



## DEPARTMENT OF COMMUNITY DEVELOPMENT SERVICES

*Planning Division*

### **m e m o r a n d u m**

**TO:** Urbana City Council  
Urbana Plan Commission  
Urbana Community Development Commission

**FROM:** Elizabeth H. Tyler, AICP, Director, Community Development Services

**DATE:** December 7, 2006

**SUBJECT:** Report on Housing Investment Corporation Workshop

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### **Introduction**

Based on the 2005 Comprehensive Plan and interest from neighborhood groups, City staff has been investigating the concept of Neighborhood Conservation Districts as a tool to deal with neighborhood issues. Findings and recommendations were presented to the Plan Commission and City Council in August 2006 at which time City staff was requested to follow up with specific research questions. Out of this public process specific strategies were identified for promoting neighborhood wellness generally. Findings and recommendations were presented to the Committee of the Whole in October 2006, at which time City staff was directed to move forward with six strategies, including “(3) Make neighborhoods aware of how private, not-for-profit community development corporations can be formed to achieve neighborhood housing goals.” City staff followed up by organizing an introductory workshop on housing investment corporations to facilitate their creation by one or more local groups.

The purposes of this memo are to provide an update on Staff progress for this item and to solicit further direction.

### **Discussion**

Community Development Corporations (CDCs) are private, not-for-profit organizations which work at the neighborhood level to foster economic revitalization and reduce blight. Their activities can be broad: job training, affordable housing, creation of community parks or gardens, and other efforts to improve the welfare of neighborhood residents. There are examples of CDCs

which operate in neighborhoods near major universities focus on affordable housing and preserving historic homes from demolition. Housing Investment Corporations (HICs) generally are a specific type of CDC which focuses on housing. HICs typically acquire and rehabilitate housing in a specific area and then sells housing with certain covenants and restrictions. HIC's typically focus on providing affordable housing and reducing blight.

The City invited Bob Yapp, Director of Renaissance Danville and an expert practitioner on neighborhood revitalization, to make a presentation on how such groups are formed and operate. Mr. Yapp was also host of a PBS television series called "About Your House with Bob Yapp". An evening workshop was held on November 8, 2006 which was attended by more than thirty people, including members of the City Council, Historic Preservation Commission, and Plan Commission. Representatives from the West Urbana Neighborhood Association and the Historic East Urbana Neighborhood Association also attended.

The two-hour workshop consisted of a ninety-minute presentation by Bob Yapp followed by a question and answer session. Mr. Yapp's presentation focused on his work as a preservation specialist and his management of Renaissance Danville. Mr. Yapp uses the term Neighborhood Economic Development Corporation (NEDC) to distinguish the group that he facilitates from most CDC's. NEDC's do not provide affordable housing. Instead, they revitalize neighborhoods by attracting middle- and upper-income residents back to live in restored homes in the central city.

Mr. Yapp's explanation of how NEDC's work was supplemented with a hand-out explaining their purpose and operating procedures. Complete details can be found in the attached document, but the following is a general overview of the nature of the NEDC:

- Most CDCs focus on affordable housing. They obtain Federal funding and know how to meet all of the requirements attached to this funding source.
- Central city neighborhoods need economic diversity. Housing in these neighborhoods needs to be restored and maintained. Affordable housing groups are good at providing affordable housing, but this work must be balanced by other groups providing central city housing for middle income households as well.
- Renaissance Danville buys and rehabilitates vintage homes and sells them at cost or market rate. This brings middle and upper-middle income families back into central neighborhoods. It also provides a service of removing blight.
- Renaissance Danville acts as the developer and the general contractor. This requires a knowledgeable executive director to coordinate the efforts. In addition to being an expert on historic renovations, the executive director needs to know how to raise funds and work with banks to secure below-market-rate loans. All funding should be raised locally. Federal funding comes with major limitations which can conflict with the organization's goals.
- Rehabilitated homes should be designated as local landmarks to prevent incompatible

alterations, and to make them eligible for the Illinois Property Tax Assessment Freeze program. Renaissance Danville also places a \$20,000 forgivable mortgage on them to 1) increase sales prices in the neighborhood and 2) ensure the owner does not violate the maintenance covenants for 5 years.

Mr. Yapp discussed how he was able to implement his vision of how a Neighborhood Economic Development Corporation should work to restore the financial viability of his neighborhood in Danville. His presentation also incorporated helpful house restoration tips that he had discovered during his career as a master woodworker, carpenter and rehabilitation practitioner. The following information is taken from Mr. Yapp's discussion:

- The average functional economic life of a new home built in a standard subdivision is 27.5 years. In contrast, the average functional economic life of a completely restored home (in an older central city neighborhood) is 80 years. An historic home that is properly restored every 50 to 80 years will be around for a very long time.
- Mr. Yapp also praised the Main Street Community program. He noted that downtown Danville had a 50% vacancy rate before becoming a Main Street Community. The vacancy rate downtown is now 5%.
- A theme of Mr. Yapp's presentation was that housing rehabilitation is inordinately expensive in the Central Illinois area, and there are few contractors who can handle the job in a manner that meets Mr. Yapp's expectations. Because of this, Renaissance Danville does all of its own carpentry work. To address this issue, he has started a program in Preservation Trades at Danville Area Community College.
- Mr. Yapp is also an advocate of minimum maintenance standards and rental inspection programs.
- Mr. Yapp advocates mixed use neighborhoods in central cities which include small scale "cottage industry" along with housing. This allows for truly walkable, traditional neighborhoods.
- Vacant historic homes should be "mothballed" rather than demolished as they are assets and investment opportunities. Often for minimal cost (usually less than demolition) leaky roofs can be patched and windows boarded. This allows the home to be rehabilitated in the future rather than permanently losing that resource. In addition, vacant structures should lose their grandfathered status for higher, non-conforming uses.

Questions by audience members included how housing investment corporations could be beneficial in cities like Urbana where areas of predominantly rental housing near universities are changing neighborhood character. Mr. Yapp cited rental housing inspection programs as being important, proper zoning designations, leadership from housing investment corporations in reducing blight, and designating properties as local landmarks.

Because the workshop format was introductory, the mechanics of establishing and operating housing investment corporations could not be covered. However, City staff did provide printed materials such as sample bylaws and covenants.

## **Future Steps**

Following the workshop, several requests were received to hold an expanded workshop on this topic and to invite to specialists to speak on different aspects of housing investment corporations. In response, City staff is proposing the following steps:

- (1) Continue to hold meetings with neighborhood groups to talk about solutions for neighborhood problems, including use of housing investment corporations; and
- (2) Hold an expanded workshop on housing investment corporations. Planned speakers would include an attorney to answer questions about incorporating not-for-profit organizations, and a board member of a CDC or HIC in Chicago or St. Louis to answer questions about working in neighborhoods near large universities.

City staff is offering an opportunity for comment on this future direction.

Prepared by:

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Jeff Engstrom, Planner I

Attachments: Exhibit A: Proposal for a Private, Non-Profit NEDC  
Exhibit B: Community Development Corporation Fact Sheet  
Exhibit C: Model Bylaws for a Non-Profit Organization  
Exhibit D: Bylaws of the West Central Neighborhood Association  
Exhibit E: Model Articles of Incorporation  
Exhibit F: Secretary of State's Guide for Organizing Not-for-Profit Corporations  
Exhibit G: The Basics: Creating a Nonprofit Organization  
Exhibit H: Sample Conservation Agreement  
Exhibit I: Considerations Re: Imposition of Restrictive Covenants

# **Proposal For a Private, Not-For-Profit Economic Development Corporation Dealing Solely with the Historic Neighborhoods surrounding Downtowns**

## **By Bob Yapp**

Throughout America, planners have come to the realization that any downtown redevelopment is destined for failure if the historic neighborhoods surrounding downtown's are ignored. In truth, just as much effort must be put into these neighborhoods as is put into the downtowns if either are to succeed. With this in mind, and understanding that a downtown plan must go hand-in-hand, we suggest your community create a Neighborhood Economic Development Corporation (NEDC).

This organization should be a not-for-profit (501-C3) that's sole purpose is to assist the historic neighborhoods in your community's central city historic neighborhoods.

### **WHY CREATE ANOTHER HOUSING ORGANIZATION?**

Often, the one element that is missing in central city historic neighborhoods is economic diversity. By far, the majority of residents are low and moderate-income families. While these families are critical to the fabric of the neighborhoods, to create true economic integration we must also attract middle and upper middle-income families back. In most cases virtually every housing organization, both private and city, work primarily with affordable, moderate, low income and homeless families. Yet, rarely is there even one single housing organization works primarily at market, with the middle and upper middle income families, in a tightly defined target area, utilizing historic preservation as a key marketing tool.

This type of organization should be structured to attract these folks back to the larger historic homes and quality designed in-fill. Many of the families buying these larger homes in other communities were actually looking at new houses in the cornfield developments. Why would they buy in a central city historic area? Their reasons are many, but here are a few:

- 1) They get a completely restored home with a new economic life of another 100 years. They have to maintain their home regardless of whether it's new or completely restored so why not buy a renovated home with some character.
- 2) Many of these folks love the charm and aesthetics of older homes but don't want to renovate. The homes I've done have museum quality exterior restorations, yet, while keeping the charm of original features, the interior spaces have many of the amenities these home buyers see in new construction, like; master suites with walk-in closets and master baths; second floor laundries; energy efficiency; far more square footage for the dollar.

- 3) Most surprising to many, is that these folks want a true sense of neighborhood. They say that a sense of place and connection to our history cannot be found in the new housing developments. This feeling can only be instilled in this type of buyer if they know there is an organization dedicated to the continuing revitalization of these areas that will support their investment. An NEDC can provide this stability.

## **WHY NOT WORK WITHIN THE STRUCTURE OF AN EXISTING NOT-FOR-PROFIT HOUSING ORGANIZATION?**

- 1) Most not-for-profit housing groups started out with, and still primarily function with, low/moderate and affordable/homeless programs and clients. These organizations have become experts in this segment of housing and are generally doing a great job. I would urge them to work together and continue this positive trend.
- 2) In the community, the image and reality of these housing organizations, is that they help disadvantaged families get a foot up and become part of the American dream of home ownership. This is accomplished through their great expertise in traversing through the red tape and hoops involved in the acquisition of complicated grant, local, state, and federal dollars.

In truth, these middle and upper middle-income folks don't need this type of expertise and feel uncomfortable working with these organizations. They usually have good credit, good employment, own a home already and have worked with bankers. They don't mind working with an organization that has a strong neighborhood planning strategy tied into downtown redevelopment with historic preservation expertise that can offer them a *financial incentive* and investment security to buy completely restored, large, historic homes and large, quality designed, in-fill homes.

- 3) This NEDC proposal is for an organization that works with the other housing groups but is primarily a residential, historic preservation based, market oriented, economic development group working closely with downtown redevelopment and the historic neighborhoods immediately surrounding downtown. This, I believe, can only be accomplished by creating a new organization with this mandate.

## **THE FUNCTION OF THE NEDC:**

- Assist the historic neighborhoods in the central city with the tough case development issues. For example; buy and restore the tough case/abandoned properties that the private market cannot support at this time: create quality in-fill, new construction with design that flows with the historic nature of the homes and businesses surrounding them.

- Work with neighborhood leaders and identify the areas to be targeted. Focus should be on small, highly visible areas for the greatest visual impact. For 80 plus years these neighborhoods have created a negative image in the communities eyes. All of your efforts should be toward creating positive visual images and systematic progress.
- Help organize people in historic areas that have not been active in the past. Work with other housing groups that specialize in low & moderate-income housing.
- Help the existing neighborhood groups, The local Historic Preservation Commission and Historic Preservation Societies educate neighbors and citizens about the cultural and economic benefits of historic preservation.
- Act as developer and general contractor for the renovation of the tough case projects. This would mean buying the houses and working with the banks to secure construction loans.
- By not taking government money for anything but staff & administrative costs, programs can be established with no income restrictions. This is needed in order to create an incentive for middle and upper middle-income families to come back. This type of economic integration is needed to be successful.
- One of the central problems in these neighborhoods are appraisals. The amount of money needed to renovate usually exceeds market value in the beginning. A portion of the program money covers losses on the first group of homes renovated NEDC. Over time, with the right marketing and working with bankers/appraisers, values should rise and create an environment for private development.
- Over the years many communities have created an excessive amount of vacant lots through demolition. This NEDC should create in-fill housing that flows with the architecture of the area to fill those “missing teeth”. In-fill should also be about moving houses onto those vacant lots.
- Be an incubator for small contractors. Preservation oriented rehab is one of the fastest growing segments of the construction industry today. Yet, it is very difficult to find quality contractors that understand the nature of this work. Act as a clearinghouse of information and education for the neighborhoods and contractors.
- Work with the Public School System to create a voc/tech, Preservation Trades Class. NEDC could be the organization that oversees this program with the school board as well as provide houses to work on.

## **IMPLEMENTATION:**

- The NEDC should work in concert with the downtown organization/s. In fact, sharing office space and staff can be a great way to reduce overhead. Application for an IRS for a 501-c3, not-for-profit status will be needed.
- Initial funding could come from two sources:
  - A) \$150,000- Salaries & admin.- Federal Community Development Block Grant (CDBG). As long as these funds are for salaries and not programs, the NEDC will not have all the red tape and hoops to jump through for its programs. This means more can get done with a smaller staff. Other, non-income based, city funds could also be explored.
  - B) \$120,000-Programs- this money should come from the local businesses and foundations. This takes a real, ongoing commitment from the business community that the neighborhoods surrounding downtown must be addressed hand-in-hand with a downtown plan.
  - C) Work with a pool of bankers and appraisers. Have the bankers set aside a pool of \$500,000 a year for three years for construction loan money below market rates. They will still make money and improve their federal Community Reinvestment Act status by helping eliminate blight. Purchase and rehab four to six visible hard case historic properties a year.

I have had great success pre-selling these abandoned houses both as Housing Director with Rock Island Economic Growth Corp. and as a private developer. Creating detailed work write-ups, architectural drawings and water color elevations as well as good, cost effective marketing usually helps a potential middle or upper middle-income family get the x-ray vision needed to make the pre-sale. Bankers love making construction/rehab loans knowing the properties are pre-sold.

- The NEDC board should be made up of neighborhood leaders, business leaders, civic leaders and designated city council members. One of the board's main purposes should be to raise funds.
- Go through a swift but thorough planning process to identify problems and solutions and then implement the plan.
- Hire an Executive Director and a Renovation Specialist. If space is shared with the downtown organization then reception and bookkeeping can be shared. This keeps costs down.



- Each of the worst-case properties the NEDC buys and rehabs will, in the beginning, lose money. The gaps between final rehabbed cost and the sale price can be covered by the initial \$120k program money.
- As the buzz about the area increases and people begin buying these historic homes from NEDC, the values should increase. If the program has the support from the community and is successful, some of those initial losses can be recouped on future renovations, down the road, as values rise. The gap between sale price and actual acquisition/renovation costs can be attached as a forgivable lien on the home for a specific period of time. This gives buyers an incentive to stay in the neighborhood longer. As values rise, private development should take over and the NEDC can move to another target area.
- Declare a moratorium on any new demolition of solid historic properties in the target areas.
- Turn the vacant lot issue into an asset. Moving good houses that are in danger of being demolished onto vacant lots in the target area. Consider splitting a vacant lot in half and giving one half to the homeowners on either side of the lot. Be sure to put in some sort of covenant about maintaining and incorporating the lot to their house.
- Build in-fill houses that flow with the character of the neighborhood. Work with local architects or University architecture students to come up with some house designs that are affordable yet fit into the neighborhood. Work with Habitat for Humanity and other housing groups, to make compatible design and preservation a part of their agenda.
- Work with the city to see if demolition money can be spent to “mothball” houses instead of tear them down. This includes a roof stabilization, yard clean-up, minor facade improvement, plywood panels over windows that art students from area schools paint to look like scenes you would see inside a house and get a commitment from neighbors to maintain the yard. These houses will be critical to the success of the neighborhood as time goes on. If they are torn down, they are gone forever. It costs less to mothball than tear down.
- Down zone the target areas and the other designated “Historic Areas” to either an R-2 or a Historic Area Zoning (HAZ). The HAZ would be an R-2 with the ability to have a cottage home business on the first floor. HAZ has proven in other areas to attract families to the neighborhood as the cottage business portion gives a financial incentive and can offset rehab costs. The City of Des Moines, Iowa and Danville, Illinois have had success with this type of zoning.

- Create a constant bombardment of positive imagery about the target area. Work with the local press heavily.
- Work with the city to get aggressive about code and zoning enforcement.
- Change the building codes so they are more relevant to existing, historic housing. Teach the building inspectors inter-personal skills.

### **ADDITIONAL NEDC INITIATIVES:**

- Create a “Tool Lending Library”. This would put tools in the hands of existing residents to spruce up their homes and provide tools to new homeowners wanting to save a few dollars through sweat equity. Classes on how to use the tools are an important facet of this program.
- Work closely with the Police. See if a foot, beat officer can be assigned to the target area for a year or so to reward the neighbors for their efforts as well as creating a constant police presence.
- Work with the good landlords and encourage homeowners to buy houses on their block to control whom rents in their neighborhood.
- Aggressively chase out the “Slumlords” with mandatory rental inspections.
- Utilize the vacant lots to create public spaces like gardens, basketball courts or a small parks.
- Work closely with the businesses, other not-for-profits and churches in the target area.
- Create gateways into the target area with nice signage and landscaping.
- To combat the garbage & trash problem, put out garbage cans that students paint to look architectural, like a column or a turret. The city would have to agree to a regular pick-up.
- Every house that is undergoing any level of rehab should have a 4’ x 4’ sign in front that says, “Renovation in Progress” with numbers identifying the date the house was built. NEDC or neighborhood groups could create and distribute the signs.

- Sponsor a “Designer Show Home” every year.
- Have a “unveiling”. This is an event much like a barn raising. The entire neighborhood shows up to tear the non-original siding off of several houses in a day. People bring food and drink, so it’s a party atmosphere.
- Work heavily with Realtors. Begin to change perceptions.
- Work with city to repair streets, sidewalks and curbs.
- Teach people that preservation doesn’t cost-it pays. Saving original materials saves money on rehabs and keeps the original character, which will attract people back to the neighborhoods.

### **BENEFITS:**

- Businesses will be more attracted to downtown knowing there is a concerted effort to turn perimeter blight into revitalized historic neighborhoods.
- Attracting middle and upper middle-income families back to the historic neighborhoods creates new patrons for new and existing downtown businesses and increases sales tax revenue.
- Renovation puts dilapidated houses back on the property tax rolls. According to The National Association of Homebuilders, abandoned structures in a neighborhood reduce the value of renovated and new houses over 30%.
- Vacant lots are a negative drain on our property tax revenues. Quality in-fill, both new construction and house moving, puts these lots back on the tax rolls.
- Renovating existing homes cost less than new construction and saves taxpayers money by utilizing existing infrastructure they have already paid for.
- Renovation keeps more money in the community than new construction. The U.S. Department of Commerce tracks the impact of production within a given industry three ways:
  - 1) The number of jobs that are created.
  - 2) Increase in local household income.
  - 3) Impact on other industries.

The growing statistics in state after state show that renovation of existing structures outperforms new construction in all three of these measurements. If you take eight houses being renovated for \$1,000,000

and compare that investment to eight new houses for \$1,000,000 what would the differences in economic impact be?

A) \$120,000 more dollars will initially stay in the community with renovation than with new construction

B) Five to nine more construction jobs will be created with renovation than with new construction.

C) 4.7 more new jobs will be created elsewhere in the community with renovation than with new construction.

D) Household incomes in the community will increase \$107,000 more with renovation than with new construction.

E) Retail sales in the community will increase \$142,000 with the \$1,000,000 in renovations---- \$34,000 more than with the \$1,000,000 in new construction.

F) Realtors, bankers, personal service vendors as well as restaurants and drinking establishments will receive more direct monetary benefit from the \$1,000,000 in renovations than from \$1,000,000 in new construction.

## **SUMMARY:**

This is an action plan. Input from all affected is critical to the success of this new NEDC. This is the epitome of public/private partnerships in that the business community, neighborhood groups and the city must all be on board to make this happen. I believe that with the right organization leading downtown revitalization, the new NEDC leading the way in the historic neighborhoods and the other housing groups throughout the city working with a variety of housing issues, you can show the rest of America that preservation is an outstanding economic development tool and that *Preservation Doesn't Cost- - - It Pays.*

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