

Request for City Council Committee Action from the Department of Community Planning and Economic Development - CPED

Date: September 16, 2008

To: Council Member Lisa Goodman, Community Development Cmte

Subject: Home Ownership Works Program Changes

Recommendation: Approve the staff recommended changes to the Home Ownership Works (HOW) program to change the Real Estate Agency Broker Compensation from \$3,000 for an independent agent to 2.75% of the sale price.

Previous Directives: On April 4, 2006, the City Council approved the HOW Program Guidelines. On January 31, 2006, the City Council approved an increase in the Real Estate Agency Broker Compensation to \$5,000. On February 21, 2002, the MCDA Board of Commissioners increased the HOW Broker Participation payment to \$3,500. On January 24, 2000, the Board of Commissioners gave authorization to execute marketing contracts with Northside Residents Redevelopment Council (NRRC) and Powderhorn Residents Group (PRG), in the amount of \$8,500 each, for overall general marketing responsibilities. Plus an additional amount up to \$2,500 for each successful closing as outlined in the HOW Broker Participation Agreement.

Prepared by: Edie Oliveto-Oates, Senior Project Coordinator _____

Approved by: Charles T. Lutz, Deputy CPED Director _____

Thomas A. Streitz, Director Housing Policy & Development _____

Presenters in Committee: Edie Oliveto-Oates, Senior Project Coordinator

Financial Impact

- No financial impact
- Action requires an appropriation increase to the Capital Budget _____ or Operating Budget _____
- Action provides increased revenue for appropriation increase
- Action requires use of contingency or reserves
- Action is within the Business Plan
- Action requires a change to the Business Plan
- Other financial impact
- Request provided to the Finance Department when provided to the Committee Coordinator

Community Impact

- Neighborhood Notification: N/A
- City Goals: A SAFE PLACE TO CALL HOME-Housing, Health and Safety -In five years all Minneapolis residents will have a better quality of life and access to housing and

services; residents will live in a healthy environment and benefit from healthy lifestyles; the city's infrastructure will be well-maintained and people will feel safe in the city.

- Sustainability Targets: N/A
- Comprehensive Plan: N/A
- Zoning Code: N/A

Supporting Information

Program Summary

The Home Ownership Works program (HOW) is designed to address the goal of providing home ownership opportunities for residents who otherwise would have difficulty in attaining home ownership. It is also designed to address the problem of abandoned and foreclosed houses which can be rehabilitated. The program can also treat properties in need of demolition and new construction. HOW properties are owned by the City of Minneapolis during the renovation/construction period. All properties will meet the HOW program Standards which exceed the minimum city code requirements. The scope of work and construction monitoring are completed by non-profit housing development construction managers. Private licensed general contractors are selected through a sealed bid process to complete the required renovation/repairs or new construction. Additionally, CPED's Construction Management Specialists assist in the preparation of the scope of services, monitor the construction draws and provide input to the CPED program manager regarding change orders.

Target Buyers

Target buyers are first time homebuyers or buyers who are being displaced due to public action. The annual gross income of the buyer must meet the HOME low-income requirements. The buyers are typically ones who are either trying to purchase a home, but are having trouble qualifying for a mortgage or identifying a home which will meet their needs in their price range. All HOW properties are sold to owner-occupants who must agree to remain in the home for fifteen (15) years. All purchasers are required to attend homebuyer-counseling and housing maintenance seminars prior to closing. The City is also working with Minneapolis Public Housing Authority (MPHA) to market the program to residents who are participating in the MPHA HOME Program (2008 HOME Program Basics attached).

Real Estate Agency Broker Compensation

In the past, marketing services for the HOW program had been secured by soliciting proposals from organizations interested in providing these services. The last Request for Proposals (RFP) for marketing services for the HOW program was issued in 2005, four proposals were received and reviewed by a five-member panel consisting of CPED staff from the Real Estate, Mortgage Finance, and Housing Development Departments. The panel felt that the proposals submitted by Northside Resident Redevelopment Council (NRRC) and Powderhorn Residents Group (PRG) were very strong in comparison to the scope of services received by two private realty companies. Due to the City's desire to have properties listed on the Multiple Listing Services (MLS) to assist with our marketing efforts, the City contracted with PRG to market our properties.

In 2006, the Minneapolis City Council increased the realtor's commission to \$5,000. The City of Minneapolis provided \$3,000 to the buyer's agent and \$2,000 to PRG as the listing agent. In the current market, with falling home prices and increasing foreclosures, PRG has found that private realtors are not showing our properties due to the low level of compensation provided for the selling agent compared to the open market. Staff is proposing to increase the compensation paid to the buyer's agent, when it is not PRG, per

closing to 2.75% of the sales price. Staff believes that this makes our projects more competitive, resulting in shorter days on market and consequently reduced holding costs. Below is a table describing the current and proposed scenarios based on a selling price of \$185,000:

Number of Agents	Current Scenario			Proposed Scenario		
	PRG	Private	Total	PRG	Private	Total
1 Agent PRG as Buyer's Agent	\$5,000	\$0	\$5,000	\$5,000	\$0	\$5,000
2 Agents Private Realtor as Buyer's Agent	\$2,000	<i>\$3,000</i>	\$5,000	\$2,000	<i>\$5,087</i>	<i>\$7,087</i>

If PRG produces a buyer without an outside agent, staff is recommending that the compensation remains at \$5,000. If the property is sold through an outside agent, the commission is split based on the selling price — 2.75% to the buyer's realtor and \$2,000 to PRG. This equals approximately a 4% commission on the sale of the property. The average commission paid in the private market is between 5%-7%.

Increasing the compensation paid per closing will attract more private real estate agents and their buyers to the program, resulting in reduced holding costs for completed and vacant properties awaiting an offer to purchase.