FINAL EVALUATION OF THE DOVER ESTATES PROPERTY DISPOSITION DEMONSTRATION

PROPERTY DISPOSITION
DEMONSTRATION
DATA GATHERING,
ANALYSIS, AND EVALUATION PROGRAM

Prepared For

THE OFFICE OF POLICY DEVELOPMENT
AND RESEARCH
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EXECUTIVE SUMMARY

The Dover Estates demonstration is one of several innovative property disposition efforts in progress around the country. The Department of Housing and Urban Development (HUD) has experienced growing inventories of vacant and boarded-up properties in many urban and suburban areas, usually acquired through default on federally insured mortgages.[1] These properties often attract vandals and other criminal elements. The presence of a large number of empty vandalized houses damages a neighborhood's attractiveness and lowers the value of sound housing in the area. As a result, neither homeowners nor HUD can dispose of their properties without financial loss, and the cycle of abandonment and blight is intensified.

In these more difficult conditions, HUD has recognized that traditional business-oriented disposition techniques, such as bulk sale, repair and sell, and as-is sale, are not always sufficient. An integrated program of neighborhood stabilization is needed to return market conditions to normal, permitting HUD to dispose of properties, avoid further acquisitions, and achieve social objectives.

DEMONSTRATION CONCEPT AND OBJECTIVES

The demonstration approach used for disposing of properties in Dover Estates was designed to aid subdivisions that have a high percentage--more than 10 percent--of abandoned and foreclosed properties. The approach can be used when traditional methods have not proved entirely satisfactory in (1) reducing HUD's inventory, (2) minimizing losses to the HUD insurance fund, and (3) stemming further default, abandonment, and blight.

Dover Estates is a subdivision with 411 properties located in the southwestern corner of Taylor, Michigan. The subdivision was developed in 1969-1970, with Section 235 used as the main financing vehicle. Taylor is 12.5 miles southwest of Detroit's center city. Since 1969, approximately 50 percent of the houses in Dover Estates have defaulted to HUD. When the demonstration began in April 1975, HUD had over 100 houses in inventory, virtually no sales market existed, and extensive vandalism on the vacant houses was causing further default, abandonment, and blight in the subdivision.

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[1] For "non-inner-city" property, this problem was paramount between 1973 and 1976. Currently, with the exception of isolated cases, the non-inner-city property is under control.

Because HUD was unable to sell its properties under these conditions, an intervention approach was developed to quickly stablize the sales market, eliminate holding costs, and maximize return to the insurance fund.

The intervention strategy needed had to address the following objectives:

- Remove the visible blight in the subdivision caused by vacant units, and increase neighborhood appeal by repairing and refurbishing the units and having them occupied.

- Help establish a normal real estate sales market in the subdivision by limiting the rate at which HUD-acquired units are introduced on the market to a level that can reasonably be absorbed. Improve the properties and the neighborhood and control the number of properties on the market to:

    - aid in reversing the downward trend of property values in the subdivision; and

    - help establish or restore a reasonable rate of appreciation in the subdivision which will permit normal turnover of properties.

- Reduce the rate of additional foreclosures over time and thereby reduce the risk of additional losses to the insurance fund.

- Attract a number of higher-income families to the subdivision and thereby facilitate the sale of HUD-acquired units to individual purchasers without the use of subsidies.

The strategy developed for Dover Estates relied on the presence of a viable rental market in the absence of a sales market. Properties were rehabilitated to better than new condition and provided better accommodation than equivalently priced apartments or single-family rental units. In addition, a substantial social services and municipal services program with highly viable city involvement was developed to further enhance the marketability of the subdivision. It was then possible to attract tenant families with incomes sufficiently high to purchase the properties at market value, who would not otherwise rent or purchase in a blighted or low-income area.

The program was implemented by renting fully repaired properties prior to their eventual sale. By restoring units to like-new condition, adding above-standard amenities, and renting the units to higher-income occupants, the neighborhood began to stabilize. Since the subdivision was in blighted condition when the demonstration began, the interim rental period was essential to provide time for the removal of physical blight and the higher level of occupancy to have a stabilizing effect on both existing owners and new tenants.

The demonstration approach was implemented jointly by HUD, the city of Taylor, and a special purpose organization, called the Neighborhood Development Commission (NDC), created and sponsored by the city. The city served as the area manager for the neighborhood or subdivision, and the NDC functioned as the project manager for units that the city has leased from HUD.

REPORT OVERVIEW

Throughout the text of this evaluation report, the achievement of the objectives outlined above are examined as well as those factors which have facilitated or impeded progress toward these objectives. The remainder of the report is divided into five sections as follows:

- Description of the Dover Estates Demonstration introduces the troubled subdivision and city and the background which led to the implementation of the demonstration concept.

- Demonstration Impact Analysis presents the findings of an evaluation team, resulting from an analysis of property transactions, a comparison of real estate activity for the subdivision and the city, a benefit/cost analysis, and a socioeconomic analysis.

- Programmatic Evaluation: Internal Project Components discusses the role played by management at all levels in achieving the demonstration's purpose.

- General Applicability and Program Recommendations elaborates on the utility of the program for other neighborhoods in similar distress and the various refinements to the demonstration which may help, in the future, to avoid some of the obstacles encountered during the 3-year life of this program.

Finally, a series of appendices are included to describe the methodologies used for analyzing project components and to provide additional documentation of specific events which have occurred throughout the history of the program.

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

The evaluation team's most important conclusions about the demonstration are based on data collected since the program's inception. Also provided is a series of recommendations which are aimed at refining the existing demonstration concept so that, in future use, some of the problems observed during the past 3 years may be avoided.

Conclusions

The program proceeded at a slow pace and experienced internal and external obstacles. The slow progress toward the achievement of the objectives was a result of management problems rather than the demonstration concept. While the program objectives have been achieved, the nature of the program changed from its original concept. The primary change was the substitution of a private sector management firm to replace the public management provided by the NDC and the city.

While this change was required to resolve management problems, the demonstration concept would not have worked without city/NDC participation throughout the project. The city provided the initial thrust for program development and supported it after inception by providing public services and management capacity. Because the neighborhood was severely distressed, the city's on-site presence and delivery of services were essential to promote neighborhood stability.

As the demonstration proceeded, however, it became evident that the local government's management capacity was not sufficient to effectively operate the real estate component of the Dover Estates demonstration. While the NDC staff was successful in coordinating the delivery of program services (e.g., recreation program and day care center), its limited real estate and general management experience reduced its overall effectiveness.

Related management problems also occurred because the management structure was awkward and the program vulnerable to the local political changes. The management structure consisted of five parties: HUD Central, HUD Detroit, the city of Taylor, NDC Commissioners, and NDC staff. The structure proved cumbersome due to unclear communications among participants and unclear lines of authority and responsibility for maintaining various program components.

Local political considerations also influenced the demonstration's progress. Because the day-to-day operation of the program was a city function, program operations were sensitive to changes in local government priorities. The election of a new mayor in the city of Taylor was a case in point. With the change in administration, the city changed focus from its previously major involvement in the program. This shift was observed by residents and served to refine the effectiveness of a basic component of the demonstration--commitment of local government.

The following conclusions address the specific demonstration objectives and outcomes:

- HUD's net financial investment (loss) in Dover Estates was approximately $2.5 million ($16,234 per property). This investment is less than would have been necessary under traditional disposition techniques. The difference in costs between HUD's demonstration investment and the investment under bulk sale or repair and sell programs has been estimated in current dollars as $960,036 and $744,590, respectively (a cost savings of $6,234 per property over bulk sale and $4,835 over repair and sell options).

- The sum total of quantitative and qualitative benefits resulting from the demonstration exceed the total program costs. The following primary benefits of the demonstration were realized:

  - Property values were restored to their original level.

  - County and local property tax revenues were preserved.

  - The demand for social services declined as a result of the demonstration and special services.

  - The number of police calls and crimes committed declined, and there was a corresponding increase in perceived personal safety among the residents.

  - The level of vandalism was reduced, resulting in cost savings to HUD, the city, and subdivision residents.

- As a result of the demonstration, the socioeconomic characteristics of the subdivision residents changed from predemonstration resident socioeconomic characteristics.

- The demonstration attracted families with socioeconomic characteristics that were similar to those of families who purchased without subsidy demonstration and other unsubsidized purchasers had socioeconomic traits that differed significantly in terms of income, sex of household head, single-parent households, and number of children per household from the original subdivision residents.

- The demonstration had a limited effect on the rate of foreclosures in Dover Estates. The foreclosure rate decreased from its highest point, 15 to 20 per quarter, prior to the demonstration's inception and fluctuated between 0 and 6 foreclosures per quarter since the second quarter of 1975, when the demonstration began. The pattern of foreclosures appears to have declined slightly from the pattern that would have occurred without a demonstration.

- The sales market in the subdivision improved in volume but not price since the demonstration began. While the number of transactions increased, prices in current dollars stabilized at $21,500. Prices did not keep pace with inflation and, in real terms, constitute a decrease in property values.

- Rental demand for Dover Estates properties was sufficient to minimize vacancy rates. Twenty-five properties were sold to date through the program. The progress has been much slower than planned or anticipated for the program. The HUD Detroit Area Office initiated a program of direct sales which do not include lease options. This effort has met with success; sales contracts have been written under a "to be repaired" program.

- The role of the local government as a supporter and provider of social services was essential to stabilize Dover Estates. The support was strong during the first 2 years of the demonstration, but over time the city's policy changed with respect to the program and the city's commitment to the program was reduced.

Recommendations

The concept of devising and demonstrating a unique disposition strategy was an appropriate mechanism to achieve occupancy and to facilitate homeownership given the distressed conditions of Dover Estates. The demonstration's slow progress and problems were not a function of a faulty concept but program operations. The recommendations offered below are aimed at refining the program so that future users may avoid the problems associated with the demonstration:

- the use of professional property managers to administer real estate operations. Because a real estate operation is complex, requiring special skills and systems, reliance on a local government for managerial capacity is not recommended. Rather, the blending of private and public resources is encouraged to provide the mix of skills necessary to operate a large-scale and broadly scoped program such as the Dover Estates demonstration. The appropriate role for local government is to develop and implement various services (e.g., increased police protection, and juvenile and day care programs) to support the objectives of community stabilization. Overall management responsibility should be assigned to a professional concern.

- the assignment of overall program authority and responsibility to one level of government. This recommendation is aimed at simplifying the program's management structure. By locating control at one government level (federal, state or local), it is possible to avoid some of the frequently observed management programs such as communication gaps or two authorities making conflicting policy decisions. A case can be made for locating control at either the federal or local level. The proper decision is a function of neighborhood conditions, the HUD inventory, and local interest and competence. In situations where the local government assumes program control, HUD should establish a financially independent program, require the city to contribute financially, and withdraw from program operations except to provide technical assistance. In addition, HUD should try to ensure that, under such a program, local government retains professional real estate management.

- the definition of program components and expected outcomes in advance of program implementation. Advanced planning is essential to good management. In many cases, the NDC was unsure of its authority and, consequently, required assistance in making decisions. The resulting confusion and delays reduced the NDC's effectiveness. This problem could have been avoided if all responsibilities and requirements were delineated before the program was implemented. This recommendation is aimed particularly at the assignment of financial responsibility for maintenance and repair work. Carefully specified program outcomes can also serve as a basis on which to assess a program's progress and can provide direction to its managers.

It is the intent of these recommendations to assist in the development of new property disposition programs. Both the recommendations and conclusions stated above are expanded throughout the body of this report.

Finally, a model property disposition program, complete with sample plans, legal documents, and so forth, was developed and published under separate cover.

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I. CHRONOLOGY AND DESCRIPTION OF THE DOVER ESTATES DEMONSTRATION

This section documents the history of the demonstration to date and describes:

- the concept of the demonstration property disposition approach;
- a description of the city of Taylor, where the demonstration subdivision, Dover Estates, is located;
- characteristics of the subdivision itself;
- history of the Dover Estates problem which led to HUD's intervention and the strategy used; and
- recent events which may influence the outcome of the demonstration.

CONCEPT OF PROPERTY DISPOSITION DEMONSTRATION APPROACH

The demonstration approach used for property disposition in Dover Estates is designed to address the following problems:

- The neighborhood has a high percentage of abandoned and foreclosed properties.
- HUD's traditional disposition techniques have proven inadequate, as evidenced by the following:
  - HUD's inventory is not being reduced;
  - the expense of acquiring and holding properties continues to drain HUD's insurance fund;
  - the cycle of default, abandonment, and blight is unabated; and
  - neighborhood conditions are continuing to deteriorate.

The basis for the demonstration was to withdraw the properties from the already over-supplied sales market. To accomplish this without continuing the drain on HUD's insurance fund or other resources, the properties were rehabilitated to a better than new condition. These units were successful in attracting tenants who were financially stronger than many of the neighborhood's recent new residents. The fact that the once deteriorating properties were repaired and occupied by economically stable families has contributed significantly to the stablization of Dover Estates, while at the same time, HUD was able to hold its inventory without substantial loss while the market recovered. Rental agreements include options to buy as well as graduated rent payments that will eventually match mortgage payment levels. It was hoped that future abandonments and defaults would be reduced by thus preparing purchasers for becoming homeowners.

The demonstration approach is implemented by HUD, the city of Taylor as the concerned local government, and the Neighborhood Development Corporation (NDC), a special purpose organization created and sponsored by the local government. The city serves as the area manager for the neighborhood or subdivision, and NDC functions as the project manager for units under lease from HUD.

The following legal agreements are the mechanisms for implementing the demonstration approach:

- A <u>cooperation agreement</u> between HUD and the local government obligates the local government to try:

    - to improve the socioeconomic conditions of the area;

    - to emphasize the performance of municipal functions and recreational facilities;

    - to encourage municipal employees, particularly firemen and policemen, to reside in the subdivision; and

    - to improve the services and facilities of the neighborhood.

  Under the agreement, HUD, as owner, finances the repairs necessary to rehabilitate the properties.

- The <u>area management</u> contract enables the city to control and supervise the neighborhood from the time the cooperation agreement is executed until the properties are rehabilitated. (Among the city's responsibilities during this time are the inspection of the repair work to ensure that it complies with local codes and any occupancy requirements.)

- The master lease agreement provides for the special purpose organization (SPO) to sublease the units to eligible individuals with a purchase option. The property is transferred from the area manager contract to the master lease agreement after repairs have been completed and the unit is occupied. The master lease requires a minimum rental period to provide for neighborhood stabilization and evaluation of tenants' potential as purchasers. Rents are based on the net "as-is" value of the property on a bulk-sale basis.

- The sublease between the SPO and the tenant sets out the responsibilities of each regarding maintenance of the property, charges for late rent, eviction, access, and other areas. Rents under the sublease are to be gradually increased to reach the payments necessary to sustain the required mortgage payments associated with the anticipated value of the property in a fully recovered and stabilized neighborhood.

- The management plan, prepared by the SPO and approved by HUD, describes the detailed plan by which the SPO will (as the designated "line" agency) perform the responsibilities ascribed to the city under the cooperation agreement, the master lease, and the sublease. Specifically, the plan describes such functions and processes as staffing and roles, tenant selection process, landlord/tenant relations, and accounting and financial procedures. The maintenance and neighborhood services plans outline intended procedures for implementing services in those areas.

DEMONSTRATION SITE - TAYLOR, MICHIGAN

Taylor, Michigan, the site of the Dover Estates, is located approximately 12.5 miles southwest of Detroit's center city. According to the 1970 census, Taylor's 70,020 inhabitants are 99 percent white, and its employed population is predominantly working class. Only 14 percent of the people employed in 1970 had professional or managerial occupations. Based on membership rolls of the UAW and AFL-CIO, the city estimates that at least 65 percent of its working population is affiliated with some workers' organization.

According to several city employees interviewed, the city has had a substantial influx of families in poverty because of construction for low-income people subsidized and insured by HUD during the late 1960s and early 1970s. In 1970, the Michigan Department of Social Services client concentration in Taylor was 1,188, and the Communities United for Action (the OEO agency for Taylor) determined that there were 5,833 OEO-eligible residents, or 8.3

percent of the 1970 population of Taylor. The average family income in 1970 for Taylor was $11,800.

The majority of housing in Taylor is owner-occupied and single-family dwelling units, 82 percent and 89.5 percent respectively.[1] In 1970 the average asking price for a house was $18,670.[2] According to the Down River Board of Realtors' Multiple Listing Service, between January 1974 and June 1975 the average sale price increased to $24,650.

By 1972, the Dover Estates subdivision was heavily impacted by abandonment, vandalized housing, and a high level of criminal activity. Although other Taylor subdivisions were also beginning to experience blight, Dover Estates was in the greatest distress. As a result, the subdivision required a disproportionate share of municipal services. When the Dover Estates' proportion of Taylor's crime rate went from 2 percent to 11 percent in 2 years while representing only 1.6 percent of the housing,[3] the city and its agencies began to consider ways to deal with the problem.

DEMONSTRATION SUBDIVISION - DOVER ESTATES

Dover Estates is a subdivision of 411 properties located in the southwest corner of the city of Taylor.[4] The subdivision was developed by Seligman and Sons in two parts in 1969-1970 under FHA supervision, with Section 235 used as the main financing vehicle.

Dover Estates is bordered on the west by the Detroit Metropolitan-Wayne County Airport and an area of primarily low-density, older, single-family houses in the city of Romulus. It is bordered on the east by approximately 1,900 rental units of townhouses and walk-up garden apartments, of which about 1,700 are insured-assisted units under the FHA 236 program. This complex

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[1] U.S. Bureau of the Census, Census of Population and Housing: 1970, Census Tracts, Series PHC (1) 58, Detroit, Michigan, SMSA.

[2] U.S. Bureau of the Census, Census of Population and Housing: 1970, Census Tracts, Series PHC (1) 58, Detroit, Michigan, SMSA. Based on information from realtors or, if unavailable, from neighbors of house for sale.

[3] 1970 Census plus "Authorized Building Permits," from Residential Construction in Southeastern Michigan, 1970-75, SEMCOG.

[4] There were originally 412 units, but one was gutted by fire and will not be rebuilt.

was built by the same developer as Dover Estates and is still under his control. All the multifamily units are in fair condition, although signs of wear and deferred maintenance are apparent.

A shopping center was built north of Dover Estates to provide services to the subdivision; however, only two stores were ever occupied. Since it was owned by the now bankrupt W.T. Grant Company, it has recently closed, leaving few shopping facilities in the immediate area. From 1970 until 1974 when the elementary school opened, the children in Dover Estates had to be bussed to six different elementary schools.

The Dover Estates subdivision has paved streets, curbs, gutters, sidewalks, underground utilities, and street lights. The lots are approximately 7,200 square feet with 60-foot frontage. Each lot has a one-story frame dwelling unit with brick veneer on the front and sides and aluminum siding on the rear; none of the units has a basement. Most of the structures have three bedrooms, one bath, a living room, dining area, and kitchen. The houses were not originally equipped with stoves or refrigerators but had garbage disposals. The three-bedroom models contain 988 square feet of finished area heated with a gas-fired, forced warm air system and were orginally priced at $21,000. The four-bedroom models contain an additional 200 square feet of finished area and were put on the market for $24,000. Although the first section of the subdivision was completed in May 1969, and the second section in October 1970, the first units were not sold until that October.

Based on data from HUD's Five-Year Statistical Master File, the original homeowners were predominantly white (92.4 percent), middle- to low-income families.[1] The average annual family income was $6,542, which is approximately $5,200 less than the 1970 average for the city of Taylor. The average age for both husbands and wives was 32 years old.

Dover has had financial difficulties almost from the beginning. One of the real estate salesmen was jailed for false reporting, which indicates that perhaps not all of the homeowners were fully qualified for 235 assistance. Records also indicate that some of the original homeowners were on welfare or otherwise were not acceptable financial risks. Although no pre- or post-occupancy financial counseling was available for the first groups of homeowners, financial counseling agencies have been working with residents of the subdivision since early 1972. By that time the subdivision was in severe distress, and a substantial number of houses had been abandoned by their occupants.

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[1] Data from the Five-Year Statistical Master File represent only that portion of the population in Dover that responded to the particular questions used to categorize various data items.

In an attempt to remedy this situation, HUD decided to offer some of its properties in bulk sales to individual developers. Between April 1973 and November 1974, HUD sold 69 properties. Lewis Hadad bought 52 properties at an average price of $9,000 each. As of March 1975, Hadad had resold 18, or 35 percent, of these properties to owner-occupants and 10 to the Lincoln Finance Company. Since March 1975, an additional seven properties were sold. The 35 Hadad properties sold in total had an average sale price of $20,400.

During the same period, HUD sold 17 properties to Aires Corporation, which, in turn, resold all its properties to owner-occupants for an average sale price of $17,800. Thirteen were sold prior to March 1975, the start of the demonstration project. Exhibit I-1 shows HUD's disposition of acquired properties and the subsequent resale by the two developers.

The housing sales market in Dover Estates and in Wayne County in general has been slow over the past few years because of tight money, high interest rates (fluctuating between 7.66 and 10.21 percent in the Detroit SMSA between 1973 and 1974), and a slowdown in employment and overtime work in the area's automobile factories. Between January 1974 and June 1975, the unemployment rate in Taylor averaged 10.9 percent, with a high of 16.1 percent in February 1975. Unemployment rates for Wayne County are somewhat higher, with an average of 11.7 percent and a high of 17.6 percent for the same 18-month period.

In addition, competitively priced housing has been available in nearby areas. Between 1974-1975 in the city of Taylor, one-story frame dwelling units similar to those in the Dover Estates sold for an average of $22,000. The same type of house in other areas of Down River, Michigan (the southern half of the Detroit SMSA), sold for an average of $21,900.[1] As a result of these factors, the method of property disposition through "as-is" sales to bulk purchases did not have the desired impact upon Dover Estates.

An analysis of the status of the same dwelling units until the demonstration program was implemented in April 1975 reveals that almost 39 percent of the 411 original units sold were in foreclosure, and 42.6 percent were acquired by HUD for an average price of $22,900 per unit. Over the same period, only 46 or 11.2 percent of the 411 units were resold to a new owner-occupant for an average sale price of $18,600. In 1974, FHA appraised typical three- and four-bedroom houses in Dover at $19,900 and $20,500, respectively, while VA appraised them at $17,500 and $18,500.

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[1]Down River Multiple Listing Service.

EXHIBIT I-1

DISPOSITION OF HUD-ACQUIRED PROPERTIES IN THE DOVER ESTATES DEMONSTRATION PROJECT

	HUD DISPOSITION			DEVELOPER RESALES		
MONTH	Average Sale Price	Number of Properties Sold	Purchaser	Developer	Number of Properties Sold	Purchaser
April 1973	$9,000	36	Hadad	-	-	-
June 1973	19,500	1	Owner/Occupant	-	-	-
July 1973	-	-	-	-	-	-
September 1973	-	-	-	Hadad	1	Owner/Occupant
October 1973	-	-	-	Hadad	1	Owner/Occupant
December 1973	-	-	-	Hadad	1	Owner/Occupant
January 1974	9,000	14	Hadad	-	-	-
February 1974	-	-	-	Hadad	7	Lincoln Finance
April 1974	-	-	-	Hadad	2	Lincoln Finance
June 1974	8,200	14	Aires	Hadad	1	Owner/Occupant
July 1974	9,000	2	Hadad	Hadad	2	Owner/Occupant
August 1974	-	-	-	Hadad	3	Owner/Occupant
				Aires	1	Owner/Occupant
September 1974	4,500	1	Owner/Occupant	Hadad	3	Owner/Occupant
	8,300	1	Aires	Hadad	1	Lincoln Finance
				Aires	1	Owner/Occupant
October 1974	-	-	-	Hadad	1	Owner/Occupant
				Aires	3	Owner/Occupant
November 1974	9,000	2	Aires	Hadad	2	Owner/Occupant
				Aires	4	Owner/Occupant
December 1974	-	-	-	Hadad	3	Owner/Occupant
				Aires	3	Owner/Occupant
January 1975	-	-	-	Aires	1	Owner/Occupant
March 1975	-	-	-	Hadad	1	Owner/Occupant
				Aires	1	Owner/Occupant
April 1975	-	-	-	Hadad	1	Owner/Occupant
May 1975	-	-	-	Aires	1	Owner/Occupant
June 1975	-	-	-	Hadad	1	Owner/Occupant
				Aires	1	Owner/Occupant
July 1975	-	-	-	Hadad	2	Owner/Occupant
August 1975	-	-	-	Hadad	1	Owner/Occupant
				Aires	1	Owner/Occupant
October 1975	-	-	-	Hadad	1	Owner/Occupant
Totals		71			52	

HISTORY OF THE PROBLEM AND DESCRIPTION OF THE STRATEGY

The city of Taylor began getting trickles of individual complaints from Dover residents in 1970, shortly after the first residents began moving in. They were already having some difficulties with the builder concerning first-year warranties and drainage problems in the subdivision. More important, the residents were outraged by a persistent rat problem. In response to their concerns, representatives of the city government, the city buildings department, and the county board of health held a meeting in 1971 with 200 Dover residents to discuss their problems. Residents were asked to submit their complaints to the appropriate city and county departments formally and in writing; they were directed to various agencies who could give other types of assistance; and the city suggested that they organize into a homeowners' association. As a result of the meeting and their complaints, the rat problem and several other minor problems were handled by the builder.

This first meeting of Dover residents and the city pointed up Dover's additional difficulties as a Section 235 subdivision. Since many of the homeowners were ill-prepared for and lacked knowledge of home ownership and were operating on meager incomes, the homes were being abandoned at an alarming rate. Other families defaulted and abandoned their homes because of rising crime, vandalism, and juvenile delinquency that increased after the first series of abandonments.

The city's Community Relations Department helped form a coalition of 10 public and private agencies to provide counseling, educational, vocational rehabilitation, and recreational services. A series of discussions was held, which local HUD area office representatives attended, and in September 1972, the coalition applied to the Ford Foundation for a grant. Their proposal was not funded, so the coalition decided to commit what staff it could to the project.

One essential project need was for a physical operating base in Dover Estates for the agencies to work with the residents. Since nearly 50 houses were already vacant, in foreclosure, or acquired by HUD the coalition requested in October 1972 that the HUD area office donate or lease four of the abandoned houses for use as community service centers.[1] This request was followed up by correspondence with Taylor's U.S. Congressional representatives. In December, the mayor and coalition representatives met with local HUD staff members and finally, in February 1973, the city of Taylor was leased two properties for one dollar per year. (This was a "first in the nation" step taken by HUD. In addition, HUD offered to renovate the two vandalized houses it was leasing to the city.)

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[1]City of Taylor press releases dealing with Dover Estates, 1973.

A month later, the city opened the two multiservice centers in Dover. One center served as an office for the various coalition agencies to offer counseling, referral, and direct services; encourage neighborhood organizations; and assist residents to develop other programs. The other house was used alternately for preschool daycare and for home economics and home maintenance programs by the local cooperative-extension service.

One of the coalition agencies, a credit counseling center, secured a 1-year grant from HUD in the spring of 1973 to provide financial delinquency and default counseling for Section 235 homeowners. During the summer, the agency held a 12-week seminar which 25 to 30 couples attended. After the seminar, these couples decided to organize a Dover Estates Homeowners' Association. Until this time, only splintered and opposing block groups had existed in Dover.

In the fall of 1973, a new mayor, the former head of the city council, was elected in Taylor. He and many of the key personnel in his administration had strong labor union ties and backgrounds and had histories of labor activism and leadership. One of the new mayor's major objectives was to solve the housing problems of working-class people in Taylor. Meanwhile, despite the agency coalition's efforts to help Dover Estates through additional social services, abandonment in Dover continued at a rapid rate. The search for a more permanent solution to the problems of default, vandalism, and depressed market values in Dover became the pet project of the mayor and the new city Director of Community Development.

The Community Development Director began sending a barrage of letters and telephone calls to HUD central and Taylor's U.S. Congressional representatives requesting a meeting to discuss the Dover situation and enlist federal financial participation in a solution. After several months, an aide to the Assistant Secretary for Housing Management invited him to Washington, D.C., to meet with several HUD officials. As part of his presentation, the director showed a videotape made at a recent homeowners' meeting in which the Dover residents themselves described the deterioration of their neighborhood and made clear the need for immediate action.

After the Washington meeting, the Dover situation was referred to the Assistant Secretary for Policy Development and Research (PD&R), who sent a team of PD&R personnel out to inspect the subdivision in July 1974.

In late summer, the Director of Community Development and the Taylor city attorney were invited to Washington to work out a verbal agreement on the basic elements of the so-called curative strategy for turning around a seriously distressed subdivision. These elements were incorporated by PD&R staff into a formal proposal, or action paper, to the city of Taylor in September 1974.

The essential concept of the project was to renovate the vacant HUD-acquired properties and then rent them, since occupancy is the most effective deterrent to vandalism. This strategy attempted to (1) stabilize declining property values by taking the HUD-owned houses from the sales market, and (2) attract higher income families to the subdivision by first renting the rehabilitated houses to them and then allowing them an opportunity to buy after a certain period.

The financial aspects of the demonstration were designed to (1) defray HUD's costs associated with maintaining acquired properties over the project period, (2) provide HUD with a rental income or interest equivalent to what would be earned if the property were sold in bulk in "as-is" condition, (3) provide the city/SPO with sufficient operating funds to meet program and operation costs, and (4) provide a small residual for SPO/city investment in program-associated community services. In addition, the demonstration was designed to reduce continued default, abandonment, and acquisition--thus avoiding future disposition costs. If the program functioned as planned, the major payoff to HUD would come when the units are ultimately sold at a price higher than cost of acquisition, thus minimizing losses.

There was clear evidence in 1974 that, because of the condition of blight and the situation of the mortgage market and the economy, the Dover Estates sales market would not support prices at a level that would protect homeowners' equity. For this reason, continued efforts to sell to single-family home purchasers, either directly by HUD or through bulk sale (the method in use), did not seem feasible.

However, an unassisted rental market for the Dover properties did seem possible. A townhouse apartment complex near Dover Estates reported absorption at the rate of 15 properties per month, and it was assumed that this rate could be carried over to Dover if the properties were rehabilitated. It was estimated that the rental market could probably bear staged rents with the Dover properties averaging $200 rent per month without utilities. Since the rental decision is usually easier to make than the purchase decision, and since there appeared to be a demand for single-family rentals where there was not a demand for single-family purchases, it was hoped that renting the vacant units would be more effective in ameliorating neighborhood conditions. At least part of the rationale behind renovating and renting was also to attempt to attract higher-income residents to Dover. In addition, because the symptoms of blight were so pervasive that the ownership entity would be dealing with a majority of the single-family units in Dover, local government involvement seemed more feasible than a private sponsor.

The disposition technique thus decided upon was a short-term lease of the units to a locally controlled entity, leading to ultimate sale to individual purchasers upon termination of the lease. The city would be designated as the area manager for the Dover subdivision and would manage the repairs in accordance with a scope of work established and approved by HUD.

Upon satisfactory completion of the repairs with HUD funds, the units would be leased to the NDC. The annual payment to HUD during the term of the lease would be the foregone interest on the net residual value (net if bulk sale). The remaining net income from subleasing would be used by the city to defray the costs of maintenance, neighborhood services, support efforts, and community organizations necessary to make Dover Estates a viable community and have a reasonable assurance of a future purchase market.

In October 1974, HUD and the city of Taylor signed an agreement to co-operate in which the city agreed to:

- become project manager and provide management and maintenance for all HUD-acquired properties within the Dover Estates subdivision;

- lease and sublease properties;

- perform services to improve the socioeconomic conditions in the area;

- actively encourage police, fire, and other personnel to reside in neighborhoods;

- support and encourage neighborhood participation; and

- organize, or cause to be organized, entities to carry out the above tasks.

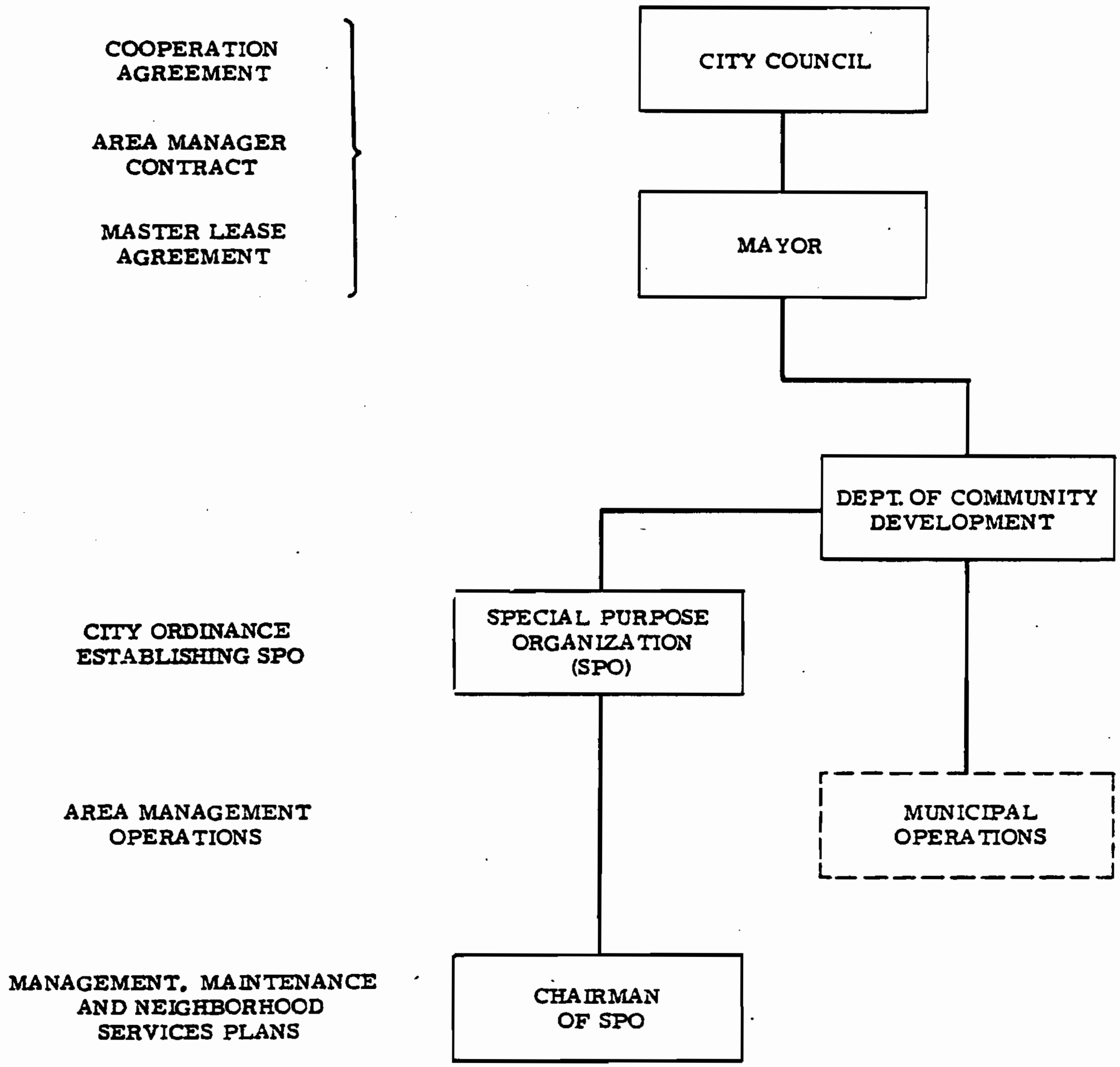
Exhibit I-2 shows the line of authority for the cooperation agreement.

The agreement also required the execution of an area manager contract and a master lease, which detailed the community's obligations to HUD more specifically.

In December 1974, the area manager contract was signed in which the city of Taylor agreed to provide various custodial, maintenance, and security service for HUD-acquired or designated properties within Dover Estates in

EXHIBIT I-2

DOVER STRATEGY OPERATING AUTHORITY



return for compensation stated in the contract. This contract enables the community to control and supervise the neighborhood until the properties are rehabilitated. The city's responsibilities include inspection of the repair work to ensure that it complies with local codes, and the city's code enforcement officer is responsible for maintenance.

The city spent the next 3 months organizing the area manager function, working out arrangements with the HUD Detroit office for rehabilitation contracting, and hiring additional personnel to carry out the area manager responsibilities.

Originally two positions were directly affiliated with the project--an executive director and an office manager. The executive director was a member of the HUD Detroit office who was loaned to the city of Taylor on an intergovernmental personnel assignment.

In February 1975, a city ordinance established the NDC "to acquire, develop, rehabilitate, manage, lease, and sell" those properties in Taylor designated by the mayor and the city council. The NDC, created to carry out the operations of the demonstration, had the authority to hire personnel and regulate their compensation, receive and disburse project funds, and perform other services necessary to "permit or aid execution" of the duties listed above.

In March, HUD and the city signed the master lease agreement for the HUD-acquired Dover Estates properties. Under the terms of the master lease, HUD contracts for and pays for the necessary rehabilitation of properties which it leases to the city. (The average rehabilitation costs have been $8,000 and $10,500, for three- and four-bedroom units, respectively.) Three units are leased for only $1 per year: one is used for an office/model home; two others are used for day care and a Homestart center. Under the master lease and the sublease (which is signed by the tenant on the day the tenant moves in), the properties may be rented for a term of 3 years. The master lease and sublease provide, however, that the properties must be leased as rental units for at least 1 year prior to sale. This requirement provides the minimum for neighborhood stabilization and time to evaluate tenants as potential purchasers. After that time, HUD, the NDC, and the current tenant may agree to sell the unit to the tenant.

The master lease provides for a rental charge based on the net "as-is" value of the property on a bulk-sale basis (i.e., the average rate of return the government would have received had it sold the property "as-is" in bulk lots and invested the cash). The rents for Dover Estates were set at $200 and $220 for the first year for three- and four-bedroom units, respectively. HUD receives annual rent payments of $180 or $200 per unit per year from the NDC.

Rents were be set at a level which would permit the tenant to eventually purchase the unit without any economic assistance. The rent was increased gradually over the 3-year period to reach the payments necessary to sustain the required mortgage payments associated with the anticipated value of the property in a fully recovered and stabilized neighborhood.

The NDC received the gross rental from the sublease and used it to pay the above rental to HUD as well as property taxes and assessments. The remainder was paid into a maintenance account, a management account, and a neighborhood services account from which disbursements were made in accordance with submitted and approved plans.

A management plan was submitted to HUD by the city at the end of March. This plan outlined the role of the NDC and its delegation of authority to the executive director, personnel policies and staffing arrangements, the tenant selection process, repair and maintenance provisions, rent collection procedures, plans for management/tenant relations, and accounting and financial plans. A plan for neighborhood services was developed after tenant and homeowner needs had been identified.

The NDC office opened in April 1975 and began accepting applications for rentals. More than 200 families had applied prior to any advertisement of the program, so that a waiting list was established for vacancies. The first group of 10 tenants signed their subleases with the NDC and moved into the renovated units in May. These units were actually restored to better than their original condition, since they have freshly sodded and fenced yards, a patio enclosure, a sump pump to help the drainage problem, and include refrigerators, stoves, carpeting, and drapes.

By the middle of January 1976, 123 Dover Estates units were under area manager or lease agreement; rehabilitation was completed on 108 units, and 105 were subleased to tenants.

CURRENT STATUS OF THE DEMONSTRATION

Since January 1976, rental demand has been maintained for properties in the demonstration inventory. Except for a few periods, vacancy rates stayed below 6 percent. While rental activity has been maintained, problems were encountered in converting leases to sales. These problems included a cumbersome management structure for the program, the absence of a profit motive that could have served as an incentive for the city, and changes in both staffing and political leadership in the midst of the program's final sales phase.

Some staffing problems involved employee turnover at the executive director level. The NDC had three executive directors, and the changes caused disruptions in program continuity. The first change occurred in June 1976. The new executive director was overwhelmed by his responsibilities, and evidence of this fact was observed in the areas of rental, sales, and maintenance. While the NDC's performance improved under his administration, only one sale occurred through the program, in December 1976. Slow progress continued in the effort to convert leases to sales as the second sale did not occur until June 1977.

Shortly thereafter, another new executive director was hired. This director had even less experience in the areas of public management and real estate. Furthermore, the change in employees occurred at an inopportune time since the NDC was faced with the task of marketing properties to nearly 60 tenants whose leases were expiring in the fourth quarter of 1977.

In the fall of 1977, the city of Taylor elected a new mayor who had announced during his campaign that he opposed continuing the city's involvement in the demonstration. Although he signed a new area manager broker contract with HUD, the city under his leadership began to make decisions regarding NDC staffing and the extension of municipal services to the subdivision to carry out this change in local priorities.

During this transitional period, the uncertainties that resulted from new leadership on both the political and administrative sides of the demonstration hampered the sales effort somewhat. However, when the sales program was redirected at the suggestion of the evaluation team in February 1978, and marketing responsibility was reassigned to the NDC's administrative assistant, sales began to occur. Six properties were sold during March 1978 and 19 more sales were closed by April 1978.

The fact that sales were increasing convinced HUD and the city that the demonstration was succeeding in achieving its objectives. It was therefore agreed that the city's involvement was no longer necessary and that HUD could return to the traditional technique of employing a professional property management company to continue working with the subdivision. HUD and the city terminated their area manager broker contract in June 1978 and HUD signed a contract with a management company. Since that time, HUD has also continued its direct repair and sell program. Although it is too early to determine whether this transition has had an effect on the demonstration, sales are continuing to occur and prices have remained stable.

II. DEMONSTRATION IMPACT ANALYSIS

This section presents analyses of the impact that the Dover Estates demonstration has had in the following areas:

- property transactions;
- conventional sales activity;
- costs and benefits; and
- socioeconomic factors.

PROPERTY TRANSACTIONS

Foreclosure Activity

Foreclosure data for both Dover Estates and Greenview, a somewhat comparable subdivision, were monitored from initial construction through the present.[1] Exhibit II-1 compares these foreclosure patterns. Greenview, located just two miles from Dover Estates, has similar housing financed under Section 235 and has suffered similar but not as severe distress. It is in the same economic environment, but has a more diverse housing style and socioeconomic mix. Because Greenview is not a demonstration site, it was possible to use it as a control case against which to compare Dover Estates.

A comparison of foreclosure rates in both subdivisions indicates similar but not identical trends. In Dover Estates, the foreclosure rate peaked during 1973. In Greenview, the rate peaked and remained at peak level between 1973 and 1975. Nevertheless, while the Greenview peak period was longer, it still declined faster than in Dover Estates.

The relationship of unemployment rates to foreclosure patterns in Dover Estates and Greenview are illustrated in Exhibits II-2 and II-3, respectively. Foreclosure rates in Dover Estates appear to be less responsive to changes in local employment rates than is the case in Greenview. There appears to be a partial correlation between these two rates in Greenview, where both foreclosures and unemployment declined from their high points in the first quarter

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[1]The foreclosure data presented in this subsection were developed from the Wayne County Index of Deeds. While the data's accuracy appears reasonable, some discrepancies have been found. Furthermore, lags in recording transactions have limited the timeliness of the data.

EXHIBIT II-1

FORECLOSURES IN DOVER ESTATES AND GREENVIEW

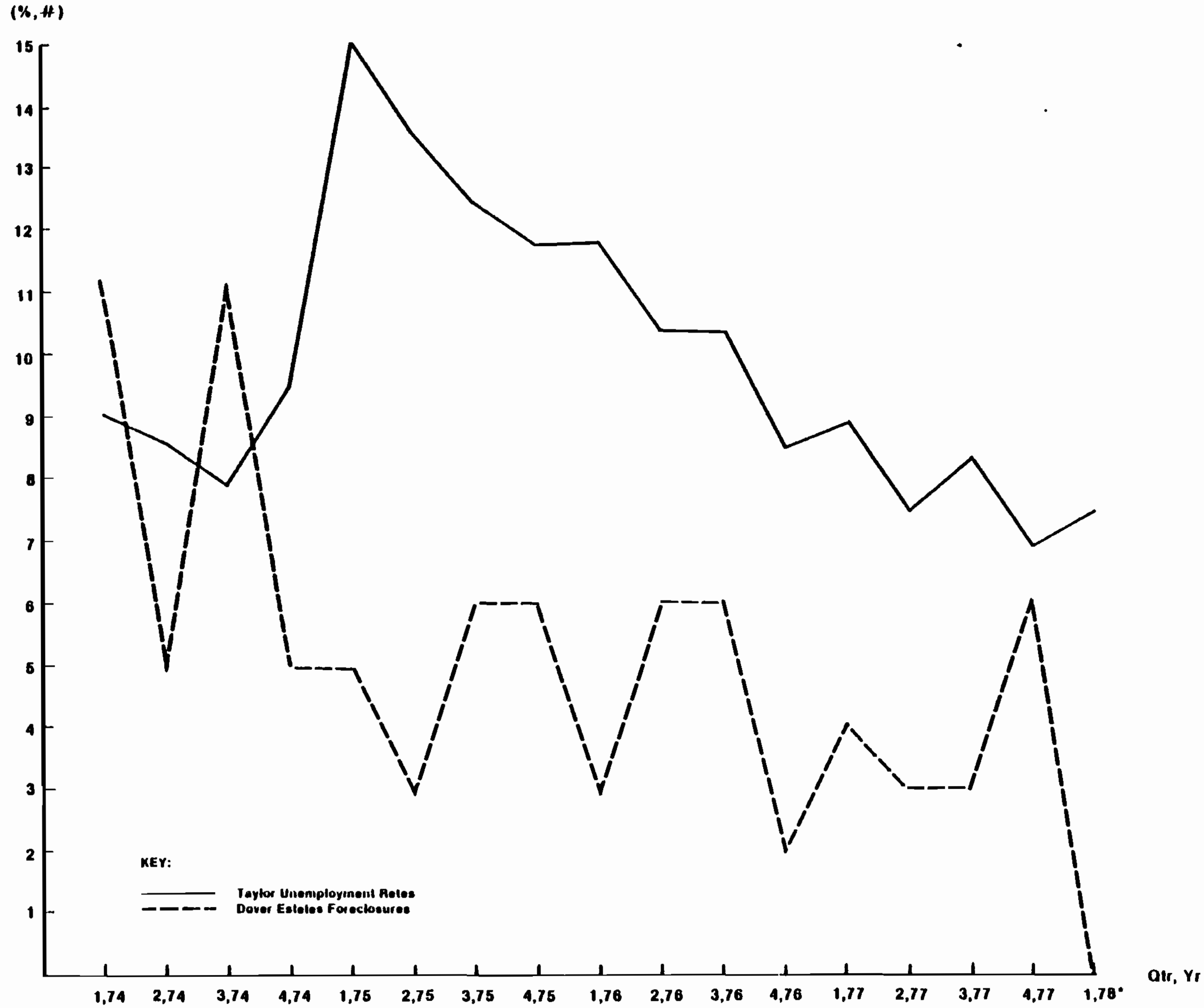
Qtr	Year	Dover Estates Number of Foreclosures	Greenview Number of Foreclosures
4	1970	0	0
1	1971	0	0
2		1	0
3		1	4
4		3 (1.4)	1 (1.2)
1	1972	8	3
2		19	10
3		9	6
4		13 (11.9)	4 (4.6)
1	1973	12	6
2		16	11
3		23	6
4		15 (16.1)	7 (5.7)
1	1974	11	10
2		5	7
3		11	6
4		5 (7.8)	11 (6.4)
1	1975	5	12
2		3	9
3		6	7
4		6	4 (6.0)
1	1976	3	6
2		6	7
3		6	2
4		2 (4.1)	1 (2.9)
1	1977	4	3
2		3	0
3		3	2
4		6 (3.9)	1 (1.1)
1	1978*	-	-

* As of 3/31/78.

Numbers in parentheses represent foreclosures as a percent of original sales on an annual basis.

EXHIBIT II-2

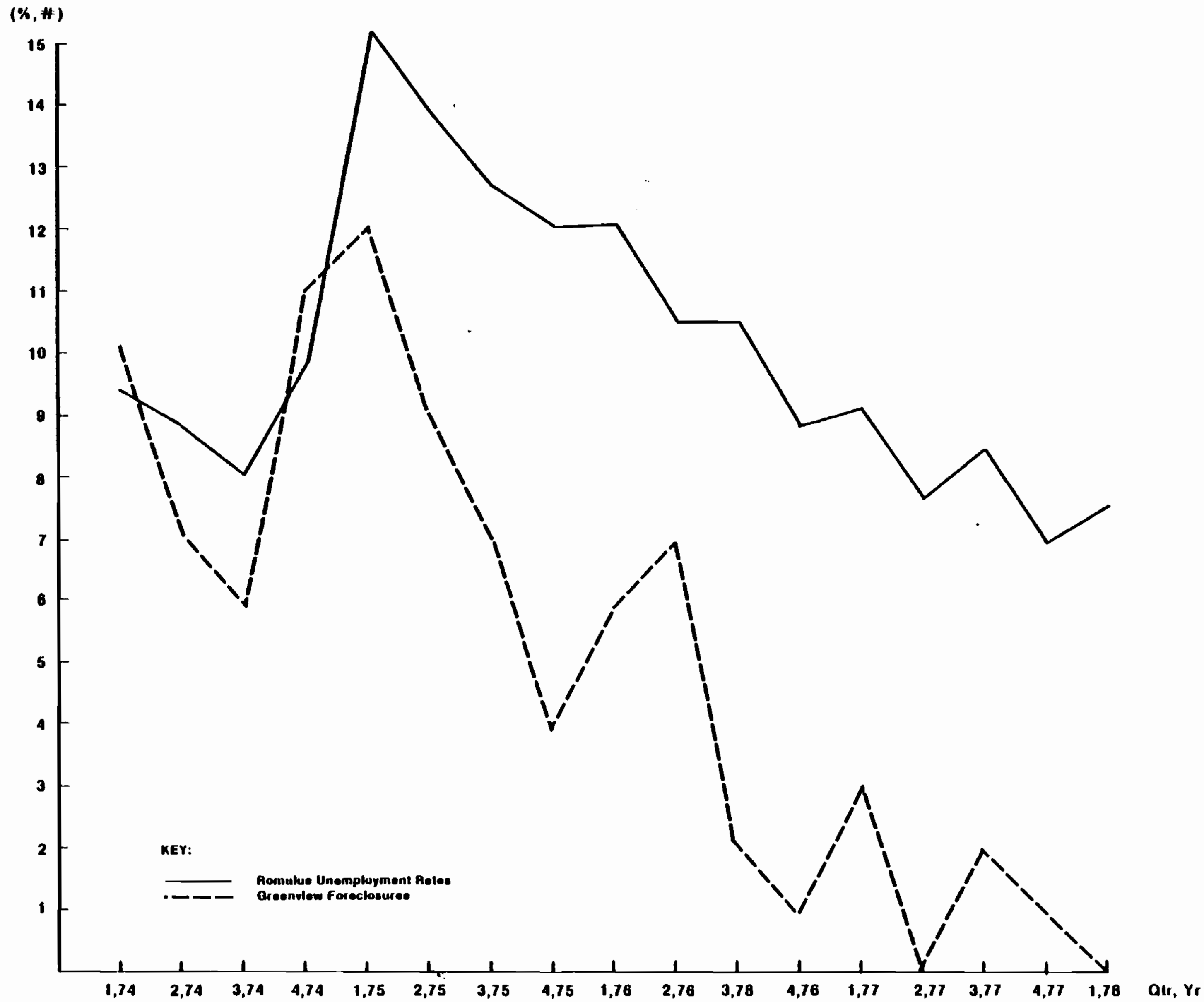
UNEMPLOYMENT RATES IN TAYLOR AND FORECLOSURES IN DOVER ESTATES



* 1st 2 months of 1978

EXHIBIT II-3

UNEMPLOYMENT RATES IN ROMULUS AND FORECLOSURES IN GREENVIEW



of 1975. In contrast, foreclosures in Dover Estates declined from 2 to 6 per quarter after the 1973 third-quarter peak and remained in that range through the first quarter of 1978. Because foreclosures did not decline with the improved employment and housing market, it is likely that area economic factors are not the sole influence on the Dover Estates rate of foreclosure.

A number of attempts were made to determine mortgagor's reasons for defaulting on their mortgages. In most cases, the mortgagee, the Mid-State Mortgage Corporation, cited a lack of available funds as the primary reason. While this reason may be valid, it does not pinpoint the problem since most defaults and subsequent foreclosures are the result of nonpayment. Attempts were made to contact mortgagors after their departure, but in most cases, forwarding addresses were not available.

The inability of homeowners in the subdivision to sell their homes is probably the major factor for the limited relationship between foreclosure rates in Dover Estates and unemployment rates in Taylor. While this conclusion is not documented by mortgagor contact, the limited sales volume, as described later in this section, indicates that the demand for homes in the subdivision is marginal irrespective of general economic conditions. For those homeowners who attempt unsuccessfully to sell their homes, the decision to cease making mortgage payments and live in the home until foreclosure may be the only mechanism for recovering their equity investments.

Changes in the HUD Inventory

While the foreclosure rate has decreased since the third quarter of 1973, foreclosures continued to occur through the first half of 1978. Since disposition activity was suspended after the first quarter of 1975, the result has been a steady buildup of the inventory. Exhibit II-4 shows acquisition and disposition activity, the net change, and the cumulative inventory from 1970 through the first quarter of 1978.

In all but two quarters (second quarter of 1973 and third quarter of 1977), acquisitions exceeded dispositions. This pattern began to reverse itself for three reasons. First, the rate of foreclosures is slowed. Second, the demonstration's sales program was pursued, and third, HUD's direct sale efforts met with success. If these three trends continue, the inventory of HUD properties in Dover Estates will be reduced to almost none by year end 1979.

Program Outcome Versus Program Objectives

One objective of the program was to reduce the rate of foreclosures over time to reduce the risk of additional losses to the HUD insurance fund. The

EXHIBIT II-4

CHANGE IN HUD INVENTORY IN DOVER ESTATES

Qtr	Year	Acquisitions	Dispositions	Net Change	Cumulative Inventory
4	1970	0	0	0	
1	1971	0	0	0	
2		0	0	0	
3		0	0	0	
4		1	0	+ 1	1
1	1972	2	0	+ 2	3
2		5	0	+ 5	8
3		11	0	+11	19
4		22	0	+22	41
1	1973	12	0	+12	53
2		17	37	−20	33
3		19	0	+19	52
4		16	0	+16	68
1	1974	27	14	+13	81
2		22	14	+ 8	89
3		10	4	+ 6	95
4		6	2	+ 4	99
1	1975	9	0	+ 9	108
2		6	0	+ 6	114
3		7	0	+ 7	121
4		3	0	+ 3	124
1	1976	3	0	+ 3	127
2		6	0	+ 6	133
3		3	0	+ 3	136
4		8	1	+ 7	143
1	1977	8	1	+ 7	150
2		4	2	+ 2	152
3		5	5	0	152
4		4	2	+ 2	154
1	1978*	-	-		
Total		236	82		154

* As of 3/3/78.

rate of foreclosure did in fact slow down but, based on our analysis, it was not possible to attribute change to the demonstration in quantitative terms.[1]

The reader is cautioned that a reduction in the rate of foreclosure may not be the most appropriate measure of the demonstration's success for several reasons. First, the foreclosure process, to a certain degree, is a process of weeding out homeowners who perhaps may not have the psychological and financial capacity to own and maintain their homes in the first place. While a major share of the weeding out process apparently occurred prior to the start of the program, some additional foreclosures may continue to occur for the same reasons. The demonstration cannot control these outcomes.

Second, the demonstration's operation has been directed at the tenant population rather than at the homeowner population. It was recommended that the NDC develop a credit counseling program for both homeowners and tenants, or work out an early warning arrangement for mortgages so that the NDC could know in advance when a homeowner was behind in making mortgage payments. Because of the NDC's staff and organizational difficulties, it was unable to carry out either of these recommendations. As a result, its ability to influence foreclosure rates in the subdivision has been limited.

In summary, the demonstration appears to have reinforced a downward trend in foreclosure rates. While the NDC's on-site presence was a stabilizing force, the lack of a cohesive program reduced the ability to slow foreclosures as quickly as might have been possible.

CONVENTIONAL SALES ACTIVITY

This section examines conventional sales activity in Dover Estates since 1970 and compares it to similar activity in the city of Taylor. It then addresses whether a primary demonstration objective--to establish a normal real estate sales market in the subdivision--has been achieved.

Dover Estates Sales Activity

Three types of sales have occurred in Dover Estates:

- owner-occupant to owner-occupant sales;
- developer to owner-occupant sales; and
- bank to developer or owner-occupant sales.

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[1]See the cost benefit analysis subsection.

Of the three types, the first two are more relevant to the analysis. The third type has occurred infrequently since the third quarter of 1976.

Properties in the third group were acquired by the particular bank as a result of default of its loan to the owner, a bulk sale development firm that was unable to market all of its properties in the subdivision. This group consists of eight properties, of which four were sold to a second developer and four were sold to individuals. Prices charged by the bank ranged from $6,300 for individual sales to $10,500 for sales to the developer. These transactions are not included in the following analysis because they are not typical and tend to underestimate the final price of housing in the subdivision. All the properties which were sold to the second developer have been resold to owner-occupants and are therefore included in the analysis of the second type of transaction.

Conventional sales activity in Dover Estates has been characterized by a small sales volume and, in constant dollars, a declining sales price. Exhibit II-5 shows the trend in sales volume and prices for both owner-occupant to owner-occupant sales and developer to owner-occupant sales during the course of the demonstration.

Prior to the demonstration, sales between owner-occupants occurred infrequently--approximately one sale every 6 to 9 months. Once the demonstration began, however, the number of transactions for this group increased. Between the fourth quarter of 1975 and the third quarter of 1977, the number of sales between owner-occupants averaged two per quarter. While the increase appears to indicate a modest improvement in sales activity, it cannot be attributed solely to demonstration progress. The general recovery of the Detroit economy may also have contributed to the marginally improved condition.

While sales volume has increased since the demonstration began, the trend in prices does not reflect improving sales activity in the subdivision. Prices resulting from sales between owner-occupants have hovered about $21,000 in current dollars, but no positive trend has been observed. Furthermore, in constant August 1970 dollars, sales prices have declined.[1]

A comparison of prices for sales between owner-occupants and the general price level of residential sales in the city of Taylor indicates that prices obtained in Dover Estates have not followed the pattern set at the city level. Exhibit II-6 shows price trends for Dover Estates and Taylor. Since the first quarter of 1975, Taylor sales prices, in constant dollars, have increased slowly. In contrast, prices in Dover Estates have declined. The reader is cautioned that the small volume in Dover Estates' sales limits the value of its trend and also allows pronounced or erratic changes in its pattern to occur.

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[1]Assumes a 7 percent inflation rate.

EXHIBIT II-5

CONVENTIONAL SALES IN DOVER ESTATES

		Owner Occupant to Owner Occupant				Developer to Owner Occupant			
Qtr.	Year	Number of Units	Ave. Price	Index[d]	8/70 Dollars[b]	Number of Units	Ave. Price	Index[d]	8/70 Dollars[b]
3	1970		23,500[a]	1.0	23,500		23,500[a]	1.0	
4		0	0	0	0	0	0	0	0
1	1971	0	0	0	0	0	0	0	0
2		0	0	0	0	0	0	0	0
3		0	0	0	0	0	0	0	0
4		1	23,900	1.017	21,962	0	0	0	0
1	1972	0	0	0	0	0	0	0	0
2		0	0	0	0	0	0	0	0
3		1	20,800	.885	18,168	0	0	0	0
4		1	700	.03	601	0	0	0	0
1	1973	0	0	0	0	0	0	0	0
2		0	0	0	0	0	0	0	0
3		1	24,200	1.03	19,754	1	14,500	.617	11,836
4		0	0	0	0	2	24,300	1.034	19,503
1	1974	0	0	0	0	0	0	0	0
2		1	20,500	.872	15,906	2	18,900	.804	14,665
3		0	0	0	0	10	19,300	.821	14,724
4		0	0	0	0	19	17,400	.74	13,052
1	1975	1	24,200	1.03	17,848	6	19,600	.834	14,455
2		0	0	0	0	5	20,300	.864	14,721
3		0	0	0	0	5	21,000	.894	14,973
4		2	20,250	.862	14,196	2	20,425	.869	14,318
1	1976	2	23,187	.987	15,982	1	20,500	.872	14,130
2		2	21,000	.894	14,232	0	0	0	0
3		1	22,500	.957	14,933	0	0	0	0
4		2	20,050	.853	13,136	2	20,750	.883	13,595
1	1977	2	20,200	.86	13,012	0	0	0	0
2		3	22,005	.936	13,937	1	22,000	.936	13,934
3		2	21,950	.934	13,669	0	0	0	0
4		0	0	0	0	0	0	0	0
1	1978[c]	0	0	0	0	1	23,500	1.0	14,148
Total/Average		22	20,731		13,899	57	19,245		14,187

[a] Assumed original price

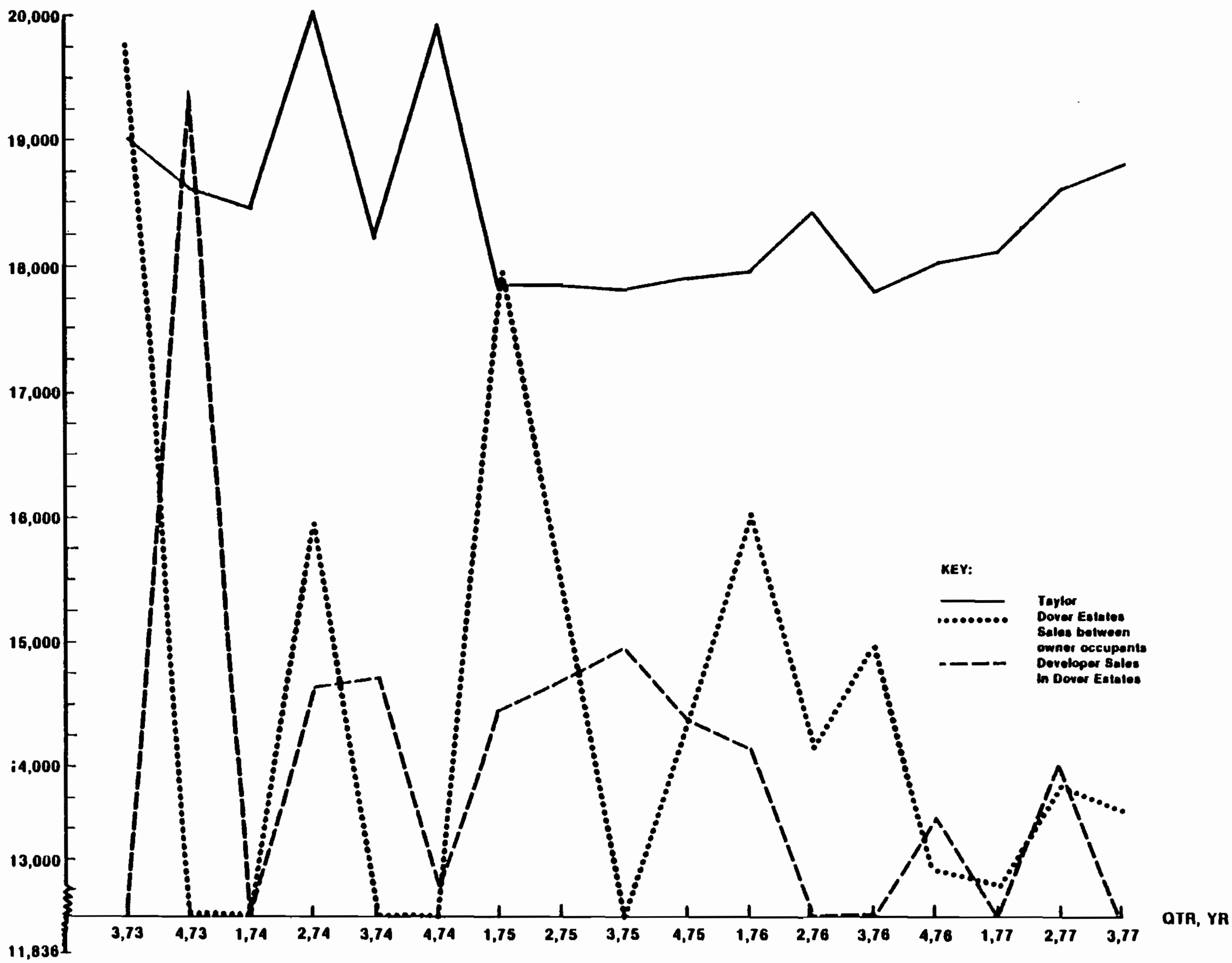
[b] Assumes 7% inflation rate

[c] As of 3/3/78

[d] Index based on 3rd Qtr. price of 23,500

EXHIBIT II-6

CONVENTIONAL SALES IN TAYLOR, OWNER OCCUPANT TO OWNER OCCUPANT SALES IN DOVER ESTATES, DEVELOPER SALES IN DOVER ESTATES
(In August 1970 Dollars)



Similar observations were found for developer to owner-occupant sales. Except for the period during which the bulk sale program operated, the sales volume for developer to owner-occupant transactions has been very small. The number of sales per quarter, as shown in Exhibit II-5, has ranged from 0 to 2 since the fourth quarter of 1975. Sales prices since the third quarter of 1973, in current dollars, have ranged from $14,500 to $23,500 but have not shown an increasing trend. In constant dollars, as illustrated in Exhibit II-6, sales prices appear to have declined and have not followed the trend set at the city level.

Exhibits II-7 and II-8 compare total resales in Dover Estates and the general price level of residential sales in Taylor. The comparison shows that prices in Dover Estates have not followed the pattern of prices obtained at the city level. In addition, the curve representing total sales in Dover Estates is flatter than the curve for sales between owner-occupants; this is a result of slightly lower prices received by developers during periods in which sales between owner-occupants also occurred. The price differential is generally small, and it does not appear that developer sales have significantly impeded price stability or appreciation.

Program Objective Versus Program Outcome

One of the primary objectives of the Dover Estates demonstration, as stated in the first quarterly evaluation report in February 1976, is to:

- establish a normal real estate sales market in the subdivision by limiting the rate at which HUD-acquired units are introduced in the market to that which can be absorbed; that is:
    - aid in reversing the downward trend of property values in the subdivision; and
    - help in establishing or restoring a reasonable rate of appreciation which will permit normal turnover of properties.

The achievement of this objective should be viewed in terms of neighborhood conditions before the demonstration began. Specifically, abandonment, foreclosures, and excessive vandalism characterized the neighborhood between 1972 and 1975. By the end of 1975, approximately 47 percent of the subdivision's housing stock had been acquired by the government. As a result, conventional sales activity practically ceased.

Since the beginning of the demonstration, sales activity has increased slightly as reported in the above analysis. While the increase cannot be attributed solely to the demonstration, sales volume has improved in comparison to

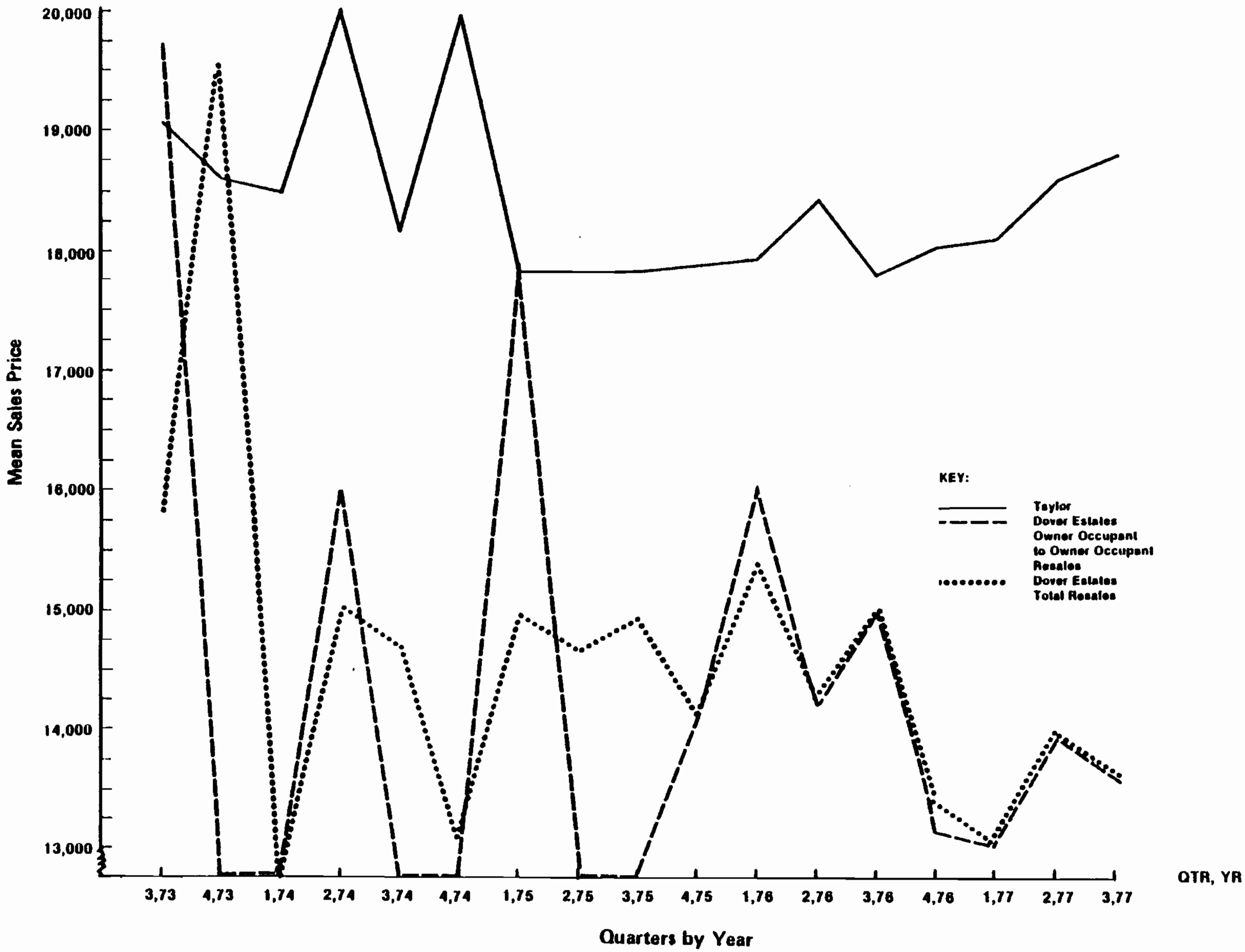
EXHIBIT II-7

TOTAL CONVENTIONAL SALES IN DOVER ESTATES AND TAYLOR

		Total Conventional Sales in Dover Estates				Total Conventional Sales in Taylor		
Qtr	Year	Number of Units	Ave. Price	Index	8/70 Dollars	Ave. Price	Index	8/70 Dollars
3	1970		23,500	1.0	23,500			
4		0	0		0			
1	1971	0	0		0			
2		0	0		0			
3		0	0		0			
4		1	23,900	1.017	21,962			
1	1972	0	0		0			
2		0	0		0			
3		1	20,800	.885	18,168			
4		1	700	.03	601			
1	1973	0	0		0			
2		0	0		0			
3		2	19,400	.826	15,836	23,362	1.0	19,070
4		2	24,300	1.034	19,503	23,257	.996	18,666
1	1974	0	0		0	23,442	1.003	18,499
2		3	19,400	.826	15,053	25,839	1.106	20,049
3		10	19,300	.821	14,724	23,921	1.024	18,249
4		19	17,400	.74	13,052	26,636	1.14	19,980
1	1975	7	20,300	.864	14,972	24,147	1.034	17,809
2		5	20,300	.864	14,721	24,569	1.052	17,816
3		5	21,000	.894	14,973	24,933	1.067	17,777
4		4	20,300	.864	14,231	25,491	1.091	17,870
1	1976	3	22,300	.949	15,371	26,080	1.116	17,976
2		2	21,100	.898	14,300	27,206	1.165	16,438
3		1	22,500	.957	14,933	26,653	1.141	17,760
4		4	20,400	.868	13,365	27,562	1.180	18,058
1	1977	2	20,200	.86	13,012	28,098	1.203	18,100
2		4	22,004	.936	13,937	29,423	1.259	18,636
3		2	21,950	.934	13,669	30,129	1.290	18,762
4		0	0	0	0			
1	1978	1	23,500	1.0	14,148			
Total/Average		79	19,396		14,283	25,926		18,442

EXHIBIT II-8

CONVENTIONAL SALES IN TAYLOR, OWNER OCCUPANT TO OWNER OCCUPANT SALES IN DOVER ESTATES, AND TOTAL RESALES IN DOVER ESTATES
(In August 1970 Dollars)



the activity experienced prior to 1975. Furthermore, the recent success of the HUD Detroit Office in its efforts to market Dover Estates properties indicates that such properties can now be absorbed by the sales market.[1] Although the market is still relatively thin, the continued success of the HUD direct sale program and the acceleration of the demonstration's sales program has lead to a rate of sales that permits owners to buy and sell with more ease and HUD to dispose of its remaining inventory.

In terms of sales prices, the demonstration has had an effect on the downward trend of property values (in constant dollars), but has not established nor restored a reasonable rate of appreciation. The original prices for three- or four-bedroom houses were $23,000 and $24,000, respectively. Since the original sales period, only 5 of 57 transactions have resulted in higher prices (in current dollars) than originally paid. Prices appear to be stabilizing at about $22,000 in current dollars. This indicates that the downward trend has been stopped in terms of current dollars. However, as shown in Exhibit II-8, in constant dollars Dover homes have not appreciated to their original price level.

While current prices appear to be stabilizing, prices in constant dollars suggest that, at this time, the demonstration has not been able to establish or restore a reasonable rate of appreciation in property values. The most recent sale, for example, brought a price of $23,500, the approximate original purchase price. In constant dollars, the sale represents a real price of $14,148.[2] Thus, real value appreciation has yet to occur in the subdivision.

In summary, the real estate sales market in Dover Estates has improved when placed within the context of its distressed condition prior to the start of the demonstration. In terms of volume, there has also been an improvement. In terms of price, stability has occurred but not with respect to constant dollar measurement. Last, the demonstration objective--to establish a normal real estate market in the subdivision--has almost been achieved. As the demonstration's sales program moves to a more mature stage, the neighborhood can be expected to improve further.

COST/BENEFIT ANALYSIS

This section discussses the costs and benefits of the Dover Estates demonstration disposition program. It assesses the costs and benefits to HUD and

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[1]Price data are required to determine whether these sales actually support improved market conditions. However, these data are not currently available.

[2]Real price is used to represent the August 1970 value.

compares the demonstration program with more traditional disposition techniques (primarily repair and sell and bulk sale). In addition, the cost/benefit impact of the program on Wayne County, the city of Taylor, and the inhabitants of Dover Estates is reviewed. Where possible, the impact is quantified; however, where it is inherently unquantifiable or sound data were not available, the qualitative cost/benefit aspects will be discussed.

In pursuing any disposition policy, HUD has a number of objectives. These include minimizing the loss to the insurance fund, stabilizing market values, eliminating repeated defaults, and reducing vandalism in the community. The financial aspects of HUD's disposition activities is therefore only one portion of a much larger cost/benefit picture associated with these objectives. Nevertheless, it is an important component of HUD's reasoning in determining the viability of a disposition technique.

The cost/benefit analysis consists of two principal sections: (a) an overview of HUD cash flows for the acquired properties, and (b) a discussion of costs and benefits to the community at large. The review of HUD cash flows includes a comparison with other disposition strategies and a sensitivity analysis of the major conclusions.

The major results of the analysis are shown in Exhibit II-9. The principal conclusions include the following:

- HUD's financial investment in Dover Estates is likely to be smaller than that which would have occurred under more traditional disposition strategies. It is estimated that the bulk sale approach would have been $960,036 more costly to HUD, and the repair and sell approach $744,590 more costly. Direct as-is sales to owner-occupants were not considered to be a viable option given the existing housing market in Dover Estates at the time of the demonstration.

- The city of Taylor has an annual cost of about $33,000 in personnel contribution and $48,000 in CETA funds annually, less the annual value of reduced calls for police service ($12,000), the annual reduction in crime ($18,000), as well as the elimination of an estimated $22,033 in tax losses if the neighborhood had continued to deteriorate.

- The owners of Dover Estates properties appear to have benefitted from the demonstration through increased stability in housing values and improved conditions in the subdivision.

EXHIBIT II-9

SUMMARY OF COSTS AND BENEFITS

BENEFITS	
HUD savings over alternative disposition strategies: . bulk sale . repair and sell	$744,590 - $960,036
Benefits to City of Taylor: . police service . cost of service . estimated tax saving	$52,000
COSTS	
Costs to City of Taylor: . City personnel contribution . CETA monies	$81,300
Costs to HUD (actual cash investment)	$2,474,934

The cost/benefit analysis is based on detailed information collected over a number of years during this study. However, there are several potential limitations:

- Not all costs and benefits are fully identifiable now.
- Many of the qualitative benefits cannot be objectively measured.
- Many factors (e.g., reduction in the cost due to crime) are not known and thus must be estimated.
- A number of simplifying assumptions have been made to keep the analysis manageable; these assumptions will be identified during the discussion.

In spite of these caveats, we believe that the basic assumptions do not distort the findings, that the analysis is sound, and that the conclusions are realistic.

<u>Estimated Financial Impact of the Demonstration on HUD</u>

This section discusses the financial aspects of the Dover Estates demonstration as they affect HUD. The financial results of the demonstration are compared with projected results of two other traditional strategies--bulk sale and repair and sell--had these strategies been adopted.

Each of the alternatives was deemed to have begun in fiscal year 1975, when alternative disposition strategies were being considered. At that time, 69 acquired properties had been sold to developers and 112 were still in inventory. The three alternatives that were considered were:

- <u>Demonstration</u>. The demonstration consists essentially of a repair and rental program in which renters have an option to buy under certain pricing conditions. In performing the analysis, actual cash flows were used. Any properties which remained unsold at the end of fiscal 1978 were assumed to be rehabilitated and sold by the end of 1979.
- <u>Bulk Sale</u>. This is the traditional disposition technique in which properties are grouped and sold as-is to a developer. In projecting these calculations, all on-hand properties were considered sold to developers in fiscal 1975. and all subsequently acquired properties were assumed to be sold the fiscal year following acquisition. This implies an average of one year's holding period.

- Repair and Sell. This is the traditional disposition technique in which properties are retained and repaired by HUD and then sold in a rehabilitated condition to owner-occupants. In compiling the costs for the repair and sell option, actual repair costs were used where possible. To account for the extra amenities package which was included in the demonstration program but would not have been included in a traditional repair and sell approach, $1,400 was removed from the rehabilitation cost properties which were deemed to have been rehabilitated in the fiscal year following acquisition and sold in the fiscal year thereafter. The average time in inventory is therefore 2 years.

In the following analysis, the costs and revenues to HUD of the acquired units are estimated for each program. The difference between total costs and total revenues for each program gives the total loss to HUD for each disposition program that might have been undertaken in Dover Estates. Other things being equal, the technique with the lowest total loss is most desirable to HUD, although HUD would wish to consider a number of other program and neighborhood impacts as well.

The basic factors influencing the financial losses to HUD for various disposition programs may differ slightly for each acquired unit. The total amount of the loss is determined by:

- the selling price of HUD-acquired units, and sales expenses;
- the costs, if any, of rehabilitation and repairs;
- the cost to HUD of holding each unit in inventory, including taxes and utilities; and
- the number of acquired units.

Each of these basic factors affects the financial losses of various disposition programs. By calculating the probable financial losses for each program, the alternative programs can be compared.

When a unit is acquired by HUD, costs are incurred. These include the mortgage balance and other acquisition costs, the cost of holding the unit in inventory (e.g., taxes, depreciation, preservation, and maintenance), sales cost, and, if the unit is repaired, the cost of repair. In addition to the costs, revenue is generated from the sale or rental of the acquired properties. The difference between the costs and revenues is the total loss on any given unit.

The acquisition cost of each acquired unit is calculated in the same way for all scenarios (i.e., all HUD acquisition and holding costs for a given fiscal year are computed from the "Acquired Homes - Statement of Account" record). Holding costs, the costs of owning the dwelling unit over time (excluding the cost of capital) include utilities, taxes, and repairs, and are based on the actual or predicted time in inventory on a monthly basis.

Demonstration

The revenue generated from acquired units within the demonstration program comes from rental and sales receipts. The rental income to HUD is $15 per month. The average sales price is assumed to be $21,500, the original program selling price for a three-bedroom unit. Subtracting a 5 percent sales cost leaves HUD a net sales income of $20,450 per unit.

Each unit acquired under the demonstration incurs an average acquisition cost of approximately $23,537 and holding costs for at least one fiscal year for those units acquired before fiscal year 1975. Holding costs are $44.57 per month. Additional rehabilitation costs of $11,641 bring the average cost per acquired unit to $36,496. To simplify the calculations, all costs are assumed to occur on the first day of the fiscal year. The estimated costs and revenues per acquired unit for the demonstration are shown in Exhibit II-10.

Bulk Sale

This scenario assumes that in fiscal year 1975, HUD chose to institute a bulk sale disposition strategy. Available figures for bulk sales indicate that a $3,000 sale price per unit was estimated by the HUD Detroit Area Office. The only bulk-sale experience in Dover Estates consists of 52 units sold to Hadad & Hadad and 17 units to Aires Builders. The average price paid to HUD per unit was approximately $8,925. Not all of these units were sold after being repaired, and the developers did not appear interested in buying additional properties in bulk. In addition, market conditions appeared to have deteriorated since the previous bulk sale. As a result, $3,000 was established as a reasonable estimate of the price at which additional unrepaired units could have been sold in bulk in 1975. It is also assumed that market conditions would not have changed sufficiently over the subsequent year to significantly alter the $3,000 price per unit. In making the bulk sale calculations, it is assumed that all units in inventory would be sold in April 1975 and that all subsequent acquisitions would be sold in the year following acquisition. The projected average net expense to HUD per acquired unit is shown in Exhibit II-11.

Repair and Sell

A sales price of $17,500 was determined to be most reasonable as an average price for the repaired properties. The sale price that developers

EXHIBIT II-10

AVERAGE NET EXPENSE PER ACQUIRED UNIT
DEMONSTRATION PROGRAM

Acquisition Costs	$ 23,537
Holding Costs	
Taxes (Net: taxes less rent)	$ 671
Rehabilitation	11,641
Maintenance	647
Total Costs	$ 36,496
Total Revenues (Sale Price Less Selling Costs)	$ 20,425
NET LOSS TO HUD	$ 16,071

EXHIBIT II-11

AVERAGE NET EXPENSE PER ACQUIRED UNIT
BULK SALE

Acquisition Costs	**$ 23,537**
Holding Costs:	
Taxes	**$ 1,099**
Maintenance and Repair	**699**
Rehabilitation	**0**
Total Costs	**$ 25,305**
Total Revenues (Sales Price)	**$ 3,000**
NET LOSS TO HUD	**$ 22,305**

received for rehabilitated homes during an earlier bulk sale program was approximately $19,100. However, they were unable to sell all of their properties at this price and, therefore, the price which would have cleared the market can be assumed to have been lower. In addition, property values in Dover Estates had not been increasing. Although some higher income families, who would be eligible to purchase more costly housing, are moving into the subdivision, the demand has not been considered high enough to increase prices. For these reasons, $17,500 was determined to be a realistic average sales price for all rehabilitated housing.

Higher costs are associated with a repair and sell program than with bulk sale. These costs involve acquisition and repairs as well as the additional holding time required for sale. Acquisition cost is assumed to be the same as under bulk sale. Repair costs include rehabilitation costs incurred with the demonstration, less the cost of the amenities package (i.e., landscaping, appliances, and patio), which is approximately $1,400. For simplicity, the cost of repairs is assumed to occur in the fiscal year prior to disposition unless they actually occurred earlier. For each property, selling costs of 3 percent and brokers' fees of 5 percent would make the net revenue to HUD $16,100 per unit. These costs and revenues are shown in Exhibit II-12.

Summary of Estimated Financial Impacts on HUD

The preceding discussion has been based on an analysis of costs per unit. In aggregating these costs to determine the total financial impact on HUD of the three alternative disposition techniques, the total probable acquisitions under each technique become a factor. Differing techniques may not only affect the cost of each unit, but may also affect the number of units acquired. Generally, defaults are reduced as property values are stabilized and as homeowner's equity increases. Since it is impossible to fully estimate the defaults, and therefore acquisitions, which would occur under the two disposition techniques that were not used, the assumption will be made that the acquisitions would have been the same under any technique (a total of 154 units). This may be a conservative assumption; the analysis may therefore be skewed slightly in favor of the bulk sale and repair and sell techniques.

Based upon the assumption regarding revenues, costs, acquisitions, and timing of events associated with each program, the total probable (unadjusted) financial loss to HUD with a bulk-sale program from fiscal year 1975 to April 1, 1978, is estimated at approximately $3,434,940. With a program of repair and sell, the loss is estimated at approximately $3,219,524. The loss with the demonstration, based upon the stated assumptions, is estimated to have a current value of approximately $2,474,934. Thus, the demonstration has the lowest estimated loss.

EXHIBIT II-12

AVERAGE NET EXPENSE PER ACQUIRED UNIT
REPAIR AND SELL

Acquisition Costs	$ 23,537
Holding Costs:	
Taxes	$ 1,087
Maintenance	1,070
Rehabilitation	10,241
Total Costs	$ 35,935
Total Revenue (Sales Price Less Selling Costs)	$ 16,100
NET LOSS TO HUD	$ 19,835

The estimates of the financial impact of the demonstration on HUD are presented in Exhibit II-13. The table indicates the reduction in the current value of financial losses to HUD through the use of the demonstration over the alternative methods. The demonstration is estimated to have reduced the amount of expected losses by $960,006 from those incurred with a program of bulk sale; and by $744,590 from those with a program of repair and sell.

Sensitivity Analysis

Because of the uncertainty involving the average selling price and number of acquisitions assumed for units under each of the disposition programs, sensitivity tests were carried out to determine how crucial the assumed values for sales prices and acquisitions are to the conclusion that the demonstration is superior. This is done by allowing these values to vary and reestimating the financial impact until the impact of the alternatives becomes equivalent to that of the demonstration. At this point HUD would be indifferent, from a a purely financial point of view, between the demonstration and the traditional method. The sensitivity analysis gives a rough estimate of the superiority of the demonstration project and the importance of the validity of the assumptions.

To perform this analysis, sales prices for each alternative strategy were examined in light of the effectiveness of each of the other strategies. It was determined that demonstration properties could have sold for as low as $15,266 and still been superior to the bulk sale strategy, or for $16,665 and would have been preferable over the repair and sell option. On the other hand, bulk sale and repair and sell prices per property would have had to exceed $9,234 and $22,335 respectively for the demonstration to have been an inferior policy choice. These conclusions are shown in Exhibit II-14.

Other Federal Costs

A number of costs to the Federal Government were not included in the above analysis because they were largely independent of the type of disposition strategy used, or were associated with the demonstration nature of the innovative technique used in Dover Estates.

In 1976, the city of Taylor requested and received $166,000 in funds from the Law Enforcement Assistance Administration (LEAA) to develop a special squad of youth to help curb juvenile crime in three areas of the city. Dover Estates was one of those areas. Since it is fair to assume that all three areas benefitted equally from this program's services, LEAA's cost to Dover Estates was about $55,333.

HUD also experienced person-hour costs for the program. Roughly one person-year per year was required to oversee and administer the demonstration

EXHIBIT II-13

CURRENT VALUE OF ESTIMATED FINANCIAL LOSS TO HUD OF ALTERNATIVE DISPOSITION POLICIES IN DOVER ESTATES

Disposition Policy	Current Value	Cost Above Demonstration
Demonstration	$ 2,474,934	—
Bulk Sale	3,434,940	$ 960,006
Repair and Sell	3,219,524	744,590

EXHIBIT II-14

SENSITIVITY ANALYSIS OF DISPOSITION PROGRAMS

Minimum Demonstration Sale Price For Demonstration Superiority	
Alternative	Demonstration Sale Price
Bulk Sale	$ 15,266
Repair and Sell	$ 16,665

Minimum Alternative Sale Price For Alternative Superiority	
Alternative	Alternative Sale Price
Bulk Sale	$ 9,234
Repair and Sell	$22,335

in Dover Estates. This person-year is valued at about $22,000, and represents a mixture of levels of expertise in HUD--from the lowest to the highest GS level.

Using this basis for computation, the personnel contribution totalled $26,186 per year for every year since acquisition of the initial properties in Dover Estates. For program properties, the average annual cost from 1975 to 1978 was $158 per property. This estimate does <u>not</u> include other HUD overhead costs.

Non-Federal Costs and Benefits

City of Taylor, NDC, and Dover Estates Residents

The city of Taylor bears certain costs associated with the Dover Estates demonstration. These financial costs include certain elements of the cash flow of the Neighborhood Development Commission (NDC), and consist of the following costs:

- the salaries and fringe benefits of those employed by the NDC;
- other fixed costs of the NDC;
- insurance;
- utilities;
- maintenance;
- neighborhood service cost;
- turnover cost;
- rent payment of $15 per property to HUD;
- rent receipts applied to downpayment; and
- rent for recreation center and cost of equipment purchase.

However, many of these costs are reimbursed by rent revenues paid to the NDC by tenants.

Indirect expenses borne by the city include the salaries of personnel for the city coordinating committee for work on the Dover Estates demonstration. Since they would have performed other city services with this time, the foregone services represent a cost to the demonstration. This cost was estimated to be $33,300 per year.[1]

While it is estimated that the NDC will essentially break even (the cost of operations equalling rent and CETA revenues), there has been a substantial financial burden on the city of Taylor:

- the city will have contributed approximately $100,000 annually to the demonstration in the form of salaries; and

- about $48,000 of the NDC's revenue will have come from CETA grants to the city, which could have been used elsewhere.

Benefits from the demonstration include HUD program effects as well as positive consequences of other jurisdictions' involvement (e.g., LEAA/Wayne County). These include:

- rental income;

- reduction in calls for police service;

- reduction in crimes committed;

- increased personal safety;

- potential positive impact on property values;

- improvements in physical subdivision conditions;

- increased social and neighborhood services, particularly the day care center and the youth program;

- increased self-esteem of residents;

- increased opportunity for working mothers because of the day care program, thereby increasing family income, reducing dependence on welfare, increasing the tax base, and providing a beneficial environment for children;

- reduction in juvenile delinquency and in youth crimes through the youth center and the LEAA program;

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[1]Refer to second quarterly report for computations.

- stabilization of the community's social structure;
- preservation of the neighborhood's physical structure;
- extra maintenance of houses;
- reduction in vandalism and its negative consequences; and
- provision of facilities for teenagers and others that are off of the streets, in the recreation center in the Southwest Community Service Center.

The financial aspects of these costs and benefits are explained in greater detail in the following discussion.

Rental income is received for each property that is rented out. Monthly rent, prior to November 1976, was $200 for a three-bedroom, and $220 for a four-bedroom home. The rents are now $240 and $260 per month respectively.

A number of benefits are related to increased police surveillance, to the LEAA-funded youth project, and to the recreation center. These include a reduction in the number of police calls, a reduction in the cost of crime, a reduction in vandalism and its consequences, and an increased sense of safety. Proxy measures have been estimated for some of these effects, but they are only estimates and, as such, cannot be measured precisely.

An estimate of the cost associated with the reduction in calls for police service can be made. A comparison of the average number of annual calls for service in Dover Estates from 1970 through the first quarter of 1975 to the estimated number of calls over the period of the demonstration indicates that, since the start of the demonstration, the number of calls has been reduced by approximately 170 per year. Dividing the total budget of the police force by the total number of calls in Taylor for 1975 yields an average cost (not the marginal cost needed) of nearly $70 per call.[1] Using this average cost and the estimated reduction in calls implies a savings of approximately $12,000 per year. This is a very general figure, since the cost per call is an average total cost per call, and the average number of calls for service in Dover Estates before and after the demonstration are gross estimates. In addition, the reduction in calls cannot be attributed with certainty to the demonstration project, although it was certainly a major factor.

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[1]This estimate is based on a PMM&Co. survey of calls for service in Dover Estates in 1975 and Taylor's actual 1975 city police budget.

During 1975, 17.4 percent of the police calls in the Dover area were for crimes of burglary, 13 percent were for larceny over $50, 6.4 percent were for auto theft, and 9.3 percent were for malicious mischief. An estimated annual cost savings for reduced crime in Dover Estates can be computed by taking the average cost of each type of crime in 1965,[1] inflating it by the 1976 consumer price index, and then multiplying by the estimated reductions in crime. The result would suggest an estimated annual savings of approximately $18,000 (assuming that the reduction in crimes is uniform among types, and taking into account only burglary, larceny over $50, auto theft, and malicious mischief). However, as with the calls for service, this is provided as an estimate only.

The city of Taylor has also received benefits from the stabilization of taxes on the demonstration units. If HUD had not become involved in the Dover Estates demonstration, it should have negotiated a lower appraised value for the acquired properties in Dover Estates. Based on a sample of 50 units, the houses were appraised at an average of $20,004 in 1975.[2] In Dover Estates, the units are assessed at 50 percent of appraised value and have a minimum city tax of $19.72 per $1,000 of assessed value.[3] If it is assumed that, without the demonstration, HUD had an average of 125 houses in its Dover Estates inventory annually and the houses were appraised at $9,000, the city would have lost $13,562 in tax revenues based on 1975 tax rates. The $9,000 appraised value is not unreasonable, since it reflects the bulk-sale prices paid by developers for houses in Dover Estates.

In addition, if it is further assumed that the remaining 286 houses in Dover Estates were reduced in estimated appraised value from $20,004 to $17,000, then an additional $8,471 in tax revenues was saved by the demonstration. The estimated total tax savings to the city of Taylor (i.e., HUD and non-HUD acquired houses) is $22,033.

Impact on Dover Estates Homeowners

The principal benefits to Dover Estates homeowners are in both a monetary and nonmonetary form, such as increased safety and self-esteem. It

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[1]President's Commission on Law Enforcement and Administration of Justice, Task Force Report, Crime and Its Impact--An Assessment, 1967.

[2]Derived by PMM&Co. from information provided by the city of Taylor's Assessors Office.

[3]The 1975 minimum city tax of $19.72 is the amount assessed on all units per $1,000 of assessed value. In addition, specific city taxes are levied on individual units for additional services provided (e.g., sidewalks and streets).

is assumed that the value of the latter benefits is included in the increase in property values. That is, when a neighborhood is considered undesirable, people are not willing to pay as much for a property as when the neighborhood is considered desirable. Therefore, to include both the social benefits accruing to the residents and their increased property values would be double-counting. As a result, only increased property values will be used to measure the impacts on Dover Estates homeowners. Furthermore, only those residents who lived in Dover Estates before the demonstration and remained after the beneficial impact can be considered to have received benefits from the demonstration. Those who moved to Dover Estates after the demonstration started are not assumed to have received those benefits, since it is the existence (or anticipation) of such benefits that encouraged them to move to Dover Estates rather than to another area with similar housing at the same price.

The real benefit to homeowners appears to come in the form of improvements in the subdivision. These improvements may occur in many neighborhood characteristics. Respondents to a survey of property owners in Dover Estates identified vandalism, lack of parks, condition of houses, and litter as major problems in Dover Estates before the demonstration. Many residents felt that these conditions had improved, especially the appearance and condition of the houses.

It is very difficult to place a value on improvements in the condition of a neighborhood. However, the desirability of a neighborhood does affect property values. Therefore, the increase in the average market value of the properties in Dover Estates is a relatively good proxy for the value of improved neighborhood conditions. For this purpose, only the properties of the 202 original owners and the 84 subsequent owners as of April 1, 1975, should be included. If the value of the property of these 286 owners increased from $18,500 to $21,527 (a reasonable assumption for current average market value), then the product of these suggests a total increase of $817,960. This value serves as an approximation of the total benefits from the demonstration to the homeowners of Dover Estates.

Impact on Wayne County

Wayne County has participated to some extent in the demonstration program and can list costs and benefits associated with its involvement in it. It provided all of the funding for the program's day care center. In return, the county has benefitted primarily from a reduction in demand for other social services. Wayne County also shared in the overall benefits of the project, particularly in the area of real estate taxes. Because tax values were maintained, the county did not suffer a tax revenue loss which it could have incurred had the demonstration not been instituted.

SOCIOECONOMIC ANALYSIS OF THE DOVER ESTATES DEMONSTRATION

Five distinct socioeconomic groups of Dover Estates residents have been identified over the course of the project--two pre-program groups and three program impact groups, as follows:

- Pre-Program Groups:

  1970-1978 Original owners who bought, to a large extent, under the 235 program.

  1973-1975 Subsequent owners who bought from either developers or owner-occupants prior to the demonstration project.

- Program Impact Groups:

  1975-1978 Program renters who are participating in the HUD rent-with-option-to-buy program.

  1975-1978 Non-program purchasers who bought since the program began either from developers or owner-occupants.

  1977-1978 Program purchasers who exercised their option under the program.

Findings

The following major findings emerged from the socioeconomic analysis:

- The original owner group is characterized by low income ($6,000 in 1972 to $8,500 in 1978), a high proportion of single parent female heads of household (46 percent), and large families (3.3 children per family).

- After the active 235 program ended, families with the socioeconomic characteristics of the original owner-occupants no longer moved to Dover Estates.

- Initial sales (52) by developers between 1973 and 1975 resulted in lower sales prices per house ($19,200 vs. original price of $23,000) and in new Dover families with substantially different socioeconomic characteristics from those of the original owner-occupants. The major differences were much higher incomes ($13,500 vs. $8,500, very few single parent female heads of household (5 percent), and fewer children per family (2.6 vs. 3.3).

- Because of the continued poor areawide sales market and the major subdivision blight, families coming to Dover Estates via the private market almost stopped by 1975.
- Program intervention resulted in renters with socioeconomic characteristics almost identical to those of the families who purchased from the resales by developers in the 1973-1975 period.
- Because the private market failed, the program intervention helped sustain the socioeconomic transition started by the bulk sale and rehabilitation program in 1973-1975 rather than change it or create major new impacts.
- Renters converting to owners under the program did not differ significantly from either the total renting population or families who purchased from developers.
- It is hypothesized that 60 to 70 percent of the subdivision will stabilize from a socioeconomic point of view, with the same characteristics as those of the renter/purchaser families and the subsequent buyers who purchased after 1973.
- It is hypothesized that the remaining original owners who do not leave over the next few years will be those with upward or stable economic mobility. Their incomes will, however, continue to lag behind that of the new renters/purchasers and the subsequent buyers who purchased from developers. This is because both original owner and new owner incomes will tend to increase at the same rate (i.e., at approximately the rate of the Cost of Living Index).

Group Profiles and Evolution - Pre-Program Groups

Group 1, the original owners who between 1970 and 1973 comprised 100 percent of the subdivision residents, were all 235-assisted families. During the initial development of Dover Estates (1970-1972), HUD estimated their mean family income at approximately $6,000. Between 1971 and 1976, about half the original owners had abandoned their homes. The remaining families who purchased under the 235 program were surveyed by the Neighborhood Development Commission in 1976. According to that survey, the families who purchased in the 1970-1972 period had a mean annual income of approximately $8,500. However, the income of over 50 percent of these families was below $7,000 and that of only 44 percent was above $10,000.

Exhibit II-15, column 1, shows the full socioeconomic profile of the original owner-occupants as of 1976. The heads of household had a mean age of 36, and over 40 percent of them were female. There was an average of 3.3 children per family.

Between 1975 and 1978 the original owner group continued to diminish in size through default, foreclosure, and abandonment. The socioeconomic features of the original owner group characterized the neighborhood until 1973, when private sales transactions began to occur.

Under the 235 program, the original owner-occupants purchased their homes for approximately $23,000, but their median incomes were only $6,000 per year. Without the 235 assistance, these families could only have purchased homes in the $12,000-15,000 range.

In 1973, the 235 program was suspended and, as a result, purchases of homes in Dover Estates had to occur without benefit of federal assistance. Consequently, if Dover properties were to be sold at or near their original sales price, potential purchasers with incomes above $10,000 had to be attracted to the neighborhood. Alternatively, the sales prices of the homes would have to be lowered to the $12,000-$15,000 range to attract potential buyers socioeconomically similar (i.e., incomes between $5,000 and $8,000) to the remaining original owners.

Between 1973 and 1975, HUD sold approximately 69 properties under a bulk sale program to two area developers at an average price of $8,925 per property. In that period, 52 of those properties were rehabilitated and sold to owner-occupants for approximately $19,200 (see Exhibit 11-16). Because of the difficulty associated with marketing $23,000 homes to a substantially higher income group than currently existed in the very distressed Dover Estates subdivision, the developer sales prices represented a compromise.

Both developers used a no-money-down FHA insurance sales approach for a home to be rehabilitated to "like-new" condition. Their programs were carried out during an extreme housing slump throughout the metropolitan area.

The developer sales program met with limited success in that 52 homes were sold over the 2-year period 1973-1975. As shown in Exhibit II-15, the purchasers of these homes were socioeconomically very different from the original owner-occupants in almost every respect.

As of 1976, the subsequent owner group had a mean annual income of over $13,500, up $5,000 from the original owner group's mean income of

EXHIBIT II-15

SOCIOECONOMIC PROFILES OF VARIOUS DOVER ESTATES RESIDENT GROUPS[1]

CHARACTERISTIC	PRE-PROGRAM GROUPS		PROGRAM IMPACT GROUPS		
	I	II	III	IV	V
	ORIGINAL OWNERS 1970–1978[2]	SUBSEQUENT OWNERS 1973–1975[3]	PROGRAM RENTERS 1975–1978[4]	PROGRAM PURCHASERS 1977–1978[5]	NON-PROGRAM PURCHASERS 1975–1978[6]
Mean Age of Head of Household	36	32	31	35	Data Not Available
Sex: Head of Household					Data Not Available
% Male	54%	95%	92%	88%	
% Female	46%	5%	8%	12%	
Marital Status					Data Not Available
% Married	54%	95%	80%	81%	
% Single*	46%	5%	10%	19%	
Mean Number of Children	3.3	2.6	2.0	2.0	Data Not Available
Mean Income	$8,535	$13,548	$14,063	$14,011	Data Not Available

* Single, separated, or divorced.

1 All values are as of 1976, based on Neighborhood Development Commission mailout survey (see Appendix A).

2 Approximate number of original owners as of 1976 is 174.

3 Approximate number of subsequent owners as of 1976 is 55.

4 Approximate number of program renters as of 1976 is 115.

5 Approximate number of program purchasers as of 1978 is 16.

6 Balance of properties are vacant or owned by non-program purchasers.

EXHIBIT II-16

DISPOSITION OF HUD-ACQUIRED PROPERTIES IN THE DOVER ESTATES DEMONSTRATION PROJECT

MONTH	HUD DISPOSITION			DEVELOPER RESALES		
	Average Sale Price	Number of Properties Sold	Purchaser	Developer	Number of Properties Sold	Purchaser
April 1973	$9,000	36	Hadad	-	-	-
June 1973	19,500	1	Owner/Occupant	-	-	-
July 1973	-	-	-	-	-	-
September 1973	-	-	-	Hadad	1	Owner/Occupant
October 1973	-	-	-	Hadad	1	Owner/Occupant
December 1973	-	-	-	Hadad	1	Owner/Occupant
January 1974	9,000	14	Hadad	-	-	-
February 1974	-	-	-	Hadad	7	Lincoln Finance
April 1974	-	-	-	Hadad	2	Lincoln Finance
June 1974	8,200	14	Aires	Hadad	1	Owner/Occupant
July 1974	9,000	2	Hadad	Hadad	2	Owner/Occupant
August 1974	-	-	-	Hadad	3	Owner/Occupant
				Aires	1	Owner/Occupant
September 1974	4,500	1	Owner/Occupant	Hadad	3	Owner/Occupant
	8,300	1	Aires	Hadad	1	Lincoln Finance
				Aires	1	Owner/Occupant
October 1974	-	-	-	Hadad	1	Owner/Occupant
				Aires	3	Owner/Occupant
November 1974	9,000	2	Aires	Hadad	2	Owner/Occupant
				Aires	4	Owner/Occupant
December 1974	-	-	-	Hadad	3	Owner/Occupant
				Aires	3	Owner/Occupant
January 1975	-	-	-	Aires	1	Owner/Occupant
March 1975	-	-	-	Hadad	1	Owner/Occupant
				Aires	1	Owner/Occupant
April 1975	-	-	-	Hadad	1	Owner/Occupant
May 1975	-	-	-	Aires	1	Owner/Occupant
June 1975	-	-	-	Hadad	1	Owner/Occupant
				Aires	1	Owner/Occupant
July 1975	-	-	-	Hadad	2	Owner/Occupant
August 1975	-	-	-	Hadad	1	Owner/Occupant
				Aires	1	Owner/Occupant
October 1975	-	-	-	Hadad	1	Owner/Occupant
Totals		71			32	

about \$8,500.[1] If the subsequent owner group's mean income, estimated based on the 1976 survey, is adjusted downward for inflation, it was probably at the \$11,000 level at time of purchase as opposed to a comparably adjusted original owner-group income of approximately \$7,000.[2] From an income distribution point of view, only 5 percent of the subsequent owners had incomes below \$10,000, as compared with 66 percent of the original owners. Exhibit II-17 shows income and the other major socioeconomic differences between original owners and subsequent owners. The major socioeconomic change is the drop in number of female heads of household and almost one less child per family in the subsequent owner group. This group is also more financially secure and uses relatively less public support/care services than the original owner group with its numerous single parent heads of household.

If the pattern of subsequent buyers had continued after 1973, the overall socioeconomic characteristics of the subdivision would have changed dramatically and probably would have made it more economically stable than it was during the 1970-1975 period. However, the developer programs were never completed, and 19 properties remained unsold as a result of four factors: (1) the developer who failed to sell 19 of his properties met with financial problems unrelated to Dover Estates; (2) the areawide housing market remained severely depressed; (3) default, foreclosure, and abandonment by original owners in the subdivision continued; and (4) vandalism, crime, and distress in the subdivision remained unchecked up to early 1975.

Group Profiles and Evolution - Program Impact Groups

In early 1975, the city of Taylor and HUD initiated the intervention program which resulted in:

- the immediate rehabilitation of 100 properties and a resulting aesthetic improvement to the subdivision;
- an effective vandalism and crime control program;
- occupancy of the rehabilitated houses, with tenants prescreeneed as potential purchasers;

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[1] Difference in income distributions between original owners and subsequent owners found to be significant at the .001 level using the Kolmogorov-Smirnov test (see Appendices B and C).

[2] Assumes 6 percent inflation per year.

EXHIBIT II-17

SOCIOECONOMIC DIFFERENCES BETWEEN ORIGINAL AND SUBSEQUENT OWNERS[1]

	ORIGINAL OWNERS 1970-1973	SUBSEQUENT OWNERS 1973-1975	DIFFERENCES
Mean Income	$8,535	$13,548	+ $5,013
Mean Age of Head of Household	36	32	-4
% Female Head of Household	46%	5%	-41%
Mean Number of Children	3.3	2.6	-0.7

1 All values in 1976, based on 1976 Neighborhood Development Commission mailout survey (see Appendix A).

- the establishment of a day care center and provision of neighborhood counseling and juvenile programs; and

- increased special police patrols in the subdivision.

The immediate socioeconomic impact on the subdivision was the introduction of renters, between 1975 and 1978, with sufficient income to purchase homes at or near the anticipated final sale price of $23,000. It was hoped that by attracting people at this level, the sales market could be reestablished to permit the private market to begin to function in a more normal manner.

Exhibit II-18 contrasts the program renters with the remaining original owners and also with the subsequent owners. As shown in the exhibit, there is almost no difference between the program renters and the subsequent buyers. No statistically significant differences between these two groups exist.[1] Without the demonstration, resales of properties would have stopped, as suggested by the failure of the developer sales program. Thus, the effect of the demonstration was to continue the reoccupation of Dover Estates houses at a time when the depressed market would not enable private disposition of property. More importantly, the continued reoccupation with renters resulted in a continuation of the <u>same</u> socioeconomic transition which had been occurring in the private market. The initial impact of the intervention sustained rather than changed the socioeconomic transition pattern established under free market conditions.

As of March 1978, only 16 of the rental properties were coverted to sales to owner-occupants directly associated with the program. Exhibit II-19 compares the socioeconomic characteristics of the program renters and the subset of program renters who purchased their homes. The only material difference between program renters and program renters who purchased is that the mean age of the heads of household of the latter group is 4 years older. This difference is not significant to the overall intervention program.

FUTURE OUTCOMES

It is projected that default, foreclosure, and abandonment of Dover Estates properties will continue into 1979. Most of this activity has and will continue to occur among the original owner group, whose relatively fixed incomes are not sufficient to cope with rapid inflationary costs. These increases are most dramatically reflected in heating costs, sewer and water costs, and incremental costs of maintaining homes which are now 7 years old.

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[1]Differences were tested using the Kolmogorov-Smirnov test (see Appendices B and C).

EXHIBIT II-18

SOCIOECONOMIC DIFFERENCES BETWEEN PROGRAM RENTERS AND SUBSEQUENT AND ORIGINAL OWNERS[1]

	Program Renters	Original Owners 1970–1978		Subsequent Owners 1973–1978	
	1975–1978	Value	Difference From Renters	Value	Difference From Renters
Mean Income	$14,063	$8,535	-$5,528	$13,548	-$515
Mean Age of Head of Household	31	36	+5	32	+1
% Female Head of Household	89%	46%	+38%	5%	-5%
Mean Number of Children	2.0	3.3	+1.3	2.6	+0.6

1 Values for original owners and subsequent owners based on Neighborhood Development Commission 1976 survey; Program Renter values from Neighborhood Development Commission Files.

EXHIBIT II-19

SOCIOECONOMIC DIFFERENCES BETWEEN PROGRAM RENTERS AND PROGRAM RENTER/PURCHASERS AS OF MARCH 1978[1]

	Program Renters 1975–1978	Program Renter Purchasers	
		1975–1978	Difference
Mean Income	$14,063	$14,011	-$52
Mean Age of Head of Household	31	35	+4
% Female Head of Household	8%	13%	+3%
Mean Number of Children	2.0	2.0	0

1 Values from Neighborhood Development Commission Files 1976 data - 100% sample of data.

As this pattern continues, the abandoned or foreclosed homes will be reoccupied by either program renters or private market purchasers. In the latter case, a private market sales rate of one property per month appears to have been established since the program outset. While no data exist on private parties who have purchased since the program started, sales prices suggest that their income level should be comparable to or higher than that of program renters and purchasers. If the subdivision does not suffer a major setback, it appears that 60 to 70 percent of the neighborhood will stabilize with a socioeconomic profile comparable to the program renter purchasers and subsequent owners. The remaining original 235 purchasers may account for 30 to 40 percent of the subdivision and will probably be those with upward or stable financial mobility. Their income will thus continue to keep pace with area incomes but lag behind those of renter/purchasers and subsequent owners.

It should be noted that the above statements are hypothetical and cannot be substantiated at this time. Appendices A and B present the detailed survey, NDC file data results, and statistical evaluation of the data.

III. PROGRAMMATIC EVALUATION: INTERNAL PROJECT COMPONENTS

Competent management of a large-scale project, such as the Dover Estates Demonstration, is necessary for the successful achievement of the program's stated goals and objectives. Management in Dover Estates, for the purpose of this discussion, includes the many varied functions and responsibilities of the four principal demonstration actors: the Neighborhood Development Commission, the City of Taylor, HUD Central, and the HUD Detroit Office.

This section explores the roles played by each participant, particularly the NDC's on-site management group, the relationships among the groups, and the contribution of management to the achievement of the overall goal of the demonstration: to foster the conditions necessary to promote neighborhood stability and to establish a normal real estate market so as to reduce future losses to the HUD insurance fund. A principal conclusion of this evaluation is that the problems that arose during the course of the program resulted from the lack of real estate experience on the part of this management group rather than from the demonstration concept.

NDC MANAGEMENT

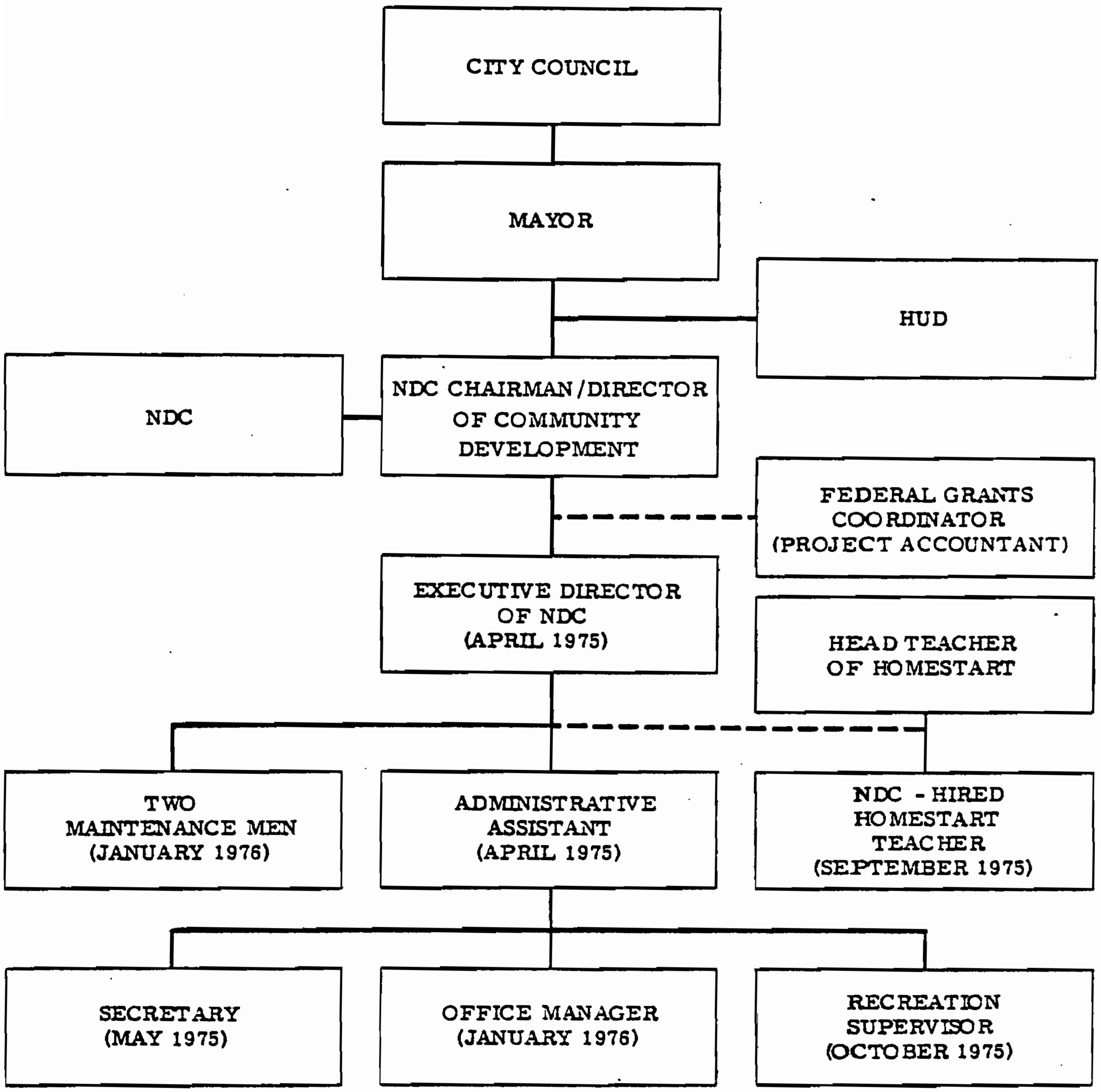
The on-site management arm of the Neighborhood Development Commission was established to carry out the policies and procedures formulated by the seven-member commission. Day-to-day operations of the demonstration were, therefore, the responsibility of the NDC's executive director and staff. Exhibit III-1 illustrates the original organizational structure of the NDC and its relationship to the city and HUD. Staff changes and reliance upon CETA programs are, in part, the causes of some of the management problems described in this section. Because these aspects influence various program components (i.e., sales program and maintenance), a brief discussion of each follows.

Staffing

Staff changes during the course of the demonstration disrupted program continuity and resulted in confusion among employees regarding their respective responsibilities. Turnover at the executive director level at two key points in the project created the most serious problems concerning continuity and employee roles. Increases in staff size resulted from available employees participating in the CETA special projects program. These changes necessitated the redefinition of roles and reconstruction of the NDC organizational structure as illustrated in Exhibit III-2.

EXHIBIT III-1

ORGANIZATIONAL STRUCTURE FOR DOVER DEMONSTRATION

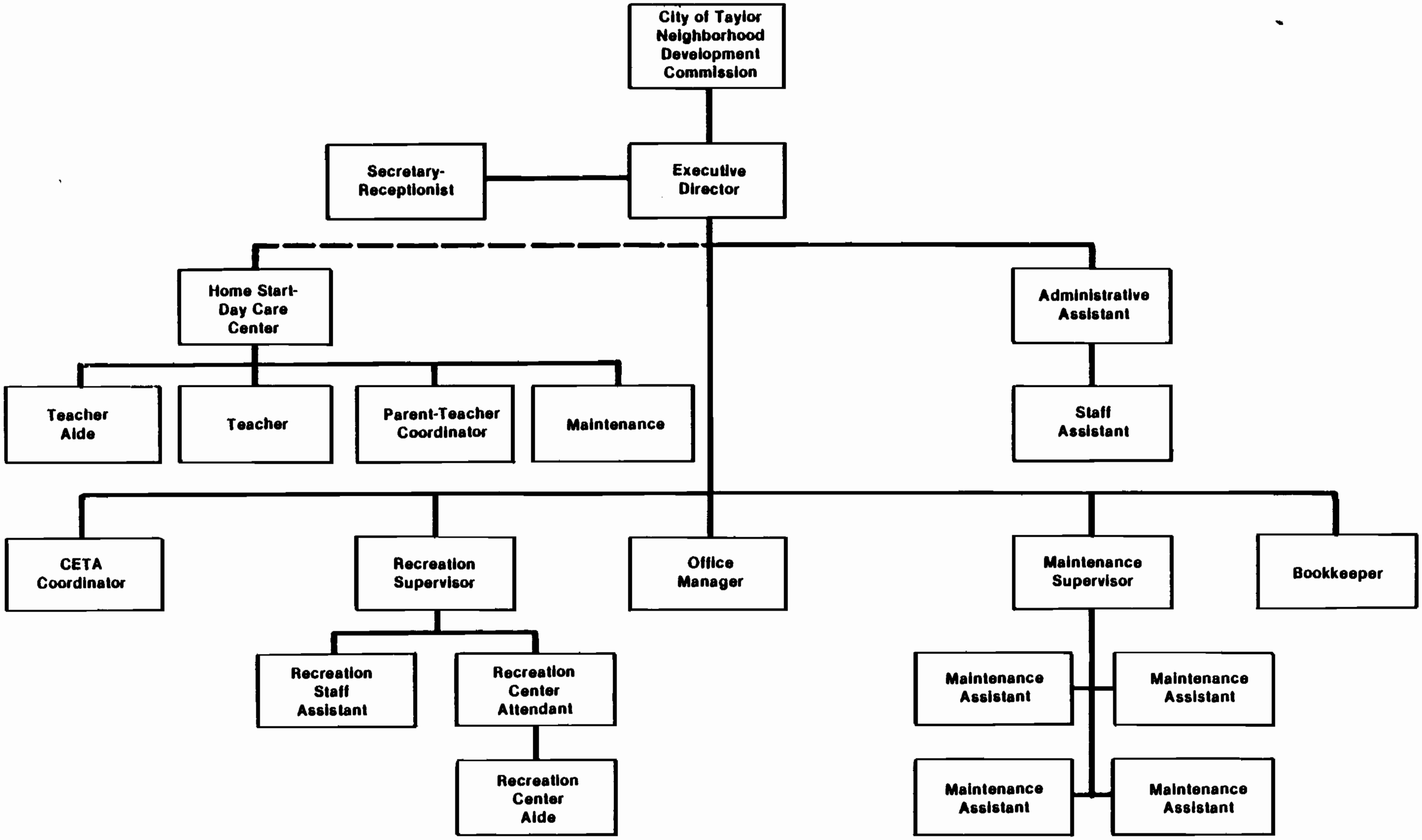


NOTE: Dates denoted when Dover office staff positions were filled.

Dotted line indicates indirect reporting relationship.

EXHIBIT III-2

NDC ORGANIZATIONAL STRUCTURE



Use of CETA

Two types of employment positions were provided by the CETA programs: sustaining level and special projects. The city originally allocated six sustaining level positions to the NDC, one of which was used at the day care center. In April 1977, 11 additional positions were made available through the CETA special projects program.

While the CETA programs provided low cost employees to the NDC, certain problems were created particularly with respect to the special projects program. Some of the requirements for employment under CETA constrained the selection of employees. As a result, it was difficult to employ personnel qualified specifically in the area of maintenance. In many instances, maintenance related problems can be traced back to this program component. Because of the importance of maintenance, it is recommended that future programs rely upon professionally qualified maintenance personnel to perform necessary services.

The specific management and staff issues are discussed within the context of each major NDC function.

The NDC major functions are threefold: real estate, neighborhood services, and financial control and general administration. Each is discussed below.

THE REAL ESTATE OPERATION

Of the three functions, the real estate operation must be considered the most fundamental component of the demonstration. While comprehensive neighborhood services and prudent financial control are necessary components of this type of program, the demonstration exists to stabilize the neighborhood and to sell government acquired properties by renting them to qualified tenants who will exercise their sales option at the termination of the rental period. This two-stage process must be supported by a responsive subdivision and property maintenance program and an aggressive and continuous marketing campaign.

Rental Activity

When the demonstration began in April 1975, HUD had more than 100 abandoned homes in its inventory. These properties were placed under the area manager contract, renovated, and leased, at which time they were placed under the master lease agreement. The number of units included under the area manager contract increased from 94 in April 1975 to 123 in December

1975. The number of units rehabilitated and rented during this period increased from 4 to 105 units. The initial rent-up stage suggested a strong demand in Taylor for rental units of the type available in Dover Estates.

The demand for rental units in the subdivision has remained strong throughout the demonstration. As illustrated in Exhibit III-3, vacancy rates have ranged from 0 percent to 23 percent. The two highest vacancy rates, 23 percent and 16 percent, were caused by the rapid completion of properties at the start of the project before a sufficient number of qualified tenants were approved. In each case, the rate decreased significantly during the next month as tenants were approved and occupied their units. By the end of 1975, all available units were occupied.

Vacancy rates increased during 1976 and reached a peak of 10.7 percent in November 1976. While part of the increase was due to friction--tenants moving in and out--the increase was also due to the lack of coordination between the NDC and the rehabilitation contractors. The contractors frequently underestimated the time necessary to complete the repair of individual units. Furthermore, they did not usually notify the NDC of the delay until a few days before the unit was scheduled for completion. Because of the delays, the NDC could not accurately schedule new tenants for occupancy of their respective units. As a result, rehabilitated units often remained vacant for 2 to 4 weeks prior to occupancy by a new tenant.

While such delays often occur in this type of work, closer coordination by the NDC could have reduced and, in some cases, eliminated the delays. Because he was not experienced in real estate and housing rehabilitation, the NDC executive director was unable to foresee these problems or to take appropriate action to prevent their continuance. Rather than monitoring the progress of the work through frequent inspections or communicating regularly with contractors, he waited until the contractor notified him of a delay. By playing this passive management role, the NDC was permitted to remain vulnerable to such delays.

The advertising campaign that supported the rental phase of the NDC real estate operation was somewhat too aggressive, wasteful at times, and poorly directed. Nearly $14,000 was spent on advertising between May 1975 and December 1977. The timing, level of effort, and choice of media are management decisions which, in this situation, often appeared to be made without sufficient understanding of cost, impact on vacancy rates, and effectiveness as measured by the percentage of tenants who learned about the program through a particular source.

Exhibit III-4 describes advertising expenditures for each month between May 1975 and December 1977, monthly vacancy rates, the number of new

EXHIBIT III-3

RENTAL ACTIVITY IN DOVER ESTATES

Time	Properties Under Contract	Properties with Rehabilitation Completed[a]	Properties Rented[a]	Vacancy Rates (%)
4/75	94	-	-	-
5/75	100	12	12	0.0
6/75	104	39	30	23.0
7/75	106	61	59	3.3
8/75	110	67	63	6.0
9/75	113	84	70	16.7
10/75	115	88	85	3.4
11/75	119	96	94	2.1
12/75	123	105	105	0.0
1/76	123	105	105	0.0
2/76	123	105	105	0.0
3/76	125	114	113	.9
4/76	125	114	113	.9
5/76	127	114	113	.9
6/76	128	114	112	1.8
7/76	134	121	111	8.3
8/76	134	121	114	5.8
9/76	134	121	111	8.3
10/76	136	121	111	8.3
11/76	141	121	108	10.7
12/76	143	120	113	5.8
1/77	143	120	114	5.0
2/77	147	120	114	5.0
3/77	147	118	114	3.4
4/77	148	118	118	0.0
5/77	151	125	120	4.0
6/77	151	128	121	5.5
7/77	149	126	114	9.5
8/77	149	127	115	9.4
9/77	148	126	113	10.3
10/77	137	112	107	4.5
11/77	138	113	104	8.0
12/77	139	113	103	8.8
1/78	137	115	103	10.4
2/78	130	113	105	7.1

[a]Does not include 3 properties rented to city of Taylor.

EXHIBIT III-4

ADVERTISING EFFORTS IN DOVER ESTATES

Time	Advertising Expense	Vacancy Rate	Number of New Tenants	Source			
				Newspaper	Friends/ Relatives	Tenants	Other
5/75[a]	921.42	0.0	10	4	4	0	2
6/75	228.00	23.0	20	13	3	3	1
7/75	0.00	3.3	20	8	7	3	2
8/75	0.00	6.0	14	5	5	3	1
9/75	0.00	16.7	7	1	4	0	2
10/75	0.00	3.4	15	2	10	0	3
11/75	0.00	2.1	9	1	7	0	1
12/75	0.00	0.0	0	0	0	0	0
1/76	63.00	0.0	0	0	0	0	0
2/76	205.84	0.0	1	0	1	0	0
3/76	500.00	.9	8	1	7	0	0
4/76	510.30	.9	1	0	1	0	0
5/76	1,504.00	.9	1	0	0	0	1
6/76	720.00	1.8	0	0	0	0	0
7/76	761.30	8.3	7	0	5	0	2
8/76	97.00	5.8	4	0	2	0	2
9/76	278.00	8.3	5	2	2	0	1
10/76	1,655.40[b,c]	8.3	3	1	0	0	1
11/76	837.00[b,c]	10.7	4	3	0	0	1
12/76	42.56	5.8	7	4	1	0	2
1/77	1,563.78	5.0	3	1	1	0	1
2/77	1,279.80	5.0	4	3	0	0	1
3/77	1,188.45[c]	3.4	6	2	2	1	0
4/77	899.24	0.0	6	3	2	0	1
5/77	381.05	4.0	10	2	7	1	0
6/77	140.94	5.5	8	3	5	0	0
7/77	0.00	9.5	6	1	4	0	1
8/77	0.00	9.4	13	4	7	0	2
9/77	0.00	10.3	4	2	1	0	1
10/77	0.00	4.5	7	0	3	0	4
11/77	0.00	8.0	1	0	1	0	0
12/77	0.00	8.8	0	0	0	0	0
Total	13,777.08		204	66	92	11	33
%				33%	46%	5%	16%

[a] Includes advertising during last week of April 1975.

[b] Includes radio advertising of $1,170 in 10/76 and $810 in 11/76.

[c] One tenant did not state source.

tenants, and the source from which new tenants learned of Dover Estates. About $1,150 was spent for newspaper advertising to initiate the rental phase in Dover Estates. This was a necessary expenditure to "kick off" the pro gram and 95 new tenants were attracted to the subdivision by December 1977. Had management analyzed the sources from which new tenants learned of the program, however, it would have noticed that only 33 percent were attracted because of the newspaper advertising. This information should have been used for future advertising programming. Apparently, the NDC did not perform this type of analysis as it continued to pour most of its advertising funds into this medium. As of December 1977, 46 percent of the new tenants learned of the program from friends and relatives, 5 percent learned from other tenants, and 16 percent learned from other sources including posted signs and free news coverage.

Similarly, management decided to use radio advertising during October and November 1976. Nearly $2,500 was spent for this source of advertising, yet only one tenant claims to have rented as a result of the radio campaign. Again, the NDC management spent large sums of money without a real understanding of the probability of success. A smaller investment to test the radio market would have been a more effective way for management to determine whether this particular medium was a reasonable advertising mechanism.

It also appears that not enough consideration was given to the timing of advertising to minimize vacancy rates. Ideally, management should project vacancy rates for 1 to 3 months into the future so that advertising plans can be developed. Such projections can be based on lease expiration dates and contact with the tenants to determine their intentions. This kind of advanced planning would have helped the NDC to avoid large expenditures when vacancy rates were low. For example, $3,500 was spent between December 1975 and June 1976, when vacancy rates ranged from 0 to 1.8 percent. This effort apparently had little effect on future rental activity as vacancy rates increased during the subsequent 5-month period, reaching a peak of 10.7 percent in the fifth month. During this period, an additional $3,6000 was spent on advertising.

The Sales Program

The rental phase of the demonstration was designed as an interim step leading to the sale of individual properties. When the demonsteration progressed to the sales program phase, 21 homes were sold to tenants exercising their purchase option. Exhibit III-5 shows the number of program sales per month from December 1976 to April 1978. The sales rate for that period was lower than anticipated. The slow rate is in part attributable to the NDC's organizational difficulty in contacting tenants with expired leases to

EXHIBIT III-5

SALES PROGRAM IN DOVER ESTATES

Time	Number Sold
12/76	1
1/77	0
2/77	0
3/77	0
4/77	0
5/77	0
6/77	1
7/77	1
8/77	4
9/77	1
10/77	3
11/77	0
12/77	1
1/78	1
2/78	0
3/78	6
4/78	0
8/78	2
	21

make the conversion from rental to sale. The sales which did occur involved tenants who had a strong motivation to purchase and contacted the NDC on their own.

In addition, the following problems compounded the slow sales program:

- confusion regarding the duration of the rental period and the subsequent delay in developing a second year lease;

- lack of a continuous and aggressive marketing program;

- physical differences in some houses selling at the same price; and

- maintenance problems and a generally inefficient NDC maintenance program.

Confusion about the duration of the rental period first surfaces during the summer of 1976. Apparently, local officials and tenants were under the impression that the transitional rental period would last for 2 years. The Department, on the other hand, thought that a 1-year rental period was sufficient after which time tenants would be asked to exercise their purchase option. A sales letter was prepared to explain the benefits of purchasing, down payment requirements, and the way in which the sales option would be implemented. The letter was distributed to the tenants, and a meeting was held to explain and promote the sales program. Significant tenant resistance to the 1-year rental period was expressed and, ultimately, a 2-year rental period was negotiated.

The confusion and ultimate settlement served to extend the transitional rental period for 1 year more than HUD desired. If, however, HUD originally planned for a 1-year period, then it should have initiated its sales program in the spring of 1976 when the first set of about 30 leases expired. By August of that year, about 70 leases had expired. If a 1-year rental period had, in fact, been anticipated, then discussions with local officials should have been initiated during April 1976, the start of the traditional real estate sales period. If local officials objected to the 1-year rental period, then a settlement could have been reached in January rather than 8 months later.

The delay in starting the sales program was further compounded after the 2-year rental period was negotiated because a second year lease was not prepared by HUD and ready for execution until November 1976. Tenants whose first year leases expired between May and October 1976 continued to rent on a month-to-month basis until November 1976 when they signed their second year leases. Thus, an additional 6-month delay in the sales program resulted. Furthermore, by grouping approximately 60 tenants whose first year leases expired between May and October 1976 into two large groups with second year leases expiring during November or December 1977, the NDC was faced with an overwhelming task of marketing about 60 properties within a 2-month period. This was a difficult way for the NDC, with no previous real estate sales experience, to begin its sales program.

As described in Section II, the NDC experienced two periods of employee turnover at the executive level which seriously disrupted the program's continuity. By June of 1976, the original executive director and administrative assistant had terminated their employment at the NDC. A new administrative assistant was hired and shortly thereafter elevated to the level of executive director. No one was hired to fill the administrative assistant position until the following year. Thus, in a very short time, the new employee was required to assume the responsibilities for the entire demonstration--a function to which his background and experience did not fully apply. Compounding the problem, little assistance was provided by the former executive director during the transition.

Within a few months, it was apparent that the new executive director could not manage the project in its entirety because of its increasing scope and his limited experience. Specifically, vacancy rates began to increase, an initial attempt to market homes received a tepid response from tenants, a follow-up to the initial marketing efforts was not forthcoming, and the maintenance program was not responsive to tenant needs.

On November 16, 1976, a meeting was held between officials of HUD Central and the City of Taylor to review the program's operation and status. During that meeting, HUD officials emphasized that marketing efforts and the maintenance program were in need of improvement. In the subsequent months, improvement was observed--vacancy rates decreased and a maintenance system was developed. The maintenance system, however, only improved the management of the function and not the quality of the work nor the reliability of the workers.

The sales program received little attention during this period. One sale occurred in December 1976, and the next sale did not occur until June 1977. While recommendations were made to the NDC to encourage tenants to purchase during their second year of renting, the NDC did not actively promote the sales program until the summer of 1977. At that point, the executive director developed an approach which structured periodic contacts with tenants, beginning 3 months prior to their lease expiration. The purpose of this approach was to coordinate lease expiration with the closing date for the sale of a property.

The approach was implemented in August 1977, 3 months prior to the expiration of the first group of second year leases. Most of the initial tenant contacts were made over the phone by the NDC receptionist who asked tenants to come into the NDC to discuss their intentions. The impetus for the sales program was left up to the tenants rather than to the NDC.

A more active and aggressive campaign based on the same approach of periodic tenant contact might have improved the likelihood of success. For example, the NDC might have conducted tenant meetings to discuss the advantages of home ownership and the benefits received from exercising their purchase options. Then, individual tenant meetings with the executive director in the tenants' homes could have focused on individual intentions and problems. If a commitment to purchase was made by a tenant, then the executive director could have immediately arranged a meeting between the tenant and the mortgage company. If a problem was identified, then the executive director could have agreed to examine the problem, solve it if possible, and meet again with the tenant at a later date.

In 1978, the resignation of the Director of Community Development and the election of a new mayor both occurred between January and March. The resulting instability caused HUD to request that PMM&Co. help develop a new marketing strategy and to provide stability to the demonstration.

The marketing strategy consisted of segmenting the tenant population into two markets based upon lease expiration dates. A step-by-step process was also developed to include initial and follow-up contact with tenants whose leases were expiring in the near future. Primary responsibility for the marketing program became the function of the administrative assistant (who was hired during the summer of 1977). The first results of this new campaign occurred in March 1978 when six homes were sold to program renters.

While management of the marketing program appears to have been restructured successfully, progress remained slow as a result of two related problems: physical differences in homes selling for the same price and maintenance difficulties. According to NDC staff members, the differences in homes were a major obstacle to sales. Some tenants objected to paying the same price as other tenants who were occupying homes with different features.

In fact, there were small differences in properties selling for the same price. For example, 11 properties had single pane windows rather than "piggyback" or thermopane windows. According to the second executive director, single pane windows were contained in units that were among the first to be renovated and resulted in higher utility payments and fogging during the winter. Similarly, six units had stoves that lacked pilot lights. These stoves were replaced because of the safety hazards associated with them.

Numerous meetings were held between the NDC and the HUD Detroit Office to resolve these problems. Although the stoves were replaced, a solution to other similar problems was not found. One solution was the use of a contingent purchase agreement. This agreement between the NDC and the tenant would state that, on the date of closing, certain improvements would be made so that the unit would be equivalent to others selling at the same price.

Nearly 1 year passed during which no formal solution to this problem was agreed upon. HUD Detroit Office representatives agreed to make certain property improvements, but stressed their desire to make decisions on a case-by-case basis. The Detroit Office commissioned an inspection program of nearly 100 properties to determine the repairs necessary to complete a sale. Currently, a contingent purchase agreement is being used which states that, upon the date of closing, certain repairs will be made by the Department.

While the repair related issues were eventually worked out, more than 1 year passed before the inspections began and this obstacle was removed. This delay appears to have been unnecessary since the solution, ultimately agreed to by the HUD Detroit Office and NDC, had been recommended in October 1976.

THE MAINTENANCE FUNCTION

As part of the demonstration, the NDC was required to maintain and enhance the aesthetic appeal of the subdivision and to deliver ongoing maintenance services to program tenants. Of the many aspects of the demonstration, the maintenance function proved to be the most troublesome and complex. The problems stem from the lack of strong management, lack of clear definition in contractual agreements for maintenance responsibility, and limited cooperation between the city and the HUD Detroit Office.

Problems at the Subdivision Level

To successfully market homes for rental and sale, it was necessary to make Dover Estates a physically attractive subdivision. Although subdivision maintenance was a responsibility of the NDC, it was not pursued on a day-to-day basis. Rather, it was not uncommon to see unboarded, vacant homes, automobiles on front lawns, trash scattered throughout the subdivision, and other similary detracting features.

Three reasons are offered to explain the lack of a cohesive approach to subdivision maintenance:

- confusion about responsibilities under the area manager contract;

- the fact that the NDC did not perform daily property surveys; and

- the absence of a strong code enforcement program.

Although the NDC was encouraged to do more to improve the physical appearance of the subdivision, little was accomplished.

Confusion regarding AMB responsibilities throughout the course of the program served to exacerbate other efforts to promote a more attractive subdivision. Originally, the area manager function was administered by the city with services performed by its Department of Public Works. Their service was not always responsive to NDC requests and, over time, the NDC assumed the AMB role.

Upon the election of a new mayor in November 1977, area manager functions were reassigned within the city government, and the NDC was directed not to perform any further AMB services. This confusion led to increased disruption in service and the incomplete and unresponsive performance of the AMB function. It also further interfered with efforts to improve the physical appearance of the subdivision.

Although services were available to some extent, they were not efficiently delivered because property surveys were not performed on a daily basis. Daily surveys, which would have required about one-half hour per day of a staff member's time, were intended to:

- identify newly vacated properties; and

- identify tenant or homeowner properties that were in violation of city codes or were not being maintained in a way that enhanced the subdivision's appeal.

Without regular surveys, the NDC was unable to maintain control over the aesthetics of the subdivision. As a result, units vacated by tenants "in the middle of the night" went undiscovered for long periods of time; other vacant properties remained improperly secured; and other rental or homeowner properties violated city codes because trash or abandoned appliances or vehicles were left in the yards or on the streets.

Last, a stronger code enforcement program was needed throughout the demonstration. Too often, when property surveys were performed and the violations identified, follow-up code enforcement did not take place. Although the NDC was willing to be responsible for citing code violations, the city's enforcement program was not as strong as was needed by a severely distressed subdivision such as Dover Estates.

Problems at the Property Level

In addition to the problems with services provided at the subdivision level, the maintenance program for individual rental properties proved to be even more difficult to manage. The combination of a large volume of work requests, an inexperienced maintenance staff, a lack of firm control by the NDC, and the lack of definition of responsibility for repairs were all factors that contributed to the inefficient delivery of maintenance services to the tenants.

Financial responsibility for maintenance work performed by the NDC was a controversial issue for more than 2 years. In part, the controversy was due to the lack of clear delineations in the contractual agreements between HUD and the city. It was also due to the turnover in NDC employees and the consequent lack of orientation for new employees. This controversy resulted in delays in providing services as the NDC eventually refused to perform certain maintenance work that it believed to be HUD's responsibility. As a result, tenant repair requests often went unheeded. This was evidenced by the results of a 1976 NDC tenant survey and the complaints that continued until the termination of the city's involvement.

Maintenance performance has also suffered because the maintenance staff included few professional tradesmen. The NDC relied upon various CETA programs to provide its maintenance personnel and, therefore, had to employ persons meeting the CETA requirements, which were low. The selection of qualified employees was constrained by these requirements, resulting in less than professional maintenance services throughout most of the demonstration's history.

There were also problems with the administration of the maintenance function. NDC's informal recordkeeping and scheduling systems caused confusion among staff members and delays in the response to maintenance requests. Cases were reported of tenants waiting nearly a week for service or jobs being halted midway for lack of supplies. Although some system improvements were implemented, the executive director did not monitor their use and, as a result, improvements were not always sustained.

A successful maintenance service is necessary for the operation in the demonstration. Tenants in Dover Estates who were dissatisfied with the lack of service were reluctant to commit themselves to purchase. Many tenants felt that if they purchased their homes, the promised maintenance service would not be forthcoming. Toward the end of the demonstration, PMM&Co. recommended that the NDC contract with a professional maintenance service to perform the function. However, when the city and HUD subsequently agreed to terminate the demonstration, a professional management firm took over all project operations, making this step unnecessary. In future demonstrations, HUD should encourage the SPO to contract out the maintenance work to professionals, and emphasize the importance of coordinating the service in a manner that will result in the smooth operation of the maintenance function.

NEIGHBORHOOD SERVICES

Throughout the demonstration, various neighborhood services were provided to support the demonstration's goals and objectives. These services included a teen club with a full complement of activities, a day care center, a newsletter, and community cleanup days. Certain activities, such as professional credit counseling and an ongoing community association, were not provided, but would have been useful to both tenants and homeowners.

Recreation Program

The NDC, through its recreation director, initiated a teen club which attracted nearly 100 members. The club's activities included dances, outings, basketball, and bowling. In addition, the teen club met periodically to organize new functions such as a spring cleanup campaign. The teen club also periodically visited the Lexington House, a home for retarded children. The recreation program also sponsored the Southwest Recreation Center at the adjacent shopping center site. This center consists primarily of ping pong and pool tables and served as a local "hangout" for some of Dover Estates' teenagers. With the transition, the city expanded its own recreation programs to include the teen club activities and has taken over operation of the Southwest Center.

The provision of recreational services in Dover Estates was supportive of the demonstration. While it did not play a pivotal role in the success or failure of the demonstration, it did serve as a source of identification for the teenagers who participated and appears to have affected juvenile crime and vandalism rates. The programs offered did not reach all teenagers in the subdivision, but the growth in teen club membership over the past few years does indicate interest for the activities provided.

The recreation center, on the other hand, appears to have been as much a nuisance as it was an asset. Frequent incidents of vandalism and abuse caused the center to close periodically. Furthermore, according to NDC officials, the center was most often used by those teenagers who were not regular members of the teen club. It seems that the users of the center are the "tougher" element among the teenagers.

While the NDC recreation program received considerable support from the city early in the program, the new administration did not favor it. It was for this reason that the city has assumed responsibility for the recreation center, promising a professional staff and making it part of the city's overall recreation program.

The Day Care Center

Another source of identification in the subdivision are the two buildings which house three related programs: Taylor Home Start, Community United for Action (CUFA) Drop-In, and the Dover day care project. Staff salaries for the day care program are paid for with HEW and CETA program funds. The day care center occupies two adjacent single family homes which HUD leases to the program for $1 per year. The interiors were remodeled, including removing interior partitions and installing child-sized bathroom facilities. The two yards were fenced to form a single play area and playground equipment was installed.

As stated by the program director, the three programs, individually and in aggregate, represent the first middle class feature available to residents and tenants living in the subdivision. Furthermore, the day care center provided a mechanism to facilitate the integration of tenants and homeowners through its parent involvement program.

The three programs provide comprehensive services to families in Dover Estates and in other parts of Taylor. The Home Start program includes both classroom activities and in-home visits by professionals in the field. Access to medical and dental facilities, a psychologist, and a public nurse are provided to participants through this program. Bus transportation was also provided. There are approximately 40 children enrolled in the program, of whom 36 live in Dover Estates or the adjacent apartment complexes (10 children are from tenant families). There are also four handicapped children participating in the program.

The CUFA Drop-In program represents an additional 40 children who use the day care center on a daily basis, 7 days a week. Of the 40 children, about 25 live in Dover Estates or the adjacent apartments. An additional group of about 15 Dover Estates' children participate through the Dover special project.

The two-building day care center has served as an anchor or source of identification for families residing in the subdivision. The staff has worked diligently to expand its services and its reach within the community. When the program began, about 20 children were served. Today, nearly 100 children are served and there is a waiting list of families who want to enroll their children.

While the day care program has been highly successful, it has experienced some problems. For example, when NDC maintenance staffing problems became severe, the city at one point planned to fire a CETA-funded day care teacher so that her sustaining level position could be transferred to the maintenance program. This would have made it necessary to reduce enrollment when there was already a waiting list and to eliminate that teacher's program for handicapped children. Although the firing did not take place, enrollment remained limited for a long period of time due to poor maintenance at the center. In spite of these problems, however, the day care center proved to fill an important need for residents. For this reason, future demonstrations should include strong support for this kind of service.

Additional Neighborhood Services Required

Two neighborhood services not included within this demonstration which should be made a part of future demonstrations are formal credit counseling and the creation of a community association. When the program began, the NDC provided an informal credit referral service, acting as a clearinghouse for some tenants and homeowners who requested assistance with mortgage problems. For example, a review of weekly reports submitted to the chairman indicated that at least once or twice a week the NDC was called on to assist families by contacting the HUD Detroit Office or a mortgage company, referring families to credit counselors, or helping to settle disputes among residents.

As employee turnover occurred, this service was provided less frequently. Several recommendations to establish a formal credit counseling service were made to the NDC but a program was never initiated. Since the original target of the neighborhood services component was all residents of Dover Estates, this would have been an opportunity for the NDC to expand its presence in the subdivision and to provide additional services besides recreation. Furthermore, credit counseling might have resulted in the avoidance of some foreclosures.

On a number of occasions, community associations have been started but their existence has been short-lived. Their creation and duration have been, to a large degree, a function of the need to resolve pressing issues. Once these issues have been addressed, participation has decreased. The most recent attempt to establish a community association occurred during the summer of 1976. At that time, persistent crime and maintenance problems were factors which inspired the association's creation. During the subsequent months, officers were elected and committees were formed to undertake activities such as security patrols and neighborhood cleanup campaigns. Although these activities were initiated, the association stopped meeting when no controversial issues existed to generate continued interest.

Future demonstrations should include active support of a community association. The SPO should formulate specific projects to be undertaken by the association so that it will not require pressing issues for its continued existence. Activities might include cleanups, security patrols, and community newsletters as well as social events such as block parties, hobby groups, or family picnics. These kinds of activities enable residents to become actively involved in the neighborhood stabilization process. They also help residents to get to know each other, promoting neighborhood cohesion.

FINANCIAL CONTROL AND GENERAL ADMINISTRATION

The original cash flow concept developed for the project proved adequate to operate a program of this type. The original allocation of revenues against expenditures on an account-by-account basis, however, was not maintained since original estimates were low for certain accounts (e.g., general management) and high for others.

The analysis of the cash flow accounts (see Appendix D) shows that problems by account were in part due to management and in part due to the original budgets apportioned to each account function.

The overall balance of cash flow, however, shows that the NDC operated with a safe reserve and also with more than sufficient provision for cash "rebates" to home purchasers.

This present cash position, however, was achieved and maintained with substantial monitoring and assistance by HUD and its contractor's technical advice.

After the initial operating year, the NDC had difficulty controlling expenditures to the level required for sound financial management. While staff maintained a financial reporting and management system for accounting purposes, management was inexperienced in using the system as a management tool.

In many instances, decisions were made without first considering their impact on the project cash flow. Specifically, commission decisions to increase salaries, to reimburse tuition for school, and to pay for employee attendance at conferences proved to be costly as well as generous. Similarly, some equipment purchases were made without consideration for the duration of the program. For example, the purchase of two expensive IMB typewriters appeared unnecessary since their useful life would exceed the duration of the program. While these examples may seem superficial, in aggregate their financial impact was significant.

As similar decisions were made over time, it became evident that the NDC would exhaust its financial resources unless it changed its expenditure pattern. Thus, in August 1977, PMM&Co. began to assist the NDC executive director to develop operating budgets on a monthly and quarterly basis. The basic premise of this exercise was to encourage the NDC to spend no more than the revenues it expected to generate each month and effectively control the cash flow. In this way, the NDC began to operate on a break-even basis and did not further draw down the reserves accumulated early in the program.

After September 1977, the NDC continued to be more conscious of its limited financial resources, and for most months, it stayed within its budget.

THE ROLES OF THE NEIGHBORHOOD DEVELOPMENT COMMISSION AND THE CITY

Because city policy regarding the demonstration was carried out, for the most part, through the commission, the roles of each are discussed together. One finding of this study is that, given the demonstration's organizational structure, the city's commitment to the program was pivotal in terms of program outcomes. Specifically, the demonstration could not have succeeded without the city's early support in the form of increased services. By the same token, the program's progress was slowed by fluctuations in the level of services provided as well as by the withdrawal of city support with the election of the new administration.

The initial impetus for a national demonstration in Dover Estates was generated by the former Director of Community Development for the city of Taylor. Once approved by HUD Central, the program received full support from the local government. In addition to performing the Area Manager function and establishing the NDC to administer the master lease (landlord) function, the city also increased police surveillance (through an LEAA grant) and invited social service programs (i.e., the day care program) to provide services in the community. Without judging the value of any service provided, there was evidence that the city was committed to the stabilization and improvement of the neighborhood.

During the first 2-1/2 years of the program, the NDC was supportive of its chairman (the former Director of Community Development) and of the program. At times, it appeared that the commission served as a "rubber stamp" for decisions reached by its chairman. But the effects of the NDC's somewhat passive role was balanced by the city's commitment, through its Director of Community Development, to the success of the demonstration. Although some decisions may not have been prudent ones, the majority of decisions were made in the interest of program success.

With the new mayor's election, the city's commitment to the program changed immediately. The first sign of change was the reshuffling of commission positions. The new mayor did not reappoint several supportive commissioners whose terms had expired. The new administration also chose not to restaff the maintenance program with new CETA special project employees. The mayor's decision to allocate CETA special project employees to activities other than Dover Estates was indicative of the change in local priorities.

CONCLUSION

It appears that the demonstration concept used in Dover Estates is a sound one. Although some management and political difficulties arose during the marketing phase of the program, HUD and the city were able to join in a concerted, and successful, effort to solve the underlying problems that were damaging the subdivision.

In terms of program concept, the two-stage approach (rental leading to sale) seems appropriate when circumstances prohibit the fluid sales of properties through conventional real estate activity. By 1974, the distressed condition of Dover Estates required an approach that could facilitate the occupancy of HUD owned properties. The initial rental phase was successful and rapid occupancy by tenants was achieved.

Once the rental phase was underway, however, the NDC began to suffer from its lack of expertise in the areas of real estate and property management. Had this expertise been available, its advertising expenditures could have been better directed and more cost effective and its maintenance program could have been more effective and responsive.

Progress in the sales program was affected by these problems. The confusion between HUD and the city about the duration of the rental period and the resulting delays for prospective purchasers got the sales effort off to a slow start. Furthermore, with the extension of many leases for a second year, the NDC was faced with the task of marketing its properties to nearly 60 tenants during the fourth quarter of 1977--a task for which it was not well prepared.

Employee turnover and maintenance related issues also slowed the progress made in the sales program. The new executive director hired during the fall of 1977 was immediately faced with an overwhelming marketing task for which he was not trained. The disagreement between the HUD Detroit Office and the NDC about the assignment of financial responsibility for maintenance and repairs caused delays in work and made prospective purchasers wary of committing themselves to a purchase until the repair work was completed. Last, the NDC's marketing campaign (prior to January 1978) depended too heavily on tenant initiative.

Finally, local political changes further hampered the sales program. The election of the new mayor in November 1977 coincided with the expected NDC efforts to market homes to nearly 60 tenants. The change in administration and the resulting delay in signing a new area manager broker contract placed the program's status in limbo, which further delayed the sales effort. Once in office, the mayor, through his Director of Community Development, shifted local priorities away from Dover Estates.

Although these problems appear to have reduced the sales program's success at the end of the demonstration, the subdivision's improved condition has resulted in continued sales under the administration of the professional management company. It can be assumed that, had this expertise been available to the city earlier in the demonstration, the program concept would have been even more successful. In the following two sections, this and other requirements for the future application of this program concept are described.

IV. GENERAL APPLICABILITY AND PROGRAM RECOMMENDATIONS

The basic finding of the evaluation study is that the slow and difficult progress of the Dover Estates demonstration was due to nonprofessional management rather than the program concept. The intervention strategy applied in Dover Estates was appropriate for the set of neighborhood conditions present in 1974. Specifically, the continuous cycle of abandonment, vandalism, and default foreclosures had become so severe that traditional property disposition techniques in force were not adequate to reverse or end the cycle. The demonstration program did, however, achieve neighborhood stability and near cessation of the abandonment cycle.

One of the program objectives was to determine if a municipality could manage the program in its entirety. The evaluation results show that, in the case of Dover Estates, municipal program management was not successful, with most of the difficulty being the management of the properties. As a consequence, the following recommendations focus on how to correct the property management aspects and maintain the required municipal participation in the provision of services and in neighborhood involvement.

GENERAL APPLICABILITY

By the end of 1974, it was apparent that a viable sales market did not exist in the subdivision. The blighted conditions, a result of approximately 50 percent of the housing having defaulted to HUD and the subdivision's growing derogatory reputation, strictly limited the marketability of homes in the subdivision. Because of these conditions and the urgent need to have acquired properties occupied, an interim transitional rental period was essential.

Given similar conditions of distress, this type of program--a rent-with-option-to-purchase plan coupled with extraordinary municipal support in police, fire, and social services--can be an appropriate mechanism to achieve occupancy and to facilitate homeownership as the neighborhood stabilizes and improves. Because a decision to rent is easier to make and carries less risk than the purchase of a home, a family is more likely to be inclined to rent than purchase in a neighborhood which has suffered extensive distress. Moreover, the visibility of the municipality and the added services serve to attract renters to a neighborhood they would not otherwise consider.

The experience in Dover Estates confirms this hypothesis. Since the beginning, the NDC has rented properties with little difficulty. In fact, prospective tenants were often placed on waiting lists because of the significant demand for the limited supply of rental units.

PROGRAMMATIC REFINEMENTS

Because the program in Dover Estates has been operating for 3 years, it is possible to define in some detail refinements in the program design which would improve future program effectiveness and remove the obstacles to program success. The refinements required fall into three categories:

- program management;
- program components; and
- program objectives.

Program Management

Two alternate management structures can be effective in operating the on-site property management office: a professional property management company that can be held accountable for its performance, with social service support provided by the local government, and a "depoliticized" neighborhood development commission. Because the management and sale of real estate are complex undertakings, these tasks should be performed by a professional property management concern. A management entity has appropriate property management systems for activities such as rent collection and maintenance and is fully prepared to administer the maintenance function (perhaps the largest problem in Dover Estates). By hiring competent and dedicated professionals, HUD gains the advantage of their experience and avoids costly delays that are inevitable with an inexperienced staff.

The demonstration confirmed the need for increased public services to stabilize a severely distressed neighborhood. HUD should encourage the active support of the local government to provide specific programs for target neighborhoods to coincide with the rental program. The use of a cooperation agreement enumerating the responsibilities of HUD and the city is constructive. If desired, the city's contribution of social service support can be operated from on-site offices. These offices can serve as a community focal point as well as providing a visible city presence in the subdivision.

A second alternative, the "depoliticized" neighborhood development commission, is not recommended because of the requirement for a professional full-scale real estate operation. Under this alternative, the management entity would have to be insulated from local politics to reduce HUD's vulnerability to changes in local political priorities. However, both the local government and HUD should contribute funding for the initial period of operation. By requiring some local financing, HUD may be assured of a greater local commitment to the program.

Two levels are needed for this alternative: a policy setting commission and a staff to operate the program on a day-to-day basis. The commission should consist of HUD and local government officials and members of the community. This composition will provide all affected parties with representation in policy and operating decisions. The appointment of local commission members can be a local decision, but their removal should require HUD approval. Again, the purpose of these requirements is to eliminate local politics from the program's operation.

After an agreement is reached between HUD and the local government, financing arranged, and a commission selected, the next task is to hire competent management. Under this alternative, the commission's executive director should be experienced in property management and sales. A knowledgeable individual can provide the necessary skills to operate an office charged with property management responsibilities. Necessary support services can be provided by the local government through its ongoing programs or by hiring resident specialists through the new program's cash flow.

It is necessary to emphasize that the first alternative--to employ a professional property management organization--is the preferred method of operation for two reasons. First, a full-scale real estate operation requires professional management which can more easily be purchased than trained "on the job." Second, HUD's vulnerability to changes in local politics is limited because the local government would provide only social service support. Since it would provide these services under either alternative, the risk associated with local politics is equal for both alternatives. The difference in risk, then, is a function of the local government's participation in management, which under the first alternative is limited to a support role. Because of experiences observed with respect to the Dover Estates demonstration, it is recommended that HUD design its programs in a way that minimizes its exposure to local political shifts.

Program Components

Program components should be defined in advance of implementation to avoid confusion and to minimize the start-up period. For example, the duration of the rental period before purchase should be stated to all participants and should be modified only if the market dictates a change (e.g., a stronger than expected sales market). Similarly, the sales process should include an effort to inform tenants about how to effect a sale and what benefits (e.g., enforced savings plan to reduce cash requirements for a down payment) they will obtain by participating in the program. Transmitting this information to tenants when they first move into the subdivision can serve as an effective marketing tool.

Similar preparation is required for the delivery of maintenance services. Specifically, the assignment of financial responsibility for maintenance should be carefully delineated prior to program implementation. The development of necessary maintenance "tracking" systems in advance of program implementation can also facilitate the effective provision of maintenance services.

Because problems arose in Dover Estates when tenants requested repairs and maintenance not covered by their leases, HUD should consider the use of a different type of lease for tenants renting properties that have been previously occupied. The lease should state that the property is rented in as-is condition, but that certain specified repairs would be made as a condition of sale and at closing.

Program Objectives

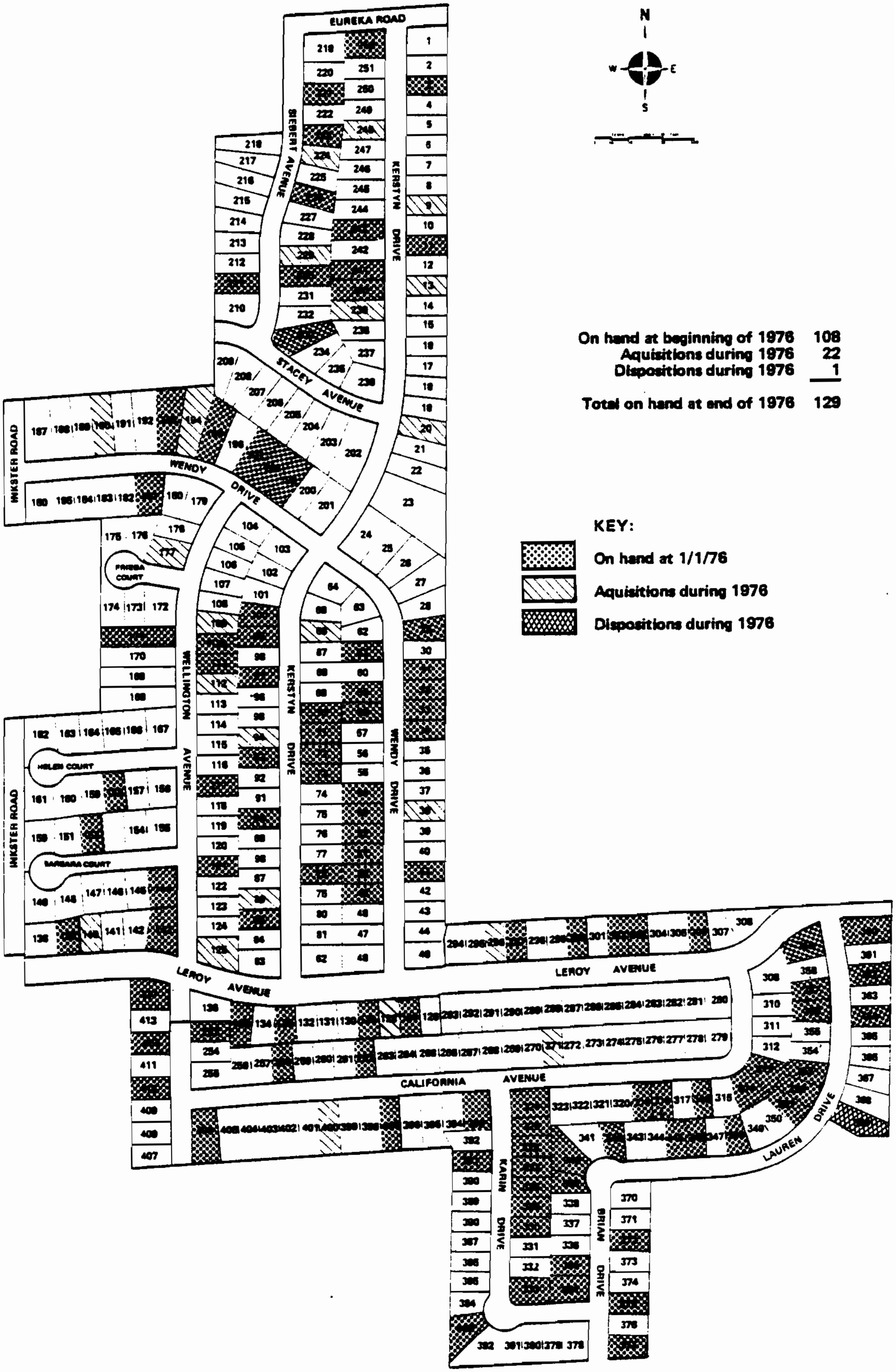
It is necessary to consider, in advance of implementation, the criteria by which to assess the program's progress. Specifically, numerical objectives should be stated to describe the desired levels of achievement over time. These objectives might be stated in terms of the number of years necessary to operate the program or the expected number of sales per year.

The numerical objectives selected are a function of the desired outcomes of the program. If the desired outcome is occupancy of properties, then a corresponding objective might be overall vacancy rates. If, on the other hand, the goal is the provision of counseling services, then the objective might measure the number of families served. In either case, the measurement of numerical objectives provides a means to assess progress as well as to give direction to program managers.

In the case of Dover Estates, numerical objectives were not established at the start of the program. The lack of measurable objectives enabled the NDC to proceed at its own pace and without direction. Measurable objectives, for which the NDC could have been accountable, could have served to guide the NDC through its rental and sales programs. In the future, it is recommended that HUD develop such standards to guide program managers and to aid in the assessment of management's achievements.

APPENDIX A

DEFAULT, ACQUISITION, AND DISPOSITION HISTORY
OF
DOVER ESTATES



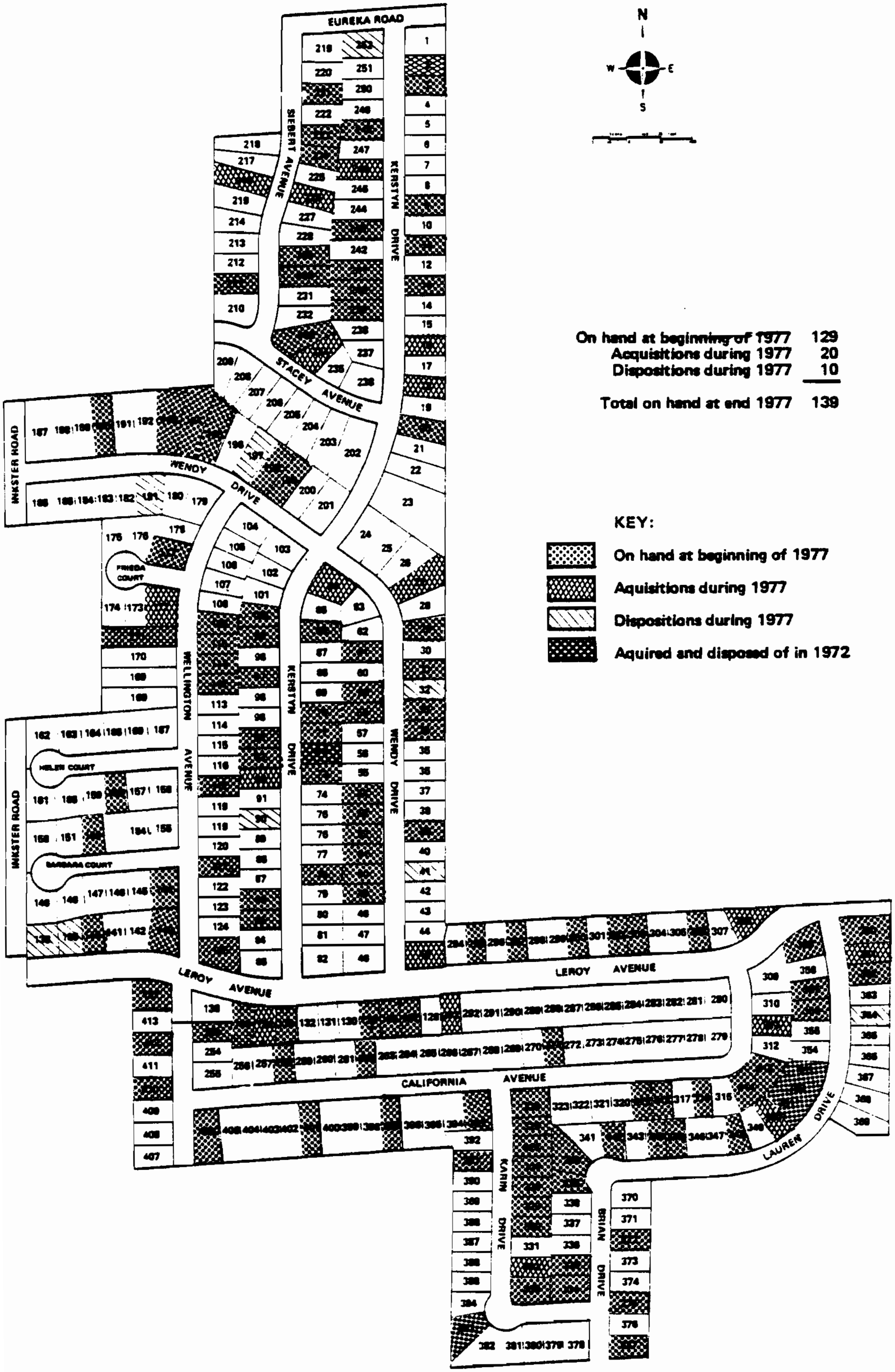
On hand at beginning of 1976	108
Aquisitions during 1976	22
Dispositions during 1976	1
Total on hand at end of 1976	129

KEY:

On hand at 1/1/76

Aquisitions during 1976

Dispositions during 1976


EUREKA ROAD
N
W
E
S
SIEBERT AVENUE
KERSTYN DRIVE
STACEY AVENUE
INKSTER ROAD
WENDY DRIVE
FRIEDA COURT
WELLINGTON AVENUE
HELEN COURT
BARBARA COURT
LEROY AVENUE
CALIFORNIA AVENUE
KARIN DRIVE
BRIAN DRIVE
LAUREN DRIVE
On hand at beginning of 1977 129
Acquisitions during 1977 20
Dispositions during 1977 10
Total on hand at end 1977 139
KEY:
On hand at beginning of 1977
Aquisitions during 1977
Dispositions during 1977
Aquired and disposed of in 1972

APPENDIX B

SURVEY AND FILE DATA

APPENDIX B

SURVEY AND FILE DATA

DATA SOURCES

Two sources of data were used for the socio-economic analysis: the Taylor Neighborhood Development Commission 100 percent survey of non-program households conducted in 1976, and the Neighborhood Development Commission files for renters and renter/purchasers for the year 1976. All data were comparable by year.

Neighborhood Development Commission Survey

At the time of the survey in 1976, the total non-program population was approximately 271, consisting of 211 original 235 purchasers and 60 subsequent purchasers. A 100 percent mailback survey of these residents was taken, with a 25 percent response level. Because of the response level, the survey returns probably contain an element of bias which could not be identified and corrected for the subsequent analysis. The estimated margin of error for the sample is 11 percent for the original 235 purchasers. The estimated margin of error for the subsequent purchasers is 15 percent.

Neighborhood Development Commission Files

Data on the program renters and program renter/purchasers were derived from a mandatory tenants biography maintained in the commission files. For comparability of data, only 1976 file data were used to eliminate inflationary impact on income and ensure the same point-in-time comparisons.

Data Presentation

Exhibit B-1 shows the sex, marital status, and age of head of household, and the number of children per household for each group. Exhibit B-2 presents the income distribution for each group.

EXHIBIT B-1

SOCIO-ECONOMIC CHARACTERISTICS OF VARIOUS DOVER ESTATES OWNERS AND RENTERS

	PRE-PROGRAM				PROGRAM IMPACT			
	ORIGINAL OWNERS 1970-1978		SUBSEQUENT OWNERS 1973-1978		PROGRAM RENTERS 1975-1978		PROGRAM BUYERS 1977-1978	
CHARACTERISTIC	NUMBER	%	NUMBER	%	NUMBER	%	NUMBER	%
MARITAL STATUS								
Married	33	54	94	83	20	95	13	81
Divorced or Separated	22	36	8	7	1	5	1	6
Single or Widowed	6	10	11	10	0	0	2	13
SEX OF HEAD OF HOUSEHOLD								
Male	33	54	104	92	20	95	14	88
Female	28	46	9	8	1	5	2	12
NUMBER OF CHILDREN		CUM		CUM		CUM		CUM
0	0	0	15	13	4	19	1	6
1	5	8	25	35	5	43	6	44
2	11	26	40	71	3	57	4	69
3	22	62	19	88	5	81	3	88
4 or more	23	100	14	100	4	100	2	12
AGE OF HEAD OF HOUSEHOLD		CUM		CUM		CUM		CUM
20-29	21	34	56	50	12	57	5	31
30-39	23	72	40	85	7	90	8	81
40-49	10	89	14	97	1	95	1	88
50-59	6	98	1	98	1	100	1	94
60-69	1	100	1	99	0	100	0	94
70 -	0	100	1	100	0	100	1	100

EXHIBIT B-2

SOCIO-ECONOMIC CHARACTERISTICS - INCOME DISTRIBUTION OF VARIOUS DOVER ESTATES OWNERS AND RENTERS

	PRE-PROGRAM				PROGRAM IMPACT			
	ORIGINAL OWNERS 1970-1978		SUBSEQUENT OWNERS 1973-1978		PROGRAM RENTERS 1975-1978		PROGRAM BUYERS 1977-1978	
INCOME DISTRIBUTION	NUMBER	% CUM	NUMBER	% CUM	NUMBER	% CUM	NUMBER	% CUM
below 4,000	5	9						
4,000 - 4,999	7	21						
5,000 - 5,999	12	43						
6,000 - 6,999	5	52						
7,000 - 7,999	3	57	1	1	1	5		
8,000 - 8,999	2	61	2	3	0	5		
9,000 - 9,999	3	66	3	5	0	5		
10,000 - 10,999	3	71	6	11	2	14	1	6
11,000 - 11,999	1	73	8	18	0	14	3	25
12,000 - 12,999	2	77	21	36	2	24	1	31
13,000 - 14,999	8	91	28	61	9	67	6	69
OVER 15,000	5	100	44	100	7	100	5	100

APPENDIX C

STATISTICAL ANALYSIS

APPENDIX C

STATISTICAL ANALYSIS

It was initially decided to use non-parametric statistical tests since it was believed that in most cases the underlying distribution of the data was not normal. A Kolmogorov-Smirnov one-sample test supported the hypothesis of non-normality in a population universe of 200 and a sample population of 50. Additionally, in two cases--subsequent owners and program purchasers--the small sample sizes precluded use of parametric analytical tools.[1]

Information about five variables was colle ted and a number of tests were considered for use in the analysis. Two variables were nominal--sex and marital status of head of household. Therefore, χ^2 was used to determine if the observed distributions indicated that samples had been drawn from the same population. In two extreme cases, where a 2 x 2 cell resulted, the Fisher Exact Probability test was also used since it was possible that χ^2 was biased by the cells containing zero or one observation. Results of the Fisher test supported the χ^2. Because differences were so great, the bias did not influence the outcome, even at the L = .001 level.

For the remaining three variables - income, age, and number of children--Kolmogorov-Smirnov one- and two-tailed tests were used. Tests of location (e.g., the median test or the Mann Whitney U test) do not assess similarity of distribution, in which we were interested. The Wald-Wolfowitz runs test was also rejected because it is not as powerful as the Kolmogorov-Smirnov statistic. The two-tailed Kolmogorov-Smirnov statistic is the most powerful for comparing distribution, central tendency, and skewness. However, in cases where it was a question of whether one group scored higher than another on any given variable, the one-tailed Kolmogorov-Smirnov was used, despite its lesser power.

Exhibit C-1 summarizes the tests used and the results obtained.

[1] Sidney Siegel. Nonparametric Statistics for the Behavioral Sciences (New York: McGraw-Hill Book Co.), 1956.

EXHIBIT C-1

OUTCOMES OF STATISTICAL COMPARISONS

Variable	Original Owners to Program Renters	Subsequent Owners to Program Renters	Program Renters to Purchasers
Income	K-S: one-tailed $D_{observed} = .61$ $\chi^2 = 55.6$, df = 2 at $\alpha = .001$, reject H_0	K-S: two-tailed $D_{observed} = .12$ $D_{theor.} = .47$ $\therefore$ at $\alpha = .001$, accept H_0	K-S: one-tailed $D_{observed} = .08$ $\chi^2 = 36$, df = 2 at $\alpha = .001$, accept H_0
Number of Children	K-S: two-tailed $D_{observed} = .45$ $D_{theoretical} = .31$ at $\alpha = .001$, reject H_0	K-S: two-tailed $D_{observed} = .14$ $D_{theor.} = .47$ at $\alpha = .001$, accept H_0	K-S: two-tailed $D_{observed} = .13$ $D_{theor.} = .52$ at $\alpha = .001$ $\therefore$ accept H_0
Marital Status	$\chi^2_{observed} = 25.31$ $\chi^2_{theoretical} = 18.91$ df = 2 at $\alpha = .001$, reject H_0	$\chi^2_{observed} = 1.82$, df = 1 at $\alpha = .001$ $\chi^2_{theor.} = 10.83$ $\therefore$ accept H_0*	$\chi^2 = .044$, df = 1 at $\alpha = .001$ $\chi^2_{theor.} = 10.83$ $\therefore$ accept H_0
Sex of Head of Household	$\chi^2_{observed} = 34.53$; df = 1 $\chi^2_{theoretical} = 10.83$ at $\alpha = .001$, reject H_0	$\chi^2_{observed} = 1.185$, df = 1 $\chi^2_{theor.} = 10.83$ at $\alpha = .001$ accept H_0	$\chi^2_{observed} = .37$, df = 1 $\chi^2_{theor.} = 10.83$ at $\alpha = .001$ $\therefore$ accept H_0
Age of Head of Household	K-S: one-tailed $\chi^2_{observed} = 4.05$, df = 2 at $\alpha = .05$, accept H_0	K-S: two-tailed $D_{observed} = .08$ $D_{theor.} = .47$ at $\alpha = .001$ $\therefore$ accept H_0	K-S: two-tailed $D_{observed} = .19$ $D_{theor.} = .52$ at $\alpha = .001$ $\therefore$ accept H_0

* This is supported by a value of 6.11×10^{-28} probability computed from the Fisher Exact Probability test.

APPENDIX D

FINANCIAL OPERATION OF THE DEMONSTRATION

APPENDIX D

FINANCIAL OPERATION OF THE DEMONSTRATION

The following discussion presents a financial profile of the demonstration operation based upon actual operating statements. The review covers typical revenue generation and cost experience.

Throughout the demonstration, PMM&Co. reviewed the financial accounts on a monthly basis and assisted in the development of a financial status report. The demonstration was audited annually and at the point of demonstration the accounts closed after audit and verification. Exhibit 1 presents a typical financial position of the demonstration for the year ended March 31, 1977.

REVIEW OF MAJOR REVENUE AND EXPENDITURE ITEMS

Rent

The average rental payment per month was $250 and the average vacancy rate was 5-1/2%. Applying these factors to the weighted average number of houses in the program reveals that the actual yield to the NDC was slightly less than 11 out of 12 months rent.

Security Deposits

Amounts received as security deposits are not available for expenditure by the NDC until such time as a tenant leaves with a rent delinquency or damages chargeable to the security deposit. In these cases the security deposit represents a payment by the tenant to the NDC for actual costs incurred (i.e., lost rental revenue or maintenance expense), and as such is still not an item of revenue.

Salaries/CETA Reimbursements

Salaries, without adjustment for CETA reimbursement, exceeded the budgeted amount of $109,600 by approximately $15,000. However, salaries net of CETA exceeded the budget by only $8,000. This amount is the result of the use of union painters for work on houses prior to rerental. In the second quarter of 1977, salaries rose to approximately $53,000 for the quarter, as a result of additional funding received for maintenance and neighborhood services positions. This increase will be almost totally reimbursed and thus, does not represent a material increase in salary expenditures for the NDC.

EXHIBIT 1

DOVER

YEAR ENDED MARCH 31, 1977

	SECURITY DEPOSIT	MANAGEMENT FUND	NEIGHBORHOOD SERVICES FUND	MAINTENANCE FUND	MAINTENANCE RESERVE FUND	PROPERTY FUND	TOTAL ALL FUNDS	BUDGET ALL FUNDS	OVER (UNDER) BUDGET	%
Receipts:										
Rent	$ –	$ 27,806	$ 38,928	$ 41,709	$ 11,123	$158,496	$278,062	$228,250	$ 49,812	21.3%
Late Fees	–	3,506	–	–	–	–	3,506	–	3,506	–
Application Fees	–	2,200	–	–	–	–	2,200	–	2,200	–
Grant Receipts	–	24,747	28,898	21,205	–	–	74,850	67,800	7,050	10.4
Security Deposits	11,610	–	200	–	–	–	11,810	4,000	7,810	195.3
Other	–	–	209	85	–	1,986	2,280	–	2,280	–
Total	$ 11,610	$ 58,259	$ 68,235	$ 62,999	$ 11,123	$160,482	$372,707	$301,050	$ 71,657	23.8%
Disbursements:										
Payments to HUD	$ –	$ –	$ –	$ –	$ –	$110,433	$110,433	$ 84,860	$ 25,473	30.0%
Insurance	–	276	42	15	–	15,449	15,782	11,020	4,762	43.2
Utilities	–	1,169	1,379	–	–	22,360	24,918	4,875	20,041	411.0
Salaries	–	52,864	32,301	39,607	–	–	124,772	108,680	16,092	12.1
Professional Services	–	5,319	408	1,226	–	–	6,954	2,400	4,554	189.8
HUD Payment Reduction	–	–	(633)	–	–	–	(633)	(11,850)	11,217	94.7
Neighborhood Service Activities	–	–	5,873	–	–	–	5,873	32,503	(26,630)	(81.9)
Advertising and Public Relations	–	13,091	–	–	–	–	13,091	4,800	8,291	172.7
Supplies and Office Costs	–	8,386	613	5,917	–	–	14,916	6,400	8,516	133.0
Equipment Purchase and Rental	–	5,424	3,116	–	–	–	8,540	400	8,140	2,035.0
Security Deposit Refunds	9,030	–	–	–	–	170	9,200	11,200	(2,000)	(17.9)
Repairs and Maintenance	–	–	–	13,803	–	–	13,803	42,863	(29,060)	(67.8)
Other	–	80	981	–	–	80	1,141	–	1,141	–
Tenant Down Payment Allowance	–	–	–	790	–	–	790	22,400	(21,610)	(97.0)
Total	$ 9,030	$ 86,708	$ 44,081	$ 61,258	$ –	$148,500	$349,577	$321,651	$ 27,926	8.7%
Excess of Receipts Over Disbursements	$ 2,580	$ (28,450)	$ 24,154	$ 1,741	$ 11,123	$ 11,982	$ 23,130	$ (20,601)	$ –	–%
Beginning Fund Balance	23,600	(14,102)	10,980	22,696	6,615	33,991	83,780	66,785	–	–
Ending Fund Balance	$ 26,180	$ (42,552)	$ 35,134	$ 24,437	$ 17,738	$ 45,973	$106,910	$ 46,184	$ –	–%

Note. These figures are unaudited.

Tax and Rent Payments to HUD

The payment to HUD for rent and taxes has approximated the $80 per month per property anticipated in the budget.

Insurance

The cost of insurance for the year ended March 31, 1977, was approximately $130 per property, as compared to $120 budgeted. However, the annual insurance payment made in the second quarter of 1977 reflected a cost of $165 per property. Furthermore, the NDC has negotiated liability insurance at an annual cost of $6,000 further increasing the expected future expenditures for insurance.

Utilities

The cost of utilities averaged $210 per property for the year. With an expected rate increase of 40 percent, the NDC will be incurring $300 per property per year for water bills, if the present practice of the Commission taking responsibility for these bills continues.

Professional Services

Professional services for the year (excluding those chargeable to maintenance or neighborhood services) were $5,300, of which $2,200 was reimbursed through application fees. The net of $3,100 is not substantially higher than the budgeted amount of $2,400. However, if the NDC is to improve the collection experience, professional services expenditures may be expected to increase as a result of increased legal fees.

HUD Payment Reduction

The HUD payment reduction is to be $25 per property sold to a tenant for the months that remained under the master lease for that property. The NDC has been computing the reduction as a lump sum (25 X number of months left under the master lease X number of units sold to tenants in the month) rather than spreading it over the months remaining under the master lease. As long as this method is not disputed by HUD and is advantageous to the NDC, there is no reason to change this practice.

Advertising and Public Relations

The cost of advertising was almost three times the amount budgeted for the year and twice the budgeted amount for the second quarter of 1977. This resulted in part from a radio advertising campaign. Depending on the level of vacancies in the future, advertising may need to continue at only a slight reduction in cost.

Supplies and Office Costs

Actual expenditures for supplies and office costs were $8,400 (excluding those chargeable to maintenance or neighborhood services), while the budgeted amount was $6,400. While the amounts involved are relatively small, this may indicate an area where cost control is not effective.

Equipment Purchase and Rental

The cost for the year for equipment purchase and rental (excluding that chargeable to neighborhood services) was $5,400. This included the purchase of several IBM typewriters and rental payments for a car and a xerox machine. While the Commission should not have any further large equipment purchases, the rental payments are expected to continue.

Tenant Downpayment Allowance

The tenant downpayment allowance was to be based on the projected cash remaining at the end of the project. The NDC, however, has fixed the sum for current tenants at $350 for the 1-year leases and an additional $30 for each month that the original tenants with second-year leases paid the rent increase.

Repairs and Maintenance

Since repairs and maintenance involves expenditures for supplies and professional services as well as the expenditures recorded as repairs and maintenance, an analysis of the expenditures of the maintenance fund rather than the line item is required. The cost, excluding salaries, for repairs and maintenance for the year was approximately $21,000. However, turnover costs have been charged to this fund rather than being segregated in the Maintenance Reserve Fund. As a consequence, it is difficult to determine what regular routine maintenance or turnover taken separately has cost the NDC. Based on discussions with NDC personnel, it is estimated that the average turnover cost per property is $500, composed of $210 for salaries of union painters and $290 for other costs. With approximately 40 turnovers in the year, this would yield a cost for regular maintenance of approximately $10,000 or $85 per property. However, maintenance costs can be expected to increase significantly as the properties remaining in the program increase in age.

An unexpected expenditure that will become significant in the future is the maintenance and repair work that the NDC is doing in order to sell a property to a tenant. There have not been enough sales to develop an average for this cost element, but it appears that it will be at least $300-$500 per property sold.

Neighborhood Service Activities

The neighborhood services fund had total expenditures for the year, excluding salaries, of approximately $13,000, compared to a rental allocation of $39,000. It seems unlikely that the NDC will need to spend more than this on an annual basis in the future in order to maintain the current level of neighborhood services. As a consequence, under the current management plan, allocations to neighborhood services can be expected to far exceed expenditures, but the differential will still not be available for other operating expenditures.

CASH FLOW PROJECTIONS

Based on the cost experience of the NDC in the last 5 quarters, PMM&Co. developed cash flow projections based on the following assumptions:

- New HUD acquisitions will be put under the master lease until March 1978.
- HUD will sell two "bottom of the inventory" properties every 6 months until the second quarter of 1978, then two every quarter.
- Rent will be $250 per month with a 5-1/2 percent vacancy rate. In the fourth quarter of 1977, collection will continue at 11 out of 12 months' rent. For the rest of the program, it will increase to 11-1/2 months' collection.
- Variable costs are:
    - Payments to HUD - $240 per property per quarter.

- Property Insurance - $165 per property per year, payable in August with pro rata refunds for reductions in inventory.
- Utilities - $75 per property per quarter.
- Repairs and Maintenance - $300 per year for properties that have been under the master lease for a year or longer. No repairs and maintenance costs will be incurred for properties under the lease for less than 1 year, as they are still under the contractor's warranty.
- Turnover Costs for Rerental - $290 per occurrence for turnover costs and $210 for salaries for union painters.
- Turnover Costs for Sales - $300 per sale.
- Downpayment Allowance - $350 per sale to tenant and an additional $360 for sales to second-year tenants.

. Fixed costs are:

- Salaries - $54,400 for second and fourth quarters, $46,700 for first and third quarters. 40 percent reduction at 75-80 properties, additional 50 percent reduction at 25-30.
- CETA - $39,200 per quarter, same reductions as salaries.
- Liability Insurance - $6,000 per year, $3,000 when inventory is 50 or less, not refundable for decreases in inventory, payable in August.
- Professional Services - $1,500 per quarter, same reductions as salaries.
- Supplies and Office Costs - $2,250 per quarter, same reduction as salaries.
- Equipment Purchase and Rental - $1,000 per quarter, same reductions as salaries.

- Advertising and Public Relations:
  - 1-5 rentals to be filled - $300 per quarter;
  - 6-10 rentals to be filled - $600 per quarter;
  - 11-15 rentals to be filled - $900 per quarter;
  - 16-25 rentals to be filled - $1,500 per quarter; and
  - more than 25 rentals to be filled - $3,000 per quarter.

- The $44,000 balance in the Neighborhood Services Fund will be spent over the next four quarters. The 14-percent rental allocation and the HUD payment reduction will be spent in the quarter received.

- The HUD payment reduction will be received in full in the month of sale. The average number of months remaining under the master lease have been assumed to be:
  - 4th quarter 1977 and 1st quarter 1978 - 10 months;
  - 2nd quarter 1978 - 9 months;
  - 3rd quarter 1978 - 8 months; and
  - 4th quarter 1978 - 7 months.

- Units vacated will be immediately rerented; tenants purchasing will close within 1 month of lease expiration.

- Because the number of lease expirations to date has been too low to develop a rate for sales, PMM&Co. has prepared three cash flow projections, using a 25-percent, 50-percent, and 75-percent sales rate.

The cash flows (shown in Exhibits 2, 3, and 4) project that, if the current financial situation continues unchecked, the demonstration will be in a deficit position within a few months, regardless of the level of sales. Under the current legal situation, there is no mechanism for coping with a deficit. As a consequence, it is probable that the NDC would be forced to cease operations should this occur.

CASH FLOW PROJECTION
25% PURCHASE ASSUMPTION

	4th Q 77	1st Q 78	2nd Q 78	3rd Q 78	4th Q 78
Properties, Begin	125	118	116	108	98
Added to Master Lease	8	4	–	–	–
Sold to Tenants	(13)	(6)	(6)	(8)	(11)
Sold to Outsiders	(2)	–	(2)	(2)	(2)
Properties, End	118	116	108	98	85
Average	121	117	112	103	91
Turnovers, New Tenants	36	17	14	19	31
Sales to 2nd Year Tenants	9	2	–	–	–
Receipts:					
Net Rent	$ 78,612	$ 79,469	$ 76,073	$ 69,960	$ 61,809
Insurance Rebate	13,230	–	–	–	–
Insurance Adjustment	866	165	330	–	1,607
CETA Grants	39,200	39,200	39,200	39,200	39,200
Total	$131,908	$118,834	$115,603	$109,160	$102,618
Disbursements:					
Payment to HUD	$ 29,040	$ 28,080	$ 26,880	$ 24,720	$ 21,840
Property Insurance	–	–	–	17,490	–
Liability Insurance	–	–	–	6,000	–
Utilities	9,075	8,775	8,400	7,725	6,825
Salaries – NDC	54,400	46,700	54,400	46,700	54,400
Salaries – Union Painters	7,560	3,570	2,940	3,990	6,610
Professional Services	1,500	1,500	1,500	1,500	1,500
HUD Payment Reduction	(3,250)	(1,500)	(1,350)	(1,600)	(1,926)
Neighborhood Services	25,256	23,626	23,001	22,394	10,578
Advertising and Public Relations	3,000	1,500	900	1,500	3,000
Supplies and Office Costs	2,260	2,250	2,250	2,250	2,260
Equipment Purchase and Rental	1,000	1,000	1,000	1,000	1,000
Repairs and Maintenance	7,500	6,750	6,900	6,825	6,626
Turnover – Tenants	10,440	4,930	4,060	5,610	8,990
Turnover – Sales	3,900	1,800	1,800	2,400	3,300
Tenant Downpayment Allowance 1st year tenants	1,400	1,400	2,100	2,800	3,850
Tenant Downpayment Allowance 2nd year tenants	6,390	1,420	–	–	–
Total	$159,461	$131,801	$134,781	$151,204	$128,643
Excess of Receipts Over Disbursements	(27,553)	(12,967)	(19,178)	(42,044)	(26,026)
Beginning Cash Balance	35,000*	7,447	(5,520)	(24,698)	(66,742)
Ending Cash Balance	$ 7,447	$ (5,520)	$(24,698)	$(66,742)	$(92,767)

* Estimated

Note:

This illustration has been prepared on the basis of the information and assumptions set forth. The achievement of any financial projection, however, is dependent on the occurrence of future events which cannot be assured. Therefore, the actual results may vary from the projection. This illustration is solely for HUD internal use. It is not intended for use in any prospectus or in any other manner to encourage or induce any form of external financing.

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HUD-DOVER

CASH FLOW PROJECTION
50% PURCHASE ASSUMPTION

	4th Q 77	1st Q 78	2nd Q 78	3rd Q 78	4th Q 78
Properties, Begin	125	105	98	85	68
Added to Master Lease	8	4	–	–	–
Sold to Tenants	(26)	(11)	(11)	(15)	(15)
Sold to Outsiders	(2)	–	(2)	(2)	(2)
Properties, End	105	98	85	68	51
Average	115	101	91	76	59
Turnovers, New Tenants	23	12	9	12	14
Sales to 2nd Year Tenants	17	4	–	–	–
Receipts:					
Net Rent	$ 74,714	$ 68,601	$ 61,809	$ 51,621	$ 40,074
Insurance Rebate	13,230	–	–	–	–
Insurance Adjustment	2,475	578	536	–	2,104
CETA Grants	39,200	39,200	39,200	23,520	23,520
Total	129,619	108,379	101,545	75,141	65,698
Disbursements:					
Payment to HUD	27,600	24,240	21,840	18,240	14,160
Property Insurance	–	–	–	12,540	–
Liability Insurance	–	–	–	6,000	–
Utilities	8,625	7,575	6,825	5,700	4,425
Salaries – NDC	54,400	46,700	54,400	28,000	33,000
Salaries – Union Painters	4,830	2,520	1,890	2,520	2,940
Professional Services	1,500	1,500	1,500	900	900
HUD Payment Reduction	(6,500)	(2,750)	(2,475)	(3,000)	(2,625)
Neighborhood Services	27,960	23,364	22,128	21,227	8,235
Advertising and Public Relations	3,000	1,500	600	900	900
Supplies and Office Costs	2,250	2,250	2,250	1,350	1,350
Equipment Purchase and Rental	1,000	1,000	1,000	600	600
Repairs and Maintenance	7,050	5,650	5,100	4,800	4,425
Turnover – Tenants	6,670	3,480	2,610	3,480	4,060
Turnover – Sales	7,800	3,300	3,300	4,500	4,500
Tenant Downpayment Allowance 1st year tenants	3,160	2,450	3,850	5,250	5,250
Tenant Downpayment Allowance 2nd year tenants	12,070	2,840	–	–	–
Total	$161,405	$125,509	$124,818	$113,007	$ 82,120
Excess of Receipts Over Disbursements	(31,786)	(17,130)	(23,273)	(37,866)	(16,422)
Beginning Cash Balance	35,000*	3,214	(13,916)	(37,189)	(75,055)
Ending Cash Balance	$ 3,214	$(13,916)	$(37,189)	$(75,055)	$(91,477)

* Estimated

Note:

This illustration has been prepared on the basis of the information and assumptions set forth. The achievement of any financial projection, however, is dependent on the occurrence of future events which cannot be assured. Therefore, the actual results may vary from the projection. This illustration is solely for HUD internal use. It is not intended for use in any prospectus or in any other manner to encourage or induce any form of external financing.

HUD-DOVER

CASH FLOW PROJECTION
75% PURCHASE ASSUMPTION

	4th Q 77	1st Q 78	2nd Q 78	3rd Q 78	4th Q 78
Properties, Begin	125	93	80	61	37
Added to Master Lease	8	4	–	–	–
Sold to Tenants	(38)	(17)	(17)	(22)	(14)
Sold to Outsiders	(2)	–	(2)	(2)	(2)
Properties, End	93	80	61	37	21
Average	109	86	70	49	29
Turnovers, New Tenants	11	6	3	5	3
Sales to 2nd Year Tenants	26	6	–	–	–
Receipts:					
Net Rent	$ 70,816	$ 58,413	$ 47,545	$ 33,282	$ 19,697
Insurance Rebate	13,230	–	–	–	–
Insurance Adjustment	3,960	1,073	784	–	1,980
CETA Grants	39,200	39,200	23,520	16,680	7,840
Total	$127,206	$ 98,686	$ 71,849	$ 48,962	$ 29,517
Disbursements:					
Payment to HUD	$ 26,160	$ 20,640	$ 16,800	$ 11,760	$ 6,960
Property Insurance	–	–	–	7,590	–
Liability Insurance	–	–	–	3,000	–
Utilities	8,176	6,450	5,250	3,675	2,175
Salaries – NDC	64,400	46,700	33,000	18,680	10,880
Salaries – Union Painters	2,310	1,260	630	1,050	630
Professional Services	1,500	1,500	900	600	300
HUD Payment Reduction	(9,600)	(4,250)	(3,825)	(4,400)	(2,450)
Neighborhood Services	30,414	23,428	21,481	20,059	5,208
Advertising and Public Relations	1,500	600	300	300	300
Supplies and Office Costs	2,250	2,250	1,350	900	450
Equipment Purchase and Rental	1,000	1,000	600	400	200
Repairs and Maintenance	6,600	4,425	3,525	2,850	2,175
Turnover – Tenants	3,190	1,740	870	1,450	870
Turnover – Sales	11,400	5,100	5,100	5,700	4,200
Tenant Downpayment Allowance 1st year tenants	4,200	3,850	5,950	6,650	4,900
Tenant Downpayment Allowance 2nd year tenants	18,460	4,260	–	–	–
Total	$162,059	$118,953	$ 91,931	$ 80,264	$ 36,798
Excess of Receipts Over Disbursements	(34,853)	(20,267)	(20,082)	(31,302)	(7,281)
Beginning Cash Balance	35,000*	147	(20,120)	(40,202)	(71,504)
Ending Cash Balance	$ 147	$(20,120)	$(40,202)	$(71,504)	$(77,785)

* Estimated

Note:

This illustration has been prepared on the basis of the information and assumptions set forth. The achievement of any financial projection, however, is dependent on the occurrence of future events which cannot be assured. Therefore, the actual results may vary from the projection. This illustration is solely for HUD internal use. It is not intended for use in any prospectus or in any other manner to encourage or induce any form of external financing.

In order to avoid this result, PMM&Co. has developed recommendations for cost reductions. First, the NDC is still paying water bills for its tenants. With the expected rate increase, this will amount to approximately $25 per month for each property in the program. We recommend that a market study be conducted of comparable rental units in the area to determine the feasibility of increasing rental for new tenants by $25 a month to cover the cost of this utility.

Second, with the new funding for maintenance positions, the NDC currently has a staff of six maintenance men. It is recommended that the NDC use this available manpower for preparing houses for rerental, rather than incurring the high cost of union painters' salaries.

Finally, the NDC has spent approximately $1,000 per month for neighborhood services activities, and it appears that the amount is sufficient to sustain the required level of these activities. However, the rental allocation combined with the existing fund balance and the HUD payment reduction far exceeds this amount. Consequently, we recommend that the Neighborhood Services Funds in excess of $1,000 per month be released by HUD for use in meeting other operating expenditures.

If these recommendations are implemented, the cash flow projections would be as shown in Exhibits 5, 6, and 7.

The revised projected ending cash balance under all of the sales rates remains marginal. If costs are 5 percent above the projected amounts without a corresponding surplus in revenue, the project will once again face a deficit position. In light of this tenuous financial situation, it is critical that budgets be prepared and adhered to strictly. As the first step towards implementing effective budgeting procedures, PMM&Co. has developed budgets based on Mr. Caya's estimates of sales and turnovers for the month of September and the fourth quarter of 1977.

It must be emphasized that, while the cash flows can be utilized as a tool for developing budgets, they are not in themselves budgets. The NDC should make every effort to effect cost reductions wherever possible rather than allowing their historic cost experience, upon which the cash flows are based, to continue, and the budgets should reflect these anticipated cost savings.

FURTHER CONSIDERATIONS

The cash flow projections do not include a provision for payment of the current property tax liability to HUD of $24,000. Since the financial feasibility

REVISED CASH FLOW PROJECTION
25% PURCHASE ASSUMPTION

	4th Q 77	1st Q 78	2nd Q 78	3rd Q 78	4th Q 78
Properties, Begin	125	118	116	108	98
Added to Master Lease	8	4	–	–	–
Sold to Tenants	(13)	(6)	(6)	(8)	(11)
Sold to Outsiders	(2)	–	(2)	(2)	(2)
Properties, End	118	116	108	98	85
Average	121	117	112	103	91
Turnovers, New Tenants	36	17	14	18	31
Sales to 2nd Year Tenants	9	2	–	–	–
Receipts:					
Net Rent	$ 80,042	$ 83,136	$ 80,963	$ 76,006	$ 67,990
Insurance Rebate	13,230	–	–	–	–
Insurance Adjustment	866	165	330	–	1,609
CETA Grants	39,200	39,200	39,200	39,200	39,200
Total	$133,338	$122,501	$120,493	$116,206	$108,799
Disbursements:					
Payment to HUD	$ 28,040	$ 28,080	$ 26,880	$ 24,720	$ 21,840
Property Insurance	–	–	–	17,498	–
Liability Insurance	–	–	–	6,000	–
Utilities	9,076	8,776	8,400	7,726	6,826
Salaries – NDC	54,400	46,700	54,400	46,700	54,400
Salaries – Union Painters	–	–	–	–	–
Professional Services	1,500	1,500	1,500	1,500	1,500
HUD Payment Reduction	(3,250)	(1,500)	(1,350)	(1,600)	(1,826)
Neighborhood Services	3,000	3,000	3,000	3,000	3,000
Advertising and Public Relations	3,000	1,500	800	1,500	3,000
Supplies and Office Costs	2,250	2,250	2,250	2,250	2,250
Equipment Purchase and Rental	1,000	1,000	1,000	1,000	1,000
Repairs and Maintenance	7,500	6,760	6,900	6,826	6,626
Turnover – Tenants	10,440	4,930	4,060	5,610	8,990
Turnover – Sales	3,900	1,800	1,800	2,400	3,300
Tenant Downpayment Allowance 1st year tenants	1,400	1,400	2,100	2,800	3,650
Tenant Downpayment Allowance 2nd year tenants	6,390	1,420	–	–	–
Total	$129,645	$107,606	$111,840	$127,820	$114,565
Excess of Receipts Over Disbursements	3,873	14,896	8,653	(12,616)	(5,766)
Beginning Cash Balance	35,000*	38,873	53,769	62,422	49,807
Ending Cash Balance	$ 38,873	$ 53,769	$ 62,422	$ 49,807	$ 44,061
Reductions from PMM&CO.'s Recommendations					
Utilities	$ 1,430	$ 3,667	$ 4,890	$ 6,046	$ 8,101
Neighborhood Services	22,256	20,626	20,001	18,394	7,578
Union Painter's Salaries	7,560	3,570	2,940	3,990	6,510
Total	$ 31,246	$ 27,863	$ 27,831	$ 28,428	$ 20,269

* Estimated

Note:

This illustration has been prepared on the basis of the information and assumptions set forth. The achievement of any financial projection, however, is dependent on the occurrence of future events which cannot be assured. Therefore, the actual results may vary from the projection. This illustration is solely for HUD internal use. It is not intended for use in any prospectus or in any other manner to encourage or induce any form of external financing.

HUD-DOVER

REVISED CASH FLOW PROJECTION
50% PURCHASE ASSUMPTION

	4th Q 77	1st Q 78	2nd Q 78	3rd Q 78	4th Q 78
Properties, Begin	126	106	98	86	68
Added to Master Lease	8	4	-	-	
Sold to Tenants	(26)	(11)	(11)	(16)	(15)
Sold to Outsiders	(2)	--	(2)	(2)	(2)
Properties, End	106	98	85	68	51
Average	116	101	91	76	59
Turnovers, New Tenants	23	12	9	12	14
Sales to 2nd Year Tenants	17	4	-	-	-
Receipts:					
Net Rent	$ 76,689	$ 71,250	$ 65,272	$ 55,832	$ 44,081
Insurance Rebate	13,230	-	-	-	--
Insurance Adjustment	2,476	578	536	-	2,104
CETA Grants	39,200	39,200	39,200	23,520	23,520
Total	$130,594	$111,028	$105,008	$ 79,352	$ 69,705
Disbursements:					
Payment to HUD	$ 27,600	$ 24,240	$ 21,840	$ 18,240	$ 14,160
Property Insurance	-	-	-	12,540	--
Liability Insurance	-	-	-	6,000	-
Utilities	8,625	7,575	6,825	5,700	4,425
Salaries - NDC	54,400	46,700	54,400	28,000	33,000
Salaries - Union Painters	-	-	-	-	-
Professional Services	1,500	1,500	1,500	900	900
HUD Payment Reduction	(6,500)	(2,750)	(2,475)	(3,000)	(2,625)
Neighborhood Services	3,000	3,000	3,000	3,000	3,000
Advertising and Public Relations	3,000	1,500	600	900	900
Supplies and Office Costs	2,250	2,250	2,250	1,350	1,350
Equipment Purchase and Rental	1,000	1,000	1,000	600	600
Repairs and Maintenance	7,050	6,550	6,100	4,800	4,425
Turnover - Tenants	6,670	3,480	2,610	3,480	4,060
Turnover - Sales	7,800	3,300	3,300	4,500	4,500
Tenant Downpayment Allowance 1st year tenants	3,150	2,450	3,850	5,250	5,250
Tenant Downpayment Allowance 2nd year tenants	12,070	2,840	-	-	-
Total	$131,615	$102,635	$103,800	$ 92,260	$ 73,945
Excess of Receipts Over Disbursements	(1,021)	8,393	1,208	(12,908)	(4,240)
Beginning Cash Balance	35,000*	33,979	42,372	43,580	30,672
Ending Cash Balance	$ 33,979	$ 42,372	$ 43,580	$ 30,672	$ 26,432
Reductions from PMM&CO.'s Recommendations					
Utilities	$ 975	$ 2,649	$ 3,463	$ 4,211	$ 4,007
Union Painters	4,830	2,520	1,890	2,520	2,940
Neighborhood Services	24,960	20,354	19,128	18,227	5,235
Total	$ 30,765	$ 25,523	$ 24,481	$ 24,958	$ 12,182

* Estimated

Note:

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REVISED CASH FLOW PROJECTION
75% PURCHASE ASSUMPTION

	4th Q 77	1st Q 78	2nd Q 78	3rd Q 78	4th Q 78
Properties, Begin	126	93	80	61	37
Added to Master Lease	8	4	–	–	–
Sold to Tenants	(38)	(17)	(17)	(22)	(14)
Sold to Outsiders	(2)	–	(2)	(2)	(2)
Properties, End	93	80	61	37	21
Average	109	86	70	49	29
Turnovers, New Tenants	11	6	3	5	3
Sales to 2nd Year Tenants	26	6	–	–	–
Receipts:					
Net Rent	$ 71,401	$ 60,043	$ 49,583	$ 35,591	$ 21,667
Insurance Rebate	13,230	–	–	–	–
Insurance Adjustment	3,960	1,073	784	–	1,980
CETA Grants	39,200	39,200	23,520	15,680	7,840
Total	$127,791	$100,316	$ 98,887	$ 51,271	$ 31,487
Disbursements:					
Payment to HUD	$ 26,160	$ 20,640	$ 16,800	$ 11,760	$ 6,960
Property Insurance	–	–	–	7,690	–
Liability Insurance	–	–	–	3,000	–
Utilities	8,175	6,450	5,250	3,675	2,175
Salaries – NDC	54,400	46,700	33,000	18,680	10,880
Salaries – Union Painters	–	–	–	–	–
Professional Services	1,500	1,500	900	600	300
HUD Payment Reduction	(9,600)	(4,250)	(3,825)	(4,400)	(2,450)
Neighborhood Services	3,000	3,000	3,000	3,000	3,000
Advertising and Public Relations	1,500	600	300	300	300
Supplies and Office Costs	2,250	2,250	1,350	900	450
Equipment Purchase and Rental	1,000	1,000	600	400	200
Repairs and Maintenance	6,600	4,425	3,526	2,850	2,175
Turnover – Tenants	3,190	1,740	870	1,450	870
Turnover – Sales	11,400	5,100	5,100	5,700	4,200
Tenant Downpayment Allowance 1st year tenants	4,200	3,850	5,950	6,650	4,900
Tenant Downpayment Allowance 2nd year tenants	18,460	4,260	–	–	–
Total	$132,335	$ 97,265	$ 72,820	$ 62,155	$ 33,960
Excess of Receipts Over Disbursements	(4,544)	3,051	1,067	(10,884)	(2,473)
Beginning Cash Balance	35,000*	30,456	33,507	34,574	23,690
Ending Cash Balance	$ 30,456	$ 33,507	$ 34,574	$ 23,690	$ 21,217
Reductions from PMM&CO.'s Recommendations					
Utilities	$ 585	$ 1,630	$ 2,038	$ 2,309	$ 1,970
Union Painters	2,310	1,260	630	1,050	630
Neighborhood Services	27,414	20,428	18,481	17,059	2,208
Total	$ 30,309	$ 23,318	$ 21,149	$ 20,418	$ 4,808

* Estimated

Note:

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of the demonstration was based on HUD being able to keep the properties in inventory for an extended period of time without incurring holding costs, it is unlikely that HUD will absorb the property taxes. However, the NDC should petition the City of Taylor to exempt properties, while in the demonstration, from property taxes. It is clearly to the City's benefit to foster the success of the demonstration and this success can only be achieved if the NDC can remain solvent.

The projections are based on the assumption that the NDC will be able to improve its collection experience and also hold turnover costs for rerental to $290 per occurrence. However, the NDC's experience has been that many tenants fail to pay the last month's rent under their leases. This means that the security deposit is used to compensate the NDC for lost rental and consequently is not available to cover costs of turnover that are properly chargeable to the tenant. We recommend that the NDC consider the possibility of changing the present sublease to include an additional deposit either for the last month's rent or to cover recurring maintenance problems such as a deposit for carpet and drape cleaning or for pets. Before any action can be taken, however, the NDC will have to determine whether an additional deposit is feasible in the Taylor rental market.

Another problem that must be considered is the development of a transition plan for neighborhood services activities. When the demonstration is completed, i.e., all the properties have been sold, Dover Estates will still have a need for neighborhood services. Consequently, we feel that the City of Taylor and the NDC should begin considering the steps that will be necessary to transfer responsibility for these activities to the City.