

Detroit Neighborhood Home Repair Program

A Program for the Acquisition, Repair and Homeownership of Single Family Homes in Detroit Neighborhoods

Overview

The Detroit Neighborhood Home Repair Program (Home Repair Program) is a partnership between the Michigan Building and Construction Trades Council (Michigan Building Trades), the City of Detroit, the Detroit Land Bank Authority (Land Bank), Southwest Housing Solutions (Southwest) and the AFL-CIO Housing Investment Trust (Trust) to acquire, repair and refinance Detroit single-family properties.

High levels of foreclosure and decades of disinvestment in Detroit neighborhoods have produced high vacancy rates and extremely low appraisal values. The Land Bank alone currently holds 79,000 parcels of vacant residential structures or vacant land that require extensive renovation. The challenge faced by individual homebuyers that purchase Land Bank homes is the cost of renovation, which typically exceeds the home's appraised value. As result, the homebuyers must have the available cash necessary to fund the rehab or utilize financing programs that place the borrower into ownership with negative equity.

Given the challenges that the large inventory of vacant homes presents, the program partners came together to develop an investment strategy that would support the revitalization and stabilization of Detroit neighborhoods. The Home Repair Program is designed to address the issue of neighborhood stabilization by renovating single-family homes in targeted neighborhoods which will over time increase the appraised value of area property, as well as, attract additional private investment to expand revitalization efforts beyond the Midtown and Downtown Detroit region.

This program provides an opportunity to invest in Detroit neighborhoods and create family-supporting union jobs by using 100% union labor and providing job training opportunities for local residents. The inclusion of the Building Trades pre-apprenticeship program for women and minorities, Access for All, further expands the program's neighborhood impact.

The first phase of the program, already in progress, will include 25 homes located in the Bagley, East English Village and Grandmont-Rosedale neighborhoods. Between winter 2016 -- when construction on the first home began -- and April 2017, two homes have been sold, three homes are pending sale and six homes are under construction.

Program Structure

Acquisition and Development

The Michigan Building Trades have created a non-profit, “Building Detroit Futures,” to acquire properties from the Land Bank for the Home Repair Program. These properties will meet a minimum criterion that includes both neighborhood and home conditions.

Development and Sale

Southwest will manage the development of the single-family homes utilizing union labor as well as workers participating in the Michigan Building Trades’ pre-apprenticeship program, Access for All. Access For All is a public-private community and union management collaboration, giving residents of Detroit the opportunity to enroll, at no cost, in a post-secondary apprenticeship training program as a pathway to journeyman certification and a career in the construction trades. The inclusion of the Access for All participants will insure that all work is completed by local Detroit residents and with 100% union labor.

Southwest will also manage the sale of the properties. The renovated homes will be marketed by local real estate agents via the Multiple Listings Service. Homeownership counseling will be provided by Southwest and other local HUD approved housing counselors.

Funding

The Trust seeks to make a series of investments as part of the Detroit Repair Program. Under the program, the Trust would act as a construction lender, in conjunction with IFF, a large Midwestern CDFI. IFF has a strong reputation throughout the Midwest for funding and managing similar projects and adds significant value to the program’s operations.

Project Assumptions

- Repair Period per home. 30-90 days
- Sales Period. 30-120 days
- Average Total Development Cost per Home. \$115,000
- Average Sales Price. \$78,000
- Gap per Property. ~\$37,000 on average, but it could be higher or lower for any individual home.
- Three draws. Third draw at Certificate of Occupancy

Target Neighborhoods

The Trust has been working closely with the Land Bank, community leaders and the City to identify neighborhoods that would benefit from the program. The Trust has identified three neighborhoods, Bagley, East English Village and Grandmont-Rosedale that meet criteria which include the presence of:

- Vacancy rates below 10%;
- Recent investments from city, state and federal funding programs;
- Private Investment: Recent mortgage activity and commercial development;
- Proximity to employment opportunities;
- Stable Population;
- And economic anchors: Hospitals, schools and universities.

The homes that are selected to be renovated and sold will be located on blocks that are at risk of becoming blighted without intervention. This targeted investment will bring labor pension capital to Detroit neighborhoods to create jobs and workforce training opportunities, provide affordable homeownership opportunities in safe housing and strong neighborhoods, and further preserve Detroit neighborhoods.

Partners and Responsibilities

Michigan Building and Construction Trades Council

The Michigan Building and Construction Trades Council, through its non-profit Building Detroit Futures, will acquire Land Bank Owned property and ensure that all work will be completed with 100% union labor, assuring that workers receive a family supporting wage and benefits. The Michigan Building and Construction Trades Council has recently created a very successful workforce training program, Access for All, which offers pre-apprenticeship training to Detroit residents. The program is targeted to minorities and women to prepare for careers in the construction trades and will be expanded as part of Detroit Repair Program.

Detroit Land Bank Authority

The Detroit Land Bank Authority currently controls 79,000 parcels that are either vacant residential structures or vacant land. Through its Community Partnership program, the Land Bank can sell up to 9 properties to qualifying organizations that agree to renovate the properties they receive. The program has received special authority from the City Council to allow the Michigan Building Trades non-profit corporation, Building Detroit Futures, to acquire up to 250 homes that will be taken in tranches of 10 to 20 homes at a time.

Southwest Housing Solutions

Southwest Housing Solutions has completed over \$125 million in development and has experience in rehabbing more than 400 real estate owned single-family properties in the Detroit Metro area of which over 100 are located within Detroit. Southwest will be responsible for inspecting the properties that are purchased from the Land Bank to assess the renovation needs, determine cost estimates and establish the overall feasibility of the property rehab. Southwest will also manage the pre-development and construction process, as well as the sale of each property. Southwest will pre-qualify moderate and low income homebuyers and provide housing counseling.

AFL-CIO Housing Investment Trust

The AFL-CIO Housing Investment Trust is a \$6 billion investment company that manages assets for more than 390 union pension funds. As a steward of union pension capital, the Trust is committed to producing competitive returns for its investors, but it also works to generate collateral benefits such as housing, jobs and community development that support the values of the union movement. All projects financed by the Trust require 100% union labor.

The Trust will provide construction financing for the purchase and rehabilitation of Land Bank owned homes.

City of Detroit

The City of Detroit will provide up to \$925,000 in Community Development Block Grant (CDBG) funds to cover the financing gap between total development costs and the sales price of the home. As a result of this subsidy, sales of the homes under the program will be limited to buyers with incomes of 80% or less of Area Median Income.