

## **HANDS, Inc.**

### **High-Impact Development for Long-Term Sustainable Neighborhood Change**

#### ***Acquiring, rehabilitating and selling problem properties***

Over the past 16 years, HANDS, Inc. has carried out and refined a neighborhood revitalization strategy centered around the acquisition and redevelopment of long-standing, pivotal eyesore properties in the neighboring cities of Orange and East Orange, NJ bordering Newark.

There are six significant components to successful development of *high-impact* problem properties. They are:

- Documenting and tracking problem properties
- Title clearance and site control
- Flexible financing
- Workable subsidy programs
- Competent construction management
- Shaping public policy and community and private sector initiatives

HANDS has successfully addressed each of these issues, though the acquisition strategies are the most critical and the most challenging. Title impediments tie up problem properties for years. We have worked to understand what's contributed to each of these properties becoming stuck and we believe our success with sophisticated acquisition strategies is unique among CDCs. HANDS now seeks to continue to refine and build upon this strategic neighborhood revitalization practice and to share that work with the larger community development field.

#### **1. Orange and East Orange**

These two neighboring cities ( pop. 100,000) sit on Newark's western border and share many of Newark's problems but few of its resources. Since the late 1960s, White flight, middle class flight and disinvestment have eroded the economic base of these cities. They both have a homeownership rate of about 25% and a poverty rate of 18-19%. Both areas are supported by a strong regional housing market and have many neighborhoods of older detached homes that can be revitalized as good places to raise a family.

In Orange where HANDS has concentrated its problem property work, very substantial progress has been made on the issues of abandoned properties. The problem property inventory has been reduced by 71% over the past 5 years. The HANDS-led campaign that cleared the title to many of the worst hard-core properties, the community organizing effort around the issue of problem properties and the public awareness campaign resulted in increased in municipal cooperation and City Hall focus on the issue of vacant problem properties. In April, Orange became the first New Jersey municipality to enact an ordinance that allows it to use it powers granted under the Abandoned Properties Rehabilitation Act, thanks to an effort led by a HANDS Board Member. Today, about one quarter of Orange's 70 vacant problem properties are long standing eyesores that require concerted effort to control and redevelop.

East Orange is twice the size of Orange and has a substantially larger problem property issue with approximately 250 abandoned parcels. The City has not been as proactive on the issue or as open to outside collaboration. Currently a citizens committee led by the HANDS' Chairperson (a successful block association leader) is working with the administration to enact an ordinance to utilize the powers under the Abandoned Properties Rehabilitation Act.

## **2. The Acquisition dilemma**

The process of how properties become abandoned in struggling city neighborhoods, and why they remained abandoned, is complex. Most of the pervasive problem properties have third party tax liens, which are sold by the city annually to recoup lost property taxes. The municipalities recognize that they can collect steady income to pay their bills by simply selling off tax certificates to third party purchasers. The tax lien purchasers are typically large out-of-state investment groups and speculators who have no intention of acquiring the property, and are simply looking for a high annual rate of return. They invest believing that the property owners will redeem the tax liens and pay the statutory 18% interest.

As a result, some problem properties accumulate tax liens year after year, and it becomes improbable that anyone will come along and purchase the property for constructive use. The problem is aggravated by the fact that no one has responsibility for the upkeep and the properties relentlessly deteriorate. This impacts the quality of life in the neighborhood, and diminishes surrounding property values. HANDS' intervention has been most successful in acquiring properties with outstanding tax liens.

## **3. HANDS, Inc.**

HANDS, Inc. is a non-profit community development corporation founded by a group of clergy and community leaders in 1986 to "ensure that the neighborhoods of Orange and East Orange remain good places to raise a family." HANDS is a *NeighborWorks* affiliate of the Neighborhood Reinvestment Corporation and is tax exempt under provision 501 (c) 3 of the Internal Revenue Code.

In addition to the problem property work aimed at vacant and deteriorated homes described above, in recent years HANDS has expanded its focus to include larger commercial or mixed-use properties that are seen as "pivotal eyesores". HANDS has cleared the title and acquired two mixed-use properties in its target neighborhoods (the Chronicle Building and The Brass Company) and is currently rehabilitating those. In addition, HANDS is now the owner of the former F. Berg hat factory complex and the old Harvard Printing site. HANDS has worked through all of the environmental issues at the Berg site and has secured all zoning and subdivision approvals for a mixed-use of residential and community arts space. The Harvard site is currently going through a due diligence period of environmental investigation including site borings and sampling. This substantial project (191,000 sq. ft. of building on 3.5 acres) will result in 140-160 units of housing, retail, community space and open space.

HANDS has been recognized by the community development field for its accomplishments, including:

- Cornerstone 2002 Award from the National Association of Homebuilders
- 2003 Neighborhood Impact Award from LISC-New Jersey
- 2004 Governor's Excellence in Housing Award for Community Revitalization
- 2005 Smart Growth Award from New Jersey Future
- 2006 Achievement in Planning Award from New Jersey Planning Officials
- 2006 Neighborhood Builders Award from Bank of America
- 2006 Outstanding Comprehensive Neighborhood Plan Award from New Jersey Chapter - American Planning Association

**HANDS' Revitalization philosophy.** The HANDS strategy is built upon a working philosophy that neighborhoods are revitalized by the actions of hundreds of individuals-investing their time, their funds, their energy and their hopes in the future of that neighborhood. HANDS believes the role of the CDC is to leverage those investment decisions, to bolster public sector action and generate more private sector investment.

**Reforming state subsidy programs.** Working with state government, HANDS was able to craft reforms of two important state subsidy programs that now permit CDCs to apply for subsidy for a group of properties in a troubled neighborhood, identify potential acquisitions and be awarded the subsidies before site control of specific properties is established. Without these provisions, it was virtually impossible to establish site control and maintain it while waiting for state approval and funds to flow.

HANDS has forward funding commitments from the NJ Department of Community Affairs and NJ Housing and Mortgage Finance Agency for subsidy and financing to redevelop 20 properties, and another application under consideration to redevelop 15 more.

#### 4. **The *High-Impact* Strategy**

The centerpiece of HANDS' strategy is to revitalize neighborhoods through the *High-Impact Development* of vacant, troubled properties. These properties are sucking the life out of neighborhoods that could otherwise be improving. The problems attributed to these properties are legion and well documented. There are seven inter-related core elements of the strategy:

- Redevelopment of pivotal properties in target neighborhoods.
- Increasing homeownership: Investing in first time homebuyers.
- Strengthening neighborhood organizations.
- Developing leadership.
- Increasing effective citizen engagement.
- Forging strategic partnerships.
- Shaping public policy and private sector initiatives.

HANDS' practice over the years has resulted in:

- The development or rehabilitation of over 100 pivotal properties
- The creation of a HomeBuyers Club that prepares first time buyers for successful homeownership and the sale of those properties to first time homebuyers.

- ❑ The creation of three strong neighborhood groups and two city-wide coalitions.
- ❑ The delivery of leadership training to 41 community leaders.
- ❑ Strong working partnerships with City Hall, hospitals, other non-profits and business groups.
- ❑ Systemic reform of housing subsidy programs at the state level.
- ❑ Development of new banking services delivered to urban areas.
- ❑ A city policy to speed up title clearance of abandoned properties

**Problem properties as the key to neighborhood revitalization.** Over the past 16 years, HANDS, Inc. has carried out and refined a neighborhood revitalization strategy centered around the acquisition and redevelopment of long-standing, pivotal eyesore properties in the neighboring cities of Orange and East Orange, NJ bordering Newark. This strategy in recent years has reduced abandonment in Orange by 71% and stabilized three neighborhoods.

There are six significant components to successful development of *high-impact* problem properties. They are:

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Annually HANDS conducts a block-by-block survey, photographing all properties and updating all owner, taxes, and lien information on a central database, which is shared with City Hall, the Police Department and community leaders. A large map is produced that highlights concentrations of vacant problem properties.

**Addressing title issues.** HANDS addresses title obstacles

- ❑ With the purchase and foreclosure of property tax liens held by third parties,
- ❑ Intervention with mortgage foreclosures,
- ❑ Direct purchases from HUD's foreclosed inventory, and
- ❑ Working with heirs to clear up probate issues.

HANDS has reached out to and developed a relationship with the managers of the financing pools that hold the liens. Through negotiation, HANDS has been able to purchase old, foreclosable tax liens – often at deep discounts. In these cases, HANDS proceeds to quickly foreclose the lien and pay off any other liens that have a priority position. This unlocks the title, puts the property under HANDS control and redevelopment can begin.

Neither the public sector nor the private sector has been up to the task of the timely clearance of title obstacles to make redevelopment of abandoned and problem properties possible. Admittedly, the legal and practical barriers have been substantial. It is in this area that HANDS has developed and refined a strategy. Those results are widely acknowledged and the neighborhood improvement is measurable.

Currently, HANDS has 31 properties under varying forms of site control:

- ❑ Eight houses are owned and currently being redeveloped.
- ❑ Two residential properties are under contract following title clearance.
- ❑ Six mixed-use properties are under contract after title clearance.
- ❑ Eleven properties have liens that are currently held by HANDS and being foreclosed.
- ❑ Five single-family sites where problem properties were demolished are being transferred to HANDS by the City of Orange.

The acquisition and *high-impact* redevelopment of problem properties is just one piece of a comprehensive strategy. HANDS has achieved considerable success in the City of Orange with a comprehensive strategy to address the problem property issue, including:

- ❑ Identifying and researching every vacant problem property in the city.
- ❑ Assessing each of these properties to determine a course of action to clear the title.
- ❑ Assessing which properties may require special intervention by HANDS.
- ❑ Acquiring and redeveloping the pivotal properties that will have the most impact.
- ❑ Assisting in the formation of a community group to bring additional pressure for title clearance. The Orange Community Problem Property Task Force has been active on this issue since 2000.
- ❑ Flexible financing was crafted that resulted in revolving lines of credit with banks and with LISC.
- ❑ State housing subsidy programs rules and regulations were changed to allow the allocation of a pool of subsidy in advance of HANDS achieving site control for specific properties.

This strategy has resulted in reducing the inventory of vacant problem properties in Orange over seven years from 270 to 70. This reduction occurred while additional problem properties became vacant during that period.

## **5. The Abandoned Properties Rehabilitation Act**

Passage of the Abandoned Properties Rehabilitation Act by the New Jersey Legislature represents a significant milestone in making problem property work more successful. Utilizing the significant powers under the Act will require legal and real estate strategy, close collaboration with City Hall and a strategic approach to select the proper tools for different properties.

The Abandoned Properties Rehabilitation Act was the brainchild of the Housing and Community Development Network of New Jersey. The Network, building upon the experience of HANDS and others, drafted the law and led a successful two-year campaign that moved it through the State Legislature and on to the Governor's desk. It was signed into law January 8, 2004.

The Act accelerates action on vacant problem properties under four different scenarios:

- Accelerated Tax Lien Foreclosure By Tax Lien Purchaser – the purchaser of a municipal property tax lien on an abandoned property can begin foreclosure immediately rather than waiting for two years mandated under previous law.
- Special Tax Sale – the municipality can organize a special tax sale of abandoned properties and set specific criteria for the choice of redeveloper and eventual re-use of the property.
- Designation of Entity In Possession – the municipality can file action in court seeking that owner rehabilitate the property or the municipality (or CDC as agent) be granted an Order of Possession to rehabilitate the property.
- Spot Blight Eminent Domain – This allows the taking of individual abandoned properties using eminent domain powers without the creation of a larger redevelopment area.

The Act, in addition to representing a milestone for local governments and CDCs in New Jersey, can serve as well as a model for legislative reform in dealing with this issue in other states, enhancing the benefits of the outreach and dissemination element of this proposal, described below.

For further information, contact:

Wayne T. Meyer, Housing Director

HANDS, Inc.

15 South Essex Avenue

Orange, NJ 07050

973-678-3110

[wayne@handsinc.org](mailto:wayne@handsinc.org)

Visit our website: [www.handsinc.org](http://www.handsinc.org)