

# PRESERVING SMALL RENTAL BUILDINGS

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Smart investment in small two- to four-unit buildings—for renewed owner occupancy or nonprofit ownership and management—stabilizes neighborhoods and provides affordable housing.

In communities across America, small buildings with two to four housing units—“triple-deckers” in New England, “duplexes” and “fourplexes” in Minnesota— provide neighborhood stability. A significant presence, they represent 31 percent of rental housing stock in the Northeast, 21 percent in the Midwest.

But even as demand for rentals increases, these typically affordable properties are threatened by foreclosure, abandonment, and disinvestment.<sup>1</sup> Between 1999 and 2009 alone, 15 percent of the two- to four-unit, low-cost rental stock was permanently lost.<sup>2</sup>

The healthy future of this housing stock—in most cases designed for owner occupancy by the landlord—requires flexibility. *Renewed owner occupancy*, a model practiced in Connecticut, and *nonprofit ownership and management*, seen in Minnesota, are two models aimed at increasing neighborhood stability and preserving affordable housing options. Both demonstrate smart investment of limited public subsidies and provide asset-building opportunities for individuals.

The models’ development was supported by the Housing Partnership Network (HPN) through its Innovations in Neighborhood Stabilization and Foreclosure Prevention Initiative, under a grant from the Citi Foundation.<sup>3</sup>

## **Connecticut: Housing Development Fund**

The Housing Development Fund (HDF), a 24-year-old nonprofit, came to the realization that providing mortgage assistance to customers could help ensure that the small multifamily housing stock abundant in Connecticut’s cities could be part of a wider solution to the high cost of homeownership. (See “The People on the Ground.”)

As a community development financial institution and homeownership-education provider, HDF brings together poorly managed or foreclosed and vacant two- to four-unit housing stock with



## The People on the Ground

### Inspiration for Connecticut's LEAP

Ronnie, a young administrative professional in a postindustrial Connecticut city, wanted to become a homeowner. In her community, 40 percent of the housing stock is two- to four-unit houses, and she liked the concept of having one or two rents per month to defray mortgage costs.

Seven years earlier, Ronnie had experienced bankruptcy. She had worked hard in financial counseling to rebuild her credit and plan carefully for a sound future.

Ronnie searched online for information about affordable housing and found the Housing Development Fund (HDF). She wanted to purchase a three-family house in New Haven as a hedge against any potential job loss or reduction in income and enthusiastically went through the intake and counseling process.

In addition to the gap financing from HDF, Ronnie secured down-payment assistance from her employer, a major university. She also benefited from HDF's homebuyer education and customized landlord training.

By purchasing a three-family home in New Haven, Ronnie became part of several overall trends in Connecticut: increased owner occupancy of two- to four-unit buildings, a rise of monthly rental rates, an increase in home values, and renewed population growth in Connecticut cities, with New Haven leading the trend.

Ronnie has maintained perfect credit through her first years as a landlord and has graciously served as an ambassador for HDF, sharing her story with many people—and helping to inspire the LEAP initiative.



Photo HDF



Photo PPL

### Scattered-Site Rental Housing in Minnesota

Sarah was working hard to create opportunities for herself and her child, now 18 months old, and housing was their next step. Since her pregnancy, she had couch-hopped among relatives and friends. She'd completed a work-readiness class and had just begun work as a telemarketer when Project for Pride in Living Inc. finished its first phase of foreclosure recovery work in North Minneapolis. A newly rehabbed two-bedroom apartment with project-based Section 8 rental assistance became available in a previously foreclosed fourplex, and Sarah moved in.

Sarah was attracted not only to the affordable rent, but also to the apartment's spaciousness (1,000 square feet), abundant natural light, few direct neighbors, proximity to her church and relatives, and a more "homey" feel than she could get in a large complex.

With her housing stabilized, she's now found a better job, closer to home, and is saving up for a car so she'll have more time with her son. She's looking into getting more education, to maintain her upward trajectory.

the many households that could benefit from support in achieving homeownership. The homeowners in turn benefit renters by providing affordable, well-managed units.

HDF has created a formalized product for owner-occupants called the Landlord Entrepreneurship Affordable Program (LEAP). With initial funding from the Housing Partnership Network, HDF designed an acquisition- and rehabilitation-financing program to

groom the next generation of owner-occupants of two- to four-unit family houses. LEAP provides the owner-occupants not just with financing on appropriate terms, but also with knowledge about managing rental property, screening for good tenants, improving energy efficiency, and doing basic repairs.

By building a cohort of owners who are community stakeholders empowered to manage small buildings well, LEAP directly im-

proves neighborhood stability. It also helps low- and moderate-income owner-occupants to build assets.

In strengthening streets and corridors, LEAP can be especially important in neighborhoods surrounding hospitals and educational institutions. Programs like LEAP help Connecticut attract much-needed workers by offering affordable opportunities for a new generation of first-time homeowners plus renters attracted to urban living.

### Minnesota: Project for Pride in Living

In North Minneapolis, a predominantly African American community, the single-family homes, duplexes, and fourplexes are popular rental options. But foreclosures hit many North Minneapolis renters hard, as they made rent payments to landlords who stopped paying their mortgages and then disappeared. When the dust settled, many blocks in the community contained more properties that had been foreclosed on than properties that hadn't been. Frequently, foreclosed properties were simply abandoned.

Project for Pride in Living Inc. (PPL), a 40-year-old nonprofit, having already invested in 10 scattered-site fourplexes in North Minneapolis, stepped in to tackle the foreclosed rental inventory. Since 2009, it has rehabilitated and leased six foreclosed fourplexes. It is in the process of rehabbing seven more buildings—bringing a total of 62 refreshed units back to serve residents.

Sixty-two units in geographically scattered buildings, each with their own unique features and internal systems, can be less financially efficient than a single 60-unit building. However, production in the private market has not yet met the demand, which is at a record high because those who might have been buyers in the past are finding tightened lending or are newly wary about homeownership. With foreclosure having permanently reduced the number of available units, PPL sees investments in existing small housing stock as providing the needed units while reinforcing the neighborhood fabric.

PPL tackles the operational and financial challenge of delivering good-quality management services to smaller, scattered-site properties by focusing on property management and clustering its buildings geographically for more efficiency. Its property managers also connect regularly with residents and maintain linkages to near neighbors and community groups, keeping PPL informed about resident behaviors.

PPL has relied on project-based rental assistance and partnerships with other supportive programs to attract a well-defined target market of low-income and supportive-housing residents (those needing special services). This strategy has led to very high occupancy and is filling a severely underserved niche in the local rental market.

The organization also has established credibility with city code-enforcement officials as well as neighborhood residents and organizations. Concerned neighbors can always find someone to talk to about the property since PPL is well-known locally—often not the case with the speculative investors.

PPL's work as a nonprofit owner of scattered-site housing is community development at its most granular level. A property-by-

property, block-by-block approach takes time and effort, but yields hope and improvement in neighborhoods riddled with foreclosures.

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The Connecticut and Minnesota examples illustrate flexible approaches to preserving and reimagining two- to four-unit buildings, an underappreciated housing resource that has been vulnerable to foreclosure. In Connecticut, LEAP meets local demand for affordable ownership opportunities by facilitating renewed owner occupancy. In Minnesota, PPL's scattered-site portfolio provides stable nonprofit ownership and affordable rental opportunities in neighborhoods experiencing record low vacancy. Smart investment of limited public resources, leveraged by strong nonprofit leadership, is responding to unmet needs and reweaving neighborhood fabrics.

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### Endnotes

- <sup>1</sup> This affordable resource needs to be preserved as, according to Joint Center for Housing Studies tabulations of U.S. Census Bureau data, "Nearly half (48 percent) of renters in two- to four-unit buildings earn less than or equal to two times the full-time equivalent of the minimum wage (\$26,390 or less)."
- <sup>2</sup> Additionally, 6 percent of one- to four-unit properties were in foreclosure as of May 2012 compared with 3 percent of one-unit properties.
- <sup>3</sup> A business collaborative of the nation's leading 100 housing and community development organizations, HPN designed the overall initiative to highlight mission-driven, foreclosure-related business efforts that have promise to advance community revitalization.

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