

January 29, 2014

Rental Conversion to Single Family Owner Occupied

The Community Services Division was asked to explore and evaluate potential programs that could provide “grants to property owners who would buy rental properties” in the City’s core and convert them back to single family owner occupied homes. The intent being to address density concerns and promote affordable housing through an “urban revitalization type program”.

Community Services Division staff reviewed the potential use of CDBG, HOME Program, Urban Revitalization and Urban Renewal as options for consideration by the City of Cedar Falls. Below is a brief summary of each “program” along with certain eligibility requirements, advantages, disadvantages, restrictions, flexibility, etc.

CDBG

Option 1: Limited funds could be available to developers to purchase a slum or blighted house for renovation and conversion to single family home. The developer would have to provide pictures and other substantive proof that the property is considered detrimental to public health and safety, including the potential review/certification by the Inspection Services Division (faulty wiring, crumbling foundation, etc.). Funds could only be utilized for the purchase of the property, and would be limited. Approximately one to two grants of this nature could be utilized each year, with anticipated maximum total annual budget of \$10,000-\$20,000, due to HUD restrictions of expenditures on projects not directly benefitting low-income persons. Could be a City-wide program without income restrictions.

Option 2: A grant or loan could be awarded to developers to convert multi-unit rental structures to single family homes on a City-wide basis with the following caveats.

- The entire dwelling would have to be fully renovated to meet HUD’s Housing Quality Standards and current City Building Code.
- The eventual owner/occupant would have to be at, or below, 80% of the Area Median Income (\$49,500 gross income for a family of four), and would have to remain the owner/occupant for five years.

- The sale price of the newly renovated single family home would have to be less than 95% of the FHA determined median home value for the HUD determined Metropolitan Area: \$138,700.00
- Under current CDBG budget and anticipated future funding, approximately \$30,000 could potentially be available annually; however, no single award can exceed \$24,999 due to lead-based paint regulations.

HOME Funds

Option 1: A City-wide down-payment assistance program could be created to assist low-income residents in purchasing the renovated homes. The City can designate that the down-payment assistance is only available for these rehabilitated homes. The home purchaser would be required to have income at less than 80% of the Area Median Income, and remain the owner/occupant for five years. The home would have to sell for less than 95% of the median area sale price of homes, or \$138,700.00. The City of Cedar Falls currently receives \$75,000 annually in HOME funds through our “consortium” with the City of Waterloo. These funds historically have been earmarked for Habitat for Humanity.

Primary Challenges to CDBG/HOME Options

**All projects using any CDBG or HOME funds are subject to a complete historical and environmental review prior to purchase or renovations, along with income eligibility determination.*

*Limited availability of CDBG/HOME funds to implement a program and maintain its functionality

*Income restrictions for purchaser and maximum sale price currently limited to \$138,700

*The financial feasibility for a developer to purchase an existing rental property that generates significant rental income and likely at a higher sale value and then convert it to single family residence knowing the income limitations and sale price restriction

*Based on previous rehabilitation projects, it is estimated that the cost of converting a four-unit rental structure back to a single family home would be in the \$50,000 to \$75,000 range.

Urban Revitalization

Under the existing College Hill Urban Revitalization Plan established in 2012, a conversion from rental property to single family property appears to be eligible for the applicable property tax exemption(s). This would be for duplex owners or multi-family units (3 or more separate living quarters with at least 75% of the space used for residential purposes). A minimum 10% increase in the “Actual Value Added by Improvements” is required, based on determination by the Black Hawk County Assessor. The qualified real estate (project) would be eligible for a 5-Year, 100% exemption of the actual value added by the improvements as assessed by the Black Hawk County Assessor. The application is filed with and approved by the City Council prior to start of construction.

It would be difficult (and likely not feasible or beneficial) to establish the entire City as an Urban Revitalization Area but could possibly be expanded to a separate limited area encompassing the “City’s core”. The biggest question would again be whether the conversion improvements would actually increase the homes existing assessed value by at least 10% as determined by the Black Hawk County Assessor.

Urban Renewal

Both Downtown and College Hill have existing Urban Renewal Areas that were established as “blighted areas” under Chapter 403.71 of the Code of Iowa. Under Urban Renewal the City of Cedar Falls could develop and customize the type of “Conversion Plan” it wanted to establish in the existing areas (i.e. eligibility criteria, application process, minimum investment or valuation increases, incentives to owners, etc.). Any “Conversion Plan” under Urban Renewal could occur only under the “slum and blight designation”, again, currently in place for Downtown and College Hill.

In talking with the Ahlers Law Firm, it was the consensus that Urban Renewal may provide the City of Cedar Falls with the most flexible options and criteria to establish a “Conversion Plan” aimed at meeting the intent of City Council. The eligibility criteria would be at City discretion as would the incentives that the City could consider providing; again currently within the Downtown and College Hill Urban Renewal Areas. There would not be income restrictions or sale price restriction since Federal funds would not be used. The HQS, Historical Reviews, etc. would also not be applicable.

In order to implement a “Conversion Plan” for the Downtown and/or College Hill Urban Renewal Areas, both Urban Renewal Plans would need to be amended to include the applicable “Conversion Plan”, its terms/conditions, and anticipated incentives. The legal/approval process for an Urban Renewal Plan amendment is typically 3-6 months.