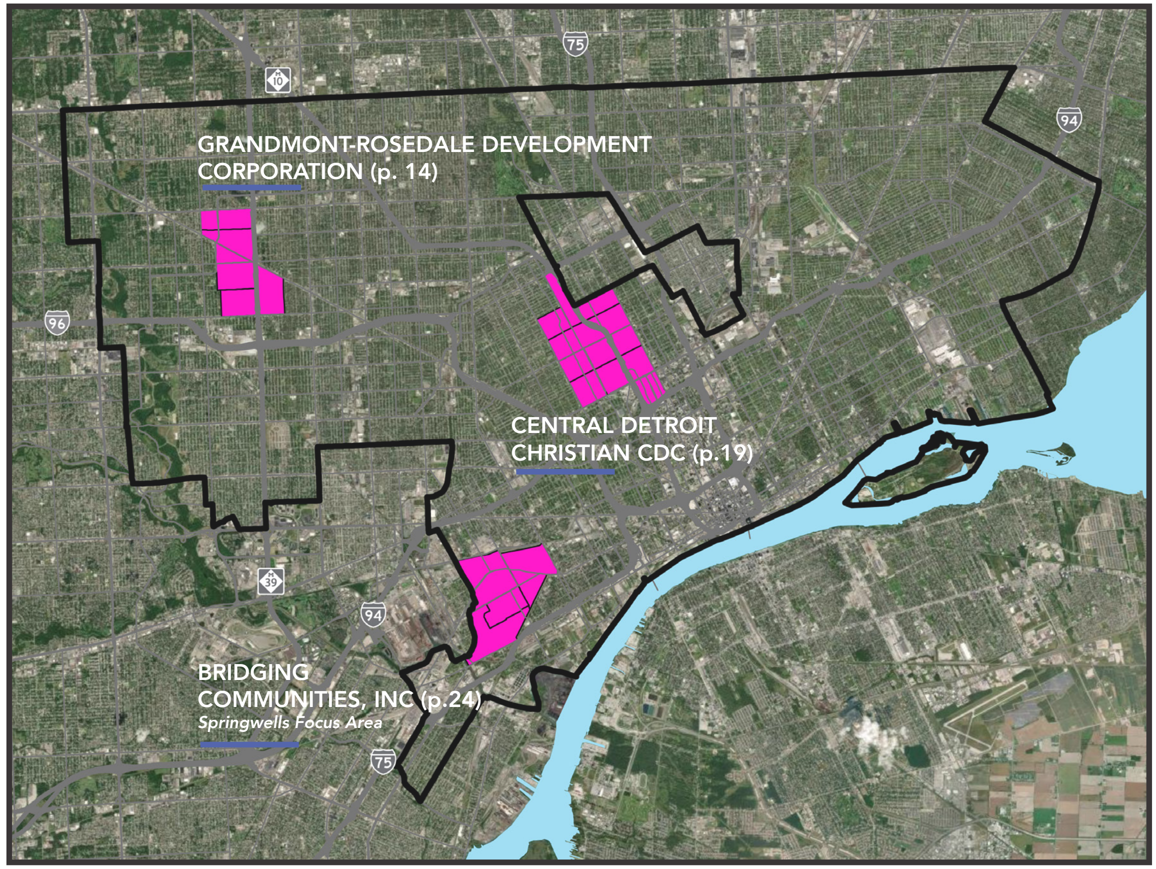
HOME REHAB

CASE STUDIES

Outlining rehab models taken to scale over decades by three large community development organizations in Detroit.

HOME REHAB CASE STUDIES:

Overview of Service Area Housing Context



	Income	Vacancy	Tenure	Units in Structure				Vacant Land
Case Study Organization Service Area Housing Context	*Average Household Income*	*Percent Vacant Housing Units*	*Percent Owner Occupied*	*Single Family*	*2-9 Units*	*10-19 Units*	*20 units or More*	*Percentage of parcels without structure*
Grandmont Rosedale Development Corporation	$70,394	10%	79%	96%	3%	0%	1%	5%
Central Detroit Christian CDC	$43,418	39%	36%	53%	13%	3%	31%	33%
Bridging Communities (Springwells only)	$36,333	20%	47%	63%	22%	4%	11%	30%
Detroit	**$45,363**	**28%**	**47%**	**73%**	**12%**	**3%**	**13%**	**17%**

Photo Courtesy of Grandmont Rosedale Development Corporation

GRANDMONT ROSEDALE DEVELOPMENT CORPORATION

Keeping strong neighborhoods afloat through decades of single-family housing stabilization paired with engagement, placemaking, and commercial development.

SHERITA SMITH
EXECUTIVE DIRECTOR

> *Despite reductions in public funding for home rehabs, we've had the opportunity to be entrepreneurial about how housing can meet the changing needs of the community, particulary as we look to create affordable entries into the market for young adults.*

Grandmont Rosedale Development Corporation (GRDC) is a nonprofit community development corporation serving the five neighborhoods in Northwest Detroit that comprise Grandmont Rosedale. These neighborhoods have long been known as a strong middle-class area characterized by historic single-family housing. Though values in the neighborhood declined in the wake of the Great Recession, Grandmont Rosedale has remained desirable to many and has seen a decline in vacancy and a resurgence in property values over the last several years.

With the broad mission to preserve and improve the communities it serves, GRDC is driven by three strategic priorities: affordable housing, economic development, and community engagement. The organization was founded in 1989 to stabilize the few vacant, distressed homes that were scattered throughout Grandmont Rosedale's otherwise stable neighborhoods at the time. To date, the organization has renovated and sold more than 120 formerly vacant and blighted homes, while also providing home repair support for owner-occupied properties and engaging in a wide range of other community-building activities. The historical strength of Grandmont Rosedale's housing market ensured that sale prices remained high enough to minimize the need for development subsidies, though for most rehabilitation projects, construction costs still exceeded the market value of the property. This required GRDC to pursue several subsidy programs to sustain momentum.

Over the course of 30 years, GRDC has used a variety of methods to finance its rehab projects as funding sources have come and gone. In the early 1990s, the federal government enacted the Home Investment Partnership Act (the HOME program), which created a new source of funding for affordable housing development. With programs administered by both the City of Detroit and Michigan State Housing Development Authority (MSHDA), HOME became the primary, reliable funding source for GRDC's renovation projects. HOME provided funding to fill the "gap" between the development cost and sale price of renovated homes, which were sold to homeowners earning less than 80% of the Area Median Income (AMI). This allowed for the high-quality renovation of homes that would not otherwise be economically feasible to renovate and sell. The program also provided down payment assistance to the homeowner, which reduced mortgages to an affordable level. Renovated homes were sold at market value to strengthen the local housing market, while down payment assistance ensured affordability for lower income buyers. The program also allowed GRDC to include a modest project management fee into the project's budget to help cover the organization's cost of operating the program.

Following the collapse of the housing market around 2008, both Detroit and MSHDA began to prioritize the use of HOME funds for multifamily projects, and to support for single-family housing renovations and resale projects became much more difficult to obtain.

After the 2008 housing crisis, GRDC was selected by the Detroit Office of Foreclosure Prevention and Response (OFPR) as the site of a new pilot project to rekindle the single-family housing rehab market. Through this pilot, GRDC obtained operational support from OFPR, a $350,000 grant from the Kresge Foundation to cover development gaps and a $600,000 revolving line of credit from the Detroit Development Fund (DDF) for working capital. The DDF line of credit provided up to 70% of the construction costs for each project, and grant funds covered the difference. GRDC originally anticipated completing 10 homes, projecting an average development gap of $35,000 per home. However, private financing allowed for flexibility in contracting and construction practices that enabled GRDC to minimize costs and complete 30 home renovations by the end of the pilot period. GRDC was able to balance high-cost rehabs with projects that required more modest renovations in order to achieve a lower-than-projected average subsidy per unit.

During this period, GRDC acquired most of its properties through the National Community Stabilization Trust (NCST), a national nonprofit intermediary that facilitated the sale of foreclosed properties at discounted prices. Through NCST, GRDC was able to acquire foreclosed property without bidding against for-profit investors. This proved to be a key factor in reducing financial gaps below original projections.

In 2013, public funding again became available through the Neighborhood Stabilization Program (NSP), a temporary federal program created to stabilize struggling housing markets in response to the foreclosure crisis. NSP functioned much like the HOME program, although the income restrictions for the buyer were raised to 120% AMI in some cases. Through this program, GRDC was able to renovate nine homes, eight acquired from the Detroit Land Bank Authority and one acquired through NCST. Rehab costs were substantially higher for this program given that the homes were in much worse condition, and the public funding source imposed legal and contractor bonding requirements not typical of privately-funded projects. Additionally, NSP-funded projects were renovated to a very high-level, typically included new garages and driveways, new sewer lines, basement waterproofing, full lead paint abatement, and energy-efficiency features sufficient to meet EnergyStar standards.

With the end of the NSP in 2016, funding for rehab was once again difficult to obtain given the continued volatility of Detroit's housing market. Although housing values in the Grandmont Rosedale neighborhoods had increased substantially since the beginning of the foreclosure crisis, the cost of acquiring vacant houses had also risen dramatically. NCST had fewer and fewer homes to offer to nonprofits through their "first look" preference program, and GRDC found themselves competing with private developers that would outbid them on most opportunities.

Executive Director Sherita Smith joined the organization in 2017 in the context of a stronger housing market and changing neighborhood dynamics. Without the same availability of funding for GRDC's home renovation work, Sherita turned to strategic, one-off acquisitions, more modest renovations, and most recently, a partnership with Develop Detroit to leverage the nonprofit developer's access to innovative financing. Develop Detroit successfully secured a New Markets Tax Credits (NMTC) allocation to support a larger-scale development project, which included the renovation of nine single-family homes (discussed further on (page 31). Two of those homes were located in Grandmont Rosedale, and Develop Detroit hired GRDC to manage the renovation process for these properties. With rising acquisition costs for remaining vacant homes in the Grandmont Rosedale neighborhoods, GRDC has turned to multifamily, mixed-use projects to address an increased demand for rental housing, retail uses, and affordable housing opportunities for seniors and young adults. Some of these projects include the completed Grand River Workplace, a dynamic coworking space, and the acquisition of a vacant restaurant site, which is in the predevelopment phase.

GRANDMONT ROSEDALE DEVELOPMENT CORPORATION

PROJECT COST HIGHLIGHTS

	2011-2013 30 HOMES		2014 16 HOMES		2015 9 HOMES, NSP	
	This pilot phase was supported by a $350K grant from the Kresge Foundation, smaller grants from Wayne County and Ford Motor Company, and a $600,000 line of credit from Detroit Development Fund (DDF). The initial budget assumed an average financial gap of $35,000 per home over 10 homes. Through careful management and property selection, **GRDC was able to reduce the amount of subsidy per project and complete three times as many projects.**		In the second phase, the average sale price increased by $20,000, but average development costs increased by $25,000 per unit, due to higher acquisition and construction costs. As with the pilot, **there was much variation among individual projects**, but these cost trends were in part the result of an improving housing market and shrinking pipeline of houses available through NCST. In this phase, most of the renovation projects were self-financed by GRDC, with two projects financed by Liberty Bank.		GRDC secured $2.3 million in **NSP3 funding** from the City of Detroit to develop nine homes, eight of which were acquired from the DLBA for $1 each. DDF and Capital Impact Partners increased GRDC's line of credit to $1million to provide bridge financing during construction. **Development, construction, and holding costs were significantly higher than the privately-funded projects** due to increases in legal costs, bonding requirements for contractors, increased security costs, and longer development periods.	
Costs Per Home	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	RANGE
ACQUISITION	**$15,149**	$500-$50K	**$25,285**	$1.6K - $64.7K	**$2,427**	$1-$21,840
CONSTRUCTION	**$51,637**	$23K-$118K	**$62,484**	$4.2K - $124.3K	**$175,748**	$138K-$210K
HOLDING COSTS	**$3,736**	$1.7K-$12K	**$3,961**	$952-$7.9K	**$34,073**	$32k-$36k
FINANCING	**$1,148**	$0-$2.8K	**$307**	$0-$4,624	**$5,767**	$5,767
SALE/CLOSING	**$6,234**	$800-$13K	**$8181**	$905-$16.7K	**$7,320**	$800-$13K
PROJECT MANAGEMENT	**$7,935**	$4K-$13.5K	**$10,192**	$3K-$24K	**$33,384**	$27K-$38K
TOTAL COSTS	**$85,860**	$45K-$150K	**$110,082**	$41.6K-$224K	**$258,720**	**$213k-$301k**
SALES PRICE	**$73,093**	$45K-$133.6K	**$93,562**	$45K-$160K	**$80,333**	$55k-$110K
NET PROCEEDS	**$12,766**	(55K)-$11K	**($16,519)**	($64.7K)-$8.8K	**($178,386)**	**($148K-$213K)**

GRANDMONT ROSEDALE DEVELOPMENT CORPORATION

LESSONS LEARNED

RELIABLE ACCESS TO CAPITAL

GRDC's acquisition-rehab program was most productive when the organization had access to well-defined, predictable sources of capital that allowed the organization to plan effectively and develop a production system. Gap funding sources were essential to reflect the market reality that development costs generally exceeded market values. Private loan and grant sources provided the greatest flexibility and least "red tape," but public sources allowed for higher renovation standards and greater affordability targeting.

ACCESS TO PROPERTY

Programs like the National Community Stabilization Trust (NCST) that provided a pipeline of low-cost properties and intentionally made those properties available to nonprofit buyers are critical, as GRDC was less successful when it needed to bid for properties against private buyers.

STABLE MARKET DEMAND

Relatively stable home buyer demand in Grandmont Rosedale has helped GRDC to sell most homes quickly, lowering costs and limiting exposure to theft and vandalism. Prices, though still modest by regional standards, are higher than most Detroit neighborhoods, helping to shrink funding gaps. In the absence of broader programs geared towards addressing public safety, community building, placemaking, and commercial revitalization, a housing-only strategy would likely not be as successful.

DOWN PAYMENT ASSISTANCE

Ancillary to market demand is financial support for home buyers. Down payment assistance has often been critical to making mortgage financing available to lower-income home buyers, especially for income-restricted sales like those financed through the HOME program, which requires sale to buyers who earn 80% of area median income or less.

EXPERIENCED STAFF

GRDC developed its internal capacity to manage renovation projects over several years, including hiring a full-time project manager with extensive experience in housing rehab, project management, and building inspection. A second staff member spent about 50% of their time supporting these efforts, and the executive director coordinated project financing and sales. General contractors were often used when funding sources required a more extensive level of oversight, but GRDC also served as its own general contractor at times with a tradeoff between cost savings and staff time commitment.

Photo Courtesy of Central Detroit Christian CDC

CENTRAL DETROIT CHRISTIAN COMMUNITY DEVELOPMENT CORPORATION

Building a framework for community control, choice, and long-term affordability in a tipping-point neighborhood.

LISA JOHANON
EXECUTIVE DIRECTOR

> *This is a model that has worked for us and has allowed us to truly be a community on every level.*

Central Detroit Christian Community Development Corporation (CDC) strives to transform individuals to reach their highest potential through education, employment, and economic development in the 48202 and 48206 ZIP codes. Over the past several years, the neighborhoods served by CDC have begun to experience some development pressure based on their proximity to New Center and the greater downtown. Currently, there is a mix of housing across the area ranging from historic single-family to small-scale multifamily (2-10 units), with a few larger apartment buildings. Though some of these have begun to be renovated, there remains noticeable vacancy and some streets with substantial amounts of vacant land.

The organization's vision is to be an agent of change to create community choice, and its strong control over the neighborhoods' real estate market has ensured inclusive, supportive growth across the organization's 26 years of operation. Along with managing several youth programs and small businesses geared towards building economic power and strengthening families, CDC has successfully acquired and renovated 224 units of housing. Additionally, it has completed nine new construction homes and manages a multifamily rental portfolio of 130 units, largely spread across two-to-four unit buildings. CDC's real estate activities now comprise about a third of the organization's revenue. CDC's work began with the objective to stabilize blighted properties, preserve the neighborhoods' historic character, and provide affordable rental opportunities as the neighborhoods began to face widespread foreclosures and rapid population decline. The organization's presence in the community brought supportive programming, blight removal, and, more importantly, an anchor that remained invested in community control. Central Detroit has seen increased investment and attraction over the past five years, and CDC has now grown to diversify their portfolio with market rate offerings to respond to growing demand. This mixture of incomes strengthens both organizational sustainability and neighborhood vibrancy.

Founding Executive Director Lisa Johanon emphasizes that Central Detroit Christian began its work very slowly, starting off with one or two properties supported by donations and grant dollars. Following the housing crisis of 2008, there was an influx in federal funding to support single-family housing rehabs, access to property accelerated, and CDC successfully secured $5 million in NSP funding over the course of three years to rehabilitate several homes it had previously acquired. Strategic, early acquisitions and large donations from a Presbyterian church allowed CDC to begin strengthening its presence in the neighborhoods' real estate market well in advance of widespread speculation. As a result, CDC has been able to preserve affordability in its target neighborhoods as upward pressures from Downtown and Cass Corridor (Midtown) have consistently driven up market values. Its work provides a model for advancing inclusive growth by investing in community-based organizations who can get ahead of widespread displacement by establishing community control.

Though many homes were sold in the private market to low to moderate-income families, some homes and most duplexes were held as affordable rentals. CDC eventually commissioned a property management company to manage its growing portfolio, but its 11-unit portfolio was ultimately too small, and CDC was tasked with managing the properties itself. The organization now employs two property managers under the Solid Rock Property Management subsidiary, one of CDC'S 13 affiliated small businesses. In 2017, CDC created a construction company, CDC Construction, as a logical expansion of this work. With a permanent construction manager on board, the organization cites 20-25% savings on general contracting costs for its single-family and small multifamily rehabilitation projects.

CDC was intentional about hiring a construction manager that had the patience, passion, and sensitivity to train local residents in the construction trades. The company now employs up to eight people from the community to work on home rehabilitation projects. Lisa Johanon believes that more intensive, targeted support for local workforce development in the skilled trades is needed and sees single-family redevelopment as an important place to begin building that capacity. "It's a challenge, and it takes more time, but it's a value that we hold. We have only been burned once by a contractor who didn't follow through — but that was only once." Engaging local residents in the physical redevelopment of their communities in a way that truly builds their capacity to sustain the work is not only a tool for wealth-building, but it creates an invaluable layer of trust where error and deception can make or break a project. This is an approach that includes both people and place as significant factors of success. "This is a model that has worked for us and has allowed us to truly be a community on every level," Johanon said.

CENTRAL DETROIT CHRISTIAN CDC

PROJECT COST HIGHLIGHTS

Central Detroit Christian CDC has rehabilitated over **224 homes** in Central Detroit.

Most of CDC's rehabilitation projects are either large single-family homes or duplexes that require full gut rehabs, which typically range from **$90k-$100k** in construction costs.

CDC saves **20-25%** in construction management costs by using its internal construction management arm as opposed to hiring an external contractor. CDC notes that permitting costs are high, and a residential builder's license is required to pull permits. Having CDC Construction, which includes a residential builder's license, significantly helps with permitting expenses.

Though CDC sells most of its rehabilitated single-family homes, some are held as rental properties in a larger portfolio of duplexes and multifamily rentals. About 65% of CDC's revenue from real estate activities covers the cost of these activities, **with about 35% of the profits returning to CDC's programming.** Because CDC also provides housing counseling services, the organization has initiated lease-purchase agreements with several tenants to support creative pathways to homeownership.

CENTRAL DETROIT CHRISTIAN CDC

LESSONS LEARNED

EARLY ACCESS TO PROPERTY

CDC's work demonstrates how accelerating property ownership for community development organizations (CDOs) in emerging neighborhoods is an effective way to plan ahead for long-term affordability. CDO property ownership can offer an important safeguard against displacement as more of Detroit's neighborhoods receive increased investment and attention.

DIVERSIFIED HOUSING STOCK & MULTIPLE TENURE STRATEGIES

Though single-family homes are the predominant housing stock in most neighborhoods, CDC's focus area also has a critical mass of duplexes and small multifamily buildings that lend themselves to more efficient property management. As a result, CDC has leveraged multiple tenure strategies to expand the income generation potential of its real estate development activities, while also expanding choice for residents.

BALANCING INTERNAL CAPACITY

Developing internal capacity for property management and construction management is a delicate balance, and only made sense for CDC after developing several properties through partnerships. Though it would be inefficient for every CDO to hire its own construction manager and team of property managers, having these positions engaged in the broader mission of the organization can produce both cost savings and better social outcomes with respect to resident engagement. Sharing such positions across CDOs with smaller portfolios is one method for providing consistent capacity while reducing redundancy in the space. When asked whether CDC had the bandwidth to contract out its construction services to other communities, Johanon expressed that the organization would need to hire one additional construction manager, and that person would need to be deeply familiar with the community to be effective, especially with respect to security, workforce development, and overall impact.

INTENTIONAL WORKFORCE DEVELOPMENT

Workforce development is an explicit goal of CDC's home rehabilitation work and their success shows that, with a dedicated teacher on board that prioritizes genuine mentorship, the benefits far outweigh the additional costs.

BRIDGING COMMUNITIES, INC.

Pairing modest rehab with equitable land contract sales to reactivate land bank inventory and support affordable homeownership

PHYLLIS EDWARDS
EXECUTIVE DIRECTOR

> *This is not just something I talk about, it's something that I've experienced, something that I've lived. I bought my home on a land contract for $30,000 in 2015, and I am almost done paying it off. I now have more opportunities and flexibility with the house since I was able to own it in such a short period of time.*

Bridging Communities, Inc. (BCI) is dedicated to improving quality of life through innovative programming, advocacy, and creative partnerships. BCI provides special supportive services for seniors, but its housing programs are open to all community members. BCI is a HUD-certified counseling agency, providing pre-and post-purchase home buyer education, financial counseling, property tax exemption assistance and outreach, and mortgage modification assistance.

Though the target area for BCI is a large portion of the west side of Detroit, encompassing most of Council District 6, it is specifically focused on the Springwells area of Southwest Detroit. This neighborhood is home to a predominantly Hispanic population and contains many single-family houses, mixed with small multifamily buildings. The neighborhood is also home to a prominent commercial corridor, West Vernor, which connects it with other Southwest Detroit neighborhoods.

To address the need for more flexible, affordable homeownership opportunities for its constituents, BCI began acquiring homes from the Detroit Land Bank Authority in 2004 and selling them on land contracts to low- and moderate-income residents, who typically share some of the costs of home rehabilitation. Executive Director Phyllis Edwards joined the organization in 2010 and identified opportunities to expand the organization's land contract portfolio while also leveraging this experience to secure larger real estate projects. The organization has sold 40 homes on land contract as of May 2020.
BCI sells its homes at a very low cost with minimal amounts of rehab needed. It focuses on sales to residents that it believes can successfully complete most of the renovation work themselves. BCI utilizes short-term land contracts to finance the sales and maintain an ongoing relationship with the buyer until the land contract is repaid. This approach contrasts with the use of land contracts by real estate investors that are often predatory in nature. Land contract models led by CDOs like BCI are rooted in supportive, mutually-respectful relationships. "We develop a relationship with clients that allows for flexibility in monthly payments; some will call and make special requests to miss a monthly payment so that they can go visit their family or celebrate a holiday," Edwards said. And BCI's success rate demonstrates that land contract holders are overwhelmingly more likely to make those payments up than to default.

Edwards emphasizes that her work to expand access to supportive land contract opportunities that facilitate wealth-building for low-income communities is rooted in personal experience. "This is not just something I talk about, it's something that I've experienced, something that I've lived. I bought my home on a land contract for $30,000 in 2015, and I am almost done paying it off. I now have more opportunities and flexibility with the house since I was able to own it in such a short period of time." Because of the flexibility shown by BCI, its equitably-structured land contract sales ensure that low-income buyers have greater resilience against economic downturn, compared to a traditional mortgage.

Most of BCI's land contract sales begin with acquiring homes from the Detroit Land Bank Authority at acquisition prices ranging from $1,000-$3,000. Based on the availability of funds,


Photo by Bre'Ann White

BCI will perform minor repairs and work with potential home buyers to assess their capacity to manage various aspects of rehabilitation. To date, BCI has not taken out loans to support this work because traditional financial products are generally too restrictive to support this flexible approach to cost-sharing between the property owner (BCI) and land contract holder (resident). Though some land contract holders are able to access small lines of credit or other construction financing, others take their time and self-finance repairs as funds become available. Edwards notes that it is typical to see large land contract payments or rehab investments during income-tax return season, and she is proud that her model accommodates the realities of how low-income households must manage their expenses to make ends meet. "This process gets rid of a lot of red tape. Through land contract financing, you can do a lot of things that traditional lenders can't do. Land contracts give you the flexibility to meet people where they are to become homeowners."

In addition to advancing affordability and access to wealth-building for residents, when managed well, land contract proceeds can serve as an unrestricted revenue generator for the nonprofit. "During the housing crisis, this was the funding that kept us afloat," Edwards said. As community development organizations work to diversify their funding streams, Edwards encourages the use of land contract sales and advocates for expanded buyer pipeline supports (like downpayment assistance for land contract purchases), to make this work more feasible.

BRIDGING COMMUNITIES, INC.

PROJECT COST HIGHLIGHTS

$15,000
AVERAGE SALE PRICE

Sales prices range from $500-$72,500

$40,000
AVERAGE REQUIRED REHAB COSTS

Bridging Communities, Inc. roughly invests $1,000-$10,000 in property improvements, and residents finance the rest based on their skill set and preferences.

5 YEARS
AVERAGE LAND CONTRACT TERM

3-5%
AVERAGE INTEREST RATE

POTENTIAL LAND CONTRACT SCENARIOS

1 **$15,000 sale price**
CDO invests in minor repairs after acquiring property from the DLBA. Low monthly payment allows land contract holder to invest sweat equity and to finance repairs over time. CDO earns $8,751 over five years.

2 **$50,000 sale price**
CDO leverages grant dollars to make moderate repairs to major systems. Monthly payment remains affordable at 30% AMI (assuming a three-bedroom home), leaving room for occupant to complete minor repairs over time. CDO earns $25,329 over five years.

	1	2
Sale Price	**$15,000**	**$50,000**
Down Payment (10%)	$1,500	$5,000
Interest Rate	5%	5%
Term	5 years	7 years
Annual Payment (P&I)	$3,108	$7,200
Monthly Payment	**$259**	**$642**
Revenue to CDO		
Acquisition Cost	$3,000	$3,000
Repairs (by CDO)	$5,000	$30,000
Land Contract Principal	$15,000	$50,000
Land Contract Interest	$1,751	$8,329
Total Revenue	**$8,751**	**$25,329**

LESSONS LEARNED

FLEXIBLE FINANCING FOR HOMEOWNERSHIP

Traditional mortgage markets fail to adequately serve low-income communities for several reasons, including unattainable credit standards, the difficulty obtaining mortgages for low-value homes, and similar difficulty with financing homes in need of major repairs. The layered crises of mortgage and tax foreclosures brought a shock to many low-to moderate-income earners that bought into homeownership as a pathway to building wealth. Predatory lending practices and severe historical redlining of Detroit's communities have unfairly restricted access to credit for people of color, contributing to disparities in financial return to homeownership for people of color compared to white people. Land contracts, when administered in non-predatory ways by nonprofits and other socially-minded developers can make homeownership more accessible to buyers that are typically excluded from traditional mortgage markets. Furthermore, land contract agreements initiated by community organizations ensure that buyers have the wraparound supports required to manage such a unique ownership agreement and be fully informed at the outset.

SYSTEMATIZING SUPPORT FOR LAND CONTRACTS

Other efforts are in progress to assess the ecosystem of land contracts in Detroit, but one critical lesson derived from BCI's experience with trying to scale this work is that there is little systemic support for financing home rehabs that will ultimately be sold on land contracts. Other organizations like Grandmont Rosedale Development Corporation and Central Detroit Christian CDC have offered land contracts on a limited basis, but construction financing must generally be paid off when the home is sold, with the home buyers' mortgage as the source of loan repayment. Although BCI's model shows that ultimate returns are promising, profits materialize much more slowly for land contract sales, and patient capital is needed to support this work at scale.

RELATIONSHIPS MATTER

Land contracts, like long-term rentals, can be difficult to manage. Property mangement capacity is required to effectively ensure land contract compliance. However, a certain natural system of property management and accountability can be developed through mutually respectful and supportive relationships. Through their work, community development organizations organically engage with community members via service delivery, events, workshops, neighborhood clean-ups, and other activities. Leaders themselves are often active voices within the community, and, in BCI's case, their expansive pre- and post-purchase home-buyer education support connected them with local residents looking to build wealth through property ownership. Edwards notes that these mutual avenues of trust have led to overwhelming success in BCI's land contract program.

HOME REHAB PROJECT

INSIGHTS

Highlighting lessons from six rehab models completed within the past five years at various scales by both nonprofit and for-profit stakeholders.

HOME REHAB INSIGHTS

WOODBRIDGE NEIGHBORHOOD DEVELOPMENT

Woodbridge Neighborhood Development (WND) helps create a vibrant urban neighborhood with diverse housing opportunities, commercial activities, safe and walkable streets, and strong social connectivity. The organization operates:

- A **minor home repair** program to keep seniors and low-income legacy homeowners housed.
- **Larger-scale home renovation/resale** to preserve the historic housing fabric and help fund WND's work.
- **Park activation and free community programs** in collaboration with the local library branch, the Detroit Department of Recreation, and local businesses and schools.
- **Community planning** around vacant land and abandoned commercial sites that the organization now owns, helping ensure that new development aligns with resident-driven goals.

In 2018, Woodbridge Neighborhood Development rehabilitated **2 historic homes** in the Woodbridge Neighborhood.

ACQUISITION

WND purchased **two homes for $3,000 each** from the City of Detroit's right-of-first-refusal program, which sought to **prevent speculation by providing "first-look" access** to tax-foreclosed properties for nonprofits before properties were sent to public auction. WND raised acquisition funds from a neighborhood block party.

REHAB COSTS

The two homes WND chose were historic, both over 2,000 square feet, and likely **would have otherwise been demolished.** The organization chose a mid-priced construction bid from a Detroit-based contractor with experience rehabilitating historic homes. Construction costs amounted to **$130 per square foot for one home, and $160 per square foot for the other.** Total construction costs for both homes amounted to over $700,000. Major costs incurred outside of the overall construction budget included clearance of overgrowth, interior cleanout, architectural services, and builders risk insurance.

FINANCING

WND took out a conventional construction loan from Cinnaire, a local community development financial institution (CDFI), and used the homes themselves as collateral. Although WND intended to either sell the homes at affordable rates or hold them as affordable rentals, because construction costs were so high, the organization was compelled to sell the homes at market value to pay back their construction loan. **WND emerged with a modest profit of $55,000, which was redirected to support minor home repair for low-income residents.**

SOCIAL IMPACT

When WND bought the homes from the City, the stated objectives were to save the homes from demolition, remove blight, stabilize neighborhood housing values, and bring in new homeowners. Ultimately, the objectives expanded to raising funds for minor home repair and, most importantly, **building construction/renovation capacity for the organization.**

ANGIE GAABO
EXECUTIVE DIRECTOR

"This experience gave us credibility among neighbors that we could complete a project and would communicate openly during all phases. This raised our profile and helped gain community support for our work. It's worth noting that [the low acquisition price we secured] – which allowed a small community group to get into the rehab business and gain critical capacity in working with contractors, lenders, realtors, and home buyers—is no longer possible in most neighborhoods, as tax-foreclosed homes are now sent to directly to auctions, meaning they are bid up far higher than we are able to afford."

HOME REHAB INSIGHTS

OSBORN NEIGHBORHOOD ALLIANCE

Osborn Neighborhood Alliance (ONA) empowers families with the resources to make their children successful by fostering communication and cooperation between parents, residents, community leaders, businesses, clergy, law enforcement and school staff in the Osborn neighborhood. As part of the Live in Osborn Initiative, ONA has:

- Established a **community plan** for physical development.
- Built an award-winning **business development program** that has supported over 200 emerging entrepreneurs.
- Renovated **three parks** and created an **outdoor learning center.**
- Developed a youth midnight **boxing and basketball program** in partnership with the Detroit Police Department.
- Renovated one home in the Osborn neighborhood to test the market, with **plans to rehabilitate 10 additional homes over the next three years.**

ONA rehabilitated 1 home in the Osborn neighborhood to test the market and build the organization's rehab capacity.

FINANCING

ONA acquired the home at 13700 Mapleridge for $1,500 from the Detroit Land Bank Authority through its Community Partner Program. The organization used **$40,000 in cash reserves and fundraised an additional $35,000** to complete the rehab.

MARKET CONDITIONS

The Osborn neighborhood is located in Northeast Detroit and houses a substantial amount of vacant Land Bank inventory. ONA's home at 13700 Mapleridge **appraised for $55,000 in 2019 at a time when 90% of homes in the 48205 ZIP code were sold for less than $50,000, with an average sale price of $26,040.** The neighborhood remains characterized by a predominantly renter population with private-market, single-family rentals averaging at $778 per month in 2019-20 (based on a sample of 28 properties). However, rents rose as high as $1,000 for some properties, which is significantly higher than a typical mortgage payment based on current home values in Osborn.

BUYER FINANCING & AFFORDABILITY

Executive Director Quincy Jones is passionate about serving what he defines as a critically overlooked market in Detroit's neighborhoods - "the people who are renting, earning too much to live in subsidized rentals, but paying about $700-$800 per month, which could be comparable to a mortgage payment." Jones believes that these individuals work decent jobs and earn enough to become homeowners with the right level of support and an affordable purchase price. The home at 13700 Mapleridge sold for $55,000, and the buyer was able to secure a mortgage from the Michigan State Housing Development Authority which provided $7,500 in downpayment assistance. **The buyer had previously rented a home in the neighborhood for $850 per month; she now pays 32% less with her new mortgage payment of $580, which includes taxes and insurance.**

QUINCY JONES
EXECUTIVE DIRECTOR

> *We had a hypothesis, and we proved it. Not all renovations need to be luxury, and we were able to produce a high-quality gut-rehab with modest finishes that was affordable to the buyer, a former renter in the Osborn neighborhood. I am passionate about the role of nonprofits in moving individuals and families up the mobility ladder, and using housing as a stepping stone for doing that.*

HOME REHAB INSIGHTS

DEVELOP DETROIT

Develop Detroit is a nonprofit developer who builds vibrant, resilient communities to expand opportunities for all Detroiters. The organization's portfolio spans a diversity of mixed-income, mixed-use typologies, and single-family rehabilitation became a necessary extension of its work to advance comprehensive neighborhood development. It also arose out of a desire to clear blight surrounding their existing multifamily properties and facilitate wealth-building for legacy homeowners within their development footprint.

Over the past five years, Develop Detroit has renovated **nine historic homes, built 14 new homes, acquired and preserved two affordable apartment buildings, and is planning a dynamic pipeline of mixed-use, mixed-income new construction projects.**

In 2018, Develop Detroit launched a single-family homebuilding initiative, Revolution Homes, renovating **nine historic homes and building 14 new homes** in the North End and Grandmont Rosedale

FINANCING

A large portion of Develop Detroit's work is financed with **New Markets Tax Credits (NMTC) equity**, which typically supports only commercial uses. However, Develop Detroit uniquely structured this incentive to allow for the financing of single-family home renovation and construction, with each home structured as an income-generating business use. The New Markets Tax Credit allocation functions as a $20,000 leave-in subsidy for each home; though not required, Develop Detroit included a due-on-sale clause for this subsidy that depreciates over a five-year period to prevent speculation and encourage long-term ownership.

REHAB COSTS

Develop Detroit's rehab costs in the North End typically ranged from **$83-$108 per square foot (psf) for each unit (or $166-$216 psf for one full duplex).** One North End home renovation amounted to **$124 psf,** and all costs were slightly elevated due to the unexpected discovery of lead in the water lines to five of the homes. Develop Detroit replaced all water lines within the homes and coordinated with the City of Detroit to replace the pipes that connected the homes to the city's main water line. Construction costs for the two homes in Grandmont Rosedale amounted to **$121 psf and $83.38 psf,** respectively. While a typical contingency budget is 10% of total construction costs, Senior Manager of Homebuilding Martina Orange recommends increasing that number to 15-20% given the nature of disrepair in Detroit's homes.

CONSTRUCTION & BUYER PIPELINE PARTNERSHIPS

For the North End Homes project, Develop Detroit hired Rebound Construction, whose founder grew up in the neighborhood and has developed a model to train returning citizens in the construction trades. Develop Detroit is proud that its investment provides workforce development opportunities for Detroiters, and **this hyper-local partnership cultivated a deep level of trust between developer and community that improves security and overall ownership over the work.** In some cases, subcontractors lived directly next door to the properties they were assigned to. Once homes were completed, selecting brokers with local expertise and mission alignment was critical to procuring a pipeline of informed buyers. In both neighborhoods, **Develop Detroit selected brokerages that were located in the neighborhood and whose principal brokers lived in the neighborhood, ensuring that potential buyers received accurate and nuanced information** about neighborhood dynamics, history, and opportunities.

MARTINA ORANGE
SENIOR MANAGER, HOMEBUILDING

"*I have been doing this for a long time, and subsidies coming into single-family projects are not like they used to be. It is important to know your costs, lean on experienced partners, and explore creative methods like modular construction, selective improvements, and sharing renovation costs with the home buyer to address gaps between construction costs and market values.*"

HOME REHAB INSIGHTS

MONA LISA DEVELOPMENT

Mona Lisa Development is a socially responsible real estate development firm with property management, consulting, and general contracting capacity. The firm is a woman-owned, Detroit resident-owned, and Detroit-based business with founders who believe in the importance of working alongside block clubs, community development organizations, and other local leaders to advance equitable development. **The team prioritizes social impact, quality craftsmanship, and affordability with an eye towards creating supportive spaces for creatives and entrepreneurs.**

Mona Lisa has redeveloped two duplexes in the Virgina Park neighborhood while also serving as consultant and general contractor for a variety of clients, including Jefferson East, Inc., Century Partners, and Weston Hall.

FINANCING

Founders Monique Becker and Elyse Wolf began their company with deep personal commitment to their mission. Their first duplex acquisition was financed through the Detroit Home Mortgage Program, which allowed them to live in one unit and renovate the other. For their first project, Becker and Wolf chose a home that required only modest improvements, and they completed a vast majority of the work themselves with the help of handy family members. Mona Lisa's second project was self-financed with the support of a few smaller loans, but securing financing at this stage was difficult. **Becker and Wolf cite a lack of financial products to support entities with only one or two projects under their belt. This perpetuates the cycle of restricted access to capital that leaves smaller-scale, homegrown developers behind.**

Mona Lisa Development has rehabilitated two duplexes in the Virgina Park community, with two duplexes in the pipeline.

INNOVATIVE TENURE STRATEGIES

Mona Lisa, recognizing a niche opportunity to create a unique housing experience for young creatives and entrepreneurs, takes an innovative approach to leasing out their space. The Hazelwood Home (duplex), where Becker and Wolf live, is **designed as a co-living community, where residents can rent out rooms for $425-$475 per month. Residents in each unit enjoy access to a shared kitchen, shared basement with a pool table, a large sidelot, modern keypads that lock each room, and, most importantly, supportive roommates who share a vision for community.** Mona Lisa's second development, **The Lin, features permanent residences and an Airbnb** that features artwork from local artists, which has been overwhelmingly successful.

BUILDING COMMUNITY

To responsibly welcome new residents into the neighborhood, Mona Lisa designed a special rental application to address roommate and community compatibility. In addition to traditional questions addressing employment and income, Mona Lisa asks prospective community members to share their typical work hours, sleeping schedule, and communication style, among other factors that are important to consider when maintaining a well-functioning communal living space. Mona Lisa regularly hosts workshops, parties, and large yard sales to build community cohesion.

Sample rental application questions

- What is your confrontation style? How would you prefer to resolve disagreements?
- What do you know about Virginia Park and LaSalle Gardens?
- What chore do you least like doing around the house?
- What does community mean to you?

> *Do you stay within the status quo and the parameters that have been set? Or do you try to do something innovative that works for this community and advances quality of life? We are committed to advancing this model that works for us, and pushing stakeholders to recognize this as a viable alternative model for true equitable development.*

MONIQUE BECKER
CO-FOUNDER

HOME REHAB INSIGHTS

CENTURY PARTNERS

Century Partners (CP) is a for-profit developer with a mission to **advance holistic revitalization through sustainable residential housing development that embraces grassroots community outreach and the power of creative placemaking.**

Century Partners has rehabilitated over 100 homes across Boston-Edison, the North End, and Fitzgerald. The company has built internal capacity in construction management, property management, sales, and leasing. As part of the Fitzgerald Revitalization Project—a joint partnership between Century Partners and The Platform with support from the City of Detroit—13 homes were renovated, 26 homes were demolished, 40 neighborhood residents were hired, and several vacant lots were beautified. **After almost three years of work, home values in the neighborhood have increased by over 140%, while the expanded availability of mortgages has reduced barriers to homeownership and decreased the up-front cost to purchase homes by 90%.**

Century Partners' work demonstrates that the challenges with financing mission-driven single-family rehabilitation also extend to the private sector. **For the purposes of this study, Century Partners developed financing scenarios for one sample project, at 2488 Virginia Park St.**

SAMPLE REDEVELOPMENT PROJECT

2488 Virgina Park

Full-gut renovation of a six-bedroom, two-and-a-half bathroom 2,500-square-foot home. Renovation included new electrical, plumbing, HVAC, demolition of existing walls to create open concept kitchen, roof, garage rebuild, and floor repair and staining. Current financing options typically reduce local developer wealth-building potential and profitability by nearly 50%.

TYPICAL AVAILABLE FINANCING SCENARIO FOR SMALL-SCALE NEIGHBORHOOD DEVELOPER

This scenario is financed using a construction loan and permanent financing.

- Construction loan terms: 12% interest rate, 5.5% origination fee, six-month term
- Permanent financing terms: 75% loan-to-value, 10-year term, 25-year amortization.

2488 Virginia Park		% of Cost Basis
Acquisition Price	$61,000	30.44%
Renovation Cost (Loan)	$125,000	62.38%
Financing Fee	**$6,875**	**3.43%**
Construction Interest	**$7,500**	**3.74%**
Total Cost Basis	$200,375	100.00%
Appraised Value	$290,000	
Loan Proceeds	$217,500	75%
Return ($)	**$17,125**	
Return on Equity (%)	**28%**	

APPROXIMATE TYPICAL FINANCING TOOLS THAT LARGER DEVELOPERS CAN LEVERAGE

This scenario is financed using a moderate-term construction loan only.

- Construction loan terms: 5.5% interest rate, 2% origination fee, six-month term
- A **cash-only scenario** would yield a 17% return on a total equity investment of $186,000 (acquisition and rehab costs)

2488 Virginia Park		% of Cost Basis
Acquisition Price	$61,000	30.44%
Renovation Cost (Loan)	$125,000	62.38%
Financing Fee	**$2,500**	**1.25%**
Construction Interest	**$3,438**	**1.72%**
Total Cost Basis	$191,938	95.79%
Appraised Value	$290,000	
Loan Proceeds	$217,500	75%
Return ($)	**$25,563**	
Return on Equity (%)	**42%**	

Source: David Alade, Century Partners

DAVID ALADE
PARTNER

"Neighborhood projects tend to be either financed with high-interest construction loans as a bridge to permanent financing or all cash-financed. Providing local developers with similar financing tools as large developers, will allow them to generate over 2.5 times more wealth and multiply their impact on neighborhood development by a factor of three relative to the current funding paradigm. We believe neighborhood development is most effectively done by developers who live in the cities and neighborhoods they work in, from both a community and cost-containment perspective. Lending needs to be more accessible and distributed at a cheaper cost of capital to neighborhood developers.

HOME REHAB INSIGHTS

DETROIT LAND BANK AUTHORITY

The Detroit Land Bank Authority's mission is to return the city's blighted and vacant properties to productive use. The DLBA has four primary avenues for property disposition: online auctions, Own it Now sales, Side-Lot sales to neighboring homeowners, and projects that allow both developers and Community Partners to redevelop residential property, commercial property, and vacant land into productive uses.

People living in Land Bank-owned homes are provided pathways to ownership through the DLBA's Buy-Back program, which allows occupants to buy back their homes for $1,000 after completing a counseling session and a yearlong series of workshops that ensure homeowners have adequate training in financial management, home improvement, foreclosure prevention, debt reduction, and other subject areas geared towards ensuring long-term housing stability. As part of the yearlong program, participants save money each month in an escrow account that allows them to pay their first summer tax bill upon exiting the program.

Launched in 2015, the DLBA's Rehabbed & Ready Program strategically rehabilitates DLBA inventory in emerging and tipping-point neighborhoods to stabilize blighted properties and stimulate market demand.

FINANCING

The Rehabbed & Ready program is designed on the premise that, **if it costs about $12,000-$20,000 to demolish a home, then it would be a better investment to spend that same amount through home rehabilitation.** As of May 2020, the program has invested close to $8 million in home renovations through a revolving grant fund of $2 million, which has revolved four times. The program functions at an average loss of $14,301 per home. Homes are listed on the Multiple Listing Service (MLS) and sold through traditional, private-market real estate transactions to help seed comparables in the neighborhood, supporting future investment and mortgage availability in softer markets.

The Detroit Land Bank Authority has renovated and sold **74 homes** through its Rehabbed & Ready Program.

SECURITY

Program Manager Veronica Johnson emphasizes the **need for tight, dynamic security plans to minimze losses and ensure that projects remain on schedule.** "The trick is to find something that works, and keep evolving it," Johnson said. The DLBA's security strategy begins with low-cost interventions prior to starting construction (i.e. plywood window protections, locks, etc.). "This buffer gives us time to assess the property's risk level," and helps weed out any adverse attention before a significant amount of money is invested. More advanced interventions include the strategic placement of motion detectors, double-cylinder locks, security doors, plexiglass window protections, third-party security team drive-bys, and third-party monitoring of the main alarm system. Creative interventions that make the property "look" occupied (i.e. window coverings, leaving a car in the driveway) can also help deter unwanted activity.

REDUCING BARRIERS FOR SMALL-SCALE DEVELOPERS

Though smaller scale developers can typically acquire Land Bank-owned properties at low acquisition costs, new investors are often overwhelmed by the extent of repairs needed, and properties are sometimes returned to the Land Bank. **To more effectively reduce barriers to entry for small-scale developers and improve the probability that projects are completed in a timely, affordable manner, the DLBA is considering several partial renovation and property bundling programs.** These programs would make upfront investments to repair major systems and/or make facade improvements, leaving remaining improvements for new investors to complete.

VERONICA JOHNSON

PROPERTY REHABILITATION MANAGER

"What keeps me up at night is the number of vacant homes we have compared to the number of people facing housing instability in our city. We need more resources for average people to enter this space - there are so many families that just need a roof over their head. Having CDOs in this space is awesome, not just becuase of what they stand for, but also because of the services they provide. Even if CDOs can develop property management capacity and help offer more flexible options for renting or homeownership, that could go a long way to ensuring our most vulnerable residents remain supported and housed. It's a team effort, and we all have to figure out how everyone can work together to accomplish the same goal.

REBUILDING **HOME**

CONCLUSION

Overview of Renovation Program Themes & Takeaways

As these examples illustrate, single-family home purchase, renovation and resale programs can take a variety of forms, depending on the developer's goals and available resources.

For the nonprofit housing rehab programs reviewed in this report, project goals go well beyond the desire for financial return to include neighborhood stabilization, market stimulation, affordable housing, organizational sustainability and workforce development. These goals are by no means mutually exclusive, and many organizations pursue multiple goals simultaneously. The most successful organizations are clear about what they hope to accomplish and design their programs accordingly.

PROGRAM THEMES

#1: Neighborhood Stabilization

#2: Market Stimulation

#3: Affordable Housing

#4: Organizational Sustainability

#5: Workforce Development

Photo by Bre'Ann White

#1: Neighborhood Stabilization

Neighborhood stabilization is a primary goal for almost all of the organizations featured in this report. Home rehabilitation is seen as one strategy in a broader plan to strengthen the community through engagement, economic development, public-space planning, family services, health, and education. In many cases, organizations believe they cannot meet their broader social goals without addressing housing vacancies in their communities. Develop Detroit, for example, cited the need to undertake single-family development to support investments they had already made in multifamily properties in the North End.

Housing rehabilitation and resale contributes to neighborhood stabilization by lowering vacancy, eliminating blight, increasing homeownership and improving neighborhood quality of life. For community-wide impact, this strategy requires some degree of geographic concentration and layering of services. Though most organizations are trying to counter the forces of decline, for others, stabilization may mean protecting current residents from displacement pressure. Central Detroit Christian CDC, for example, has built its stabilization strategy around preserving a measure of community control within an appreciating market.

TAKEAWAY

Underwrite for Positive Impacts Beyond Profit

Underwriting for rehab projects led by organizations advancing comprehensive neighborhood stabilization should consider these broader positive externalities. Framing single-family housing rehabilitation in this way (as opposed to a purely private market function) lends itself to philanthropic support, CRA investments, corporate donations, and other charitable contributions typically geared towards more traditional nonprofit functions like social service provision and public space improvements. Although some foundations have made special exceptions to allow grant funds to be used for acquisition and real estate activities, foundations supporting equitable revitalization should consider carving out funds specifically for single-family housing renovation led by CDOs.

#2: Market Stimulation

For some organizations, market stimulation is an explicit goal of their rehab programs. In these cases, organizations seek to increase housing demand and raise property values in their communities. In many Detroit neighborhoods, low property values are a barrier to financing home purchases and renovation. When the cost of renovation exceeds the resale value of the property, banks are reluctant to lend and many home buyers are reluctant to invest. Homeownership is often touted as a wealth-building strategy for households, but this is true only if housing values remain steady or rise. For current homeowners in a neighborhood, rising home values increase the equity value of their homes.

Following the housing market crash of 2008, Grandmont Rosedale Development Corporation played a leading role in reestablishing the housing market in its community. At the time, cash sales were driving down market values and many homes were being converted from ownership to rental. GRDC's home renovation program demonstrated that homeownership could be preserved by offering high quality, move-in ready homes with affordable financing.

The DLBA's Rehabbed and Ready program has targeted neighborhoods that are adjacent to stronger markets in order to establish comparable sales in areas where there has been little recent real estate activity. The mortgage industry relies on comparable sales to determine appraised values for mortgage lending. In the Osborn neighborhood, the Osborn Neighborhood Alliance set out to demonstrate that home ownership is a not only a viable option in their community, but that it could be a more affordable option than renting. Market-building requires that early projects are subsidized to "move the needle" on comparable sales, and that quality of life issues be addressed simultaneously with housing rehabilitation.

TAKEAWAY

Enter Soft Markets Responsibly

Though it may be tempting to take a comprehensive approach to market-building by tackling several properties in softer markets, lessons from these case studies caution that rehabilitation in neighborhoods with low market demand should be approached carefully. Veronica Johnson, manager of the DLBA's Rehabbed & Ready program, asks, "How can we enter softer markets responsibly?" as a guiding question for her organization's work. Tackling costly projects in softer markets runs the risk of artificially inflating market values. On the other hand, overestimating market demand could lead to an inefficient use of funds. Rehabilitating too many homes at once without carefully aligning other stimulants of market demand (i.e. public space improvements, local business development, blight removal, community engagement and support) could leave homes sitting on the market.

#3: Affordable Housing

For some organizations, providing affordable homes to low- and moderate-income households is a primary goal. In some cases, market values within a neighborhood may be considered "naturally affordable," although in others, targeting lower-income buyers may be an intentional choice or funding requirement. Some organizations received public funding through the HOME Investment Partnership Act (HOME) or Neighborhood Stabilization Program (NSP), which required that homes be sold to low or moderate-income households. These federal programs included down payment assistance to increase affordability for the home buyer and capped sales prices at appraised values or actual costs, whichever was lower.

Typically, those who were not subject to strict affordability requirements still intentionally designed their products to be affordable to low- and moderate-income households. One reason for this is that community-based organizations are more inclined to align with naturally affordable values in emerging markets, as opposed to artificially inflating list prices to maximize profits. Bridging Communities, Inc. has emphasized selling properties at a low cost and incorporating a sweat equity component to further increase affordability. It sells homes to home buyers who can take on a portion of the home renovation themselves, decreasing the overall cost of renovation. BCI utilizes land contract financing to further increase affordability and to make affordable home ownership available to purchasers who may be unable to qualify for traditional mortgage financing. Mona Lisa Development has utilized a "co-living" model in which individuals share space and costs to make their single-family rental units more affordable.

TAKEAWAY

Existing Structures Often Provide the Greatest Promise for Preserving Housing Affordability

Given the high costs of new construction, existing buildings provide the most promise for preserving housing affordability. Local governments have steered away from supporting single-family redevelopment with dedicated funds for affordable housing (i.e. HOME funds), and legacy CDOs cite 2012 as the effective end of HOME allocations to community-based organizations. This funding source provided a reliable system for tackling some of the most challenging properties, and is a major contributor to the long-term success of organizations like Grandmont Rosedale Development Corporation and Central Detroit Christian CDC. Although public funds placed stricter regulations on renovation and contracting practices (therefore increasing development costs), subsidies were deep enough to ensure that homes were still sold at reasonable prices. Public funds for affordable housing have since been redirected to larger multifamily projects, which is important for increasing density and preserving a diversity of housing choices.

However, this housing typology is more readily found in Detroit's stronger neighborhoods, meaning that public funds are not being spent where they are needed most. Single-family homes comprise more than 80% of the housing stock in most neighborhoods, and the investment required to reactivate vacant homes is well beyond what the private sector is willing to bear. Public actors hoping to maximize the broader impact of affordable housing on community wealth-building should realign funds to support CDO-led single-family rehabilitation for two reasons: 1) Rehabilitating in alignment with naturally low market values can build wealth for low- to moderate-income earners and 2) Increasing the capacity of CDOs to compete with investors in the single-family rental market can provide stable, affordable rentals for occupants, and build sustainable income streams for critical community organizations.

#4: Organizational Sustainability

When scaled appropriately, single-family renovation and resale can generate revenues and contribute to organizational sustainability. Many funders will allow a project management fee to be included as a project cost, allowing the nonprofit developer to recoup some or all of the direct personnel costs for project development. When philanthropic grants are provided for renovation project costs, a portion of those funds (not needed to fill a funding gap) can be recovered by the nonprofit as unrestricted funds when the unit is sold.

Although projects in most Detroit neighborhoods require some form of gap subsidy, this is not always the case. Bridging Communities, Inc. has used its land contract financing model to generate modest revenue even on low-priced homes. Because of rapidly rising prices in Woodbridge, for example, Woodbridge CDC was able to generate a profit on the sale of two homes and use those profits to fund another program for low-income homeowners. Central Detroit Christian CDC has developed a diverse portfolio of multifamily rentals, single-family rentals and single-family sales that contribute significantly to the organization's annual revenue. Both Woodbridge and Central Detroit Christian emphasized that acquiring property at low-cost before market values rose in their communities was critical to maintaining economic feasibility for their projects.

TAKEAWAY

Building Single-Family Rehabilitation Capacity Can Contribute to Long-Term Organizational Stability

As the economic impacts of COVID-19 threaten the viability of Detroit's nonprofit sector, community organizations must still respond to intensifying community needs. New solutions are needed to establish more resilient safeguards for organizational sustainability. Some major foundations, such as the Ford Foundation, the MacArthur Foundation, the Kellogg Foundation, and others are radically shifting foundations' typical response to economic crises by increasing spending and, in some cases, borrowing money to do so. Even still, some organizations are facing a sharp decrease in funding for activities not directly related to COVID-19 emergency response.

As funders balance immediate response with long-term sustainability, those preparing to double down on their support for community-based organizations should be intentional about expanding support for revenue-generating activities for nonprofits that reduce reliance on more variable funding sources. This analysis revealed that some of the most financially stable organizations have found their niche in responding to local real estate markets with nuanced renovation strategies that balance revenue generation with social mission.

#5: Workforce Development

The organizations profiled in this report consistently cited workforce development as a priority goal for their projects. Though some are able to engage with construction managers who have the capacity to guide trainees and remain on schedule, other organizations cited the need for more targeted support for the additional time and attention dedicated to workforce development.

Single-family rehabilitation projects are seen as an effective entry point for small-scale contractors and local residents looking to gain experience in the construction trades. Training programs like Access for All provide pre-apprenticeship training and employer connections for Detroit residents. Develop Detroit, for example, hired Rebound Construction, a socially-motivated contractor that incorporates job opportunities for returning citizens, to work on their projects in the North End. Central Detroit Christian CDC has gone so far as to create its own construction company that employs local residents to meet both housing and economic empowerment goals.

TAKEAWAY

Effective Workforce Development Requires Alternative Systems that Honor Nontraditional Learning and Meet People Where They Are

Though it is beyond the scope of this report to discuss the full landscape of construction training programs available for Detroit residents, actors in this space recognize a greater need to meet people where they are with respect to skilled trades experience. Many residents have picked up viable skills from friends and family members, or from teaching themselves over time, but these skills go largely unacknowledged without formal certifications. Current frameworks for training and certification that require trainees to pay for classes and work for free remain inaccessible to low- to moderate-income earners, who cannot afford to work without pay.

Classroom-style trainings are detached from the reality of how many people learn (in a hands-on setting, often from trusted connections), and current systems provide little opportunity for trainees to demonstrate their skills and "test" into higher levels of certification. Projects funded with public funds make it particularly difficult to incorporate workforce development because of strict requirements guiding the use of contractors. However, private philanthropic funds can help bridge this gap and allow the flexibility for community-based actors to pursue workforce development as a co-benefit of their work, while also helping minimize total project costs.

Elements of Successful Programs

The organizations featured in this report have needed to be creative and resourceful in their approach to single-family rehabilitation projects. They have adapted to changing funding sources and changing market conditions to achieve a broad range of organizational and community goals. Despite the unique character of each organization, several common lessons can be drawn from their experiences that would be useful to any organization wishing to launch or support a single-family renovation and resale program.

Housing renovation should be part of an integrated neighborhood strategy. All of the organizations profiled see housing renovation as being tied to other neighborhood strategies and goals. They seek benefits that reach beyond a single house and household and include greater neighborhood stability, improved neighborhood appearance and market appeal, and stronger community cohesion. Renovation of a single home in the absence of other neighborhood improvement activities may not result in sustainable gains for either the community or the individual home buyer.

Both grants and loans are needed for project financing. In most Detroit neighborhoods, the total development costs for home renovation projects exceed the market value of completed homes. At times, the federal Home Investment Partnership (HOME) and Neighborhood Stabilization Program (NSP) provided substantial "gap financing" support for scattered-site, single-family housing renovation. However, these sources have been largely unavailable for single-family projects for several years. More recently, organizations have responded by raising private philanthropic funds to fill financial gaps, reducing the scope of renovations to control development costs, or in one case, raising equity investment with the use of New Markets Tax Credits. Although not every project will require a subsidy, it will not be possible to provide high quality, affordable housing on a significant scale in Detroit without it.

There is no such thing as a standard rehab.
Development costs depend on a variety of factors, including the acquisition cost, property size and condition, historic designation, rehabilitation standards, financing requirements and market values. These factors can vary from neighborhood to neighborhood and project to project. Though all the organizations studied tracked their average costs, most also tracked the range of costs between projects. Averages are important for budgeting and understanding program-wide costs, but variations between individual projects point to the need for flexibility in funding.

Controlling acquisition costs is essential to closing funding gaps. Low-cost acquisitions and donated property have been important elements of many organizations' success. In the aftermath of the 2008 financial crisis, the National Community Stabilization Trust (NCST) provided access to foreclosed properties on a "first look" basis to CDOs, often resulting in an acquisition price under market value. Organizations that were able to acquire property before market values increased in their community were better able to shrink funding gaps than those that saw acquisition costs rise faster than resale values in appreciating markets. Low purchase price does not automatically equate to a bargain, but low-cost relative to market value is critical.

Construction costs are often underestimated.

Construction costs often exceed initial expectations. This is especially true for renovation projects where existing conditions are not always fully known at the outset of a project. The longer a house has been vacant, unheated, and exposed to the elements, the more likely it is to have hidden problems. Organizations need to plan and budget for contingencies. Some organizations have reduced construction costs through reducing the scope of work or by eliminating the general contractor, but these methods involve other trade-offs that must be accounted for. Funding sources often dictate which rehabilitation standards must be used. This is especially true for federally funded projects. It is essential to understand what funding sources will require when developing a scope of work and estimating construction costs.

Take security seriously. Single-family, scattered-site projects are especially vulnerable to theft and vandalism. A single break-in can undermine an entire project. Successful organizations have developed sophisticated approaches to security – including everything from enlisting the help of neighbors, to using security systems, to installing valuable appliances like furnaces and water heaters after the house is sold. Planning and budgeting appropriately for security measures is essential to success.

Build a home buyer pipeline.

A renovation/resale project is not complete until the new home buyer moves in. Unsold homes are a financial drain and security risk. Organizations that identify and prepare buyers early have a better chance of success. Beyond home buyer counseling, potential buyers also need access to flexible financial products, including down payment assistance. Down payment assistance, whether integrated with the rehab program itself or provided directly by a financial institution, is often critical to expanding the buyer pipeline and keeping home purchases affordable. Some organizations have also used land contracts as a vehicle to make financing available to an even broader range of buyers.

Conclusion

Given the prevalence of single-family houses in Detroit's neighborhoods, it will not be possible to achieve widespread and equitable prosperity in the city without the single-family housing system aligning around a strategy for preserving, stabilizing, and strengthening the single-family housing stock in those neighborhoods. Nonprofit community development organizations (CDOs) and other socially motivated developers should play a key role in developing and implementing a single-family strategy.

CDOs in particular are uniquely positioned because they recognize that housing must be part of a comprehensive approach to neighborhood revitalization and community building and have greater accountability to residents than for-profit developers. To foster that vision, DFC partnered with a cohort of eight CDOs, Building the Engine of Community Development in Detroit, the City and the Detroit Land Bank Authority to develop a pilot project. The pilot project was designed alongside the aforementioned partners, and DFC provided a set of recommendations for a pilot that assesses systems elements and organizational capacity needs. The systems assessment, recommendations and pilot design can be found in a separate report by contacting DFC directly.

It is our hope that this report will inform the development of a single-family strategy that includes a central place for CDOs and single-family rehab and resale. To be successful and to achieve greater impact, CDOs and other developers will need systemic support, including access to the funding needed to make houses both healthy and affordable. The lessons highlighted in this report are drawn from the experience of organizations at the forefront of designing a more equitable approach to neighborhood development in Detroit. These lessons can help Detroit move beyond renovating vacant houses to rebuilding homes as part of thriving neighborhoods for Detroiters to enjoy.


Photo by Daniel Washington

Notes & Citations

1. https://www.modeldmedia.com/features/detroit-housing-pt1-111715.aspx
2. https://www.lincolninst.edu/sites/default/files/pubfiles/regenerating-legacy-cities-full_0.pdf
3. https://poverty.umich.edu/files/2019/08/Akers-et-al-Eviction-Machine-Revised-August-12.pdf
4. https://www.washingtonpost.com/news/wonk/wp/2015/09/21/the-most-popular-type-of-home-in-every-major-american-city-charted/
5. Data Driven Detroit, Ask D3 Request (July 2020)

Most of the information and data in this report was gathered through first-hand interviews with executive directors and other leaders working to reactivate Detroit's vacant housing stock.

Photo by Daniel Washington

Prepared By: CITYSHARES
STRATEGY FOR STRONG COMMUNITIES