URBAN HOMESTEADING

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and

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November, 1977
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Woodstock Institute Chicago, Illinois

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URBAN HOMESTEADING

Summary

Urban homesteading is a method of dealing with the problem of abandoned housing, which besets communities in Missouri and throughout the country. Urban homesteading programs, such as those in Kansas City and St. Louis, involve local government or quasi-governmental corporations in the purchase and sale of abandoned residential property. Since the early 1970's, local governments have acquired homes through a variety of mechanisms for the purpose of selling them to homesteaders who agree to live in them and rehabilitate them.

The Kansas City program, which has been in operation since 1976, acquires homes from the federal government, under a provision of the 1974 Housing and Community Development Act. The St. Louis agency also intends to acquire HUD-repossessed homes under that program. Under these programs and others like them throughout the country, the homes are then sold for a token amount to purchasers who have the financial resources to rehabilitate the homes to bring them into compliance with local standards. In order to promote neighborhood stability, the programs also require that the purchasers reside in these homes for a specified period, usually from three to five years. The rehabilitation itself may be financed by co-operating conventional sources, such as commercial banks and savings and loan associations, as Kansas City is seeking to do. Alternatively,

federal programs are available for financing the rehabilitation work on these homes.

This paper reviews the purpose of the urban homesteading programs and the administrative structures for implementing the programs. It also discusses the process of selecting and acquiring the homes involved and identifying the homesteaders eligible to purchase these properties. Finally, the paper describes the methods available for financing the rehabilitation required under the program.

URBAN HOMESTEADING

Urban homesteading is an approach to the problem of abandoned housing, which has occurred primarily in the older cities of the country. Under this program, the local government turns over the deed to a residential property at little or no cost to a homesteader. The homes involved have been obtained by governmental units through tax delinquency proceedings, lien foreclosure, or from the federal government. The local government then turns over the house to an owner occupant on the condition that the new occupant will rehabilitate the house to local standards within a specified period. Usually the transfer of the house is also conditioned on the new owner occupying it for a specified period of time. At the end of this period, the homesteader receives clear title to the property. The homes involved are generally in older areas of cities, although they may be concentrated in a specific area or scattered throughout a number of such neighborhoods.

The urban homesteading idea was initiated by local governments. Some of the earliest and most publicized urban homesteading programs have been undertaken in Baltimore, Maryland, Wilmington, Delaware, and Philadelphia, Pennsylvania. In addition, some states, such as Minnesota and Rhode Island, have enacted legislation which facilitates urban homesteading in those states. The federal government became involved directly in urban homesteading through enactment of a provision in the Housing and Community Development Act of 1974. In Missouri, both Kansas City and St. Louis are

carrying out urban homesteading programs in co-operation with the U.S. Department of Housing and Urban Development (HUD), under the 1974 legislation.

This paper will examine the elements involved in developing and carrying out an urban homesteading program. It will draw on examples from communities in Missouri and elsewhere, as well as describing the provisions enacted by Congress in 1974.

Administrative Framework

Generally, urban homestead programs have been developed by local governments. They are established by local ordinance and usually the program is administered by a board nominated by the mayor and approved by the city council. In Kansas City, the homesteading program, which began in March of 1976, is administered by the Urban Homesteading Authority, a component of the Housing Development Corporation and Information Center (HDCIC). HDCIC is a non-profit, quasi-governmental corporation. The Urban Homesteading Authority was established as part of that corporation because the city is not permitted to convey property without compensation. The authority consists of the assistant city manager, the director of the Department of Urban Affairs and the Director of the City Development Department. The City Council approves the authority's budget, which is from community development block grant funds received by the city.

In St. Louis, the homesteading program, which received HUD approval in March, 1977, is administered by the Community Development

Agency (CDA). The agency receives its support from community development block grant funds. Although the Kansas City program had acquired 54 units and conveyed 44 of them to homesteaders as of December 1, 1977, the St. Louis program was in preparation and had not yet acquired any homes.

Other cities around the country have homesteading programs with a variety of administrative structures. In Philadelphia, the Urban Homesteading Board consists of one person from each of the following groups: architects, contractors, the Building Trades Council, clergymen, savings and loan associations, and the general public, in addition to two City Council members and the Executive Director of the Redevelopment Authority and the Executive Director of the City Planning Commission.

Wilmington, Delaware, also has an administrative board. The Wilmington board members are each assigned several homesteaders, supervising the entire homesteading process. The limited scope of the program (only 28 units had been homesteaded between the inception of the program in 1973 and the 1975 report) makes this approach possible.

The Wilmington enabling legislation is less specific than that of Philadelphia. It does not identify the board members or their term. In practice, the board has been composed of the Director of Planning, Commissioner of Licenses and Inspections, Deputy Commissioner of Public Works, Assistant City Solicitor, and the Mayor's Public Policy Advisor.

Baltimore, Maryland, also operates its urban homesteading program through a municipal agency, but in a manner which permits more flexibility than either Philadelphia or Wilmington. Enabling legislation was unnecessary because the Department of Housing and Community Development (DHCD) already had sufficient authority to enable it to integrate homesteading with its traditional programs, to filfill its legislative mandate to foster homeownership and create a healthier environment for homeowners.

The DHCD had responsibility for management of city owned properties which had come into municipal ownership through tax delinquency, abandonment and condemnation. It also had the task of returning these properties to the housing supply. DHCD already had direct control over the functions necessary to a comprehensive and coordinated program: planning, zoning, inspection, rehabilitation, renewal, acquisition, financing, and public housing. The adoption of urban homesteading by the DHCD obviated the need for a distinct agency.

Selection of the Homestead

The question of homestead selection involves both site selection and structure selection. Sites may be scattered throughout a viable neighborhood or concentrated in a deteriorating neighborhood. Structure selection is a matter of choosing buildings which are structurally sound and will not cost more to rehabilitate than they are worth on the open market when finished.

There are policy considerations in support of both scattering and concentrating homesteads. Isolating abandoned residences in relatively viable neighborhoods can prevent deterioration of a basically sound neighborhood. However, property owners in those neighborhoods sometimes suggest that the use of homesteading in the area may undermine the real estate market in the area.

The Kansas City program focuses on four neighborhoods: 49-63 Neighborhood, Blue Hills, Vineyards and Town-Forks. HUD is making homes available to the Urban Homesteading Authority in those areas. In St. Louis, the program is so new that specific locational decisions have not been made, but the agency intends to concentrate on the northwest portion of the inner city.

The Baltimore experience suggests the benefits of concentrating the homesteading program. In the first year of the program, 105 houses were awarded to homesteaders. Of the 80 households who were awarded homes on scattered sites, only 40% were still active in the program at the end of the year. The other 25 homesteaders were rehabilitating homes on two sides of one block. Only two households dropped out of the program during the year and they were quickly replaced. By the end of the second year of the city's program, 227 households were actively participating in the program. The withdrawal rate for the scattered site homesteading was still at least twice that in the concentrated areas. Baltimore officials attribute this

result to the mutual support provided to homesteaders in a concentrated area and to the improvements that the city made in the area.

Generally, local agencies attempt to select structures for homesteading that will increase in value as a result of the rehabilitation that is commensurate with the cost of the improvements. Usually, a systematic inspection is carried out before a decision is made to select a structure for the program.

A unit must be structurally sound to qualify for homesteading, or, if structurally deficient, the problems must be detailed to the prospective homesteader. This information may be transmitted by advertising the availability of particular structures for homesteading and sponsoring "open houses" on certain days prior to accepting applications from interested buyers. At that time, estimates on repairs are often posted at each house.

Cities vary tremendously on rehabilitation cost ceilings. In Kansas City, the cost of rehabilitation generally ranges from $10,000 to $17,000, although one home required only $4,000 worth of rehabilitation. Since the St. Louis program is in the planning stages, there has not yet been any experience in determining rehabilitation costs.

Baltimore has a ceiling of $17,400.00. Wilmington's rehabilitation costs are not intended to exceed $10,000 per unit on the first wave of homesteads and $20,000 on the second

wave. Philadelphia places the general feasibility threshold at $5,200-$6,000. Atlanta's cost average is even lower - $4,000. Chicago demonstrates the cost variation possible in a rehabilitation effort: costs are from $3,000 to $16,000. Although these costs relate only to single-family homes, multi-family dwellings have also been made available in most homesteading programs.

Sponsoring municipalities have traditionally acquired title to properties through foreclosure on tax delinquent parcels. However, this process is a long one. In Baltimore, the city must wait one and one half years before instituting proceedings. After a sheriff's sale, the redemption period runs for another year. The redemption period is reduced to sixty days if the building is in substantial violation of the building code or will be so within six months.

In addition to tax foreclosures, municipalities or other governmental entities may acquire residential properties under the Housing and Community Development Act of 1974. Under this statute, HUD can transfer properties it has acquired through foreclosure of FHA-insured mortgages to local and state governmental bodies.

Under Section 810 of the Act (12 USC 1706e), the Secretary of HUD is authorized to transfer one to four family homes to which the secretary holds title to local or state governments, at little or no cost. The homes must be vacant and they have to be requested by the local or state entity as part of an urban

homestead program approved by HUD. The statute identified the programs which HUD must approve. First, the program must convey unoccupied homes conditionally to individuals or families at no substantial cost. Second, the program has to have an equitable procedure for selecting families to participate in the program, with consideration given to their need for housing and their ability to rehabilitate it. Third, programs have to place conditions on the conveyance of the homes, including agreement by the homesteader to: 1) occupy the residence for not less than three years; 2) make repairs necessary to meet minimum health and safety standards before occupying the house; 3) make additional repairs necessary to meet local housing code standards within eighteen months after occupying the property; 4) permit reasonable inspections by public officials to determine compliance with these requirements. Local and state programs also had to transfer title to the property after the homesteader had met these responsibilities. Finally, HUD is to approve homestead programs where the program is part of a co-ordinated approach to neighborhood improvement, involving upgrading of community services and facilities.

Having approved a local or state homestead program, HUD may then transfer properties in its inventory to the governmental unit involved at no cost. HUD is to determine the suitability of a residential property for use in an urban homestead program, based on: 1) the delays and difficulties which would be involved

in selling it; 2) the value of repairs and improvements required; 3) benefits to the community and the reduced administrative costs to the federal government in removing the property from the government's inventory; and 4) the possible loss to the federal government in transferring the property without compensation.

In the first year of the program, HUD made 900 units available in 23 cities. In the second year, HUD added ten cities and 1,000 units to the program. Kansas City and St. Louis are both participating in the HUD program. In Kansas City the homesteading authority purchases homes on an "as is" basis from HUD, for an estimated average purchase price of $4,000. The St. Louis program will also involve "as is" purchases of HUD-repossessed homes.

A third method of acquisition of properties for homesteading is through public nuisance proceedings. In Philadelphia, frequent canvassing of neighborhoods makes it possible to determine whether the units meet the following criteria for eligibility as a public nuisance: 1) vagrants congregate in an otherwise sound neighborhood; 2) continuously reopened by vandals after it has been sealed; 3) has suffered extensive fire damage; 4) has been the scene of numerous small fires; and 5) the only severely deteriorated home in an otherwise "sound and useful" neighborhood.

Yet another method of acquisition is through eminent domain proceedings. These actions provide a judicial determination of value for which the owner is to be reimbursed. It is also possible to acquire homestead property through gift. Philadelphia

encourages this by offering to forgive a taxpayer delinquent property taxes if he makes a gift of the property to the city.

Last, acquisition can be accomplished through purchase. However, this procedure is vulnerable to inflated purchase prices.

Homesteader Selection

In most homestead programs, there is a set of requirements that must be met to be eligible as a homesteader. Then there is a selection process to choose the homesteader for a particular property from among those who are eligible for the program. The minimum requirements vary widely, although most programs require that homesteaders be American citizens (or intend to become citizens), over 18 years of age (in some, the minimum age is 21) and/or the head of a household. Generally, homesteaders must also be legally competent to enter into contracts. Some programs require that homesteaders be residents of the sponsoring city. The financial requirements also vary.

In Kansas City, homesteaders must be residents of the city, over 18 years old, and a citizen of the United States. They cannot own a home or other real estate in Kansas City. The minimum income limits are based on family size:

Number of Persons in Family	Minimum Income
1-2	$ 7,500
3	$ 8,250
4	$ 9,000
5	$ 9,750
6	$10,500
7	$11,250
8 or more	$12,000

In St. Louis, there is no age limit for homesteaders and income limits have not yet been established. Homesteaders cannot own other real property and they do not have to be residents of the city of St. Louis.

In Baltimore, where the rehabilitation costs are very high, the financial capacity of the individual is very important. Wilmington requires prospective homesteaders to meet income flow requirements and to be a good risk at financial institutions. The income of the average homesteader in Wilmington is $9,300. In Philadelphia, the homesteader must have the ability to maintain a steady job and a constant flow of year round income. In Atlanta, the homesteader should have enough money and credit to afford the renovation - but not enough to buy a house. In New York City, the minimum family income is $15,000. In Boston, the homesteader must have at least $2,000 on hand and be able to pass a credit check for an amount equal to the cost of rehabilitation.

The required financial resources may be offset to some extent by the building trade skills and craftsmanship ability that the homesteaders are able to use to rehabilitate the structure to housing code standards. The personal effort expended in rehabilitation is referred to as building "sweat equity" in the property, and it is from this concept that the originators of urban homesteading draw the parallel to the homesteading effort on the Western frontier in the 1860's.

(The above discussion relates to individual applicants for the homesteading program. Other potential homesteaders include non-profit corporations and neighborhood coalitions. The People's Development Corporation, a group composed primarily of young, low-income blacks and Hispanics homesteading a tenement in the South Bronx, is a much publicized example of such a non-profit corporation.)

To select a homesteader from among those eligible, the sponsoring agency advertises the program in the local media along with information on the application procedures. The homes are opened for viewing either at an open house or on an individual appointment basis. At this time the detailed information regarding necessary renovation is made available. Interested parties apply for a particular unit. A credit check is run and detailed financial and biographical information is gathered. In some cities, a formal interview is required. The staff then makes recommendations to the board responsible for the decision. If more than one homesteader is qualified for a particular parcel, a lottery is usually held.

The Kansas City authority has received 750 applications for homesteading. The authority screens applicants for their financial capability and has found 40 percent of the applicants to be creditworthy for the program, or "bankable". The authority then asks those who are found to be creditworthy to identify homes that they would like to acquire from the authority's list.

The homes must be the appropriate size for the family. The authority then holds a drawing to select the homesteader. The homesteader pays $1.00 for the home.

Covenants and Title

In return for a token fee and promises to: 1) occupy the premises within a certain amount of time; 2) perform major repairs within a relatively brief period of time; 3) perform all repairs within a longer period of time; and 4) reside in the premises for a term of years, the homesteader receives title to the property in fee simple.

The token fee is usually one dollar plus title charges ($100-200), and may include a fee for the credit check and/or property inspections. The fee may run as high as $300, as in Rochester, New York.

The homesteader often has to move in and/or make major repairs within sixty days. Usually housing and building code violations must be corrected within eighteen months.

The residency requirement varies from three to five years. In the event that a homesteader desires to move before the residency period had expired, he or she may sell the property for a price representing the amount of equity accumulated in the property. Alternatively, the sponsor may require the homesteader to sell for a price representing no more than the amount of money invested in the parcel.

In Kansas City, the homesteader must reside in the home for five years. The home must be rehabilitated to the city's code standards and must also meet the authority's own standards. During the five year period, the home is subject to inspection to determine whether it is in compliance with these standards.

In St. Louis, the homesteader has twelve months to rehabilitate the home so that it meets city code requirements. After that, the homesteader must reside in the home for three years.

Financing

The availability of financing and supportive services sets limits on the scope of the homesteading program. Federal funding has been heavily relied on by municipal homestead organizations. Section 312 of the Housing Act provides loans for rehabilitation at a three percent interest rate for twenty years for renovations of up to $12,000. Through HUD's homesteading program, HUD has also made $11.5 million worth of homes available and $13 million in three percent, twenty year loans for distribution among selected cities.

In Kansas City, the homesteading authority assists in the financing process by referring homesteaders to co-operating lenders, both commercial banks and savings and loan associations. The authority prefers to use private financing, although federally assisted Section 312 and Title I loans are also available. In St. Louis, the city agency that administers the Section 312

program also administers the homesteading program, so there is likely to be a linkage between these programs. It is also expected that private financing will be available.

Some states have become involved in financing urban rehabilitation programs. Philadelphia has employed long term financing from the Pennsylvania Housing Finance Agency (PHFA) as part of a two-step procedure in providing financing. The program provides initial financing through the Urban Homesteading Finance Corporation, a consortium of churches, volunteers and financiers who have independently established a $300,000 loan fund for use in six month, six percent loans. This step is similar to a conventional construction loan in that it grants start-up monies to qualified homesteaders to begin reconstruction and thereby begin to establish equity in the parcels. Once equity is established, the PHFA takes a mortgage on the property and grants a loan at three to seven percent interest for terms of five to fifteen years.

Municipalities have also funded their own programs, especially by floating bonds. Baltimore has established the Residential Environmental Assistance Loan Program (REAL) from a three million dollar bond issue, with authority to grant loans up to $17,400 at six percent interest for twenty years.

Some cities may be prevented by their state constitutions from using public funds to improve private property. Such is the case in Wilmington, Delaware, which has turned to encouraging financial institutions to make loans to homesteaders. Eight local

financial institutions agreed to make three loans annually each of up to ten thousand dollars, at a moderate reduction in the interest rate. Initially, the lenders required a guarantee from the city. The city, therefore, pledged to cover forty percent of any loan that went into default. As the homesteader pays back the loan, the amount guaranteed by the city declines by that amount; when the homesteader has repaid forty percent of his loan, the city is free of its obligation.

Conclusion

Urban homesteading is an approach to the problem of housing abandonment which has beset many of our older cities. It is not designed as a large scale program, but one which has to be carried out with considerable administrative control and care. It provides owners for abandoned homes, but conditions their ownership on a commitment to rehabilitate the structure to local housing code standards. It seems to be particularly appropriate when the homesteading program is concentrated in a small area, where there is mutual support among the homesteaders, and where the local government is engaged in a comprehensive program to improve the neighborhood by upgrading public facilities and services.