A COMMUNITY-ORIENTED APPROACH TO HOUSING DEVELOPMENT

by

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ABSTRACT

A Community-Oriented Approach to Housing Development

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Submitted to the Department of Urban Studies and Planning on May 24, 1982, in partial fulfillment of the requirements for the degree of Master of City Planning.

The principal problem, which underlines all other housing problems is the growing shortage of affordable housing. New housing construction has been falling off dramatically. Mortgage rates are at unheard of levels; and fuel oil costs are double what they were a few years ago. The consequences of this shortage are severe. Young households are facing frustration in attempting to buy their first home. But, the poor and the elderly are facing the most severe deprivation as housing becomes scarcer and more expensive. These households rely on rental housing. However, since 1974 Massachusetts has witnessed virtually no new rental housing construction. The acute shortage of rental housing is particularly difficult for low income and elderly persons who find themselves increasingly forced to compete for rental units with the more affluent.

One of the most effective means of dealing with the housing shortage is to preserve the stock which exists. The energy and cooperation that can be generated through a neighborhood's sense of community is one of the most effective tools to deal with the problems related to housing. The problems that affect the housing stock do not exist, and cannot be solved on a house-by-house basis. Homeowners who ignore maintenance or unscrupulous landlords who commit arson for profit have a direct impact on the quality of life and the property values of those around them. A few incidents such as these create a negative attitude on the part of residents, bankers, and other investors. In this way housing problems become neighborhood problems.

This thesis illustrates one community's attempt to preserve its housing stock, while insuring that residents can remain in their neighborhoods. The newly formed Codman Square Housing Development Corporation (CSHDC) will rehabilitate selected delapidated structures in an attempt to stabilize area neighborhoods and provide decent and affordable housing to lower income households. The CSHDC is an example of growing community efforts to take a leadership role in housing production. While the national economy and the housing shortage have been instrumental in escalating community awareness the basic profit-oriented aspect of real estate has provided the greatest incentive. Lower income communities that have been victims of disinvestment have come to realize that
conventional property developers have very little incentive to build in their neighborhoods. Although the demand for housing is high residents cannot afford to pay the rent levels that private developers desire. Consequently, community initiative in housing production is the only recourse.

As a non-profit community developer there are various subsidy and incentive programs that can reduce the cost of rehabilitation. We will demonstrate how the goals of the community developers -- to control the development and management process and generate cash profits to be used in other projects -- can be achieved.

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INTRODUCTION

In many cities community developers are at the forefront of housing production. The goals of the non-profit community developers are to control the development and management process; and to use cash profits in other housing ventures. This thesis will illustrate how these goals can be achieved within the boundaries of the existing housing system.

Until very recently the main thrust of community groups was to mobilize neighborhood residents around a crisis or to rush to get signatures from residents as a show of support against circumstances viewed as disruptive to those communities. Such activities have led many to conclude that the usefulness of community groups is limited because of their "preventive" orientation. The primary emphasis of community groups has changed from reactionary measures to more developmental/needs oriented tasks such as the provision of jobs and housing. These groups have come to realize that in order to accomplish their objectives in our free enterprise society, they cannot always rely on established businesses nor government agencies to provide them with social and physical services that are responsive to their needs. With governmental commitment to lower income people waning community organizations are taking a more active role in planning for their neighborhoods.
National credibility to community organizations was established with federal allocations to groups who qualified as Community Development Corporations. CDC's were formed under the premise that people who are actively within the community can best determine and address the needs of that community. They also served as assurance that the community would have a voice in all plans that could affect the area. CDC task areas typically include employment training, health care, tenants rights and housing. However, in most communities the lack of technical and financial resources has made the implementation of programs either impossible or very inefficient.

Although CDC's have, in most cases made a positive impact on their communities most observers would probably agree that because of their lack of experience they could have been more effective by concentrating on a particular area of need. Housing Development Corporations (HDCs) appear to be an attempt by community organizations to focus on a specific need within the community and to channel all their resources into that area. Because HDCs don't rely on federal funds they are more able to tailor their activities to the community without having to adhere to specific income guidelines that might prevent them from serving many households.

Although community organizations (i.e., church groups, community-wide tenant groups, civic groups have been known
to become involved in housing production for lower income families these groups were not involved in long-term development plans. Instead, they usually helped to sponsor a particular project. And, although that project did not solve all the community's housing problems these ad-hoc groups would move on to other tasks.

HDC's, on the other hand, are long-range community developers who plan housing to deal with the needs of present and future tenants/residents. In lower income neighborhoods this need can not be eliminated by rehabilitating a few units in a short period of time. Community residents and organizations have a stake in their neighborhoods, and they can, given certain technical resources fill the vacuum and assume the developer's role. After all, the housing stock in these neighborhoods is often deteriorating physically. Although in most cases it is capable of being successfully rehabilitated, the stock is relatively undesirable as in investment for conventional developers.

The primary objective of the community developer is to provide community residents with quality housing (whether it be new construction or rehabilitation) and responsible and responsive management services at a cost which they can afford. In many instances the group has the opportunity to increase the level of resident participation in the process of development and management of their housing. Community developers cannot only
prevent the abandonment phenomena, but can retain, redevelop and control a portion of the housing in their neighborhoods. Community oriented builders attempt to maximize the benefits to the community within the constraints of the system, while minimizing the costs.

In poorer communities the images of property abandonment, blight of disinvestment have prevented private developers and in many instances, public sponsors from improving neighborhood housing conditions. Entrepreneurs especially, view many of these neighborhoods as sinking ships -- beyond help. Consequently, there is a growing need for community initiative in providing housing; especially in helping to retain and upgrade the existing stock.

The Codman Square Housing Development (CSHDC) of Dorchester is a reflection of community self-help movement. Incorporated by the WeCan Neighborhood Improvement Program and the Codman Square Community Development Corporation, the CSHDC represents a community attempt to provide low and moderate income housing on a professional and expert level. The principals of the CSHDC possess backgrounds in housing and/or community development that will enable them to address the area's housing needs, which will have a stabilizing effect on the neighborhood.

As William Jones, Executive Director of CSHCD reported "the key to bringing about neighborhood change is to
reduce uncertainty. Uncertainty about the future induces all actors from homeowners - otential buyers, bankers, brokers and city administrators to disinvest (or invest), triggering self-fulfilling decline if the market looks weak. By purchasing property in the community, bring it up to code standard and renting it at affordable rates to low and moderate-income residents of the community, the CSHDC will make a giant leap toward reinstating neighborhood confidence.

This thesis will analyze and evaluate the housing development opportunities available to CSHDC in light of:

I. Codman Square Housing Needs 
II. Codman Square Housing Development Corporation's Goals and Strategies 
III. Overall Physical Status of the Four Development Opportunities 
IV. Financial Feasibility 
V. Management Structure 

Chapter I will describe the historical underpinning that has led to the current condition of Codman Square. Chapter II discusses the goals and strategies. Chapter III will present the specific development opportunities being considered in terms of physical condition and location. Chapter IV will analyze various models of financial structuring. Chapter V will discuss some of the elements of property operation after the units are built.
INTRODUCTION - Footnotes

1. Interview with William Jones, Executive Director of Codman Square Housing Development Corporation, May 4, 1982.
PART I
CODMAN SQUARE - BACKGROUND
Codman Square traditionally has been known as Dorchester's town center and shopping district. Although the Square has lost much of its prominence over the past century it remains a significant historical feature of Dorchester. Codman Square is one of many examples of how changes in residential living patterns and city economics have left communities with weak housing markets and blighted neighborhoods. This section will survey the major residential and income changes that occurred in Dorchester and analyze why these variables have had such a drastic affect on western Codman Square. An understanding of the area's history is a crucial element in the planning process for producing housing and returning Codman Square to a stable community.

1.1. Area Description

Codman Square is a residential neighborhood of approximately 6,700 people. As a notable 18th century crossroads, Codman Square was one of rural Dorchester's two principal village centers. Since the creation of roadways connecting Dorchester to Boston, Codman Square has been defined as the point where Talbot, Washington, Centre, and Norfolk Streets meet around the old public library. Although each neighborhood suffered with the mass exodus to the suburbs Codman Square is the only Dorchester community that has never regained its
stability. An understanding of why Codman Square continues to suffer lies in Dorchester's history and neighborhood composition.

Dorchester was settled and incorporated in 1630, at which time it included both South Boston and Hyde Park. For nearly 200 years it developed, primarily, as a farming area. During the early 1800's Dorchester became one of Boston's early suburbs when large estates and summer homes were built to provide wealthy Bostonians an escape from the crowded conditions of the city. In 1804 South Boston was separated from Dorchester and annexed to the City. Dorchester was further reduced in size when, in 1868, Hyde Park became a separate town. Within two years Dorchester, a rural town of 12,000 residents was annexed to the City of Boston and a period of very rapid quasi-suburban development began.

The earliest concentrated development which occurred from 1860-1890 was characterized by large Victorian homes on medium-sized lots. Later, a new building code stimulated the development of three family housing style, which became known as the "triple decker." Built in a wide range of sizes, styles and quality -- ranging from spacious and elegantly detailed to the simplest of basic housing -- the triple decker became the dominant housing style. Today, the triple decker accounts for approximately 30% of Dorchester's housing stock.
Since the early stages of development, differences in the housing stock on either side of Washington Street defined areas that came to be known as Codman Square East and Codman Square West. The spacious one and two family houses characteristic of Codman Square East have consistently been occupied by middle and upper-middle income white families. The housing stock in Codman Square West is typically simple in design, smaller, and more densely developed. There are also more multi-family structures. This area has historically contained a working class population. The lower income Irish, Italians, and Jews have moved out to be replaced by the growing Black, Hispanic, and West Indian population.

During the 50s and 60s, the rapid suburban expansion drained many upper and middle income residents from Dorchester's old fashioned neighborhoods. As the older residents moved, they were generally replaced by middle income residents or lower income people, some of whom were relocated by early Renewal Projects. Thus, there was a drastic change in the district's racial and economic composition. But the early 1970s were probably the most difficult years for Codman Square.

A combination of institutional disinvestment, the inclusion of half of the area in the BBURG program, blockbusting and "white flight" conspired to take a serious toll on the condition of Codman Square's
residential reas. Over 20 acres of vacant land in West Codman Square is the legacy of the abandonment and demolition that resulted.

Beginning in the mid 70s, parts of Codman Square began to revive. The Ashmont Hill and Melville Park areas with their large and architecturally distinctive Victorian homes began to attract the interest of young professional families. This interest has continued to grow so that in 1980 houses that sold for $25,000 in 1976 are now selling for $80,000 in many cases. The income level of those professionals moving into the neighborhood has continued to grow also so that Ashmont Hill and Melville Park could now be characterized as upper-middle income. Most of these homes have been substantially rehabilitated and restored, and street, sidewalk, street trees and lighting improvements have been made. They are, in short, now showplaces and are often used by the media as examples of Boston's victorian neighborhoods.

When available housing grew tight in the Ashmont Hill and Melville Park areas, the Shawmut area between them -- an area of somewhat smaller and less distinctive homes on smaller lots -- became increasingly attractive to young newcomers. Houses in this area that sold for $18,000 in 1976 are now getting $40,000. Many of these have also been rehabilitated and restored.

The above-mentioned areas are all East of Washington Street in Codman Square and are predominately, although
not exclusively white and middle-class. There are, in addition, three other areas - Lindsey Street area, the Wainwright Park/Sain Mark's area, and the Bailey Street area - they still house predominately working-class families and have a higher proportion of exclusively rental housing and have not yet attracted outside interest.

In West Codman Square, west of Washington Street, there are two distinct sections. The WeCan neighborhood, south of Norfolk Street, is so named because of the formation there of the WeCan Neighborhood Improvement Association in 1977. This association has been responsible for a number of housing rehabilitation assistance programs for owner-occupants which have improved the areas housing stock and strengthened many of the neighborhoods.

The remaining section of West Codman Square, north of Norfolk Street was designated as a Homesteading area in 1978 and has had rehabilitation funds available to it. The amount of rental housing that is absentee owned is highest in this area. Homes continue to be run-down and abandonment is severe. Vacant land is still trash-filled and unused. Major public improvements are necessary throughout the area. Although there are many fine, old Victorian homes in the area many of these owners, over the past eight years have refused to reinvest in their homes.

The blighted housing conditions of Western Codman Square have served as a warning to outsiders, as well as
area residents that there is a great deal of uncertainty about the future of the neighborhoods. Consequently, further investment in this area is considered risky. Without assistance the area's badly deteriorated housing will grow worse and lower income households will have to continue to live in inadequate housing.

Residential disinvestment offers an explanation of why western Codman Square, unlike other Dorchester neighborhoods was unable to regain its strength in the market place.

1.2. Theory of Neighborhood Decline & Residential Disinvestment

West Codman Square and the WeCan district were the worst victims of residential disinvestment, a process in which owners reduce ongoing maintenance and rehabilitation expenditures such that the housing stock deteriorates in quality. This process has been particularly destructive because much of Dorchester's housing stock is made up of older, predominately wood frame structures, which require a high degree of on-going maintenance. When maintenance is put off too long in frame structures, deterioration accelerates, and delayed maintenance is often prohibitively expensive. Consequently, there are fewer chances of reinvesting in housing that has undergone prolonged periods of disinvestment.
It is therefore necessary to reverse the process of disinvestment where it has occurred and to prevent it from spreading elsewhere in the area. The process of disinvestment and housing decline is caused by a number of complex and interrelated factors. These include ownership patterns, structure type, the proportion of owners versus renters, race and ethnicity, lending patterns and the proportion of very young and very old residents. In order to better describe how these factors combine to cause disinvestment and housing abandonment, as well as, the impact these factors have had on the CSHDC target neighborhoods a brief scenario describing the process as it applies to Codman Square will be developed.

Although Dorchester had been known as a community with diverse neighborhoods, the suburban migration of Dorchester's higher income households brought about a radical change in the community. Replacement households were poorer and were often unskilled people who moved to the city seeking better jobs. In addition to an income shift, racial change created a new population in Dorchester, especially in western Codman Square.

Racial transition occurred as a direct result of the Boston Banks Urban Renewal Group (BBURG) Program. In Western Codman Square black families found entrance into the housing market and were able to buy homes facilitated by BBURG, which drew its line so as to separate north-western and south-eastern Dorchester. BBURG
provided low down-payment mortgages to all minority families who wanted to live in the BBURG area. Although incomes were low, homeownership in Codman Square West was high. But instead of strengthening the neighborhood and providing lower income households with secure investments, BBURG encouraged rapid turnover in the neighborhoods and brought on disinvestment and abandonment.

Codman Square experienced some of the worst aspects of the BBURG program. Homes in the BBURG area were sold for excessively high prices in relation to the condition of the buildings and the income of the owner. And the excessively low down-payments served as bait to lure inexperienced homeowners into the program. The shortage of mortgage money and home improvement loan funds, along with the high rates when it was available made it difficult for people to improve their homes or sell them to a new owner. Consequently, abandonment occurred in the majority of cases when owners were unable to get their desired selling price or mortgage.

Abandonment has continued to be a major problem in Codman Square. Furthermore, many of the abandoned properties have never been boarded up. Consequently, these houses are vandalized and torched. In addition to making the neighborhood less attractive, these vacant properties have increased crime within the area, which in turn has caused many of the "stable" households to move.
Neighborhood confidence became shaky and the future of Western Codman Square, according to outsiders was dismal. Therefore, local banks refused to grant loans to Codman Squares' residents to upgrade their property. As a result, many of these owners left the neighborhood. Some assumed the role of absentee-owner and the properties continued to deteriorate. Absentee-owned structures are particularly prone to disinvestment and deterioration because owners do not have to live in the deteriorating housing, and because management and owner-tenant relations tend to be more difficult than in owner occupied buildings.

In sum, an outline of the disinvestment scenario is:

1. Disinvestment occurs when owners and tenants lose confidence because of drastic racial transition, absentee ownership, red-lining, or

2. As housing conditions deteriorate, red-lining intensifies, discouraging replacement buyers and reducing market values.

3. Some owners move out and attempt to operate structures as absentee owners which tends to be disastrous for the tenants. Many times problems arise because the new landlords are inexperienced with management and dealing with tenants. However, just as often, the landlords are insensitive to tenant needs and refuse to make needed repairs because they do not have to live in these inadequate units.
(4) Typically, new tenants or owners have lower incomes than those preceding them.

(5) Cash flow is insufficient to pay for required maintenance and repairs.

(6) Abandonment eventually occurs which encourages disinvestment.
PART II

CODMAN SQUARE HOUSING DEVELOPMENT CORPORATION

GOALS AND DEVELOPMENT STRATEGY
2.1 CSHDC Goals

The Codman Square Housing Development Corporation was formed in August of 1981 to address the housing needs of the area's low and moderate income residents. When walking through Codman Square it is very obvious that too much of the community's housing stock is substandard, suffering from years of absentee ownership and deferred maintenance. Despite its present condition, fewer and fewer Codman Square residents are able to afford it. Because of the overall housing shortage, the energy crisis, and a general "back to the city" trend in home buying, a large number of low and moderate income residents have had to spend a substantial part of their incomes on rent or have been forced, because of prices to move out of the community altogether.

The organization is principally concerned with the displacement of area residents. Consequently, CSHDC's objectives are to maintain and increase the availability of housing in the Codman Square area for low and moderate income residents and to improve and prevent deterioration of property in the area, through the purchase and rehabilitation of such property. By addressing housing problems CSHDC also begins to stabilize neighborhoods.

CSHDC realizes that one of the most effective means of
ealing with the shortage of housing is to preserve the stock which exists. Although property renovation has been fashionable for some time, it was commonly viewed as an extravagant venture that only upper class households could afford to enjoy. Recently, however, the prohibiting cost of new construction has made preservation of the existing stock a vital element in addressing housing demand. The Codman Square area is especially ripe for property rehabilitation because 50% of the stock is abandoned and a larger percent of the housing is badly deteriorated.

There are three factors that will enhance CSHDC's ability to meet its goals. First, as a community developer the Corporation is able to develop positive, non-adversarial relationships with residents and other community organizations. As a rule, a positive working relationship with community groups is something that all developers strive for in order to avoid costly legal battles and poor publicity.

Second, the Corporation, unlike many other community organizations has technical expertise. When the WeCan Neighborhood Improvement Organization and the Codman Square CDC formed the Housing Development Corporation they stressed the importance of working with people who have an understanding of the development. In addition to CSHDC's Executive Director, William Jones, who has 14 years of experience in housing policy and development, each of the Corporation's 13 members bring their own expertise to
development. The Board has architectural, construction, financial and management strengths. Consequently, the Corporation is able to focus on the desired results and map out the most effective and realistic way of getting there.

Third, many of the CSHDC principals have served or are serving in various capacities in the public sector, enabling the Corporation to establish a positive working relationship with that sector. Favorable consideration by governmental officials is crucial to successful real estate ventures given their involvement in tax abatements and granting of rent subsidies.

Although CSHDC only has one full-time staff member, its Board members are actively involved in the planning and implementation of the Corporation's projects. The CSHDC's commitment to housing production, along with the three strengths identified above will certainly be assets.

2.2. Development Strategy

Given the goal of providing adequate housing without displacement to lower income households the Codman Square HDC has devised a unique development strategy. The CSHDC wants to make the greatest impact on the community. But as the first development project of a newly formed organization the HDC must also be concerned about
undertaking a project that will be viewed as successful to outsiders.

The CSHDC must establish a track record and a positive image within financial circles as well as among local policy development organizations. Consequently, the project while making an important step toward reducing blight within Codman Square and improving neighborhood housing conditions, must involve as little risk as possible. Although minimizing risk is crucial in all property development ventures it is especially important in lower income housing because the developer can very easily become overly ambitious and take the units out of the price range of lower income households.

This section will discuss the CSHDC strategy, which focuses on four elements.

A. Property Identification  C. Tenant Selection
B. Acquisition  D. Leveraging CDBG Funds

A. Property Identification and Selection

The CSHDC identified four areas (each area consisting of two to four streets) within western Codman Square and the WECAn district from which to identify possible structures to be purchased and rehabilitated. The typical property profile would be a non-owner occupied multi-family (3-6 family units) building that is moderately deteriorated and has been in tax title for more than two years.
The Corporation will focus on cluster-type property development for four reasons. Firstly, the cluster method of development is more economical than rehabing property in Codman Square in a scattered fashion. Although scattered property development would enable more neighborhoods to reap the benefits associated with improved housing conditions, the cluster approach will make the greatest gains toward neighborhood stabilization. Not only will a particular block be strengthened but cluster rehabilitation will also have a stabilizing effect on surrounding neighborhoods. This overall impact on the neighborhoods is a second justification for choosing cluster development. Thirdly, having properties that are in close proximity will make management of the units more efficient and less costly. Finally, cluster property development is less risky because each rehabilitated structure supports another rehabilitated structure, as well as strengthens the neighborhood, which reenforces the marketability of other units.

Another important factor in selecting the properties for rehabilitation is their availability for purchase at minimal cost. Assuming no extreme circumstances, abandoned but structural sound properties are a prime target for rehabilitation. If these buildings can be revitalized before severe deterioration sets in they will demonstrate excellent reuse of the existing stock. Houses
that are only partially occupied are strong candidates too, because (1) although temporary relocation will be necessary, individual unit rehabilitation will allow the developers to repair vacant units and then shift tenants to the new units within the building; (2) by the fact that the buildings are occupied, the units must be habitable (although not necessarily up to building code standards) thus rehabilitation cost should be comparatively low.

B. Acquisition

Approximately 80% of Codman Square's dilapidated structures are listed as being in "tax title." Tax title means that the property taxes have been delinquent for several years. Although there are cases where property is still properly maintained, tax delinquent buildings are usually allowed to deteriorate. The CSHDC has decided to focus on tax delinquent properties for many reasons. But, the most obvious reason is that these properties, without assistance, will continue to deteriorate and eventually be boarded; thereby reducing a significant portion of the areas housing stock.

A key element central to the acquisition of tax delinquent property is the ability to restructure back taxes and outstanding municipal encumbrances with the City of Boston. Such restructuring usually takes the form of abatements and the amortization of the debt over the life of the improvement mortgage. Thus, property acquisition is the most important, as well as, the most complicated aspect of the development strategy.
The CSHDC's primary objective is to acquire the properties for the least amount while incurring as few obligations as possible. Consequently, the Corporation's strategy involves intensive negotiation with three parties: (1) the current owner, (2) the mortgage holder, (3) tax assessor's office.

As was mentioned earlier, the current owner probably has not been taking care of the property. Consequently, the tenants have been complaining about the lack of maintenance, and may not be paying their rent, while the City is making threats to scare the owner into paying his back taxes. The owner is making very little, if any income from the property. The problems he has encountered far outweigh the benefits. The HDC is in a position to eliminate the owners' burden.

Although CSHDC can only afford to pay a piddly sum for the property (which again, at the most, is in fair condition) purchase of the structure will relieve the owner of all outstanding debt. The owner is already in a "no win situation" because he cannot secure a bank loan to repay the taxes; and even if he was able to get money for the taxes the property is in such poor condition that it cannot provide an adequate return to the owner. Therefore, CSHDC has a good chance of convincing the owner to sell.

The mortgage holder is just as important as the owner to the process. If a bank holds the mortgage there is
very little hope of negotiations working to the advantage of the HDC. However, preliminary research indicates that a significant number of the mortgages in the area are held by the previous owner. The CSHDC's approach will be similar to that used with the current property owner. The mortgage holder has a worthless piece of paper. The owner cannot afford to pay the note because sufficient income is not being generated from the property. And the mortgage holder will not foreclose on the note because then he (the mortgage holder) will take on additional liabilities.

Taxes travel with the property.

The Corporation, as a non-profit developer will attempt to convince the mortgage holder to "release" the note and take the loss as a tax shelter. The release of the mortgage is a legitimate and wise strategy because the mortgage holder realistically can no longer expect to collect that debt.

While simultaneously working with the property owner and mortgage holder the HDC begins to discuss the possibility of having the taxes relaxed. The Assessor's Office must make the recommendation for abatement and the local tax office is responsible for granting approval of abatements. The CSHDC offers the City the opportunity to reap revenues by rehabilitating dilapidated structures and making them income producing properties.

Upon obtaining the rights to the property, through an "option", the CSHDC will request that the City foreclose
on the property. Under normal circumstance a property must have delinquent taxes for seven years before foreclosure occurs. However, if a developer is interested in improving the property an early foreclosure can be arranged.

The CSHDC, in seeking an abatement must convince the City that without some form of tax relaxation the Corporation would be unable to undertake the project. As a result, the property would continue to get weaker and will later be demolished. With the abatement the property will aid the housing shortage in the area, as well as generate future property taxes which are an important source of income for the City.

C. Tenant Selection

An expressed purpose of the HDC is to provide housing for low and moderate income families. The Corporation will not discriminate on the basis of color, sex, age, physical handicap or family size. Preference will be given to existing tenants of rehabilitated properties and to low and moderate income residents in the immediate area. Every effort will be made to attain a proper mix of economically disadvantaged populations, including minorities, the elderly, single parent families, and disabled veterans.
D. Leveraging CDGB Funds

The CSHDC will utilize $120,000 of the CDBG funds for the down-payment and associated closing costs on appropriate 3-6 family properties up to a total of 30 units. The organization will also use the CDBG monies as a leveraging tool to secure additional financing to (1) insure an adequate supply of affordable (low cost) financing for the rehab of properties acquired by the CSHDC for low/moderate income rental; (2) provide a source of recurring income to help support the properties operating expenses; (3) provide an income margin sufficient to allow for property management beyond the CDBG grant period.

To accomplish these goals, the CSHDC is seeking support from independent foundations, who might act as a secondary mortgage market investor, and federal, state and local agencies who could provide reduced interest rehabilitation financing and rent subsidies.
PART III

NEIGHBORHOOD ANALYSIS AS INDICATION
OF DEVELOPMENT OPPORTUNITIES
3.1. Neighborhood Classification Framework

A community developer must understand neighborhood change, and the affect such change can have on planned projects. The Neighborhood Classification Framework developed by Rolf Goetze of the Boston Redevelopment Authority's research staff, emphasizes the importance of understanding the circumstances that led to neighborhood change; and making a diagnosis of the current conditions/needs of the neighborhood.

According to Rolf Goetze, "A neighborhood may appear run down or sound and the residents may speak of housing needs, but until those who would help the neighborhood better understand the pathology, they are as likely to harm as to help."¹ That neighborhood pathology involves both market and non-market forces that influence the equilibrium of a neighborhood. Each of these forces must be examined to fully understand neighborhood growth and change.

This framework provides two vehicles for determining how particular neighborhoods evolve. Housing condition data are essential for the analysis of neighborhood housing needs and the potential cost associated with meeting these needs. Goetze's framework is dependent on expertise in areas of housing inspection. Housing condition data is based on both interior and exterior survey.

¹
The strength of the housing market can be defined in terms of the relative number of households desiring to move into, stay in or leave that neighborhood. Instrumental in acquiring such information are homeowners, investors, lenders, realtors, insurers. Market perception is used in place of objective supply and demand data. The information collected regarding housing maintenance, upgrading, sale or purchase is based on the perception of these key actors. Despite this fact, the standard data sources and survey material also used in this classification scheme are by no means perfect.

The interaction between housing condition and market perception indicates what the future of a neighborhood will be. By diagnosing the problem solutions can be derived. According to the matrix framework, neighborhood change occurs when a neighborhood moves from one cell to another. The characteristics listed in Exhibit 2 indicate the various symptoms associated with each of the stages of housing condition and market perception.

Section two will present an analysis of the prospective neighborhoods to receive housing aid using the elements presented in the neighborhood classification matrix.

3.2. Neighborhood Dynamics

The key to successful redevelopment lies in understanding the market and housing forces of
neighborhood dynamics. Housing condition alone is not a sufficient criteria for determining what properties should be rehabilitated. As a community development organization with a two-fold purpose -- (1) housing production and (2) neighborhood stabilization -- the CSHDC must equally measure perception of neighborhood status and market perception. Section one will present a conceptual framework for classifying neighborhoods. The second section will describe how housing condition and neighborhood environment interact to provide an indication of overall neighborhood condition.

The CSHDC Property Selection Committee, composed of 3 Board members and William Jones, established four criteria for identifying potential property: (1) availability for purchase at minimal cost, (2) multiple properties in close proximity, (3) consideration of existing tenants, if any, (4) an ability to rehab for less than $35,000 per three family structure.

Focusing on the Codman Square and WeCan Districts (See Exhibit 1), as described by the District Planning Program, the Committee identified four sub-neighborhoods that met the property selection criteria. Each sub-neighborhood consisted of two to four streets. Through "police records", the electorate listings, and local property tax information the current ownership and tax liabilities for each parcel was determined. In addition, a windshield survey of the streets was conducted to determine the rehab
needs of the potential site, current occupancy, and general condition of the neighborhoods.

As research was completed some neighborhoods were eliminated and others were added based on the established criteria. A total of seven neighborhoods were considered, with four meeting the Corporation's needs. Neighborhood descriptions will be provided for:

Norwell Street
Millet-Spencer Streets
Crowell, Nelson and Corbett Streets
Elmhurst-Ferndale Streets

**Housing Condition**

The cost of maintaining and upgrading is a function of property condition. Neighborhood housing characteristics provide one representation of the neighborhood itself. Three descriptions of upgrading levels were used: (1) good condition, (2) fair condition and (3) poor condition.

Category one includes dwellings which are presently in good condition or are in need of minor repairs to bring the property up to code. The second category includes buildings that need several repairs of a major or minor nature. Category three includes units which have serious code violations. These buildings need major repairs, possibly gut rehabilitation. The buildings may be vacant.

Of the 41 tax title properties examined twenty-seven percent of the stock can be considered "good as is." When
added to the dwellings in the fair category our survey indicates that seventy-six percent of the housing in the target neighborhoods are basically sound. Since tax delinquent property normally brings with it poor maintenance we believe the sample dwellings are representative of the overall housing stock within these neighborhoods.

**Neighborhood Status**

Neighborhood status is a subjective judgement made by residents, buyer, sellers, and key actors. Their perceptions are used to determine if a neighborhood is rising, stable, declining or rapidly declining. According to the matrix framework neighborhoods belong to different cells. Consequently, they evolve differently and will respond differently to the same type of intervention.

The equilibrium of a neighborhood is effected by the turnover process that occurs when housing units come up for sale. The interplay between existing residents and newcomers will contribute to determining neighborhood change. As was discussed in Part I the exodus of middle income households and the entry of lower income families (along with other factors) led to an unstable market in Codman Square.

Twelve years later, without large sums of money coming into the community, the question is "what is the perception of the neighborhood status?" Utilization of the neighborhood classification scheme identified above
can be misleading, for several reasons. Firstly, the rising, stable, declining, and rapidly declining scenario, for the most part refers to housing demand -- people wanting to move into the neighborhood. The fact that there might not be families waiting in line to move into western Codman Square, given the economy and the high price of money, could just be a "sign of the times", and have very little to do with the quality of the area housing stock.

Secondly, to describe a neighborhood as lower income often leads to the conclusion that the neighborhood is at an unstable equilibrium -- which means that it is close to the declining stage. When talking to people about the status of the Codman Square area we found that many viewed the neighborhood as stable. Despite scattered evidence of poor housing and neighborhood blight residents and area realtors describe western Codman Square as a neighborhood that was shaken by disinvestment, but has remained afloat. While not actually rising, the market is not declining either.

Patrick Cooke, a long time Dorchester resident described the Codman Square market as "stable... a generally upward demand, although not a hot market." Confiming this opinion, Ann Boyd a local broker said, "there is sufficient interest in the housing stock that has not been abandoned and is being sustained. It has not taken off like property in Ashmont Hill did a few years ago; but no housing is rising."
The perception of neighborhood strength is also among Codman Square residents. The emergence of confidence has inspired people to speak positively about their neighborhood. There is evidence of incumbent upgrading in many areas of the Square. Also, community group efforts and the Homesteading Program have worked to improve Codman Square's perception to both residents and outsiders.

Financial institutions continue to be cautious lenders. And, crime within the Square is still over-publicized. However, the neighborhood dynamics indicate a positive change in attitude.

**Neighborhood Analysis**

Through the windshield survey overall block conditions can be measured. The windshield survey is intended to present an objective evaluation of neighborhood condition. Information from the housing condition survey and overall neighborhood condition provide the major source of data regarding property renovation.

In the following descriptions, the block is the unit of analysis or the object of evaluation, and neighborhood conditions are inferred from the conditions of the blocks contained therein.

**Norwell Street**

The Penn Central Railroad runs behind Norwell Street. As would be expected, the property closest to the tracks declined faster than property located in areas on the
other side of the street. Of four sub-neighborhoods we examined Norwell Street has the greatest number of tax delinquent properties. Seven of the ten buildings are listed in tax title. Six of the seven are absentee owned. Although the properties are in various stages of decline, they can be described as in fair to poor condition. Some of the property is abandoned. After rehabilitation these structures could be used to relocate families while their units are being rehabed.

Directly across the street is a vacant lot where a full row of houses used to be. Although not paved, this land has become an unofficial parking lot for neighborhood cars. There is another vacant parcel to the left of the houses being considered for rehab. These vacant lots, the boarded buildings and the railroad have had a blighting effect on Norwell Street, as well as the neighboring streets.

**Spencer-Millet Block**

At Spencer and Millet Streets, between Park Street and Wheatland Avenue twelve properties (totaling the buildings on Spencer Street and Millet Street) are in tax title. All twelve buildings are absentee-owned and 10 of the buildings appear to be fully occupied. Unit composition is as follows:

- 4 buildings with 4 units each
- 5 buildings with 3 units each
- 1 building with six units
Although the streets are often cluttered with debris the housing stock is in sound condition, for the most part. There are two abandoned buildings on the corner. As a prospective area to be rehabed, the overall neighborhood analysis is favorable. Despite the fact that further down these same streets property in a severe state of deterioration, the properties under consideration are in the more stable area of the neighborhood.

**Crowell-Nelson Block**

The Crowell-Nelson block is the most attractive neighborhood under consideration. Crowell Street, between Evans and Norfol Streets is the site of 21 large triple-decker dwellings. Seven of the properties are tax delinquent. Only one of the buildings is in apparent need of repair. The other properties are in good condition. A couple appear to have had work done recently; work is currently in progress on one building. Four of the dwellings are owner-occupied. All are fully-occupied. Crowell Street appears to be a strong residential neighborhood.

Of the seven tax delinquent properties on Nelson Street only three are 3-unit buildings. One is abandoned and 3 are owner-occupied.

Ideally, Crowell Street would be a good investment. However, the fact that the properties receive regular
maintenance indicates that owners, even those that do not reside in the buildings continue to take an interest in their property. It is contrary to the objective of neighborhood stabilization to remove stable owner-occupants from their homes.

Elmhurst-Ferndale

Between Elmhurst and Ferndale Streets there are seven properties listed in tax title. One is abandoned and the others are fully occupied. Nearly all of the property is absentee owned. The housing stock generally ranges from fair to good condition. Each of the buildings has 3 units. Elmhurst-Ferndale was an industrial area. Large vacant lots, reminders of where factories used to sit. These lots have drastically reduced the areas feeling of neighborhood cohesiveness.

CONCLUSIONS

The results of the neighborhood analysis indicate that the Spencer-Millet and Crowell-Nelson neighborhoods offer the best opportunities for property development or rehabilitation. The housing stock in both neighborhoods is in relatively good condition; and the properties are located in the more stable sections of the community. Aside from the two vacant buildings on Spencer Street, all the tax delinquent properties, within these two neighborhoods are fully occupied, which serves as an indication that the housing systems are in decent condition. Consequently, the rehabilitation needs will probably be moderate.
Several major differences between the properties in these neighborhoods have affected the CSHDC of the neighborhood to receive property rehabilitation upgrading. All of the property on the Spencer-Millet Streets is absentee owned. Clearly, tax delinquent, absentee-owned structures are easier to acquire than owner-occupied structures. The CSHDC is also not interested in buying out owner-occupants. Excluding the seven owner-occupied buildings in the Crowell-Nelson neighborhood there are five absentee owned properties that could, potentially, be purchased. However, these buildings are not in close proximity. Also, the Crowell-Nelson neighborhood is not one of the more desperate areas of the community.

Spencer-Millet Streets, however, represent an opportunity to improve the square block between Park Street and Wheatland Avenue, as well as the respective streets. There are a total of 40 units, within twelve buildings. Assuming that the property is available, and can be purchased for a reasonable sum, the CSHDC would be able to adhere to its cluster development strategy. The Spencer-Millet neighborhood is our choice for housing rehabilitation. In the event 30 units cannot be rehabilitated in this neighborhood, the CSHDC will attempt to develop the remaining units according to the cluster approach.
Part III - Footnotes


PART IV

ANALYSIS OF FINANCIAL FEASIBILITY
Market and feasibility studies are usually conducted to determine whether a proposed project should actually be developed. Although informal, Chapter II indicated that there is a need and a market for lower income housing. This chapter will assess the project's financial feasibility. With investment property, financial feasibility is complicated because the investors expect a certain return on their cash investment. Benefits from an investor's perspective can come in the form of (1) cash flow, (2) tax shelter and/or (3) future cash from the sale of the property. As a non-profit development corporation with no investors, we are not concerned with the latter two forms of benefits.

In the first two sections of this chapter we will determine project expenses and the amount of income available to meet these expenses. From this information the project's financial feasibility will be determined. Financial feasibility will be assessed on the basis of cash available to pay debts and cash gain generated through the project.

Cash flow must be evaluated according to the method of financing selected by CSHDC. Therefore, Section 3, will examine income using the conventional loan program, as well as, subsidy and interest reduction programs.

4.1. Development Costs

The two major expenses of property development are acquisition and rehabilitation costs.
Acquisition:

The CSHDC will utilize $120,000 of the CDBG funds for the acquisition and associated closing costs on selected 3-6 family properties. The closing costs include insurance, legal and accounting fees, and marketing. We are projecting $20,000 to cover these costs. Of the remaining $100,000 a maximum of $10,000, per 3 unit building can be used for acquisition.

As was described in the CSHDC strategy, the Corporation plans to purchase tax delinquent property. The purchase price for this type of property is based on the amount of the abatement and the number of units in the building. The maximum abatement allowed is fifty percent of the total of delinquent taxes, interest, fees and charges.  

We have estimated that each property has $15,000 in back taxes. This is a reasonable figure because property listed in tax title has been delinquent for less than 7 years and the assessed value for these failing structures is between $10,000 - $15,000.

With the 50% abatement the CSHDC will only pay $7,500 of the accrued taxes. To reduce the reward to the delinquent taxpayer the City has tied the abatement to guidelines which only allow the lowest possible acquisition price. The standard acquisition price for a three unit building is $2,500. Thus, the total acquisition cost per building is $10,000. According to
these figures the entire $100,000 allocated to purchase property will be used.

Scope of Rehabilitation and Costs

The repairs described in this section are based on the needs identified through the exterior survey of prospective properties, as well as local building code regulations. We are assuming a three-family house with six rooms per unit and separate heating, hot water, and electrical systems. Each house is structurally sound with an adequate roof and foundation. However, maintenance and repairs, typically have been infrequent. The entire building, as well as the appliances have exceeded their useful life.

In addition to replacing the appliances (stove and refrigerator), property rehabilitation will include floor refinishing, and cosmetic wall and ceiling work. Since the average age of homes in Codman Square is 60 years and because property owners in the target neighborhoods, typically have neglected routine repairs we know that the heating systems must be updated and sufficient electrical fixtures and outlets must be installed. The bathroom and kitchen will be remodeled.

To increase the overall stability of the structure the roof will be insulated; and in some cases roof replacement will be necessary. Gutters and corners will be repaired.
Many of the porches are sagging and the steps are cracked or broken. Consequently, they will need to be repaired or reconstructed. The total cost to rehabilitate a 3-family dwelling is estimated to be $27,150. The rehabilitation costs for 30 units $271,500.

The complete project development budget is as follows:

<table>
<thead>
<tr>
<th>Cost Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soft Costs: Land/Building Acquisition</td>
<td>$100,000</td>
</tr>
<tr>
<td>Closing Cost Fees</td>
<td>$20,000</td>
</tr>
<tr>
<td><strong>TOTAL SOFT COSTS</strong></td>
<td><strong>$120,000</strong></td>
</tr>
<tr>
<td>Hard Costs: Medium Quality Construction</td>
<td>$271,500</td>
</tr>
<tr>
<td><strong>TOTAL BUDGET</strong></td>
<td><strong>$391,500</strong></td>
</tr>
</tbody>
</table>

4.2. Income and Expenses

**Rental Income**

Based on the area's FMR, the after rehab rents will be set at $300 for a 3-bedroom apartment. This rent level is within the income range of the target population. Annual income from the property would be as follows:

Annual rent at @ 100% occupancy = 10,800
less 5% vacancy rate = 540
effective gross income per 3 unit building = 10,260

**Operating Expenses**

The tenants will pay their own utilities. The overall property improvements will make the units more energy efficient, which will effectively reduce the portion of their income going toward utilities.
The annual operating expenses, per 3 unit property, excluding debt service would be as follows:

<table>
<thead>
<tr>
<th>Expense</th>
<th>Cost (per unit)</th>
</tr>
</thead>
<tbody>
<tr>
<td>water/sewer taxes</td>
<td>$350</td>
</tr>
<tr>
<td>general repairs and maintenance</td>
<td>$1200</td>
</tr>
<tr>
<td>management @ 4% of gross rents</td>
<td>$432</td>
</tr>
<tr>
<td><strong>Sub-Total</strong></td>
<td><strong>$1,982</strong></td>
</tr>
</tbody>
</table>

**Equipment Replacement Reserve:**

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost (per unit)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Store</td>
<td>$250/10 yrs x 3 units $75</td>
</tr>
<tr>
<td>Refrigerator</td>
<td>350/10 yrs x 3 units 105</td>
</tr>
<tr>
<td>Water heater</td>
<td>200/10 yrs x 3 units 60</td>
</tr>
<tr>
<td>Furnace</td>
<td>1200/10 yrs x 3 units 240</td>
</tr>
<tr>
<td><strong>Sub-Total</strong></td>
<td><strong>$480</strong></td>
</tr>
</tbody>
</table>

**Total** 2,462

Based on the above, the annual operating income available to pay debt service would be $7,798.

4.3. **Financing Options**

The projected rehabilitation expenses (including acquisition) for the 30 rental units is $371,150. Minus the $100,000 equity from the CDBG funding $271,500 is the
amount of debt to be financed. The two approaches to financing are: the conventional loan route advanced by private lending institutions, and the Federal Housing Administration with its insured loan program. The conventional loan is faster. However, the high interest rates serve as an incentive for developers to seek supplemental financing or programs that will reduce the financial strain.

This is especially true when developing rental housing. Virtually all rental housing development involves some degree of public-sector financial involvement. The current housing policy and the national economy, however, have made the availability of public support uncertain. Therefore, in analyzing the projects' feasibility we will construct several scenarios, utilizing various financing aids to determine the circumstances in which the project will work.

This section will first test the financial feasibility under the conventional loan program. Then, we will describe the Interest Reduction Program and Section 8 rental subsidy, as alternative mechanisms for reducing the level of debt; thereby increasing the amount of income generated from the project.

A. Conventional Financing

Financial feasibility is determined by evaluating a project's cash flow proforma. An organization's assessment of project feasibility depends on its goals and
objectives. The CSHDC budget must be sufficient to meet annual operating and debt service expenses, while keeping the rent within the affordability of low and moderate income households. This is especially true when relying on conventional financing because of the high interest rates.

The current FHA listed interest rate is 18%. On a $271,500 permanent loan that will be amortized over 25 years the annual debt service is $49,440. The monthly payments are $4,120. Additional fixed monthly costs are real estate taxes and insurance.

A breakdown of the projects monthly income stream and debt is as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent w/ 5% vanancy per 3 unit buildingng</td>
<td>-412</td>
</tr>
<tr>
<td>debt service @18% over 25 years</td>
<td>-170</td>
</tr>
<tr>
<td>operating expenses per building</td>
<td>270</td>
</tr>
<tr>
<td>property taxes @ 2.5% of assessed value (a)</td>
<td>-77</td>
</tr>
<tr>
<td>insurance</td>
<td>-43</td>
</tr>
<tr>
<td>management fee @ 4% of rents</td>
<td>-34</td>
</tr>
</tbody>
</table>

$120.00 cash generated from project

(a) Assessed value of rehabilitated triple-decker estimated at $37,150 -- the amount of the improvements and purchase price.
NOTE: Although property taxes are paid quarterly, they have been calculated on a monthly basis to give a better understanding of monthly expenses.

The break-even point between input and output is one test of financial feasibility. Although lending institutions will rarely finance a project with such a tight budget, personal loans are often arranged to provide a cash reserve. Another involves an estimation of reserve income needed to meet miscellaneous costs and expenses, as well as, "income" generated cash that can be used as equity in other projects.

Although an actual figure has not been projected we know that there will be additional property management expenses. The $36 a month only refers to the manager's salary. Building superintendents may be hired and supplies will be purchased (property management is discussed in Part 4). The cash flow generated in year one is $14,400 which is sufficient to meet additional management expenses while providing CSHDC with cash that can be used in future projects. Therefore, the 30 unit development project is feasible at 18% funding. A lower interest rate and/or rent subsidies, however, would increase the amount of cash available for other developments.
B. **Subsidy and Incentive Programs**

A community developer can maximize the benefits to the community by taking full advantage of both subsidy and incentive programs. By combining subsidy programs rents can be reduced to a minimum; thereby deepending the subsidy. The incentive provisions can be manipulated in a similar way to maximize the equity investment. This dual process is valuable because the community developer can leverage the whole project. Conventional real estate practice is largely based upon the concept of leverage, where the developer or owner gets large returns over a period of years in exchange for a relatively small investment which is required to initiate the project. Non-profit developers will use the gain to initiate other projects.

There are several governmental programs available to Boston housing developers that can lessen the financing burden and increase the project's cash yield. The future of these programs is uncertain but they will be useful in demonstrating the importance of income leveraging. Before illustrating the financial impact the various programs can have on the CSHDC's 30-unit rental development project, it is first appropriate to describe each program.

The following programs will be described:

- **A. Section 8 Existing**
- **B. Section 8 Moderate Rehab**
- **C. FHA Title I Program**
- **D. Home Loan Program**

The Home Loan Program is a locally initiated and supported program. The others are federally funded.
A. HUD Section 8

In 1974, the HUD Section 8 program was created by Congress as a revision of the U.S. Housing Act of 1937. The program provides monthly rent subsidy payment to the developer/owner for tenants whose income is less than 80% of the median for the area. The tenant is required to make rent payments of between 15 and 25% of his/her family income, depending on the amount of income, number of minor children and amount of any unusual expenses. The subsidy amount is the difference between the fair market rent and the tenant's rent contribution. The fair market rent, or contract rents, are based primarily on the level of market rents paid for recently completed or newly constructed dwelling units of modest design within a market area as determined by HUD Field Office staff. The monthly fair market rent levels in Boston are as follows:

<table>
<thead>
<tr>
<th>Structure Type</th>
<th>0</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4 or more</th>
</tr>
</thead>
<tbody>
<tr>
<td>Detached</td>
<td>536</td>
<td>629</td>
<td>742</td>
<td>821</td>
<td></td>
</tr>
<tr>
<td>Walkup</td>
<td>462</td>
<td>522</td>
<td>626</td>
<td>690</td>
<td>782</td>
</tr>
<tr>
<td>Elevator: 2-4 story</td>
<td>480</td>
<td>582</td>
<td>672</td>
<td>943</td>
<td>1035</td>
</tr>
<tr>
<td>Elevator: 5+ stories</td>
<td>480</td>
<td>582</td>
<td>672</td>
<td>943</td>
<td>1035</td>
</tr>
</tbody>
</table>

These fair market rents can be exceeded for elderly and handicapped units.

The maximum allowable rents, for the Boston area under the Section 8 subsidy program are:

<table>
<thead>
<tr>
<th>Number of Bedrooms</th>
<th>0</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existing FMR</td>
<td>289</td>
<td>329</td>
<td>394</td>
<td>458</td>
<td>519</td>
<td>597</td>
</tr>
</tbody>
</table>

-55-
From the developers' perspective, a key element of the Section 8 program is that the annual contract rent is adjusted each year to accommodate any increased operating expenses. The initial contract term in which HUD pays the owner/developer a subsidy may be up to five years and is renewable in increments of up to five years. The total term of a Housing Assistance Payment contract, including all renewals, cannot exceed 20 years for HUD insured projects, 30 years for non-insured projects, and 40 years for projects owned or financed by a state or local agency.

All Section 8 rehabilitations must meet HUD minimum Design Standards which include energy efficiency, handicapped accessibility for units to be occupied by the handicapped, non-lead interior paint, and all local codes and regulations. The renovation mentioned in a previous section would meet all HUD standards. HUD Section 8 guidelines restricts the amenities included in subsidized developments. Projects are limited to 2/3 of the amenities found in the unsubsidized units of the area.

B. Moderate Rehab Program

The Moderate Rehab Program essentially follows the same guidelines established under the Section 8 Existing and Substantial Rehab Program. It is designed to rehabilitate privately-owned rental units which are now substandard or have major building components which will
soon need repair. Although the Mod Rehab Program does not provide funding for the cost of rehab work it does make rental assistance available to lower income tenants who occupy the units. This assistance virtually assures the market for the rehabilitated property, reducing vacancy rates and rental delinquencies. When vacancies do occur the owner is entitled to receive vacancy payments for up to 60 days at initial rent-up or when a tenant vacates the unit. Also, the program compensates owners for tenant damages or unpaid rent, up to a maximum of two months rent. Consequently, much of the risk of renting to lower income households is reduced. And the built-in amenities serve as incentives for owner participation.

The developer must demonstrate that the tenants meet the Section 8 income guidelines. If all the tenants are not eligible, according to Section 8 regulations, a building may be partially assisted. Both vacant units and units currently occupied by eligible tenants may be assisted.

Upon satisfactory completion of the rehabilitation work, the local housing authority and the owner will execute a fifteen year Housing Assistance Payments (HAP) Contract. This contract establishes the rent for the unit(s), and obligates the housing authority to pay a rent subsidy. Like other Section 8 Programs, the tenant family pays approximately 25 percent of its income toward the rent specified in the HAP Contract. The housing authority pays the remainder of each month's rent directly to the owner.
The major incentive of the Mod Rehab Program is that the FMR is increased by 120%. For instance, the FMR for a 3-bedroom apartment is $458.00. 120% of the existing Section 8 rent level is $550.00 for a 3-bedroom unit. This increase provides income that should be adequate to cover all normal operating expenses, repay the rehab loan and allow a reasonable return on owner equity.

C. HUD - FHA Mortgage Insurance Programs

The Housing and Urban Development/Federal Housing Administration Mortgage Insurance Programs were created to stimulate private sector mortgage investment in urban areas by underwriting permanent mortgages and transferring the risk of financial default from private institutions to the federal government.

There are essentially two programs which could be utilized in developing the HPDC opportunities into rental properties. The two programs are the Section 207 program which is designed for market rate rental properties and the Section 221(d) (4) program which provides mortgage insurance for moderate and low income rental properties. The latter program is primarily utilized in tandem with the Section 8 program.

There are three main financial specifications of both the Section 207 and Section 221(d) (4) mortgage insurance programs. First, the maximum leverage or loan-to-cost ratio allowed for profit-motivated projects is 90%. Since the developer's profit is included in the cost
calculation, actual leverage obtained is much higher. Second, the maximum mortgage term allowed is 40 years, reflecting the useful life of the project. Third, the maximum interest rate for insured mortgages is approximately the rate of return on long-term government securities and currently 12%. In addition, a one half of one percent mortgage insurance premium is required at the outset of the project.

D. Home Loan Program

The Home Loan Program has been designed by the City of Boston to provide below-market interest loans to lower income households who want to improve their properties. The basic operating mechanism of this interest reduction program is the coupling of two incentives which drastically reduce loan interest rates. By combining a public grant (CDBG) with a long-term FHA Title I property improvement loan, which as an extended term of fifteen years as compared to the normal five to seven year term of conventional home improvement loans, the Home Loan Program reduces the effective interest rate to either 3%, 6%, 9% or 12%. The appropriate rate will depend on the neighborhood, income range of the residents or tenants, and family size or number of bedrooms per unit. This sliding scale mechanism matches the subsidy amount with financial need while maximizing the leveraging potential of CDBG funds.
The FHA Title I Property Improvement Loan Program provides insurance to lending institutions that finance home improvements. Title I will reimburse the lender for 90% of the loss in the event of default. The improvement of multi-family dwellings loans cannot exceed $7,500 per dwelling unit or total more than $37,500.\textsuperscript{4} Loans over $7,500 must be secured by a lien. All Title I borrowers must be credit-worthy; and with a justified financial reason, the lender can reject a loan application.

Although the Home Loan Program gives priority to owner-occupied structures, the Fenway Area Program is open to both investor-owners and owner-occupants. But investor-owners participating in the program must have a majority of tenants whose incomes fall within the Section 8 income guidelines. All owners must have a good credit rating and be up-to-date on all municipal taxes (property, water and sewer taxes). Since the CSHDC is not a profit oriented developer and because of their goal of producing housing in one of the City's neighborhood strategy areas, the Corporation might be given exception status and allowed to participate in the interest reduction program.

The following pages will present three alternative methods of utilizing the subsidy and incentive programs.

Alternative One: Section 8
Alternative Two: Moderate Rehab Program
Alternative Three: Home Loan Program
Alternative One: Section 8 - Substantial Rehab Used in Tandum with FHA Title I Insurance

The Section 8 FMR for a 3-bedroom apartment is $458.00. This rent includes the utilities for the apartment. Assuming $95.00 in utilities, based on Section 8 utility allowance the actual rent charged for the 3-bedroom unit is $363.00. Through the course of a year the gross rent for 30-3 bedroom units is $130,680. With $27,150 in debt to be financed at 18% interest (the same terms of convention lending) the project will realize a gain of $41,280, from the increased rental income.

The gain of $41,280 represents a 65% increase over the $14,400 generated under conventional financing. To maximize the use of this additional income to the community, the CSHDC might use a portion of the projected income to expand rehabilitation to include special features that will address the needs of elderly and/or handicapped tenants. Assuming that 3 to 5 of the 30 units is reserved for elderly and/or handicapped tenants the expenses would be increased by a maximum of $5,000.

As a result of the additional improvements the assessed value of the properties housing elderly/handicapped tenants is $42,150; which will increase the real estate taxes. The rehab debt is $32,150 (the original $27,150 plus 5,000 in additional improvements). Because of the provisions for elderly /handicapped tenants operating expenses and insurance have been increased.

-61-
For the sake of simplicity we will assume all of the specially equipped are in one building. The proforma for the property is:

**Monthly Income for Straight Sectin 8 Subsidy**

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly Income</td>
<td>1089</td>
</tr>
<tr>
<td>Rent w/ 5% vacancy</td>
<td>(412)</td>
</tr>
<tr>
<td>Debt service @ 18% over 25 yrs</td>
<td>(170)</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>507</td>
</tr>
<tr>
<td>Property taxes</td>
<td>(77)</td>
</tr>
<tr>
<td>Insurance</td>
<td>(42)</td>
</tr>
<tr>
<td>Management @ 4% of gross rents</td>
<td>(44)</td>
</tr>
<tr>
<td></td>
<td>334</td>
</tr>
</tbody>
</table>

**Monthly Income for Specially Equipped Buildings**

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly Income</td>
<td>1089</td>
</tr>
<tr>
<td>Rent w/ 5% vacancy</td>
<td>(486)</td>
</tr>
<tr>
<td>Debt service @ 18% over 25 yrs</td>
<td>(225)</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>378</td>
</tr>
<tr>
<td>Property tax</td>
<td>(88)</td>
</tr>
<tr>
<td>Insurance</td>
<td>(60)</td>
</tr>
<tr>
<td>Management @ 4% of gross rents</td>
<td>(44)</td>
</tr>
<tr>
<td></td>
<td>186</td>
</tr>
</tbody>
</table>
Alternative Two: Moderate Rehab Program allows the developer/owner to increase rents by 120% of FMR in an effort to provide sufficient income to enable the developer to repay the rehab loan. It is assumed that the loan is financed at the market interest rate.

As an applicant to the Mod Rehab Program the proposed rehab work must be accomplished within allowable contract rents. Furthermore, the gross rent for a unit may not exceed the FMR or approved Exception Rent. The maximum allowable Contract Rent is determined by subtracting the allowance for tenant paid utilities and services from the moderate rehabilitation FMR or exception rent.

By comparing the maximum allowable rent to the base rent, which is determined by using the project's operating expenses, the reserve for replacement, and the owner's return, the development's feasibility as a participant in the Moderate Repair Program. Exhibit 2 illustrates how this information is calculated.

According to the Mod Rehab formula for calculating base rent, and using the projected expenses and other property information provided by the developer, the total base rent needed to meet the project's financial obligations is $9,649. The maximum base rent allowed under the Mod Rehab Program at 120% of the FMR (for 3-bedroom unit) is $13,740. The CSDHC's rent figures are
well within this maximum. According to this criteria and other Section 8 regulations Codman Square's 30-unit housing rehab project is eligible to participate in the federally funded Moderate Rehab Program.

Using the $9,649 base rent figure, the developer can increase the monthly rent from $300 to $321. Allowing for a 5% vacancy each 3 unit apartment building will have a monthly rent roll of $915. The following calculations will illustrate how the new rent level will affect the project's monthly income stream.

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>915</td>
<td>Effective rent per 3 unit building</td>
</tr>
<tr>
<td>(412)</td>
<td>debt service @ 18% over 25 years</td>
</tr>
<tr>
<td>(170)</td>
<td>operating expenses, per building</td>
</tr>
<tr>
<td>333</td>
<td></td>
</tr>
<tr>
<td>(77)</td>
<td>property taxes @ 2.5% of assessed value</td>
</tr>
<tr>
<td>256</td>
<td></td>
</tr>
<tr>
<td>(42)</td>
<td>insurance</td>
</tr>
<tr>
<td>214</td>
<td></td>
</tr>
<tr>
<td>(39)</td>
<td>management fee @ 4% of rents</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>$175.00</td>
<td>cash generated from project</td>
</tr>
</tbody>
</table>

By combining the Section 8 Moderate Rehab rent increase with the 100,000 CDBG funding, the 30-unit rehab project will realize a cash gain of $21,000. Again, this sum is based on the 18% debt service payments.

Section 8 certificate holders will receive a rental subsidy. The $321.00 monthly rent is within the range of moderate income households.
Alternative Three: Home Loan Program, secured by FHA Title I commitment, to provide below-market financing; assuming the monthly rent and all other expenses remain the same as those illustrated under the conventional loan method.

The loan term is 15 years (at market rate financing the term is between 20 and 25 years). Using 9% or 12% to finance the $27,150 in rehabilitation expenses, the CSHDC will have monthly debt service payments of $274 or $324, respectively. This represents a monthly savings of $138 or $88 over the 18% interest charged through conventional financing.

During the project's first year of operation, the CSHDC will realize a gain of $24,720, at 12% financing. This sum is for the completed 30-unit development. At the 90% rate, the gain is $30,720, which is 53% more than the cash flow generated at 18% financing.

Since the maximum rehab loan for a multi-family dwelling under the Home Loan Program is $37,500, the CSHDC could, conceivably put an additional $5,000 per building into improvements. The new total debt (per property) to be financed is $32,150. At 9% interest the monthly debt service payment is $325.00. After expenses, the CSHDC would still realize a gain of $24,600 for the completed 30 unit project.
As a participant in the Home Loan Program, the Corporation would be able to leverage the $100,000 of CDBG monies to provide $321,500 in property rehabilitation to 30 units of housing in Codman Square; while generating a cash flow of over $20,000 without having to push the rent levels out of the reach of lower income households.

While there are several mechanisms for leveraging equity the previous examples have demonstrated that each incentive or subsidy program can be manipulated; and have illustrated how they might be used to better serve the residents and community while providing a substantial cash flow that can be used to off-set overhead expenses and/or provide equity to other projects. Financial feasibility has been proven under each of the financial schemes. The subsidy or incentive program selected will probably depend on the availability of funds.
Part IV - Footnotes


PART V

PROPERTY OPERATIONS
5.1. Management Considerations for Rehabilitated Property

Each type of housing development will have its own unique management problems as it attempts to create a viable and healthy community with inadequate financial resources. This is largely due to the fact that during the development process little thought is normally given to the operation of the units after they are built. The rehabilitation of older apartments for low and moderate income families deserve special consideration. The rehabilitation of existing residential units brings a number of constraints and possibilities that are different from those found in new construction. In addition to the common issues of rent collection and supervision of management, developers of rehabilitated property must recognize the fact the extent of rehabilitation will have a profound effect on the future of the project. The decision not to undertake total rehabilitation can often pave the way for increased operational costs.

For instance, the developers might decide to keep the old heating and plumbing intact since it seems to be reasonably small. But since the development has been occupied (after rehabilitation) the old radiators have been springing leaks. Some of the tenants report the leaks, while others let them go since they are not immediately inconvenient. The manager is then faced, not only with increased repair bills in trying to patch up the old heating system, but also with extensive water damage to floors and ceilings. This example illustrates the fact
the ultimate cost of maintenance far outweighs the immediate saving that is made in the initial development. As a developer it is important to keep in mind that the development that is built today must serve not only today's families but, those that will be needing housing (at a higher standard) in fifteen or twenty years.

The management considerations in rehabilitation relate to the site and location of the sections of the development as well as to the quality and scope of the workmanship. Housing rehabilitation normally implies different buildings. Each building has its own problems and style. More time is used by maintenance men in moving from building to building, and it is less possible to keep track of what they are doing. In such cases, however, problems in the operation of the job are more likely to relate to a single building. Thus, there are advantages and disadvantages to small unit multi-family buildings.

Finally, rehabilitation is often planned for buildings that are already occupied. Rehabilitation is a flexible enough process that it can be planned to serve those specific families that already occupy the buildings. In most instances relocation can be incorporated into the rehabilitation schedule so that tenants encounter only minor inconvenience for a short period of time. Families can usually be relocated temporarily in vacant apartments inside the project while work is being done on their unit or section. When there are no vacancies it is not overly expensive to keep families in motels for the short period
of time it takes to complete the work on their units. By an elaborately planned game of hopscotch sections of the development can usually be made available to the contractor, while at the same time the tenants are not overly inconvenienced and are assured that the process is actually designed to provide them with an excellent apartment at a price they can afford.

5.2 Tenant Selection

The property manager's immediate goal is the best maintenance of the property possible, within the limits of the financial structure of the development; his parallel goal is the full collection of rents. Neither goal can be met without the full cooperation of the tenants. Tenant selection is a process that beings when the developer decides on the economic mix and the financial programs that it will use to establish the financing of the development.

Manager's and others responsible for tenant selection spend considerable energy attempting to find the "good" tenant. The standards or profiles used to identify a good tenant are subjective and sometimes irrational. Edwin D. Abrams, in his book on property management quotes one manager's criteria of a good risk tenant.

"We try to accept very nice people who will pay their rent, keep the place clean and behave themselves. In this project we will not accept unmarried women or divorced or separated women with children. We only accept persons with excellent credit rating."
This statement reflects a wide range of assumptions about what constitutes a good tenant. It assumes that one can easily predict who will be a good housekeeper, respect property, and pay rent.

Obviously, the manager referred to made some connection between housekeeping or reliability and marriage. This assumption would be hard to uphold with any objective observation of society. The typical tenant selection process involves interviews with prospective tenants, review of tenant history and references. Each development establishes a set of priorities and tenants are selected accordingly.

In rehabilitation the existing tenants (assuming they are in good standing) have legal and moral priority for the rehabilitated units. One of the key steps in rehabilitation is a tenant survey that lists family sizes and incomes. This listing can be useful in planning the allocation of units and the project income mix. Knowledge of the family size will enable the manager to organize the floors in ways that will not put an excessive number of children or elderly in the buildings. Thus, tenant mix throughout the development will be accomplished.
5.3. Prospective Management Plan for the CSHDC 30-unit Project.

These are four major factors that must be considered before designing a property management plan. They are:

a. number of units
b. location of the units
c. type of tenants expected to occupy the units
d. the resources available for management

The CSHDC rehabilitation project will develop 30 units of housing for low and moderate income families. It is assumed that most, if not all, of the units will contain children. Although it is planned that the units will be in close proximity, the 30 units will not be in under one roof. Instead, the CSHDC plans to rehabilitate individual triple deckers (maybe some 4-6 family buildings).

The rents are scheduled to be at a moderate level for 3-bedroom units. However, the fact that there will only be 30 units is a drawback for private management companies. Normally, 4 percent of the collected rent is devoted to a management fee. A management firm that operates luxury housing with two bedroom maximum size apartments can manage very well on 4 percent of the collected rents. One hundred apartments renting the $600 per month produces a $2,400 management fee. That fee can reasonably support the management staff necessary to service the building. On the other hand, one hundred low and moderate income apartments with varying numbers of bedrooms and a average rent of $200 produces $800 per month management fee, yet these units require at least as
much service as the luxury units. The difference in
management fees represents the kind of squeeze that low
and moderate income housing puts on the management budget.

The management fee is supposed to cover certain
necessary services. The minimum of these services
includes rent collection and recording, bookkeeping,
tenant services, bill paying, preparation of budgets and
maintenance supervision. This is not all that happens by
any means, but it represents the minimum services that
need to be provided to any development.

A review of the four factors listed above has
indicated that the CSHDC should take responsibility for
the management of the 30 units. Although all four factors
have had a major impact on this conclusion, the primary
influence is the fact that most private management firms
are not interested in over-seeing a development with under
100 units because of the small amount of rent collected.

Consequently, under the consultation of Independent
Managers Incorporated (IMI) the CSHDC will manage the
property. IMI will be responsible for setting up a
training program for the CSHDC to assume management
responsibilities for this development.

The day to day management responsibilities would be
handled by a CDC staff person working out of the CDC
office in Codman Square. IMI would organize a management
training program for this staff person and the Executive
Director and Board Members of the HDC.
The management plan is as follows:

**Personnel Policy and Staffing**

The development will need a part-time Manager and a Resident Superintendent. The Manager will be part of the rent-up process in order to assure continuity from the beginning of the rental process though to the day to day management of the site. Both the Manager and Superintendent will be responsible to the HDC and will be trained by IMI.

**Manager** - The Manager will be responsible for the following: representing the HDC and reporting directly to the Executive Director; collecting rents and keeping bookkeeping records, including cash receipts and cash disbursement; pursuing rent arrearages; handling evictions; orienting and carrying on tenant education; administering rules and policies; taking and keeping records of all tenant requests for maintenance services; supervising and working with the Superintendent to schedule repair work and regular maintenance tasks; scheduling repairs with outside contractors; acting as liaison with the neighborhood and community; and working with the Executive Director to prepare regular monthly reports on the development.

**Superintendent**

A resident superintendent would be sought who has a variety of trade skills (plumbing, electricity, carpentry, painting). IMI and the HDC would seek the most skilled person available to do as many repairs in-house, without
calling in more expensive outside contractors. This person would also be responsible for the maintenance of the grounds and public areas. In addition to a rent free apartment the resident superintendant will possibly receive a small salary.

Management Office

The Manager would operate out of the HDC office which is now operating with full telephone services, etc. At the time the development is completed, the HDC telephone would maintain a 24-hour answering service in case of emergency.

Rent Collection Policies and Procedures

Rent will be collected in the form of check or money order in the management office. Tenants may mail their rent if they wish to do so. It will be the HDC's policy not to attempt to collect late fees on delinquencies but rather to work with residents to assure prompt payment in the future. If a resident is having financial difficulties, a payment schedule can be worked out with the Manager.

Rent is due on the first of each month in advance. Late notices will be sent by the 5th if rent is not received. By the 8th, a phone inquiry would be made. If no contact materialized by the 12th of the month, a 14-day eviction notice would be sent. Should a tenant bring his account current, eviction proceedings would be stopped. If a positive resolution is not achieved, the HDC's
eviction lawyer will proceed to court. Upon receipt of the court execution, a constable will be dispatched to evict the resident.

**Maintenance/Repair Program**

A schedule will be developed to systematically check appliances and mechanical equipment. The Manager and Executive Director will accompany the contractor's foreman on a unit by unit punch-out of all apartments prior to occupancy. Prior to a move-out, an apartment will be checked to ascertain if any damages have been caused for which a resident should be billed. As a regular part of a preventative maintenance program, an inspection would be done on a routine basis to catch any unrecorded problems. Prior to re-rental, the Manager will check the unit to be sure that all problems were corrected and that adequate redecoration had been done.

Residents will be requested to report all maintenance problems directly to the management office. A maintenance slip will be written for each problem. A record will be kept of the date, time, and nature of the problem as well as what was needed to make the repair. Completed maintenance slips will be filed in chronological order by apartment, enabling the development to have a complete record of what has occurred over the course of time in each unit.

**Accounting Records**

Accounting will be done in accordance with established professional procedures. The Safeguard One-Write system
will be used for rent records and check writing, maintaining an on-going record. Accounting reports will be prepared monthly. The sponsor (HDC) will be responsible for having a Certified Audit done annually.

**Tenant Management Relations**

Experience has demonstrated that tenant involvement in the day to day management contributes significantly to the creation of a pleasant, stable community. This in turn results in the economic stability of the development.

The primary goal of the HDC will be to create a climate that encourages residents to bring their concerns, ideas and problems to the management staff. This climate leads to better management and maintenance of both a short and long term basis. The tone, openness and style of the management staff sets the tone of the development in many ways. Residents need to sense that not only will staff be responsive regarding physical building problems, but that staff is also concerned for their total well being.

Although management of the 30 units will not be easy, the CSHDC is undertaking this venture with an awareness of the realities of property management. As a community developer the CSHDC has already established relationships with many of the area residents. This will certainly be an advantage.
PART IV - Footnotes


2. Dailey, Alexandra., Independent Managers Incorporated, Boston, MA., 1982
CONCLUSIONS

The primary conclusion of this essay is that the Codman Square Housing Development Corporation (CSHDC), as a non-profit community developer can produce housing that is affordable to lower income households while creating income that can be put into other housing ventures. As a community-oriented developer the CSHDC is very sensitive to the neighborhood dynamics that influence housing investment. Matching the housing condition and perception of neighborhood status is an effective method of identifying those areas that are in need of property rehabilitation; and that are most likely to benefit from such rehabilitation.

The success of property rehabilitation revolves around the financing instruments used. We have demonstrated that the 30-unit rehabilitation project can work using the 18% interest rate. However, the community developers can use the concept of leverage, just as conventional developers do, to maximize the benefits to themselves and to the community at large. In addition to an increase in profit (to be used in other projects), the subsidy/incentive programs can reduce the amount of a household's income spent on rent while possibly increasing the level of rehabilitation.

The CSHDC's goals to provide affordable housing to lower income families and to return neighborhood stability to Codman Square is long-term. It is a slow process that requires diligence and commitment. Neighborhood
revitalization also requires foresight. The last two sections briefly outline issues that might bring the CSHDC closer to its goals.

Property Rehabilitation

The purchase and rehabilitation of tax delinquent property will continue to be a good strategy for the CSHDC. The City of Boston realizes that the normal length of time required to foreclose on properties with delinquent taxes often means that the property is beyond feasible rehabilitation condition before foreclosure takes place. The City's predisposition toward forgiving back taxes to encourage non-profit developers to rehabilitate housing is certainly a tremendous incentive to focus on tax title property.

In addition to being obligated for only half of a property's accrued taxes, the CSHDC will pay less than $3,000 in property acquisition for a 3-family dwelling. Rehabilitation of dilapidated structures will in the long-run have a stabilizing effect on individual neighborhoods and the Codman Square community.

If, at some point, the CSHDC were to rehabilitate property on a large scale (100 units) the subsidy and incentive programs can come together through the mechanism of a limited partnership. The CSHDC would act as general partner, controlling the operations of the project. High-income investors, as limited partners, would provide equity financing, in exchange for the tax shelter
generated by the depreciation of the rehabilitation allowed by the Tax Reform Act. Such an arrangement would drastically lessen the debt incurred by CSHDC while assuring that quality housing is produced.

Improving Vacant Lots

In areas where abandonment and substantial disinvestment have occurred there are also large tracts of vacant land from previous demolitions. While boarded property has a blighting impact on the neighborhood and reinforces the impression that the area is weak the vacant land has a more severe impact. Once property is abandoned it becomes a target for vandalism and fire. If torched, the property is usually torn down.

The tracts of vacant land, from previous demolitions virtually destroy neighborhood cohesiveness. After all, it is more common to find several properties torn down than a single property. For instance, where a row of 20 houses once stood there are now scattered lots where groups of 3 and 4 houses have been demolished. Furthermore, these vacant lots often become giant trash receptacles.

The CSHDC in conjunction with the City must clean up the vacant lots. By improving this property these large tracts of land can enhance the neighborhoods, instead of detracting from them. Community gardens or parks might be constructed. Formal parking spaces for neighborhood residents is another possibility.
Another possibility would be to use the land as a site for new construction of rental units. Although local "infill" projects have left residents with negative impressions, infill housing has been successful in Cambridge. The CSHDC should explore designs that would blend with the neighborhood. Infill housing would be a viable use for the land.
DORCHESTER
NEIGHBORHOOD
GROUPINGS

Exhibit 1

DISTRICT PLANNING PROGRAM
Boston Redevelopment Authority
### Exhibit 2
Neighborhood Characteristics Associated With Housing Market/Condition Classifications

<table>
<thead>
<tr>
<th>Market Perception</th>
<th>Rising</th>
<th>Stable</th>
<th>Declining</th>
<th>Rapidly Declining</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Good Minor Repairs Required</strong></td>
<td>G/R</td>
<td>G/S</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- rising values</td>
<td>- rising rents</td>
<td>- ideal neighborhood</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Fair Moderate Repairs Required</strong></td>
<td>F/R</td>
<td>F/S</td>
<td>F/D</td>
<td>P/S</td>
</tr>
<tr>
<td>- reverse filtration</td>
<td>- greying</td>
<td>- blockbusting</td>
<td>- market</td>
<td></td>
</tr>
<tr>
<td>- absentees taking over</td>
<td>- low turnover</td>
<td>- unrealistic expectations</td>
<td>- &quot;bottomed out&quot;</td>
<td></td>
</tr>
<tr>
<td>- existing tenants being displaced</td>
<td></td>
<td>- arterial or industrial blight</td>
<td>- some abandonment</td>
<td></td>
</tr>
<tr>
<td>- speculation</td>
<td></td>
<td>- racial fears</td>
<td>- realistic expectations</td>
<td></td>
</tr>
<tr>
<td><strong>Poor Major Repairs Required</strong></td>
<td></td>
<td></td>
<td>P/D</td>
<td>P/RD</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- abandonment</td>
<td>- firebombing</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- foreclosures</td>
<td>- disaster wholesale</td>
</tr>
</tbody>
</table>

Source: Goetze, Rolf, Building Neighborhood Confidence, Ballinger, Cambridge, Massachusetts, 1976, p. 35.
## Base Rent Worksheet

### I. Expenses

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt Service</td>
<td>$49,440</td>
</tr>
<tr>
<td>Insurance</td>
<td>5,040</td>
</tr>
<tr>
<td>Taxes</td>
<td>9,288</td>
</tr>
<tr>
<td>Utilities</td>
<td>34,200</td>
</tr>
<tr>
<td>Management and Routine Maintenance</td>
<td>5,520</td>
</tr>
</tbody>
</table>

**TOTAL EXPENSES** $103,488

### II. Reserve of Replacement

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Expenses</td>
<td>$19,848</td>
</tr>
<tr>
<td>Reserve Based on Expenses</td>
<td>1,984</td>
</tr>
</tbody>
</table>

*(10% of Expenses)*

**Reserve for Replacement** 1,984

### III. Return on Investment

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase Price &amp; Capital Expenditure</td>
<td>371,500</td>
</tr>
<tr>
<td>Outstanding Indebtedness</td>
<td>271,500</td>
</tr>
<tr>
<td>Cash Equity</td>
<td>100,000</td>
</tr>
<tr>
<td>Return on Investment</td>
<td>8,000</td>
</tr>
</tbody>
</table>

*(8% of Equity)*
IV. **Total Annual Base Rent**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Rent for Property</td>
<td>$113,472</td>
</tr>
<tr>
<td>Base Rent Adjusted for Vacancy and Collection Loss</td>
<td>115,788</td>
</tr>
<tr>
<td>Monthly Base Rent (115,788/12)</td>
<td>9,649</td>
</tr>
</tbody>
</table>

**3-Bedroom Unit**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existing Housing FMR</td>
<td>458</td>
</tr>
<tr>
<td>Total Number of Units</td>
<td>30</td>
</tr>
<tr>
<td>Total Maximum Base Rent</td>
<td>$13,740</td>
</tr>
<tr>
<td>Allocation ratio (9649 13,740)</td>
<td>.70</td>
</tr>
<tr>
<td>Base Rent Per Unit Size ($458x.70)</td>
<td>326</td>
</tr>
<tr>
<td>Number of Units to be Assisted</td>
<td>30</td>
</tr>
<tr>
<td>Total Base Rent</td>
<td>9,780</td>
</tr>
</tbody>
</table>


