REBUILDING COMMUNITY: THE ENTREPRENEURSHIP PROJECT

Start-Up Business and Implementation Plan

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EXECUTIVE SUMMARY

Residents in the Southeast Corridor of Kansas City have income levels which could easily support purchase of $40,000 to $50,000 homes. Working single black female headed households in particular are looking for starter homes. The area retains sound housing stock. Its modestly deteriorated small bungalows could be acquired and rehabbed to be attractive to these prospective purchasers at costs in the $35,000 range. The area also offers numerous physical and cultural amenities, and has many of the human and institutional assets which underpin healthy communities. However, despite decades of affordable housing activities and social programs, the Southeast Corridor is caught in a familiar spiral of deterioration. Housing markets are stagnant, maintenance is poor, businesses are failing and the social fabric is begining to unravel.

Kansas City Neighborhood Alliance ("KCNA"), working with the Greater Kansas City Community Foundation and other civic leaders in housing and community development, conceived this project to seek new approaches to revitalizing such distressed communities. Isolated, subsidized programming to address particular problems has not been enough. Rather, the effort was to understand the complex interactive dynamics of deterioration in such a core neighborhood, and to design interventions which would fundamentally reverse them. Such interventions would be focused on catalyzing private activity, leveraging the subsidized activities to restore healthy, self-sustaining market and community dynamics. The initial focus was on housing activity, because of its critical role in creating the physical and resident foundation necessary for functional communities. The critical vehicle - representing the restoration of market activity - is local housing rehabilitation entrepreneurs.

Residential areas such as the Southeast Corridor can be viewed as a microcosm of non-industrial America. One of the key missing systems distinguishing the distressed areas, however, is delivery of appropriate credit to fuel investment. Delivery of credit to this market requires targeting to develop specialized expertise and to create synergies from mutually reinforcing activities. It is a specialized, niche business. Yet the problem is too simply characterized if viewed as a credit problem alone: credit has no development impact without a good borrower who sees a good investment opportunity. Fortunately, many disinvested communities, like the Southeast Corridor, have latent entrepreneurs and nascent investment opportunities. An environment can be created in which these will emerge if (1) carefully selected visible investment and related activities are undertaken to "jump start" the market, demonstrate investment opportunity and restore confidence in the community; and (2) a specialized lender -- acting as a business-like, flexible and value-added partner supporting entrepreneurs -- supplies credit.

Shorebank Advisory Services, the consulting subsidiary of Shorebank Corporation, was invited to participate in the project because of Shorebank's success in supporting "ma and pa rehabbers". Shorebank's experience, targeting a distressed neighborhood on the South Side of Chicago over twenty years, was that after initial visible subsidized activities to restore confidence in the area, a few working class residents became interested in small housing rehabilitation projects to supplement their income. Over time, many of these left their jobs to engage in the business full time, and their successes attracted more entrepreneurs. By now, an industry has developed: over 200 entrepreneurs have rehabbed over 6,000 housing units (representing over 4.5 private market units for every subsidized unit). In the process, they have become businesses, creating jobs and accumulating tens of millions of dollars in net worth. The housing development and community strengthening activities had a symbiotic relationship: community revitalization necessarily accompanied housing market revitalization.

With the goal of catalyzing comprehensive housing and community revitalization in a targeted area, the project thus first set out to identify an appropriate area in Kansas City. After studying numerous neighborhoods, the Southeast Corridor - from 47th to 63rd, Paseo to the Blue River - is recommended. This area, with 24,000 people living in 9,200 mostly single family housing units, shows significant signs of deterioration: crime, stagnant housing markets, little lending activity, pockets of very low income residents. At the same time, the area retains healthy pockets, rehabbable housing stock and sufficient median incomes, employment levels and resident stability. Within this area, a subpart of Blue Hills is recommended as an "impact zone" for initial project activities. This is an area where initial visible, subsidized activities in a particularly distressed subpart are most likely to attract entrepreneurs and leverage broader activity.

Having selected an area where entrepreneurs can profit in the right circumstances, the project shifted to identifying what activities would be necessary to shift market dynamics and get things started. Three sets of activities are envisioned. KCNA, acting as developer, would address the concentration of severely deteriorated properties and vacant lots inhibiting the impact zone market. The first such "anchor projects" would rehab approximately 20 severely deteriorated homes in two block faces on the eastern edge of the impact zone, along with beautifying vacant lots and supporting other local development activity to address particular distressed properties.

KCNA, with strong community based partners, would also undertake a set of "community strengthener" programs. These programs will (1) directly reinforce the housing activities, including through homebuyer training, loan packaging and code enforcement; (2) address the crime and youth problems inhibiting neighborhood perceptions, including through leadership training, community policing and the youth block leader project; and (3) broadly market the changing housing and community.

Finally, after reviewing several possible institutional forms for delivering the credit, it is recommended that Douglass Bank, with Shorebank assistance, open a loan production office in the Target Area. This LPO would aggressively provide customized purchase rehab, FHA Title 1 and mortgage loans. These products work in combination with each other and the other project activities to support entrepreneurs, home improvement and home ownership.

This combination of mutually reinforcing activities, if implemented flexibly and well, could surface, support and connect entrepreneurs and opportunities in ways which begin a permanent process of reinvestment. The process occurs not only in housing or in the target area, but spreads out to other areas of business, labor force and community revitalization, and to other neighborhoods. However, the process is as long term as the decades of disinvestment it seeks to reverse. Implementation will have to start strategically and small. A coordinating committee, with KCNA in the lead role of most project activities, is proposed, along with specific next steps. Start-up budgets are also provided for each of the institutional categories of activity (housing development; community strengthening program; LPO start up): the total five year budget is $2,653,493 (including KCNA project equity). Projecting conservatively, this will translate into hundreds of units of improved and rehabbed housing, and well over $10 million in development lending and investment. And that is just the beginning ....

I. PROJECT BACKGROUND AND OVERVIEW

A. Conception of the Project

This Report describes a project to revitalize the private housing development market in a targeted neighborhood of Kansas City. Kansas City, like other major American cities, is witnessing the deterioration of many once vibrant inner city communities. Population and investment flight, leaving behind increasing concentrations of poverty, reflects and reinforces a spiraling decline characterized by dysfunctional housing, business and labor force markets, and ultimately by a breakdown in the social fabric which defines community. The project arose in the context of discussions among private sector, public sector and not-for-profit community development leaders who recognize the particularly vital role of housing market activity in reversing this process.

Kansas City has benefited from decades of activity by some of the nation's most effective affordable housing programs. Yet the real estate markets in its core communities remain dysfunctional. The project was conceived with the goal of finding new approaches which would leverage subsidized activity to generate private housing market activity. In particular, the project seeks to restore housing markets through attracting and supporting small scale, community based housing entrepreneurs - "ma and pa rehabbers". At the same time, it recognizes that an attractive environment to entrepreneurs cannot be created in isolation from the particular community dynamics which define local housing markets. Restoring the housing market and the community go hand in hand. The project approaches the two in tandem - attempting to create sufficient positive community dynamics to foster private housing market activity, and anticipating that the private housing activity will engender further community development.

Guided by these goals, the project was first to identify an appropriate target community. This must be an area with sufficient housing stock, income levels, population base, and other characteristics to provide the foundation for restoring private housing activity. The project was then to design mutually reinforcing housing and community development activities tailored to revitalize the targeted community. Not-for-profit developer and community strengthening activities, combined with development lending activities, were envisioned. Finally, the institutional mechanisms to deliver these activities were to be defined, along with a start-up business and implementation plan. This Report, representing the conclusion of Phase I of the project, sets out recommendations on each of these subjects.

B. Project Participants

The Greater Kansas City Community Foundation, a philanthropic leader in addressing affordable housing and community development needs, funded Kansas City Neighborhood Alliance (KCNA) and Shorebank Advisory Services (SAS) to undertake Phase I of this project. The project has been overseen and guided by The Entrepreneurship Committee of KCNA, which includes representatives of the KCNA Board, as well as of current and interested prospective funders of the project and related activities. Through interim reports and discussions, the Committee has actively participated in definition and development of the project and in preparation of this Report.

KCNA has long served as a local intermediary developing new programs to address core city housing needs. Since its inception in 1979, one of its goals has been to "increase investment, public, private and personal, in the older neighborhoods." The discussion among private sector, public sector and not-for-profit development leaders was in part framed by KCNA's emphasis on the need to catalyze private sector investment by lenders, builders and homeowners. KCNA also has the demonstrated capacity, directly and with its affiliate community development corporations, to undertake large scale, subsidized housing development projects.

SAS is the economic development consulting subsidiary of Shorebank Corporation, a development bank holding company. KCNA's interest in private investment approaches to community development led to discussions with Shorebank. Shorebank operates a bank, a housing development company, a venture capital company and a community organization in targeted areas of Chicago, among its other activities. These multifaceted activities have generated significant success in restoring private housing markets, including particularly through financing entrepreneurial rehabbers.

Three years ago, Shorebank began working with several Kansas City leaders and institutions on a plan to recapitalize and revitalize Douglass Bank, a Black owned bank in Kansas City, Kansas. Shorebank is currently two years into a five year advisory agreement with Douglass. Under this agreement, Shorebank is working with Douglass to strengthen its development lending products and expertise. Douglass, with Shorebank's advisory role, is thus a natural potential participant in implementing this project. As a result, Douglass too has participated from the outset in its development.

C. Project Goals and Strategies

The relationships between housing markets and broader community dynamics are well illustrated in the circumstances of core neighborhoods in Kansas City. As confidence in the neighborhoods has waned, so too have acquisitions and home improvements. New and upgrade owners make their purchases elsewhere based on anticipated rising housing values. Remaining owners do not risk additional debt to maintain a property that is losing value due to its location. Financial institutions become reluctant to lend in the deteriorating market. The combined forces of disinvestment and housing market stagnation contribute to continuing decline in the social fabric of the community, reinforcing the negative perceptions of opportunity and repeating the cycle of decline.

However, just as deterioration in housing markets contributes to the cycle of decline, housing development and home improvements can be major drivers of community revitalization. Leading with focused efforts to restore healthy housing markets provides a powerful vehicle for rebuilding neighborhoods by:

- Generating stable resident populations: local homeowners have a personal and financial stake in their community which creates a commitment to solve (or force out) the problems in the neighborhood;

- Encouraging capital and investment activities, thereby attracting new talent and resources to the area;

- Encouraging local entrepreneurial housing rehabilitation which can become an industry that expands resident skills, jobs and wealth;

- Providing opportunities for rapid, visible impact to change community perceptions; and

- Increasing local prosperity through the circulation of dollars within the community and the equity build-up resulting from homeownership.

The strategy for community revitalization through leading with housing translates into the following three initial inter-related project objectives:

- to promote neighborhood and market stability, restoring confidence in the market and encouraging residents to invest their savings, time and energy into the neighborhood;

- to stimulate an entrepreneurial rehabber industry in which individuals invest in and rehab properties in their own economic self-interest, generating new businesses, jobs and wealth, along with improved housing; and

- to improve housing quality, affordability and homeownership, in part by bringing first time homebuyers into the market, to increase the number of responsible neighborhood stakeholders.

To accomplish these objectives, a combination of mutually reinforcing activities and products must be targeted to a particular area to restore residential real estate market confidence. These products and activities must create positive momentum and establish an environment that releases local resident energies and inspires investment by individual home owners and entrepreneurial rehabbers. The project envisions that this momentum and environmental change will begin in several ways. The existence and commitment of the project itself sends immediate signals that credible people and institutions have a long term commitment to the neighborhood and are willing to invest their financial and other resources because they believe the market will be restored. More tangibly, the project will engage in three sets of activities, delivered through three distinct institutional mechanisms, to begin to create the necessary momentum.

1. "Top-down", large scale, visible housing development generates significant impact on the confidence in the market of nearby homeowners and small scale entrepreneurs. KCNA will undertake the more difficult, deteriorated, higher risk projects which begin to change the face of a sub-area of the target neighborhood. These strategically selected anchor projects, expected to have spread effects, will begin to address the most distressed properties which plague the neighborhood, and will "lead the market".

2. Community support and strengthening programs will address the most pressing needs or negative perceptions of the area. Model block clubs, homeowner training, leadership training, marketing and other activities will be implemented to change perceptions of the neighborhood, encouraging residents to stay and invest, and others to buy.

3. Real estate finance products for "bottom-up", small scale investment activities will send positive signals about the market and create the opportunities for investment by current homeowners, homebuyers and entrepreneurs. These products must be aggressively marketed by a committed, flexible lender which, through specialized expertise in the

local housing market, can prudently relate and add value to local rehabber and homeowner activities.

These activities all build upon each other: they in turn support and are reinforced by the activities of the private homeowners and entrepreneurs.

The question of how to create an environment which stimulates private market activity, particularly small housing entrepreneurs, is admittedly very complicated, which is one reason the project must learn as it goes (as discussed below). The critical elements are selecting a target housing market in which entrepreneurs can profit (a potentially improving market with otherwise attractive deal economics); creating sufficient activity in the target area, through anchor projects and organizing, to get things started; and having a credible, flexible lender who acts as a magnet for entrepreneurs. The institutional combination of a developer, a community strengthening function and a specialized lender can deliver these elements and products. The combination of top-down and bottom-up activities, physical development and financing, catalyst projects and rehabber activities, then generate additional development activities.

In effect, at each stage, the activities are designed to have a "spread effect": concentrated developer and community strengthening activities in a portion of the targeted area (an "impact zone") enable lender and rehabber activities; these expand to other parts of the target area; revitalization of the housing markets allows broader community development activities; revitalization of the community provides a base from which to expand project activities to contiguous areas. This, it should be noted, is an extraordinarily long term process: the deterioration in distressed communities occurred over decades, and takes decades to reverse.

D. Entrepreneurial Rehabbers

Entrepreneurial rehabbers are a critical ingredient in this process of private market and community revitalization. Indeed they embody it: when private residents, without subsidy, invest in and rehabilitate housing as a wealth generating business, they both reflect and constitute the restoration of the private housing market. In a sense, all of the other activities of the project can be viewed through this lens. The goal is not to create some decent subsidized housing or to address particular community social problems. The goal is to create an environment where people want to invest in and maintain their housing and their community - a market which attracts entrepreneurs. Viewed through this lens, the community strengthening activities and the subsidized developer anchor projects are selected to address the worst deterrents to market investment, and to demonstrate visible investment activity, so that potential homeowners will be willing to pay values which can support entrepreneurial activity. While the ultimate goals are to restore healthy market and community dynamics, the entrepreneurs are a critical engine of this revitalization.

If the entrepreneurs are the engine, credit is the fuel. Distressed communities frequently have latent entrepreneurs, suitable housing stock, and residents who are fundamentally creditworthy and could afford to purchase rehabbed housing at a price which leaves attractive profit for an entrepreneur. Developer and community strengthening activities can leverage this entrepreneurial activity, but only if development credit is targeted to the area. A dedicated, specialized lender committed to this business forms a symbiotic relationship with emerging entrepreneurs. The extension of credit, combined with the other activities, essentially catalyzes the latent market of entrepreneurs and homeowners.

Appendix A contains further discussion of this conceptual framework, and of Shorebank's experience, concerning how the process of private market revitalization occurs. As detailed there, the bank found that many ordinary residents, though often lacking conventional credit histories, were fundamentally creditworthy, and willing to invest their time and money to improve the community. With a capable lending partner, and as confidence in the potential reward of investing in the community grew, a small core of "ma and pa rehabbers" emerged. They tended to be middle aged and working class, and would begin by fixing up a small building as a source of supplementary income. Starting slowly and, with the bank's help, being matched to appropriate projects and not overreaching, these entrepreneurs were successful, and many left their jobs to undertake the business full time. These successes, in turn, generated further market activity. A full scale industry has now emerged: over 200 hundred rehabbers have rehabbed over 6,000 units, accumulating tens of millions of dollars in net worth in the process.

These entrepreneurs have literally rebuilt the community, block by block. In the process, housing quality has improved, resident stability has improved, business opportunities have improved, and the social fabric has improved: the neighborhood has become a place where people want to live and work. It is private entrepreneurs and residents who rebuilt - and constitute - the revitalized community, not the subsidized developer, community strengthening activities or the bank. For that reason, the focus of this project is on what it takes to attract and support entrepreneurs and residents in the targeted community.

E. The Experimental Nature of this Project

The focus on entrepreneurs as a linchpin in changing markets, and the requirement of an unusually flexible institution, define one other quality inherent in the project: as it moves forward, the project must be continually innovative and self-designing. The project is not simply responding to existing market demand, nor delivering particular products. Rather, it seeks to enter and grow the market, and to create new markets. The anticipated institution(s) is only able to do this successfully if it develops unusually focused depth of expertise, and is driven by, responsive to and capable of capitalizing on changes in its market. Two inter-related points arise from this: the project is designed for incremental implementation, such that it will be self-expanding; and there are limitations to how much can be known and planned ahead of beginning activities in the market.

Incremental implementation refers to the notion that the focused resources and expertise in a particular community, leading with housing, are intended to learn as they go. They will add other development activities - as necessary and as opportunities are presented or created - based on what they learn. The institution(s) will have to experiment with products and activities to affect the market, and improve on what works while discarding what doesn't. This flexibility and innovativeness - rather than excessive programmatic planning or bureaucratic approaches - are particularly necessary for successfully relating to entrepreneurs. The project in some ways appears to start small, but it more accurately starts strategically, in the context of and with the capacity to grow towards a much larger vision.

Inherent in the notion that the project is designed to be innovative, flexible and self-expanding is that everything cannot (and should not) be known or planned ahead. In one sense, the critical step is to get started with quality institutions in an appropriate place, and then do whatever is necessary. Because the project is in that sense experimental, the work is driven by what's needed for initial implementation. This Report is thus focused on those things which can be efficiently known ahead of time: selecting an appropriate target area, and designing a sound strategy to deliver initial interventions tailored to change its market dynamics.

F. Project Methodology

The project was undertaken by a team of KCNA and SAS staff and subcontractors, representing a broad range of housing, community development and institutional design expertise.[1] In order to move from broad strategy to particular target area selection, specific criteria - ranging from income base to quality of housing stock - were developed to define the characteristics of an appropriate target area. These criteria were then applied, first through a preliminary screen using broad indicators and then through detailed analysis, to identify the recommended target area.

While the strategy initially drives selection of an appropriate target area, the location ultimately dictates particular definition of the strategy. The target area was then analyzed in detail to identify development challenges and opportunities. This analysis led to identification of specific products tailored to implement the strategy in the circumstances presented by the target area. The refined strategy, products and services then drive design and business planning for appropriate institutions to deliver them.

This process proceeded through extensive data gathering and analysis, including: (1) secondary data (census, HMDA, city sources, private market research databases and others); (2) computer mapping of secondary data by neighborhood; (3) wind-shield surveys (extensive driving through potential target neighborhoods); (4) dozens of interviews with target area residents, and with housing market experts and practitioners; (5) two focus groups, to help refine and test products, one with target area residents and another with housing brokers, appraisers and rehabbers; and (6) follow-up interviews and data collection.

G. Summary of Recommendations

1. Target Area

After preliminary screening of neighborhoods throughout Kansas City, Missouri, the Southeast Corridor was analyzed in detail. This area - encompassing the neighborhoods of Blue Hills, Town Fork Creek, Mount Cleveland and Swope Parkway/Elmwood - is recommended as presenting the right combination of need and opportunity for this strategy. Within this area, a subpart of Blue Hills is recommended as an "impact zone" for focused initial project activities. This impact zone is relatively stable. It presents rehabbable housing stock, with attractive deal economics for entrepreneurs, as well as likely interest in home improvement by homeowners. (See Report Sections II, III.A, below.)

2. Developer Activity

To begin to restore confidence in this market, it is necessary to address the most distressed subarea at the eastern edge of the impact zone (identified as a

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[1]Individual team members are identified in Appendix B.

"development zone"), where a concentration of much more severely deteriorated properties and vacant lots create inhibiting "eyesores". To do so, and create visible investment activity, KCNA would undertake rehabilitation of approximately 20 such homes, equivalent to restoring two block faces, per year in this area. In addition, KCNA would acquire and landscape all of the larger vacant lots in this area, acquire and rehabilitate a "Model Home", and support other CDC and developer activity currently planned to address particular distressed properties in the impact zone. (Section III.B)

3. Community Strengthening Activities

Building this market also requires activities to facilitate expanding responsible homeownership, and to address the crime and youth concerns which affect perceptions of the neighborhood. KCNA, working with the strong local community organizations in the target area, would expand current programming, and add new programming, in three areas: (a) housing market related programming, including homebuyer training, model block clubs, loan packaging, rental unit management training and code enforcement programs; (b) broad community strengthening programs, including leadership training, community policing and the youth block leader project; and (c) a broad array of marketing programs to encourage use of housing products and communicate changed perceptions of the neighborhood as the reality changes. (Section III.C)

4. Lender and Rehabber Activities

These housing investment activities, coordinated with the activities to address social concerns and market perceptions, should build interest in home improvement and entrepreneurial rehab products, particularly in combination with a lender specializing in these products. The deal economics in this area work for rehabbers, initially acquiring and rehabilitating modestly deteriorated homes for sale under $40,000, primarily as starter homes for younger, working female headed households. Douglass Bank would open a loan production office to serve the area, operated initially with lead staff from Shorebank. The office would aggressively market mortgage, Title I home improvement, and acquisition/rehab construction loans in the target area. Conservative estimates suggest approximately 140 units rehabbed by entrepreneurs using these loans in the first five years, as well as owner occupied home improvement of 182 units over five years. (Sections III D, E; IV.B)

This combination of mutually reinforcing activities targeted to the Southeast Corridor holds great promise for stemming the tide of deterioration and revitalizing the area. The area, particularly portions of Town Fork Creek, nevertheless presents significant challenges. Restoring the private housing market and revitalizing the communities will be a long term process, requiring a long term commitment by project participants, and substantial initial subsidy. The project should be institutionalized through an umbrella committee with representatives from KCNA, project sponsors, Douglass Bank, Shorebank, and over time participating local CDCs and CBOs. Project budgets, implementation steps and timelines are presented at the conclusion of the Report. (Sections IV and V)

II. TARGET AREA SELECTION

A. General Characteristics of An Appropriate Target Area

Target area selection reflects a combination of project values and operational considerations. This project is simultaneously focusing on a particular set of products related to housing and entrepreneurial activity, on broader community development activities, on financing and investment, and on creation of new institutional presence. All of these create the factors which must be assessed in determining a suitable target neighborhood:

- Demographic Factors. The area must reflect sufficient distress to warrant this intervention, but not be so distressed that private, market oriented development could not be catalyzed. While income, employment levels and other indicators will be below average, the area must have a base which can be restored without unreasonable subsidy. Income mix and resident base must be sufficient to promote stability, support ownership of rehabbed housing and likely include potential entrepreneurs. Selecting a predominantly minority area was also considered important.

- Physical Environment. Housing must be sufficiently deteriorated to require the proposed intervention and to provide affordable acquisition costs, but it must be rehabbable (in terms of quality of stock, lot size, architectural features and design) within market prices. Areas of attractive, affordable stock in good or easily rehabbable condition that can function as "healthy edges" are desirable. Natural amenities such as parks can be significant factors in making a neighborhood potentially attractive. Transportation to employment centers and proximity to downtown can be similarly important.

- Other Economic Factors. Some nascent market activity and perception of modest stability, gradual rather than sudden decline, presence or proximity to major economic institutions and employers, condition of business strips, extent of current development activity, availability of financing and similar factors all affect neighborhood perceptions, propriety of the strategy and potential for the strategy to grow into broader development activity.

- Social and Community Assets. Similarly significant can be the extent of receptive civic, community and political leadership; strong community development partners; well-defined neighborhood identity; lack of overwhelming negative social factors; and entertainment and cultural amenities.

- Size. The area must be small enough to stimulate investment psychology by achieving visible impact through concentrated development, and to achieve synergies of coordinated activities, but large enough to constitute a potential market and accommodate longitudinal market activity, providing entrepreneurs with options and other actors with sufficient scale. Closely related is the importance of some natural boundaries coordinate with the sense of neighborhood identity. Potential for expansion of activities to contiguous neighborhoods is also significant.

To begin the search for an appropriate target area, the broad criteria set forth above were initially reduced to simple screens. For example, household income within 60% of SMSA was heavily weighted. It provides an indicator of a distressed population but one with sufficient income to support a market for quality, affordable housing development, including a potential market for flexible mortgage products. These are high enough income levels to support conventional mortgages but not so high that conventional credit is likely to be readily available. Similar screens were developed to assure sufficient numbers of housing units; owner-occupied housing values high enough to suggest sufficient quality housing stock but low enough to suggest unmet demand for credit; rent levels which would support home ownership and rehabilitation of rental units; and appropriate population demographics.

B. Initial Target Area Screening

These screens were applied, through a computerized mapping program using 1990 census data, to the geographic area south from the Missouri River to 63rd street, and west roughly from I-435 to the State line. This process highlighted five initial areas for further investigation: (1) Northeast; (2) Westport/Longfellow; (3) Oak park/Vineyard; (4) Blue Hills; and (5) Mount Cleveland and Swope Parkway/Elmwood.

Additional readily available secondary data was then similarly mapped, including conventional residential lending activity, longitudinal data, unemployment, occupational and crime data.[2] Drive through and pre-existing knowledge of the areas, particularly to assess condition of housing stock and community identity and amenities, rounded out this initial investigation.

Westport/Longfellow presents less need: it has significantly higher income levels, housing values and rents. In addition, it is not predominantly minority. The Northeast area also has higher income levels and is not predominantly minority. At the other end of the spectrum (within the screens), Oak Park/Vineyard are slightly poorer and have lower housing values and higher unemployment rates. These appeared to be suitable contiguous communities into which the project could expand, but perhaps too challenging a place to start. Although conventional lending activity is highly depressed in both Oak Park/Vineyard and the remaining two areas, there are greater indicators of at least some market activity in the other areas.

The Mount Cleveland and Swope Parkway/Elmwood areas, standing alone, are not sufficiently distressed (considering income and housing values) and have far too few housing units. This area, nevertheless, presents an attractive "healthy edge" to anchor one end of a potential target area. The Blue Hills area met the screens particularly well, and is also attractive in terms of physical, economic and community assets. However, despite having significantly more units than Swope Parkway/Elmwood, it is in itself too small. Further data gathering and analysis, drive throughs and interviews suggested combining these two areas with Town Fork Creek, which lies between them. Town Fork Creek is significantly more distressed, but is part of the same broad community area, and offers an opportunity for development to expand inward from the two relatively healthy edges.

This defines an area which appeared on preliminary investigation to meet the broad criteria. This area - known and referred to here as the Southeast Corridor, from 47th to 63rd, Paseo to the Blue River - was then the focus of much more detailed examination which confirmed its suitability. The salient points of this examination of target area characteristics, market opportunities and challenges are detailed below.

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[2]Appendix C contains a computer generated census tract map loosely identifying the five areas and a list of data mapped.

C. Target Area Analysis: The Southeast Corridor

The target area is composed of three distinct community subareas:

1. Blue Hills constitutes approximately the western third of the area, running from 47th to 63rd, Paseo to Prospect; this area of approximately 190 square blocks is the most densely populated and consistently built out; while suffering signs of deterioration, it retains a more stable population and housing base;

2. Town Fork Creek lies in the middle of the target area, running from 47th to 63rd, Prospect to Swope Parkway; this area of approximately 165 square blocks shows much greater signs of housing and community distress, and has not been as consistently built, in part because the Town Fork Creek runs diagonally through the area; and

3. Mount Cleveland and Swope Parkway/Elmwood ("MCSWE") are on the eastern end of the area, running from 47th to 63rd, Swope Parkway to the Blue River; while this area covers approximately 200 square blocks, it is much more sparsely populated and developed; it contains some of the nicest housing in the area, as well as more recent pockets of deterioration.

(See Map 1.) The target area and sub-areas have the following specific characteristics.[3]

Population

Population statistics and trends for the target area are shown in Table 1. Of the 24,000 people who live in the target area, approximately 14,000 live in Blue Hills, 7,000 in Town Fork Creek and 3,000 in MCSWE.

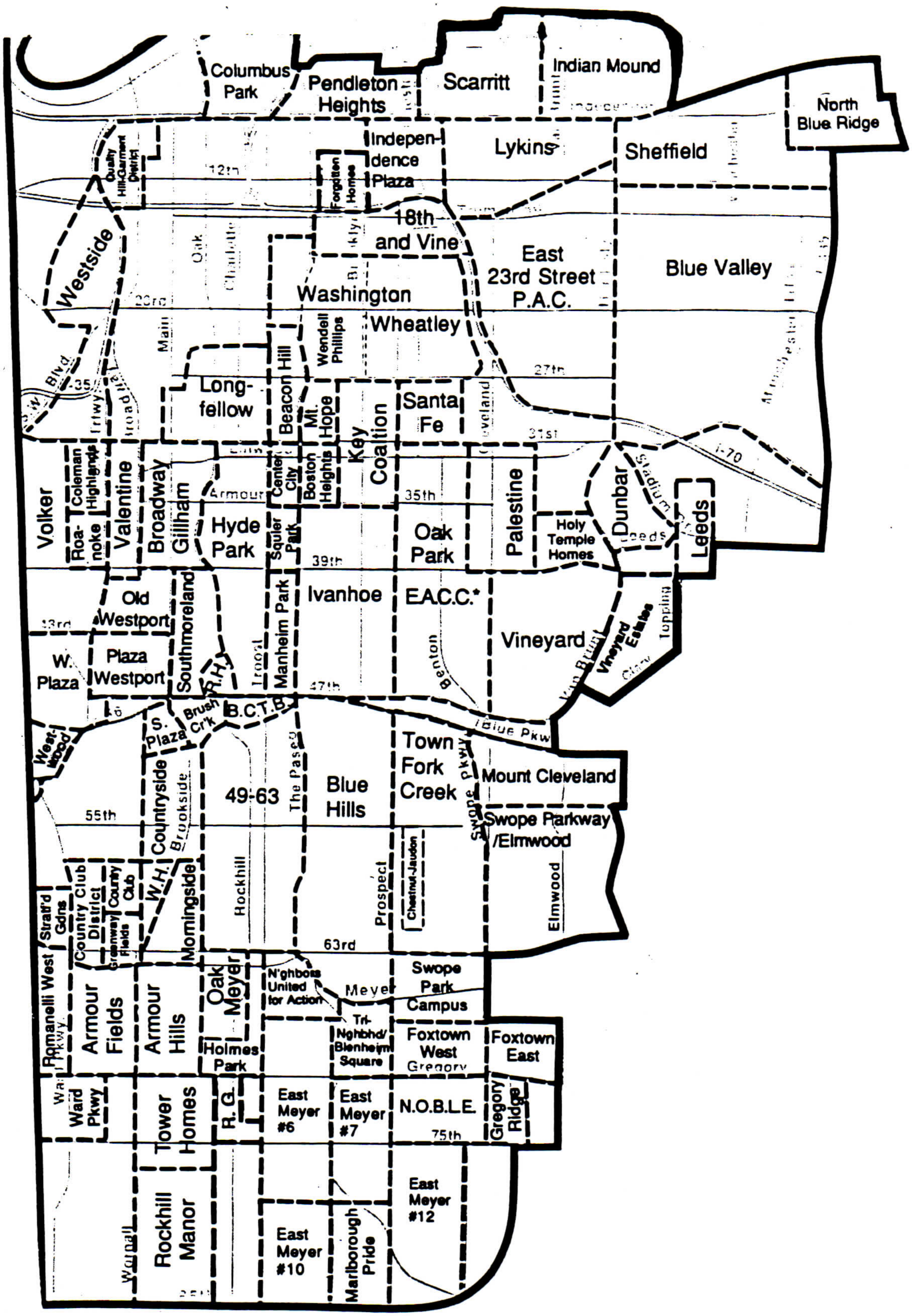
- The area suffered major white outmigration in the decade from 1970 to 1980, going to over 80% black. This trend continued in the last decade: the target area is now nearly 90% black.

- Total population in the target area, particularly in the last decade, decreased at a significantly greater rate than that of Kansas City. At the same time, as the black population of the city increased between 1970 and 1980, the target area captured a disproportionate share of that increase. Blue Hills was a particularly appealing neighborhood to blacks in the 1970s. However, between 1980 and 1990, while city-wide black population continued a modest increase, significant declines appear in the target area. The greatest declines appear in Town Fork Creek.

These statistics reflect a familiar pattern. White outmigration opened up more desirable housing markets to blacks leaving the deteriorated heart of the inner city but

[3]The target area boundaries coincide with those of five census tracts (76, 77, 79, 80, 78.02), but only include approximately half of two others (75, 81). These two, on the western edge, extend to Troost, rather than Paseo. The census data below for Blue Hills and the target area as a whole aggregate these tracts, thus encompassing a slightly larger area.

MAP 1



Columbus Park
Pendleton Heights
Scarritt
Indian Mound
North Blue Ridge
Quality Hill-Garment District
Independence Plaza
Forgotten Homes
Lykins
Sheffield
Westside
18th and Vine
East 23rd Street P.A.C.
Blue Valley
Washington
Wendell Phillips
Wheatley
Long-fellow
Beacon Hill
Mt. Hope
Key Coaltion
Santa Fe
Volker
Roa-noke
Coleman Highlands
Valentine
Broadway
Gillham
Hyde Park
Center City
Boston Heights
Squier Park
Oak Park
Palestine
Holy Temple Homes
Dunbar
Leeds
Old Westport
W. Plaza
Plaza Westport
Southmoreland
R.H.
Manheim Park
Ivanhoe
EACC*
Vineyard
Vineyard Estates
West-wood
S. Plaza
Brush Cr'k
B.C.T.B.
Countryside
49-63
Blue Hills
Town Fork Creek
Mount Cleveland
Swope Parkway /Elmwood
Elmwood
Romanelli West
Strat'd Gdns
Country Club District
Greenway Fields
Country Club
W.H.
Morningside
Chestnut-Jaudon
Armour Fields
Armour Hills
Oak Meyer
Holmes Park
N'ghbors United for Action
Tri-Nghbhd/ Blenheim Square
Swope Park Campus
Foxtown West
Foxtown East
Ward Pkwy
Tower Homes
R. G.
East Meyer #6
East Meyer #7
N.O.B.L.E.
Gregory Ridge
Rockhill Manor
East Meyer #10
Marlborough Pride
East Meyer #12
12th
20th
Main
Oak
Charlotte
27th
31st
35th
39th
Armour
Cleveland
I-70
Stadium
Troost
47th
43rd
55th
Brookside
Hockhill
The Paseo
Prospect
63rd
Meyer
Gregory
75th
Wornall
Benton
Blue Pkw
Swope Pkwy
Van Brunt
Topping
Ward Pkwy
Manchester

TABLE 1*

Population Trend for City and Target Area: 1970, 1980, 1990

	1990		1980		1970		Change 1970-1990	Change 1980-1990
	#	%	#	%	#	%		
City								
Total	435,146		448,154		507,087		(14.0)	(3.0)
White	290,572	67.0	313,835	70.0	391,496	77.0	(26.0)	(7.0)
Black	128,768	30.0	122,336	27.0	112,006	22.0	15.0	5.0
Blue Hills								
Total	14,150		16,476		16,581		(15.0)	(14.0)
White	1,624	12.0	2,924	18.0	9,282	56.0	(83.0)	(44.0)
Black	12,345	87.0	13,287	81.0	7,174	43.0	72.0	(7.0)
Town Fork Creek								
Total	7,048		8,544		10,279		(31.0)	(18.0)
White	376	5.0	772	9.0	2,614	25.0	(86.0)	(51.0)
Black	6,603	94.0	7,717	90.0	7,603	74.0	(13.0)	(14.0)
Mt. Cleveland, Swope Parkway, and Elmwood								
Total	2,771		3,071		3,701		(25.0)	(10.0)
White	252	9.1	428	14.0	1,196	32.0	(79.0)	(41.0)
Black	2,500	90.0	2,620	85.0	2,492	67.0	0.30	(5.0)
Target Area								
Total	23,969		28,091		30,561		(22.0)	(15.0)
White	2,252	9.4	4,124	15.0	13,092	43.0	(83.0)	(45.0)
Black	21,448	89.0	23,624	84.0	17,269	57.0	24	(9.0)

* % rounded to the nearest whole number.
Source: U.S. Census Bureau, 1990.

wishing to remain in an urban core environment. However, as a result of many factors discussed below, these areas too are showing signs of dysfunctional markets. These signs appeared earlier and have progressed further in Town Fork Creek, but are now appearing in the rest of the target area as well. A sound housing strategy for the target area must retain current residents, stemming the tide of persons moving out.

Age and Household Composition

Detailed age and household composition data are included in Appendix D. The target area population tends to be younger than City averages, with 42.4% under the age of 25 (compared to 34.5% for the city). Target area population in what is generally considered the core homebuying range of ages 25-45 is lower than city levels. It is slightly higher in the 45-65 age range, which other data suggests includes a stable core of long term homeowners. The area, particularly Blue Hills, has a significantly higher proportion of single parent and female headed households.

Data analysis from three years of operation of the HomeWorks Program (discussed below) helps fill out this picture. It suggests that the target area and immediately surrounding areas include a substantial younger population of primarily single black women, in their late 20s and early 30s, with children, who are looking for starter homes. Focus group data confirms this, and also reflected the higher proportion of children. Concern about issues affecting children (including gangs and quality of education), and interest in youth programming, was strong.

Income and Occupations

Data on trends in median household income is collected in Table 2. Distribution of household income, poverty rate and occupational data are reported in Appendix D.

In 1980, target area median household income was only slightly behind the city-wide figure, with some parts of the target area ahead of the city. The target area fell behind in the last decade. Nevertheless, the target area retains a strong income base. In 1990, median household income ranged from a low of $11,985 in a subarea of Town Fork Creek to a high of $28,068 in a subarea of Blue Hills. City median income was $26,731 in 1990. Incomes in the target area increased at a slower rate than in the city, but Blue Hills in particular shows significant growth. MCSWE, once ahead of the city in income levels, has fallen slightly behind, reflecting the increasing spread affect of deterioration in the neighboring area, but remains comparable.

In the last decade, the area has seen a very substantial increase in the number of families living in poverty, particularly concentrated in Town Fork Creek. This category includes 1, 237 target area families, or 21.9%, compared to 11.7% in this category city wide. Income distribution data confirms this trend, reflecting 38.9% of households earning less than $15,000 (again concentrated in Town Fork Creek), compared to 27.4% city-wide. These numbers, while significant, present less of an obstacle with respect to housing markets than might appear on their face. Interview data suggests that the elderly population of 2,439 people over age 65 constitute a significant portion of the 3,128 households with incomes below $15,000. This elderly population is less likely to be the target homeowner population in any event, and less likely presents the market and social challenges which can accompany a younger impoverished population.

Of greater significance, income distribution within the target area is otherwise reasonably healthy. Indeed, the target area has a greater concentration than the city of

TABLE 2[*]
Household Median Income: 1980, 1990

Region	1990 ($)	1980 ($)	Change 1980-1990 (%)
Blue Hills			
Census Tract 75	19,281	12,788	50.8
Census Tract 76	22,943	14,857	54.4
Census Tract 80	18,355	12,231	50.1
Census Tract 81	28,068	16,034	75.1
Town Fork Creek			
Census Tract 77	11,985	12,367	(3.1)
Census Tract 79	19,161	14,462	32.5
Mt. Cleveland, Swope Parkway, and Elmwood			
Census Tract 78.02	24,963	18,070	38.1
Kansas City	26,713	15,859	68.4

Source: U.S. Census Bureau, 1990.

[*]Comparisons of 1990 and 1980 Median Incomes are not based on constant dollar; no adjustments for inflation are made.

households with incomes in the $25,000-35,000 range. Moreover, between 1980 and 1990, target area incomes in the $25,000 - $35,000 range increased by 44% and incomes greater than $50,000 increased by 400%. Unemployment in the target area ranges from a low of 13% in North Town Fork Creek to a high of 24% in Mount Cleveland, compared to the city rate of 9%. Youth unemployment rates -- for the city and target area -- are much more dramatic. The city rate is 66%, while youth unemployment rates in the target area range from 62% to 70%.[4] This reinforces the significance of youth issues in the target area.

Occupational data corroborates both income losses and the relative income stability of the area. The residents focus group highlighted a loss in manufacturing jobs, resulting in a shift to lower wage service jobs. There is nevertheless a diverse occupational mix, including a significant presence of upper and even more so lower tier white collar workers; a greater than average presence of service workers, as anticipated; and, of particular interest, a significantly greater percentage (26.4% compared to city-wide of 22.1%) of individuals working in precision production, craft, repair, operator, fabricator and laborer jobs.

This income and occupational data reveals a core of working class people with the financial resources to invest in housing, and some with the skills to become rehabbers.

<u>Social and Community Factors</u>

The residents focus group reported many "pros" to living in the area: location; transportation; the boulevards and parks, trees and open space; strong churches and community organizations; the predominance of single family housing with driveways, garages and yards; proximity to work and shopping; and positive trends in community pride. They tend to feel the area is suffering from negative perceptions, and worry that these will turn into self-fulfilling prophesies.

Perhaps the biggest concerns expressed by residents of the area relate to deteriorating social forces which often accompany increasing economic isolation. The number of boarded-up houses and vacant lots was noted. Drug and gang activity, more prevalent north of the target area, has spread to pockets of the area. Youth from the ages of 12 to 26 can be seen hanging out at various gathering points in the neighborhoods. Indeed, in driving around at different times of the day, neighborhoods which look very attractive can feel different after school has let out. Crime in the area is significantly higher than city-wide. However, comparisons of first quarter 1993 to first quarter 1992 crime statistics show significant decreases, attributed in the focus group to the activities of the area's strong local organizations.

One of the principle assets of the target area is the presence of very committed, capable community development partners. There are five community based organizations in the Southeast Corridor: Sheraton Estates, Mount Cleveland, Swope Parkway/Elmwood, Town Fork Creek and Blue Hills. All have a long history of block club organizing, with Blue Hills particularly active, once having 50 organized block clubs. Community participation in these organizations has dwindled as the neighborhoods became more distressed. However, the organizations remain strong, and deterioration has also prompted renewed activity and interest. These community

[4]Statistics on unemployment were gathered from the Bureau of the Census 1990 User-Defined Area Programs.

leaders are already actively engaged in activities connected to this project. In particular, the five leaders of the Blue Hills neighborhood are actively involved in land use planning, organizational development and strategic planning in collaboration with KCNA. KCNA is also already engaged in a nine month leadership development curriculum with 15 leaders of the community organizations in the area.

Also heavily involved in this collaboration is another critical, community based, partner in this project: Community Builders, an accomplished community development corporation established by Swope Parkway Comprehensive Health Center. Community Builders is an experienced, high capacity CDC which is undertaking several major projects in the target area, anticipated to act as major anchors stimulating further development. These include the Swope Parkway Health Center expansion (described below) and an 84 unit tax credit multi-family development and new construction of larger scale, single family homes in the northern part of Blue Hills from 47th to 51st.

The close partnership of Community Builders, leaders of local community organizations and KCNA in targeting comprehensive development activities to this area is reflected in their attached draft Memorandum of Understanding, which is pending approval. (Appendix E)

Interest and support have also been strong from major civic, corporate, philanthropic and political institutions outside the community. Support for this organizing phase has come from the Greater Kansas City Community Foundation, Hallmark and the Civic Council of Greater Kansas City. The Ewing Marion Kauffman Foundation has expressed particular interest in supporting entrepreneurial rehabbers. The public sector, while having limited financial resources, has also expressed strong support.

<u>Other Development Activity</u>

Two major developments are currently in advanced planning stages in the target area, both of which will act as major anchors stimulating market activity. Swope Parkway Health Center has announced a $60 million expansion located at Swope Parkway and Blue Parkway (the northern edge of the center of the target area), including commercial, retail and residential development. Health Midwest, which owns the Research Medical Center located just below the southwest corner of the target area, recently announced a $112 million tax increment financing plan, also including commercial, retail and residential.

The Citadal development, conceived ten years ago as a middle and upper middle income enclave of $75,000-140,000 homes in the southwest corner of Blue Hills (just north of the Medical Center), has attracted new investors. Finally, Brush Creek, which runs along the northern edge of the target area, is also currently undergoing a $32 million restoration.

<u>Neighborhood Amenities and Development Assets</u>

Local amenities provide quality of life, recreational and cultural draws to a neighborhood, making it more attractive and competitive with alternative locations. They also can provide anchors of stability, and assets for broader development strategies to build on. The target area has particularly strong amenities, including:

- Research Medical Center and Swope-Parkway Health Center: in addition to their development activities, these institutions are the largest employers in the area (with over 300 employees each, predominantly from the area) and strong civic partners;

- University of Missouri and Rockhurst College: both are located just west of the target area, offering not only employment opportunities, but potential partnerships for future labor force development programming;

- Swope Park: the largest green space within Kansas City, located just south of the eastern portion of the target area; and including two significant regional attractions, the Kansas City Zoo (recently improved with a $52 million bond issue) and the Starlight Theatre;

- Blue River Industrial Corridor: running along the Blue River at the eastern edge of the target area, this concentration of small industries provides opportunities for future linked business development and employment strategies; and

- Location and Boulevards: The target area is conveniently located to downtown, and accessible to major transportation arteries. Bruce Watkins Roadway, planned in 1948 and mired in lawsuits until 1983, had a major destructive effect on the target area as a wide swath of land was cleared through the center of the area but no construction proceeded. Construction is now proceeding south of the area and, if it continues according to plan, the Roadway should significantly improve appearance, access and commercial opportunity for the target area. Finally, several attractive, tree lined boulevards (along Paseo and Swope Parkway) run north/south through the target area.

D. Housing Market Conditions

1. Stock

The target area has 9,206 housing units, only a modest decrease from 1980. Housing is concentrated in single family units (nearly 82%), with another 8.1% in 2-4 unit structures (concentrated in Blue Hills). Housing unit distribution is detailed in Appendix D.

Housing styles range from 1,000 square foot one story brick or wood frame bungalows along the interior streets to 2,500 square foot "shirtwaist" two story homes along the tree lined boulevards. Ninety five percent of the housing stock in the Blue Hills area was built prior to 1960, the vast majority constructed in the 1930s. The housing stock in this area, since much of it is small, tends to be built on 35-50 foot frontages, allowing over 30 homes per block face. The Town Fork Creek area has not been as consistently built, in part because of unusual topographical characteristics associated with the presence of the creek. It nevertheless has areas of attractive, well maintained housing, as well as greater concentrations of deterioration. The eastern section of the area (MCSWE) contains mostly housing stock built after World War II, ranging from very small 800 square foot ranch houses to 1300 square foot brick tudor style homes.

Existing stock conditions vary widely. The area exhibits many meticulously maintained and landscaped units on attractive blocks, both on interior streets and on the boulevards. In contrast, more troubled blocks with several boarded-up and vacant homes appear in interior sections of each subarea. CHAS data for the Midtown South Area, which includes but is significantly larger than the target area, indicates that 31% of the units are in sound condition, 30% need minor repair, 33% major and 6% dilapidated. Generally, in contrast to some of the neighborhoods north of the target area where demolition and deterioration have progressed further, the area retains a base of attractive and rehabbable single family housing stock. (More detailed analysis of the rehabability of the area housing stock is contained in sections III.B and D, below.)

2. Occupancy

Table 3 on the following page reports occupancy trends. The number of housing units has decreased only modestly in the last decade, and owner occupancy levels remain higher than city-wide rates. However, the level of owner occupancy has decreased significantly, accompanied by a notable increase in vacancies. The number and percentage of rental units has also increased. Absentee ownership, which has negatively impacted the area since the early white outmigration, remains a problem as deterioration increases.

3. Values

Housing values in the target area also vary markedly. The area includes exclusive pockets, such as Sheraton Estates, with $60,000 homes and no vacancies, as well as very distressed pockets. Table 4 reports median values and rents from 1980 and 1990 census data which, while often unreliable on these subjects, was generally confirmed by sales data and broker interviews.

Homes in the area are modestly priced, generally in the mid-$30,000s, approximately 63% of city median. Values appreciated significantly in the last decade (at higher rates than city medians, but in part because the base value was lower). Rents in the area have been quite high, often surpassing city median, suggesting substantial home buying capacity could materialize if confidence is restored in the neighborhood.

The Southeast Corridor has been and remains a more affordable housing market. These numbers show positive signs that the market retains and grows in value, suggesting that the market is not too severely dysfunctional to be reinvigorated.

4. Market Activity

Reliable statistical data on housing sales activity and turnover is difficult to obtain. Home Mortgage Disclosure Act (HMDA) data suggests very low turnover, but does not include seller-financed contract sales, which can be a significant portion of the activity in markets like this one. City recording of deeds and transfers also presents an incomplete picture. Nevertheless, it is clear that within the target area property turnover doesn't occur rapidly. In the three subareas, 70% or more of the single family homes have been owned by the same individual(s) for 5 years or more, and more than 50% of the homes have had the same owner for 10 or more years.[5] Brokers and appraisers report that the market is stable, with few transactions, and that people buy to stay.

[5]Neighborhood Property Profiles, based on 1976 thru 1993 City Real Property Assessment Data, Kansas City, Missouri, City Planning Department.

TABLE 3
Occupancy: 1980, 1990

Region	Total Housing Units		% Change in Total Housing Units	% of Owners		Change in Ownership Rate	% of Renters		Change in Renters Rate	% of Vacancies		Change in Vacancy Rate
	1990	1980	1980-1990	1990	1980	1980-1990	1990	1980	1980-1990	1990	1980	1980-1990
Blue Hills	5,233	5,378	(2.7)	54.6	60.4	(5.8)	33.2	33.1	0.1	12.0	6.1	5.9
Town Fork Creek	2,833	2,902	(2.4)	55.9	63.3	(7.4)	31.9	32.0	(0.1)	12.1	6.2	5.9
Mt. Cleveland, Swope Parkway, and Elmwood	1,140	1,061	6.9	51.3	70.3	(19.0)	37.2	22.7	14.5	11.4	7.0	4.4
Target Area	9,206	9,341	1.5	54.6	61.7	(7.1)	33.3	31.3	2.0	11.9	6.3	5.6
Kansas City	201,773	191,800	4.9	50.1	46.1	4.0	37.9	38.4	(0.5)	11.9	8.7	3.2

Source: U.S. Census Bureau, 1990.

TABLE 4
Median Home Value: 1980, 1990

Region	Median Home Value 1990		Change 1980-1990	Median Value Gross Rent		Change 1980-1990
	1990	1980	(%)	1990	1980	(%)
Blue Hills						
Census Tract 75	33,300	20,100	65.7	419	164	155.5
Census Tract 76	31,400	16,000	96.3	479	138	247.1
Census Tract 80	31,500	15,900	98.1	399	203	96.6
Census Tract 81	36,200	21,300	70.0	464	160	190.0
Town Fork Creek						
Census Tract 77	31,700	17,000	86.5	269	138	94.9
Census Tract 79	35,700	18,100	97.2	413	148	179.1
Mt. Cleveland, Swope Parkway, and Elmwood (Census Tract 78.02)	38,800	21,500	80.2	332	144	130.6
Kansas City	55,700	34,600	60.9	404	215	87.9

Source: U.S. Census Bureau, 1990.

Generally, perceptions of deterioration and negative social trends in the area are a major concern for residents and prospective buyers. The combination of lack of buyer confidence in the area, perceived inability to access credit and (mentioned by some interviewees) difficulty getting accurate appraisal values creates significant barriers to homeownership. The professionals focus group suggested that the market became stagnant in this area particularly over the last five years. The fewer sales and apparent price and ownership stability may reflect increasing illiquidity: owners may be unwilling to sell at lower prices caused by perceived deterioration.

Nevertheless, the professionals focus group also reported that buyer confidence recently is improving. There is a market for quality homes, particularly amongst renters in the area. As discussed in Section III.D (which provides more detailed market analysis), income levels in the area will support purchase of rehabbed homes, and rehabber interest in the area is significant.

Perhaps the most interesting data concerning the initial market for rehabbed homes comes from KCNA's experience with its HomeWorks program. Over the last three years, KCNA has trained approximately 2,000 prospective homeowners. Drawn almost exclusively from the urban core areas (including the target area), 80% of the trainees are single black females. These tend to be in the 25-40 age range, employed for more than six years, with two children. They have average incomes of $25,000, and currently rent at approximately $400 per month. Often as rents increase, they look for homeownership alternatives, as a way to control costs and to build equity. Those in their late 20s or early 30s are looking for "starter homes": they do not want too much space, and a rehabbed 1,000 to 1,500 square foot bungalow represents success. This population is already familiar with the assets, and liabilities, of the target area, and is interested in living there.

Those who are slightly older, and the other 20% who are couples, tend to want slightly larger, nicer homes, either in suburban type developments like Citadel or in the suburbs. This coincides with professional focus group reports that, largely because of perceptions of neighborhood deterioration, crime and schools, many middle and upper income blacks are currently attracted to competing markets in the metropolitan area - particularly the Raytown and Grandview suburbs to the east and south, and areas of Johnson County to the west. However, this focus group and others also reported increasing interest amongst blacks in living in core neighborhoods. As it improves over time, the target area, which is potentially one of the more attractive core areas, can also take advantage of this interest.

5. <u>Lending Activity</u>

Large banks and government programs are offering a broad array of affordable loan products for moderate and low income buyers who qualify, some of whose principal unusual features are summarized in Appendix F. City-wide, these products reportedly are resulting in increased affordable lending activity. These positive trends reflect several factors characterizing the successful lenders: increasing assignment of staff dedicated to serving low income communities; willingness to carry loans in the portfolio longer (and so less rigidity with respect to adherence to secondary market underwriting criteria); and more flexible financing options. A multi-bank loan consortium also was recently created (see Section IV.B). However, the basic purchase/rehab loan for entrepreneurs contemplated by this project is almost entirely unavailable, and few owner/rehab lending products are both sufficiently available and seen as accessible.

Furthermore, the products are not reaching the target area in any significant volume. Real estate professionals consistently reported unavailability of credit as a major problem. Residents similarly reported trying to obtain credit, but encountering difficulties meeting conventional underwriting standards due to imperfect credit histories or other factors. Resident perceptions about their ability to access credit are aggravated in some instances by lack of sophistication about credit, savings and the rewards of homeownership. Both residents and professionals also reported that the most frequent source of financing was mortgage companies with FHA or VA products, with the familiar accompanying problems of poor underwriting, high turnover, and low quality improvements.

HMDA data, presented in Table 5, is consistent with this picture. Only 4.6 mortgages were made per 1,000 structures (1-4 unit) in the target area, compared to 47.5 city-wide. Only 5.0 home improvement loans were made per 1,000 structures, compared to 13.5 city-wide. While these numbers do reflect modest improvement compared to 1990 data, and may reflect (as well as possibly contributing to) the stagnant market, they corroborate that very little housing financing is currently available in the target area.

E. Conclusion

The target area evidences significant signs of distress. The deterioration which has overcome portions of the urban core farther north is spreading to the area, particularly Town Fork Creek. The area has increasing concentrations of lower income residents. Residents, often with lower paying jobs, fearing decreasing home values and finding credit difficult to obtain, are less willing to risk their personal savings and resources on maintenance of their homes. Absentee investor ownership is increasing, as are vacancies. Home sales and values are stagnant, and lending activity is very low. Collectively, these trends present substantial development challenges.

Despite the challenges, the area appears to offer the right foundation for stemming and reversing the tide of deterioration. Development opportunities include the following:

- Attractive housing stock. The area retains a base of attractive stock, including many modestly deteriorated homes in rehabbable condition. This particularly includes the small single family bungalows in Blue Hills which can be acquired by entrepreneurial rehabbers and made attractive at prices affordable to local residents and profitable for rehabbers. The levels of abandonment and vacant lots remain manageable, and present opportunities for a non-profit developer to leverage significant impact through carefully selected anchor projects.

- Major development activity and attractive neighborhood amenities. The Research Medical Center, Swope Parkway Health Center and other development activities, combined with the existing strong subareas and the positive basic neighborhood features, create strong potential for building momentum in the area.

TABLE 5
Bank Lending, 1992

Region	Number of Structures, 1990				Home Purchase (1-4 Units)				Home Improvement (1-4 Units)				Multi-Family Purchase / Improvement (5+ Units)			
	1-4	5 or more	Other	Total	Total		Per 1,000 Structures		Total		Per 1,000 Structures		Total		Per 1,000 Structures	
	(#)	(#)	(#)	(#)	(#)	($000)	(#)	($000)	(#)	($000)	(#)	($000)	(#)	($000)	(#)	($000)
Blue Hills	4,893	305	35	5,233	24	887	4.9	181	24	151	4.9	31	0	0	0.0	0
Town Fork Creek	2,370	353	110	2,833	8	221	3.4	93	11	61	4.6	26	0	0	0.0	0
Swope Parkway, Elmwood and Mount Cleveland	1,003	127	10	1,140	6	443	6.0	442	6	34	6.0	34	0	0	0.0	0
Target Area	8,266	785	155	9,206	38	1,551	4.6	188	41	246	5.0	30	0	0	0.0	0
Kansas City	144,897	52,827	4,128	201,852	6,881	531,787	47.5	3,670	1,953	25,352	13.5	175	31	6,334	0.6	120

Source: Home Mortgage Disclosure Act, 1992; U.S. Census Bureau, 1990.

- High rates of home ownership and a significant modest income population. As perceptions of the area improve, this committed resident base can be encouraged to fix up their homes. Several parts of the target area, including particularly major subsections of Blue Hills and of MCSPE, have relatively stable rates of homeownership but have homes in need of minor rehab and repairs. These areas could respond to aggressive home improvement lending, visibly improving the appearance of the neighborhood and reasserting positive market perceptions and local commitment. Incomes in the area can support homeownership. The significant population of modest income renters in or near the area also creates a potential market for rehabbed homes, and reflects potential pent-up demand for credit.

- Strong neighborhood associations. This committed resident base contributes to vibrant neighborhood associations. Perhaps the most difficult challenge in reversing neighborhood perceptions is directly addressing the deteriorating social forces. The expanding activities of these associations will be critical to strengthening the social fabric of the community, safeguarding individual and institutional investment.

These combined characteristics of the target area provide the prerequisites for a comprehensive development initiative. Targeted developer, lender and community strengthening activities can build on this base to create an atmosphere for revitalization, attracting entrepreneurs and residents to invest in the community.

III. STRATEGY FOR COMMUNITY REVITALIZATION IN THE SOUTHEAST CORRIDOR

A. Overview and Identification of Impact Zones

The general strategy, discussed at the outset of this Report, calls for revitalizing the housing market through creating an environment which attracts entrepreneurial rehabbers. This entails mutually reinforcing developer, community strengthening and lender products which build a critical mass of activity in the target area sufficient to begin the process of changing community perception. This general strategy can now be translated into particular activities appropriate to the target area. In addition, subparts of the target area - "impact zones" - can now be identified as appropriate places to begin those activities.

Adapting the general strategy to the characteristics of the target area requires identifying particular products and activities which address its challenges and build on its assets. The non-profit housing developer will have to undertake anchor projects which restore the worst eyesores: the abandoned buildings, boarded up houses and vacant lots. The community strengthening function will have to implement complementary programs: projects to encourage homeowner investment, to address concerns about crime and youth, and to market changed perceptions of the neighborhood. The lender will have to make financing available to support housing investment by homeowners and rehabbers, through flexible home improvement, acquisition rehab and mortgage products. These products and activities, as well as the anticipated entrepreneurial rehabber activities, are detailed below.

A corollary of the principle of targeting is that the market catalyzing activities should initially be undertaken within smaller "impact zones" of the area. The objective is to immediately create zones of stability and visible impact. Within the impact zones, anchor projects located in smaller "development zones" are intended through very concentrated activity to create a safer, more positive environment for renters and homeowners and to generate additional investment by existing property owners, entrepreneurs and new owners. Development zones should be quite small, perhaps a four square block area. They should be selected based primarily on two factors which are inherently in tension: (1) areas whose high level of deterioration presents the need for intensive, subsidized development activity, and as a result the activity will cause more dramatic change; and (2) areas presenting the greatest potential for leveraging the development activity through generating private market activity. Often in distressed communities, an area which otherwise could be fundamentally stable and has great potential suffers from subareas presenting major "eyesores" which paralyze the market. Particularly the initial impact zone, selected for the first concentration of project activities, should be in an area which can maximize its leverage.

The target area analysis above suggests that the appropriate place to begin with concentrated activities - where addressing blighted properties can most quickly leverage private activity - is within the Blue Hills area. This area has by far the highest concentration of housing and population, but retains a better stock and income base than Town Fork Creek.

The portion of Blue Hills north of 51st street is significantly more deteriorated and suffers greater social and accompanying market perception problems. This area is the subject of a major redevelopment effort led by Community Builders. Community Builders is developing a site plan that includes demolition, substantial rehabilitation and new construction of both low-moderate income multi-family buildings and moderately priced single family homes. The development is expected to be launched in mid-1994, and take 3 to 4 years to complete. This fits into the overall development strategy as a major anchor project and development zone which will address some of the most blighting influences in the area.

The area south of 59th presents a more eclectic combination of housing types and dynamics, making achieving critical mass and spread effects more difficult. It also presents fewer appropriate anchor project opportunities, and already has the Citidal development.

The proposed impact zone for KCNA and other initial project activities encompasses the remaining Blue Hills area from 51st to 59th. Paseo to Prospect.[6] This area has 2,327 parcels: 2,077 single family, 42 duplexes, 144 vacant lots, 28 institutional, 29 small business and 3 multifamily larger than 3 units. The subarea 55th to 59th has less deterioration and vacant lots, and fewer social and quality of life problems. It is less in need of anchor projects. Instead, it offers opportunities for rehabbers and home improvement lending: activity in this area would be leveraged by activity further north. This leaves the area from 51st to 55th.

The western portion of this area includes an abandoned major institutional structure occupying a square block, but otherwise has relatively few vacant lots and only a modest number of severely deteriorated structures. Though the housing is generally more run down than the area to the south, this subarea is fairly consistently built with bungalows and two story shirtwaist housing stock amenable to home improvement and private rehabilitation activity. Rehabilitation of the abandoned structure and community strengthening activities in this subarea, combined with visible anchor projects to address the more deteriorated area to the east, will make this area attractive for entrepreneurial rehabbers and for lending activities.

The eastern portion of the subarea between 51st and 55th is much more distressed. It has smaller, more recently and poorly built homes with no curbs or sidewalks. It also has many more vacant or abandoned properties, partly as a result of the Bruce Watkins freeway history. Major anchor projects are needed to dramatically alter the face of this area, encouraging renewed market activity there as well as in areas to the west and south. Accordingly, the developer activity initially would be concentrated in this "development zone". While many of the community strengthening activities would occur throughout the target area, activities would be most focused on this development zone, as well as the broader impact zone encompassing the subareas to the west and south in Blue Hills. Similarly, while lending activity will occur throughout the target area, it is anticipated that the most aggressive activity, and highest volume, will occur in the impact zone constituting these subareas of Blue Hills. (See Map 2 on the following page.)

It will be harder for development in this impact zone to have spread effects to the east, in Town Fork Creek, because the Bruce Watkins freeway will divide the two communities. It nevertheless makes sense to begin by addressing the most distressed areas of Blue Hills, where manageable levels of activity can more readily attract rehabbers and homeowner investment to revitalize the community. It is anticipated

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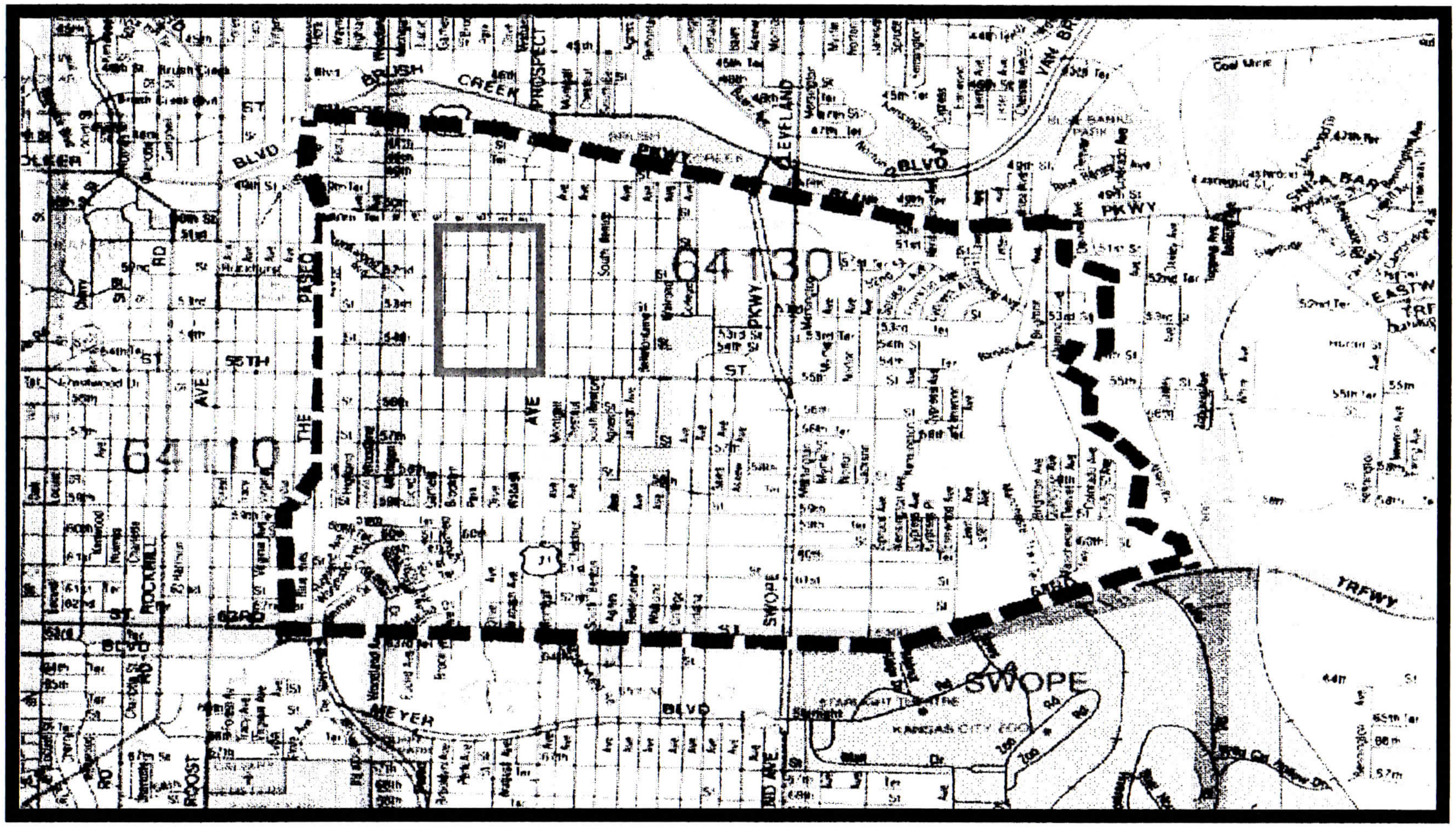
[6]Note the impact zone could equally be described to include the Community Builders area and "anchor projects" north of 51st. Community strengthening and lending activities would encompass this area as well.

Map 2
Proposed Target Area, Impact and Development Zones



Impact Zone

Development Zone

that the second wave of developer activity - the next development and impact zones - would be located in Town Fork Creek, tentatively between 53rd and 57th.

B. Real Estate Developer Activities

The real estate developer plays three key roles in the development strategy. First, it concentrates its activities in the "development zone", whose blight requires subsidized development and makes the initial large, visible investments that begin to signal positive change. This both eliminates the worst blight in the impact zone and demonstrates significant investment. Second, the developer's investments encourage other private investment by entrepreneurs and resident owners, creating demand for bank credit. Third, the stabilizing influence of the developer's anchor projects reduces the market risk for bank lending.

The developer's initial anchor projects for the identified development zone need to address the abandoned and severely deteriorated single family structures, as well as the vacant lots. The development zone has approximately 30 lots per block face, approximately one third of which have severely deteriorated structures. KCNA will change the face of this area by initially selecting individual blocks, and undertaking major acquisition-rehab of the most deteriorated homes. This activity will expand block by block as necessary to the most deteriorated neighboring blocks in the zone.

The typical rehab is expected to include combinations of the following, as required: foundation repair; new roofs; updated electrical, plumbing and heating systems; interior and exterior painting; updated kitchen and bathroom fixtures; new windows; conversion of two bedroom units to three bedroom; improved home security systems; and "signature" exterior landscaping to signal a rehabbed property. Illustrative deal economics for 10 homes - one blockface - are presented in Table 6, which includes explanatory notes. If adequate financing and subsidy is available, KCNA hopes to undertake two block faces (twenty homes) per year.

With rental rates estimated at approximately $400 per month, this product fits the significant rental market in the area. Over time, as the area improves, it is anticipated that many of these homes will be sold to owner occupants.

In conjunction with this acquisition-rehab activity, KCNA contemplates getting the City to target the area for major infrastructure development of curbs and sidewalks.

In addition to the severely deteriorated homes, the worst eyesores bringing down this area are vacant lots, particularly on many corners. These lots are overgrown and tend to attract debris and garbage dumping. KCNA will acquire the approximately ten vacant lots in the development zone, landscape and maintain them as attractive greenspace. Estimated acquisition costs are $5,000 per lot (lots are approximately 9,300 square feet), for a total of $50,000. Costs for landscaping, maintenance and taxes are estimated at a total of $3,000 per year. (As the project proceeds, and the market stabilizes, KCNA may undertake new construction on these lots or sell them for development.)

Two other significant real estate development activities are anticipated which will affect the broader impact zone:

- As described above, Community Builders will undertake similarly comprehensive development of the distressed area immediately to the north.

TABLE 6
Illustrative Anchor Rental Projects

	Single Family Rehab Assumption (per property)	Per Property	Total Rehab
Square Footage	1,000		
Number of Units			10
Development Costs			
Acquisition (1)		$7,000	$70,000
Hard Costs (2)		24,000	240,000
Soft Costs (3)		2,500	25,000
Developer's Administration	7%	2,500	25,000
Contingency	4%	1,500	15,000
Total Development Cost		37,500	375,000
Cash Flow (monthly)			
Net Rent @ 5% Vacancy	$400	380	3,800
Operating Expenses (4)		(130)	(1,300)
Net Operating Income from Rental		250	2,500
First Mortgage		(208)	(2,083)
Reserve (5)		(35)	(350)
Net Cash Flow (6)		7	67
Sources of Financing			
First Mortgage(7)		$25,861	$258,609
Equity @ 20%		6,465	64,652
Total Financing		32,326	323,261
Surplus (Gap)		($5,174)	($51,739)

Notes:

1. Acquisition costs for rehab represent an average of costs for various stages of relatively dilapidated impact zone housing.
2. Hard costs for rentals include new roof, systems and kitchen and baths, interior and exterior painting and landscaping. Rehab may include more modest system improvements and conversion of two bedroom units to three bedrooms.
3. Soft costs include insurance, permits and fees, utilities and security during construction interest on equity financing, closing costs and marketing. Taxes are assumed to be abated under the State's Mini 353 program.
4. Operating expenses include insurance, interior maintenance and landscaping.
5. Reserve fund covers short- and long-term maintenance.
6. Differences in net cash flow between property and project are due to rounding.
7. The first mortgage is based upon a debt coverage ratio of 1.2, with a twenty-year term and interest rate of 7.5%.

- The square block of abandoned real estate, at 53rd and Highland, was formerly owned by the Little Sisters of the Poor, and built to house a chapel, infirmary and convent. This is a major blighting eyesore in the middle of the western portion of the impact zone, which has been broken into, set on fire, stripped and vandalized. A private developer is proposing to HUD an adaptive reuse of the facility as 126 elderly assisted apartments. KCNA will scrutinize the development plans as they take shape, assuring that they are compatible with the character of the surrounding neighborhood, and determining that the developer is capable and reliable. If so, KCNA will assist the community in supporting the developer. If the project does not go through, KCNA will find another developer, or itself develop the parcel.

Finally, KCNA also anticipates acquiring and rehabilitating a "Model Home" in the western portion of the impact zone. Though a developer activity, this is not viewed as an "anchor project". Rather, its purpose is to build major market interest among prospective purchasers of rehabilitated homes in Blue Hills, and to demonstrate the market for purchase/rehab-for-sale activity. KCNA, based on its HomeWorks experience, believes that interest can best be built by purchasing, rehabbing and maintaining a furnished model home. Prospective homebuyers, confirming that this is the "Show Me" state, respond best to getting the feel and look of a finished product. Having a model home also helps support the delayed gratification behavior central to the HomeWorks program. The deal economics for this product will be identical to those of the private rehabbers, discussed below.

The impact of this combination of products will be to redo 20 properties within the subarea over the next year, as well as begin other significant activity concerning the large abandoned structure, the area to the north and the model home demonstration project. This high level of investment activity will cause visible change which addresses the worst conditions of the subarea market, helping stabilize the development zone, and encouraging market activity in the impact zone areas to the west and south.

C. Community Strengthener

1. Strategy

Perhaps the biggest challenge confronting a housing development strategy for the target area is the extent of perceived, and to some degree real, deterioration in the local social fabric, particularly as represented by criminal and gang activity. The perception of the area as slipping in terms of basic quality of life factors is a critical cause of the virtual stagnation in the current housing market. While visible developer impact projects and committed lending activity can go a long way towards reversing this perception and reality, the extent of the challenge in the Southeast Corridor suggests that additional, direct community strengthening programs should be put in place.

The community strengthener is literally on-the-ground and deeply involved with residents of the community. In one sense, the community strengthening function is to do whatever is necessary: it must continually understand the key factors causing perceived or real decline, or reluctance to invest, and then help residents address them, directly and through attracting external resources. The programs will thus be continually shifting as interests and priorities change. Generally, the community strengthener would engage in three types of activities which reinforce (and are reinforced by) the rest of the strategy: (a) programs directly related to the other housing activities; (b) programs which directly support and encourage the large (and anticipated to be growing) proportion of residents who want to "take control" and address the problems of their community; and (c) marketing and outreach programs to help change perceptions of the community and attract new residents.

2. Housing Programs

A number of programs, some already in place, directly affect the housing market and housing development activity. These would include:

a. Home Buyer Training

Residents and professionals reported substantial buyer ignorance about what it takes to establish credit, purchase and maintain a house. To redress this, and build the homeowner market, KCNA will develop a training and support program, extending 18 months to 2 years, for residents of the East Side, roughly from 39th to 75th. A variation of the existing, highly successful HomeWorks program, this training will focus on basic home purchase and maintenance skills, and on building creditworthiness. It will be designed especially for the likely profiled initial buyers: black, single working women between ages 25 and 40. Participants will be invited to buy homes in the impact zone and later in the larger target area.

b. Model Block Club Property Improvement Activities

As described in the next section, block club organizing has historically been important in these neighborhoods, and is again increasing. In connection with these block clubs, "model blocks" will be identified, with accompanying activities related to housing. Each homeowner on a model block will be encouraged to undertake home improvements. These will include both substantial improvements through direct marketing of home improvement loans, and modest but visible improvements through activities such as painting or fence contests. KCNA and the lender will assist block club captains in these activities.

c. Loan packaging and prequalification

The Home Buyer training program already assists with prequalification and loan packaging for its participants. Over time, these activities would also be undertaken informally by KCNA, working with local block clubs. As discussed below, it is contemplated that KCNA's community strengthening staff will attend some lender loan committee meetings, and otherwise receive basic exposure to the key loan products and underwriting issues. As a result, the staff will be able to play both a marketing and prequalification role, increasing activity while making this lending more efficient for the lender. This activity would help address the lender dis-economies of scale from making small loans that are both unusual and labor intensive.

d. Rental Unit Management Training

Current investor owners need help with property management, particularly tenant screening skills. Entrepreneurial rehabbers of rental housing would benefit from similar assistance. Ultimately, the project hopes to attract other local (rather than absentee) investor-owners in addition to the rehabbers, who will need similar property management skills. CDCs in the area currently have a property management group to informally address some of these needs. KCNA plans to begin working with this group to expand capable and responsible local investor-ownership. This program may expand to encompass a "tenant packaging" program (analogous to homeowner training and loan packaging for homebuyers) which trains and qualifies tenants.

e. Code Enforcement Program

Prospective homeowners need to clearly sense that the target area is making a comeback - that property values are stable and even appreciating. Code enforcement programs to improve the overall property maintenance standards in the neighborhood can cause homeowners to maintain and restore their homes, helping change perceptions of the neighborhood. Kansas City has a program to systematically enforce property maintenance codes in a designated area at the invitation of the area neighborhood group. A team of inspectors, if invited in by the neighborhood group, inspect every residential unit and vacant lot, cite the owners for code violations, order the violations abated, re-inspect and fine the owner if violations are not abated. KCNA will work with the impact zone neighborhood groups to invite in this team of inspectors to the Blue Hills neighborhood, then work with owners and residents to identify resources to improve their properties.

The community strengthener housing programs will expand and change as new opportunities and challenges arise. For example, as rehabbers emerge, KCNA along with the lender may support an informal Rehabber Guild which acts as a peer group and information resource for rehabbers. Similarly, technical assistance activities and support services (how to find a good contractor; how to decide what repairs to make and what materials to use; etc.) for homeowners undertaking home improvement might be organized. Generally, the community strengthener, through its activities and its connections to the lender and developer, will be close to the dynamics of the changing housing market, and will seek the leverage points for new projects which support the improving market.

3. Direct Community Strengthening Programs

One of the major assets of the target area, particularly the impact zone, is the strength and commitment of its local community organizations and residents. In partnership with them, several programs are being or will be implemented which can provide support for and enhance the capacity of residents who want to revitalize their community. Residents who have an emotional and financial stake in their neighborhood, and who know it and their neighbors best, often have the greatest capacity to identify and address community problems. Indeed, neighbor peer relationships, including both support and pressure, are not only generally the most powerful and important in transmitting information and effecting change, but are a big part of what defines "community". Community strengthener programs in this area include:

a. Leadership Training

KCNA has already recruited and begun training neighborhood leaders from each of the grass roots groups in the target area. The training, called LeaderShip III, consists of a nine-month curriculum focusing on strengthening the individual's management skills and their organization's operation. The organizational outcomes are to increase membership, activate committees, recruit and maintain volunteers, raise funds and improve communications. Leaders from Blue Hills, Town Fork Creek, Swope Parkway/Elmwood and Mount Cleveland community organizations attended a two-day retreat in October where they began to coalesce around a vision for the future of their community. This begins a process in which they are creating a multi-year strategic plan, as well as a one-year action plan. The curriculum will culminate in each group submitting a proposal for a small grant to fund a project identified in their strategic plan. KCNA has found in its ten years of conducting leadership training that developing proposals, complete with goals and budgets, helps to increase the groups' capacity, maturity and accountability.

b. Basic Block Club Organizing

The historic block club organizing in the target area is a major asset for engaging residents to address the problems of their neighborhood. These block clubs undertake visible improvements, secure public infrastructure and service improvements, undertake community security projects, and serve as an information network for available social services. An early goal of the currently active leaders in the Blue Hills area (including the impact zone) is to recruit a block captain for each of the blocks in their area. Block club activities will then be enhanced in conjunction with the other activities of the project. These activities serve to reinforce the perception that the dynamics of Blue Hills are changing, making it an attractive place to buy a home.

c. Crime and Youth Programming

The Blue Hills community is a finalist competing for a new community policing team to be located in the newly opened community center at 6025 Prospect. Modeled on the nationally recognized Community Alert Centers, the community policing team includes two beat cops, two code inspectors and one community . All housed in the same place, with their activity coordinated, these teams focus on the "hot spots" in the community. The activities go well beyond law enforcement: recreation, tutoring, jobs, seizure of drug property and other programs are identified to address the causes of existing problems. If Blue Hills does not succeed in getting the community policing team, its leaders along with KCNA contemplate establishing community based crime watch and similar programs to address community concerns about crime in the impact zone.

With respect to the often cited youth problem, Blue Hills leaders successfully competed for the Block Leader Program, in which they hire young adults to recruit and coordinate recreational and academic activities for 45 youths in a 4-5 block radius of the block leader's home. Three such leaders have been hired, with one more in process. Blue Hills leaders are also actively engaged in attracting to the community and coordinating an array of other youth diversion, recreation and job training programs which are available city wide.

Ultimately, an expanded umbrella community organization, working with the block clubs, might be established to more systematically address the broader issues presented by deteriorating economic and social fabric, particularly those related to personal development. These include issues of basic education, job readiness, job-specific training and family support services. This host of individual resident and community needs cannot and should not be directly met by the community strengthening function, both as a matter of capacity and because other specialized institutions exist to help meet these needs. The problem, however, for both the specialized institutions and the residents, is that residents often are not aware of or connected to this network of resources, or need help and advocacy with respect to identifying, plugging into and combining appropriate resources.

Over time, the community strengthener might establish a single point-of-entry human resource development organization to meet these needs. In this capacity, working with the block clubs, it would provide "navigation" and "glue" - structured linkages between Southeast Corridor residents and existing programs, and continuing individual help as people progress to a position where they can benefit from additional resources.

4. Marketing Programs

Marketing programs will be important for both the community and the lender. Advocacy, marketing and promotional activities will change perceptions of the community, and help generate confidence in the market amongst current and new residents and external investors. Extensive, on-the-ground outreach, through meetings with local residents, community and business leaders and organizations, must complement the other visible activities. This outreach will let people know of the resources and activities of the project itself, including particularly of the lender's institutional capacity, commitment and specific products. The message must be neighborhood commitment and community values, including concern, willingness to work with residents and to adapt to the neighborhood's special characteristics.

This marketing will range from specific products to broad neighborhood promotion. For example, direct home marketing of the availability of home improvement products will tie to block club organizing. External marketing of the neighborhood, using current residents, should occur to attract in-coming buyers. The Model Home, as well as newly constructed and rehabbed homes, will be featured in the city-sponsored Affordable Homes tour, in the Homebuilders' Association Parade of Homes, on donated billboards on major thoroughfares, and on radio public service announcements. Other possible avenues for marketing, in addition to extensive community outreach through local block clubs, employers and churches, include news media stories or a quarterly newsletter.

Much of this marketing would occur in conjunction with the lender. For example, a visible, aggressively promoted large-scale home improvement lending program needs to be initiated, including direct mail to owners of 1-4 unit buildings; meetings with block-level organizers; promotion at every community meeting; activities like organizing parlor meetings (on a "tupperware party" model); and perhaps bonus points (on loans) for bringing in neighbors. The sales technique for these products must be straight talk - serious and business-like, with no gimmicks.

D. Rehabber Products

1. Presence of Rehabbers

Brokers, appraisers and others active in the target area housing market strongly indicated the potential presence and interest of small entrepreneurial rehabbers. Age, income, ownership and occupation demographics suggest the presence of persons in the area who fit an entrepreneurial rehabber profile. The presence of many well maintained homes similarly suggests the presence of potential rehabbers. Several people who had in the past engaged in rehab activity indicated an interest in returning to it if conditions - particularly availability of financing - permitted it. A few people were identified who are currently doing rehab development in the target area. Nevertheless, as the project itself reflects, this is an activity which must be grown.

In Shorebank's experience, it can be. But entrepreneurs cannot be approached as a "program" and directed towards particular projects: inherent in the concept - in them being entrepreneurs - is that they will respond to a real opportunity to use their talents and resources to make money. The market, particularly as a function of income demographics and neighborhood trends affecting values, must support the end-product. The deal economics, as a function of housing stock, acquisition costs and rehab costs, must be such that the rehabber can profit within the market. Given the presence of a suitable demographic base and other neighborhood qualities, the developer and community strengthening activities will help create an environment which provides this opportunity.

If these conditions are present, ultimately among the most important institutional actors to get rehab activity going is the lender. An aggressive lender, by targeting and "beating the bushes", can generate demand, growing the market. To do this successfully, the lender must have specialized market knowledge and expertise, be able to connect rehabbers to appropriate deals, and perform as a desirable partner adding value in a business-like way. Working class people are present in the area who are handy, and have reached a point where they have modest financial resources, along with some time and interest in engaging in additional activity to generate extra income and assets. These people have the skills, and will apply them if the opportunity presents itself. (One rehabber active in the area provides a good example: a mature couple in their '50s, with their nephew and son-in-law as crew, operating out of their home.)

It is anticipated that rehabber activity will start very slowly, as the corps of existing rehabbers is quite small, and the impact on market perceptions of the other project activities will take some time to materialize. A few rehabbers may emerge who undertake only one or two homes a year, while holding other jobs. As experience is gained, and some move to full time, these entrepreneurial rehabbers, with their own crews, might take approximately 60 days per house, and would do perhaps 6 houses per year. Considering the indications of the presence of potential rehabbers, it is anticipated that the initial successes will slowly generate additional activity. In effect, the expanding rehabber activity both reflects and constitutes the restoration of the private market.

2. Housing Market - End Product Purchasers

Table 7 on the following page summarizes key data relating area incomes to housing affordability. Conservatively assuming that 28% of income is spent on mortgage costs[7], median incomes support purchase of homes ranging from $38,112 up to $82,895. Approaching affordability from the point of view of current housing costs, the average household value in Blue Hills of $36,000 would require approximately a $265 monthly mortgage payment, well below the mortgage levels which are affordable for this population, and well below current rent levels in the area.

This data, while useful, largely confirms the extraordinary affordability of housing in Kansas City, and is too "broad-brush" to address several critical issues. It does not take into account the stagnant nature of the market stemming from neighborhood decline, the demographic breakdown for sub-portions of the population, the relationship of housing quality to price, or the existence of competing housing markets. Nevertheless, this data confirms the observations of residents and real estate professionals in the Southeast Corridor: residents and renters can afford to purchase new homes and fix up their homes if they believe their investments will be rewarded.

Despite the fact that many residents can afford much higher priced homes, as a result of the stagnancy in the market, secondary data and interviews demonstrate that the housing market in the Southeast Corridor generally caps at approximately $40,000, perhaps closer to $50,000 for an excellent product in Blue Hills. One of the key issues in this market is not to overbuild: creating a $75,000 product, based only on affordability analysis, will result in losses. This is a critical point: while there are creditworthy potential buyers for an entrepreneurial rehab product, they will not purchase a product whose cost does not translate into market value. At the same time, if approached cautiously and incrementally, the key effect of the combined activity fostered by this project is to push the market up. The first rehabber deals have to work at $40,000, but as they work, confidence and values in the market improve, and over time the deal economics and housing quality get better as the market will support higher priced housing.

[7] Using a 35% of income rule of thumb for total housing costs, this leaves 7% for non-mortgage housing costs such as insurance, taxes, maintenance and utilities.

TABLE 7
Housing Affordability

Census Tract	1990 Median Income	Feasible Monthly Mortgage Expense @ 28% of Income	Feasible Home Purchase
Blue Hills			
75	19,281	450	61,313
76	22,943	535	72,958
80	18,355	428	58,368
81	26,068	608	82,895
Town Fork Creek:			
77	11,985	280	38,112
79	19,161	447	60,931
Mount Cleveland, Swope Parkway, Elmwood	24,963	582	79,381
Kansas City	26,713	623	84,946

Note: The feasible home purchase is calculated on the basis of a 30-year mortgage at 8% interest.

Other very rough indicators suggest more than adequate potential market size. Considering affordability data alongside the household income distribution (Appendix D.4) and occupancy data (Table 3) reveals that 61.1% of the households in the target area have incomes over $15,000 (largely placing them in the affordability range), while only 54.6% are owner occupied. This leaves 598 households (6.5% of the 9,206 units) which can afford to buy but do not own. The estimate of potential homebuyers for Blue Hills using this technique comes to 508. This measure is obviously extremely rough, but is generally very conservative[8], with the following exception. Ability to make downpayment is not considered in these affordability calculations, and constitutes a substantial barrier to homeownership among portions of the target area population. However, even assuming a large percentage of these potential homebuyers cannot afford downpayments, a market of at least several hundred remains.[9]

The aggregate data from the target area analysis, interviews, focus groups and experience of the homeowner training program readily confirms demand for reasonable quality $40,000 rehabbed homes. The next question with respect to rehabber activity is whether the deal economics create a profit opportunity at this price: can the rehabber acquire, fix up to desirable standards and sell at $40,000 with a sufficient profit?

[8]It does not take into account that some housing units may have more than one household, but to the extent that variation in the data bases occurs, it would increase the number of potential buyers. Similarly, significant numbers of persons, particularly elderly, may own homes but not currently be able to afford home purchase. This correction too would increase the number of potential buyers.

[9]Another market indicator comes from examining the target population of working female headed households who could afford to buy. An extremely conservative estimate is that there are 53 such households in the target area who are renting. This calculation is as follows: [2,408 female headed households] x [89% black population] x [28.9% of population ages 25-45] x [25.7% of the population in the $20,000 to $35,000 income range] x [33.3% rental occupancy].

3. Rehabber Products and Deal Economics

It is anticipated that rehabbers will initially primarily engage in acquisition and rehab for sale to owner occupants of single family housing. Some rehab of single and small multi-family structures (often where the rehabber lives in one unit) as investment properties which will be held (or sold to local investor-owners) and operated as rental units is also anticipated. Success in these deals - indeed, the key quality of entrepreneurial rehabbers - is predicated on the ability to not only acquire cheaply, but put in do-it-yourself labor.

Successful rehabbers, through this "sweat equity", get the work done well below normal market costs of conventional large-scale developers (or CDCs using complex subsidies for more complex deals, often subcontracting more of the work) . They are part of and have their own construction crew (often including relatives), subcontracting only specialty work. They operate out of their homes (and trucks), with little or no overhead for items like office space. The deal economics analysis for rehabbers also assumes little carrying costs: the market demand and other activities of the project make it likely that purchasers will be available and qualified quickly after completion of construction.

The target area analysis and examination of actual comparables demonstrate that suitable stock can be acquired for an average of approximately $7,500, and comfortably rehabbed with sufficiently attractive characteristics at an average cost of $22,500. (Actual activity does and will vary, of course, with some acquisition costs being lower or higher with higher or lower accompanying rehab costs.) These properties - meeting market demand as described by real estate professionals and residents - will typically be 1000 to 1500 square feet and, after rehab, will primarily have 3 bedrooms; one and one half baths; upgraded kitchen, HVAC, and roof; plus external improvements such as painting, decorative fencing and landscaping. Illustrative deal economics - reflecting acquisition and development costs, sales prices and operating income for single family unit rehabs and operating income for duplex rental units - are presented in Table 8 on the following page, with explanatory notes.

These deal economics appear to work. In the current market, the rehabber, conservatively assuming (based on values and real estate professional interviews) sale of initial properties at $35,000, makes over a 16% profit; and on rental properties, produces a modest income stream while building up equity.

E. Lender Products

The lender will provide credit to support current owners, rehabbers and new buyers as perceptions change and they see the benefits of investing. It will be able to prudently achieve this through its focus on and commitment to the neighborhood, its expertise in development lending for the neighborhood and its ability to relate to residents and entrepreneurs. These characteristics allow the development lender to put people in the right houses, and entrepreneurs in the right deals. Loan procedures will be quick, simple and convenient - responsive to common borrower perceptions that getting a loan is confusing, time consuming and bureaucratic. The development lender also underwrites differently: for example, buyer qualification analysis is less rigid, taking into account buyer characteristics such as a history of good utility bill payments, having overcome a catastrophic credit incident, and locally known

TABLE 8
Illustrative Rehabber Projects

	Single Family Rehab Assumption	Single Family Rehab Per Property	Duplex Rehab Assumption	Duplex Rehab Per Property
Development Costs				
Acquisition		7,500		10,000
Hard Costs (1)		20,000		35,000
Soft Costs (2)		2,500		2,500
Total Development Cost		30,000		47,500
Cash Flow (monthly)				
Net Rent @ 5% Vacancy	$425	404	$400	760
Operating Expenses (3)		(130)		(180)
Net Operating Income from Rental		274		580
First Mortgage		(228)		(483)
Reserve (4)		(40)		(70)
Net Cash Flow		6		27
Sources of Financing				
Rental Properties:				
First Mortgage (5)		$24,000		38,000
Equity @ 20%		6,000		9,500
Total Financing (Rental)		30,000		47,500
Surplus (Gap)		0		0
For Sale Properties:				
Construction Financing		24,000		
Equity @20%		6,000		
Total Financing (For Sale)		30,000		
Proceeds from Sale		35,000		
Surplus (Gap)		5,000		

Notes:

1. Hard costs for rentals include an illustrative combination of new roof, systems, kitchen and baths, interior and exterior painting and landscaping, and conversion of two bedroom units to three bedrooms.

2. Soft costs include insurance, taxes, permits and fees utilities and security during construction, construction period interest, and closing costs.

3. Operating expenses include insurance, interior maintenance and landscaping.

4. Reserve fund covers short- and long-term maintenance

5. Cash low on the duplex property supports a larger first mortgage than is needed to cover total development costs. The mortgage on the duplex is calculated at total development costs, less equity of 20% which is supplied by the rehabber.

character and reputation. Generally, low entry barriers and the value-added are more important than interest rates for this market. At the same time, it is anticipated that lending will start fairly slowly: many deals that initially walk in will not work.

The lender will offer three products:

1. Permanent Mortgage Financing - to encourage new ownership by current renters and by those outside the neighborhood.

2. Title 1 Home Improvement Loans - to encourage residents to maintain and improve the quality of their housing; and

3. Acquisition/Rehabilitation Financing - to encourage entrepreneurs to purchase and rehabilitate housing for sale or for investment, renting the units.

This combination of products should be appropriate for several reasons. First, they are consistent with the neighborhood goals and strategies, supporting increased home ownership, home improvement and entrepreneurial activity. They also respond to varied present and anticipated market demand. Market demand is particularly difficult to measure here in part because so little financing has been available. Nevertheless, a large number of houses is present, with some sales and transfers occurring; and residents and real estate professionals expressed strong interest in interviews and focus groups.[10] Combined with the anticipated market "jump starting" effects of the other development and community strengthening activities of the project, these factors all strongly suggest that an initial market exists which can be grown. Finally, this combination of products is appropriate because they are financially feasible: housing acquisition prices are sufficiently low and the relationship between income, rents and housing affordability calculations shows that effective demand appears to exist.

1. <u>Permanent Mortgage Financing</u>

The lender will have to develop flexible mortgage products designed to meet individual customer needs and constraints. Particularly considering that down payment is often an obstacle, this is likely to include a 95% loan-to-value product (with PMI) and ultimately a 3% down payment product with separate financing for the 2% and closing costs. For present purposes, however, it is initially assumed that the basic mortgage product offered would be a 20 year[11] fixed rate loan at market, currently 8%. At an average 85% loan to value ratio, conservatively assuming average home values of approximately $30,000, average loan size would initially be $25,000. This is anticipated to grow, with values, after the first few years.

There are approximately 7,500 single family homes in the target area. Approximately 70% of the single family homes in the target area have been owned by the same owner at least five years, suggesting an annual turnover rate of roughly 5%. Of the 375 homes which changed hands last year on this assumption, only 38 were financed by mortgages from regulated institutions reporting Home Mortgage Disclosure Act data. The lender should be able to

[10] Also notable, Douglass Bank received very strong response to a Title 1 home improvement mailing in Santa Fe (a significantly better off, but nevertheless "core" neighborhood).
[11] This represents an average: individual mortgage terms would vary, including both 15 and 30 year mortgages.

capture a small but quickly increasing share of the remaining approximately 340 sales on contract. Table 9 below ("Deal Flow") assumes 7.5% in year one, growing to 14% by year three (and continuing to grow from there, particularly as the market grows). It is also assumed that a small portion of the 38 transactions which currently constitute the conventional mortgage market would be attracted to the lender.

As discussed in the target area analysis, a large number of attractive mortgage products are now available in Kansas City. The growth in use of these products in core neighborhoods, though still relatively small, provides strong indication of pent-up market demand, which can be expected to grow in the target area with the activities of the project. Through offering Title 1 home improvement loans in conjunction with mortgages and through its active and value-added presence in the target market, the lender may be attractive to many borrowers even if offering less attractive terms (particularly with respect to downpayment). Nevertheless, as noted, the lender will want to develop its own flexible mortgage products to meet the market as individual borrower constraints are presented.

These assumptions are in some ways aggressive, considering the current city-wide availability of attractive mortgage products. At the same time, they do not take into account: (1) the anticipated growth in the market as the project proceeds; (2) that the lender, as discussed below, is anticipated to do some lending outside the target area; and (3) that acquisition/rehab activity for rental (rather than sale) would be financed with these mortgages combined with Title I loans. Also, the city wide resources are not targeted to this area and, with respect to some programs, there are not adequate resources to meet current demand elsewhere in Kansas City.

2. <u>Title 1 Home Improvement Loans</u>

The Title 1 Home Improvement loan guarantee permits the lender to lend to homeowners who have not yet built significant equity in their homes and to borrowers of lesser means who wish to improve their homes. The product would be offered to current homeowners as well as in conjunction with mortgages to new homeowners and to rehabbers. Borrowers select their own contractors and negotiate the improvements to be financed. The lender monitors use of loan proceeds through review of contractor bids and property inspection. Loans on single family homes would be up to $15,000, though average size is assumed to be $7,500 (increasing in later years). Term will vary based on each circumstance, but an average 10 year term can be anticipated. These loans would be made at market, currently 9.5%.

The condition of housing in the target area indicates significant potential market demand for home improvement lending: significant numbers of owner occupied homes are in need of modest repair. Relatively little home improvement lending is currently happening presumably because borrowers do not want to encumber their homes with debt in a falling value environment. As developer and community strengtheing activities occur, and rehabber activities increase, homeowners are more likely to want to improve their properties, and to believe they can recover their investment. This product is not broadly available from other lenders in the area.

Table 9, below, reflects conservative assumptions that the market for these loans will be the owner occupied portion of the 70% of single family homes which have not changed ownership in more than five years (and whose homes thus more likely need improvement), and that only .5% of this market will initially get home improvement loans, increasing steadily thereafter. This assumption is also conservative because it does not include the Title I loans made to rehabbers acquiring for rental.

3. Acquisition/Rehabilitation Financing

This product is designed for the entrepreneurs acquiring, rehabbing and selling single family properties. Over time, it is anticipated that there will be some rehab/investors who rehab for rental income. (These deals can be financed with a combination of the mortgage product and the Title I product, and so are not included in the projections for the acquisition rehab product below.) Having local rehabbers meet the neighborhood market demand for rental housing would help avoid some of the problems associated with absentee landlords, as local investor owners will take better care of their property, supervise tenants more rigorously and be more stable. As rehabbers become more experienced and the market improves, it is also anticipated that the small multi-family properties in the area will be rehabbed with a variation of this product. This product is not otherwise available, and fills a significant market gap.

This product will be offered as a short term construction loan. While terms will vary with the deals, an average term of six months can be anticipated. Average loan size is assumed to be $24,000 (80% of average acquisition and rehab costs, approximately 70% loan to value on a $35,000 after rehab property).

Volume for this product is obviously very difficult to estimate: the constraint is not housing stock or potential market, but how fast a pool of entrepreneurs will emerge in response to the opportunities. Initially, a few rehabbers will do very few properties per year: this will be a side activity to generate modest additional income. As success builds, a few of these will join the few existing rehabbers who engage in this activity full time, and more part-time rehabbers should emerge. The volume assumptions below presume four rehabbers doing an average of 2.5 deals each in the first year, and then the number of rehabbers and of deals per person growing steadily.

Finally, though not included in the present projections, as rehabbers become more experienced and reach scale, the financing product for these entrepreneurs may change. As their volumes and turn-around become substantial and consistent, they may secure revolving lines of credit.

These three products work in combination with each other, and all will be offered and marketed at the same time. They help different types of residents and investors, and therefore can generate broad acceptance that will help get initial volumes up. Their lead times are likely to vary, particularly in this market, such that starting all at once will allow some quick lending activity to start right away, while longer gestation products develop.

Tables 9 and 10 on the following page provide summary descriptions of these products and the deal volume assumptions.

TABLE 9
Loan Product Descriptions

Product	Average Size	Terms	Notes
SF Mortgage Loan	$25,000 (Yrs. 1-3) $28,000 (Yrs. 4-5)	20 Year fixed rate @ 8%	
FHA Title I Home Improvement	$ 7,500 (Yrs. 1-3) $ 8,000 (Yrs. 4-5)	10 Year @ 9.5%	Used by both owner-occupant and by investors for rehab-for-sale units.
Rehab for Sale	$24,000 (Yrs 1-5)	Average of 6 months term @ 12%	Short-term construction loan for acquisition & rehab.

TABLE 10
Deal Flow Table

Loan Product	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
SF Mortgage Loan	31	44	58	89	102
Title I Home Improvement Loans	18	26	34	48	56
Rehab for Sale Loans	10	18	26	35	48
Total Loans	59	88	118	172	206

Finally, as noted above, the lender would aggressively market these products in conjunction with the community strengthener. Through attending block club meetings, direct mail and other activities, the lender will have an active presence in the neighborhood and will be strongly signaling commitment and willingness to invest.

IV. PROPOSED INSTITUTION

A. Design Challenges: Coordination and Management of the Activities

The Southeast Corridor presents some major advantages with respect to institution building: there are already extraordinarily capable CDCs and community organizations. At the same time, these advantages present a new challenge: how to achieve the necessary synergies, focus, flexibility (including lack of bureaucracy) and coordination of activities with multiple institutions.

For reasons discussed below, Douglass Bank, with Shorebank assistance, should serve as the lender. KCNA, partnering with local CDCs as available in certain parts of the target area, would serve as the developer. KCNA has also expanded its community strengthening capacity, and will continue to do so, working in conjunction with neighborhood organizations to fully deliver those products. Coordinating the information flow, decision making and activities of KCNA and Douglass Bank will thus be necessary.

Several mechanisms should be put in place to assure this coordination. First, a Coordinating Committee should be established for the project which includes representatives of KCNA, Douglass Bank, Shorebank, project sponsors and, at least over time, persons from target area CDCs and CBOs which are partnering in activities of the project. One of the first tasks in connection with establishing this coordinating committee will be to fill out the management and governance structure for the project. This committee will meet frequently and regularly, to report on respective activities and learnings, and to plan next steps. Detailed information about lending, development and organizing activities would be shared. At the outset of the project, a written agreement - an operating agreement or memorandum of understanding - would be entered into by KCNA, Douglass Bank and Shorebank, reciting their commitment to the project as detailed here and to engaging in the identified activities, and further specifying the operation of the Coordinating Committee and the details below.

At a more tangible level, various operating activities would connect the organizations. KCNA's community strengthening staff might periodically attend Douglass loan committee meetings, both to be aware of activity in the target area and to better understand the products. In addition, the Bank loan officers would routinely attend community meetings and engage in related activities with the organizer. The Coordinating Committee would also design and deliver various marketing products on behalf of the project, and generally handle public, community and political relations.

While structuring this essentially as a partnership, it should be recognized that Douglass Bank is a for-profit corporation with obligations to its shareholders, limited non-financial product capacity, and less ability to play an initiating role. Partly because day to day operation of most of the diffuse tasks and programs is less appropriate for a bank, and partly because the grant or subsidized funding necessary for many of these programs is less accessible to a bank, it is anticipated that KCNA will be the principal driver of the project. Douglass Bank will be an active, visible and critical participant, but should concentrate on playing the critical lender role, while coordinating with the other activities. To avoid diffusing Douglass' business image and focus as a lender, and because a bank fundamentally acts under more constraints, KCNA will often be in the lead.

B. Institutional Elements, Start-Up Assumptions and Budgets

1. Lender

a. Form and Structure

Although, from the outset, the project contemplated that the lender might be Douglass Bank, with Shorebank providing assistance, a number of other options for corporate parent and ownership structure of the Lender were examined, with conclusions as follows.

(1) Consortium of Kansas City Banks

A consortium of the major banks could be created, informally or formally and, if formally, as a non-profit or for-profit entity.[12] Use of this model presents the advantages of involving a large number of banks, with much larger resources, in the neighborhood. It presents, however, several major disadvantages. These institutions inherently cannot be as exclusively focused on and close to the limited target area. The problems of recruiting; getting agreement as to concept, goals, products and procedures; and managing the operation of a consortium are substantial, both with respect to start-up and on-going operations. Most importantly, the number of institutions, bringing different approaches, needs and capacities, and presenting varying control issues, makes it much more difficult for a consortium to be as flexible and innovative, or to operate simply and quickly.

A consortium can play a critical role in meeting demand as the market grows, particularly for more standardized products. Such a consortium or its members ultimately might also be interested in buying loans after origination and seasoning. But it does not appear to be the best suited structure for the outset of the project, where the qualities of a dedicated, on-site, development lender are most important.

(2) A Single Major Bank

Having a major conventional bank commit to serve the role of the lender would presumably bring more resources to the project, making start-up less expensive, and would not have the disadvantages stemming from the need to coordinate multiple banking institutions. Whether any such institutions would be interested is unknown. The disadvantages relating to the necessary lender characteristics - such as institutional targeting, development focus, commitment and culture - would still be present.

[12]Indeed, such a consortium, with broadly related goals, has recently been established. The Greater Kansas City Community Lenders Association just began operating, currently as a confederation of major banks. The members are not pooling funds, but have committed to $14.5 million a year, primarily to supply mortgages to low income persons under common, flexible underwriting guidelines. The Regional Loan Corporation acts as third party agent for consortium planning and preapplication procedures.

(3) Loan Production Office of the South Shore Bank of Chicago

Though not truly an option, the reasons why deserve explanation. The opening of a Loan Production Office of Shorebank's banking subsidiary, the South Shore Bank of Chicago, presents the advantage that South Shore Bank has significant experience with development lending to entrepreneurial rehabbers. It would, however, present some logistical challenges, and require in any event a strong local presence in order to be close to the market. Even if otherwise optimal, this option is not viable as a result of Shorebank's other commitments in Kansas City. The current commitment and resource focus of Shorebank is under its advisory contract with Douglass Bank. A distinct LPO would at best be perceived as distracting resources from that effort, and at worst be perceived as creating a conflict of interest.[13]

(4) A Newly Created Loan Fund

This institutional mechanism for the lender could be for-profit or not-for-profit, and would presumably be a subsidiary operated by KCNA. Advantages include that it could be a special purpose fund exclusively dedicated to the target area, would be easily coordinated with the other project activities since housed within the same organization, and could easily get the benefit of philanthropic support. The new entity might be best thought of as a captive locally oriented mortgage banker. Its loans might be sold to local banks.

This option presents three significant disadvantages. First, it is much more difficult for it to bring the scale, credibility, legitimacy, familiarity and trust associated with a fully regulated bank. The scale and nature of institutional commitment and resources being invested in the neighborhood likely would be less. Second, this alternative would be significantly more expensive: a freestanding loan fund delivering products only to the target area would require much greater, and continuing, subsidy. It also would not leverage its capital through deposits. Finally, it would require KCNA to develop a whole new set of skills and engage in a whole new line of activities, which may not be the best use of its resources considering the other options available.

(5) Proposal: A Douglass Bank LPO, with Shorebank Assistance

Several of the above institutional structures present options which could be made viable. Nevertheless, the option of a Douglass Bank LPO, operated with Shorebank assistance, seems to be capable of being structured to present the best alternative. Douglass, particularly as it grows and succeeds, has the advantages of being a bank (but a single bank), of name recognition, of local market knowledge and of goodwill as

[13]These relationships and commitments were of course discussed with all parties at the outset of the project, and were reflected in the project proposal. Accordingly, SAS, Shorebank's consulting subsidiary, was subcontracted with only for consulting services. And Douglass Bank was an active participant in the project, and conceived of as the potential lender, from the outset. Though KCNA and SAS believe that it has not affected the recommendations, SAS' relationship with Shorebank and Douglass Bank should nevertheless be considered when reviewing the analysis presented here.

an African-American owned institution. It also is focused on development markets and products like this one. In short, the choice of a Douglass LPO makes sense because a local bank, particularly Douglass Bank, sends the right message and image; starting new entities presents additional challenges (and particularly doesn't make sense where an existing one is committed to this activity already); and working with multiple groups of banks is more complex.

Douglass' deficiencies are its more limited resources and that its capacity to expand and undertake this kind of lending is newly emerging. With respect to its resources, Douglass cannot currently engage in activities whose risk cannot be prudently managed, and cannot afford to carry significant losses, particularly those associated with start-up. These issues can hopefully be addressed through the careful coordination of the lender activities in the project, the financial support of the project's sponsors, and the role of Shorebank. With respect to capacity, it is not clear that any of the other options present greater capacity to deliver these products in this target area, and presumably having Shorebank heavily involved in the LPO would bring the necessary expertise and capacity building.

The structure of the proposed relationship between Douglass and Shorebank in operating this LPO is still tentative, subject to further discussions among Douglass, Shorebank, KCNA and the project sponsors. The current working proposal stems in part from a particularly fortuitous circumstance: Douglass Bank recently hired a new President, and Doug Dillon, a South Shore Bank Vice President in commercial lending who has been on-site at Douglass for the past year, would normally now return to Chicago, but is available to remain in Kansas City. As previously emphasized, perhaps the single most important factor in the project's success is getting the right lender. Finding interested, qualified minority lenders in Kansas City is very difficult. The availability and interest of Dillon could allow the project to start more quickly - eliminating search time and substantially reducing training time - while also providing much greater assurances of success.

b. Start-Up Assumptions and Budget

Table 11 on the following page presents five year financial projections for a Douglass Bank loan production office ("LPO"). The projections attempt to attribute costs for a stand alone office, operated largely with Shorebank assistance. The expense line item for "Douglass Home Office Costs" attributes Douglass overhead associated with starting and running the LPO and with the loans made in connection with the project. Costs associated with other loan production which may occur from the LPO (such as real estate loans outside the target area or non-real estate loans) are not included in the projections. The estimate of Shorebank management fees attempts to attribute only that time and expense associated with the LPO, which would not otherwise occur in connection with the Advisory Contract between Shorebank and Douglass Bank. It accordingly increases significantly in year 3, when the Advisory Contract will terminate.

TABLE 11

KCNA/Douglass LPO

	Pre-opening	Last Day Year 1	Last Day Year 2	Last Day Year 3	Last Day Year 4	Last Day Year 5
SF Mortgage Loans		775,000	1,875,000	3,325,000	5,817,000	8,673,000
FHA Title I Home Imprvmnt Lns		135,000	330,000	585,000	953,000	1,385,000
Rehab for Sale Loans		120,000	216,000	312,000	420,000	576,000
Total Loans		910,000	2,205,000	3,910,000	6,770,000	10,058,000
Leasehold Improvements		24,000	18,000	12,000	6,000	0
Furniture & Equipment		12,000	9,000	6,000	6,000	2,000
TOTAL ASSETS		946,000	2,232,000	3,928,000	6,782,000	10,060,000
Income						
SF Mortgage Loans		31,000	137,000	283,000	498,680	812,280
FHA Title I Home Imprvmnt Lns		6,413	28,500	59,138	100,843	156,323
Rehab for Sale Loans		14,400	25,920	37,440	50,400	69,120
Points		7,750	11,000	14,500	24,920	28,560
Processing & Appraisal Fees		13,950	19,800	26,100	42,275	48,450
Late Charges		388	2,650	6,500	11,428	18,113
Total Loan Income		73,900	224,870	426,678	728,545	1,132,845
Loan Loss Provision		17,500	35,010	54,700	80,300	117,860
Douglass Bank Salaries		20,000	20,800	21,632	52,497	54,597
Douglass Bk Employee Benefits		5,000	5,200	5,408	13,124	13,649
Search Fees		0	0	0	7,500	0
Rent		12,000	12,480	12,979	13,498	14,038
Utilities		6,000	6,180	6,365	6,556	6,753
Maintenance		3,000	3,090	3,183	3,278	3,377
Security System		3,600	3,708	3,819	3,934	4,052
Telephone		4,800	4,944	5,092	5,245	5,402
Stationery & Supplies		1,200	1,236	1,273	1,311	1,351
Legal Fees		6,000	9,000	12,000	12,000	12,000
Postage & Messenger		3,000	3,090	3,183	3,278	3,377
Appraisal Fees		5,250	7,875	10,500	12,000	12,000
Marketing		12,000	9,000	6,000	6,000	6,000
Douglass Home Office Costs	15,375	35,000	30,000	32,250	45,000	50,000
Shorebank Management Fees:						
Training Fees		0	0	0	10,000	0
Lender's Salary & Benefits	31,250	65,625	68,750	71,875	75,000	78,125
Management & Supervision	27,500	28,875	30,250	52,361	54,600	55,975
Other Expenses	15,375	5,000	4,500	3,500	3,000	3,000
Leasehold Amortization		6,000	6,000	6,000	6,000	6,000
Depreciation		3,000	3,000	3,000	4,000	4,000
Total Operating Expense	89,500	225,350	229,103	260,421	337,823	333,696
Income (Loss) b4 cost of funds	(89,500)	(168,950)	(39,243)	111,557	310,422	681,289
Cost of Funds Used @4.5%		(27,695)	(90,348)	(179,313)	(310,243)	(494,543)
NET INCOME	(89,500)	(196,645)	(129,591)	(67,757)	180	186,746
Cumulative		(196,645)	(326,236)	(393,993)	(393,813)	(207,067)

It is assumed that the LPO would not open for six months, during which time Dillon would return to Shorebank for real estate lending training. Also during this time period, as discussed below, other activities necessary to open the office and implement the project would occur. Estimated pre-opening costs associated with the training and with opening the LPO are $89,500. The LPO would then open staffed by Dillon and an Administrative Assistant. An additional lender would be added in year four, who would in turn be trained by Dillon.

The loan amounts are based on the products and deal volume assumptions shown in Tables 9 and 10. This budget does not build in run-off on the mortgages, because the amount of principle reductions in the first five years will be nominal. Two loans in each of years four and five were taken out to approximate run-off in the Title I portfolio.

These projections assume no loans are sold to the secondary market. It currently appears that the number and size of loans are not large enough in this period for the risk limitation, liquidity benefits and service fees to outweigh costs of the lost interest income, particularly in the context of the total circumstances of Douglass Bank. However, this conclusion requires further analysis. In any event, it is anticipated that secondary market participation may occur as loan volume increases.

One other notable feature of these projections is that the loan loss provision is relatively high. The rehab for sale loans, made against after-improved value, present substantial collateral risk. If the rehabber defaults at the point after acquisition and the very beginning of rehab, the property is effectively worth less than its carrying and unloading costs to the bank. A loss provision of 5% for these loans was accordingly provided.

Finally, it should be noted that Douglass Bank will have to expand its capital and deposit base in order to be able to fund the loans projected in the later years. Plans to do so are currently being explored.

These projections show Douglass with cumulative losses of $398,993 (in addition to the pre-opening costs of $89,500) before reaching break even in year four. A critical issue for the project to proceed is provision of this financing: Douglass cannot afford the losses (which are attributable solely to the LPO activities associated with this project). Various funding alternatives have been explored. The best alternative appears to be for KCNA to raise all necessary funds as grants, then contract with Douglass to cover initial operating losses of the LPO.

Essentially, there is a substantial coincidence between Douglass Bank interests (in expanding its neighborhood housing lending, particularly in Missouri), Shorebank interests (in assisting Douglass), and project interests (in having a dedicated LPO with development lending expertise). The coincidence, however, is not perfect: the project is more aggressive, with greater start up costs, than Douglass can afford without substantial subsidy, and it requires Shorebank involvement well beyond that currently contemplated under its Advisory Agreement with Douglass. This institutional and funding arrangement is proposed as an equitable way of maximizing the coinciding interests to create a very exciting partnership and project .

2. Developer

As an experienced developer already active in the target area, KCNA presents few start up issues and costs. The illustrative pro forma presented in Table 6 shows its costs per block face, revealing a gap of $51,739, plus equity needs of $64,652. If undertaking two blocks per year, this translates to an annual total gap of approximately $230,000. An additional $53,000 is necessary for acquisition and landscaping of vacant lots. Finally, costs for developer staff and overhead attributable to project activities are included in the "community strengthener" budget below.

3. Community Strengthener

KCNA is already undertaking many of the community strengthener activities. A summary annual budget for existing and new activities attributable to this project is presented in Table 12.

TABLE 12

KCNA: Rebuilding Community
Summary Project Budget

Personnel		
Salaries (Community Organizer, 1/3 time of Developer, 1/3 HomeWorks Director and Administrator, 1/3 Leadership Trainer)	$ 90,533	
Benefits	20,823	
Total		$ 111,356
Space		
Rent, Utilities, etc.		$ 9,858
Equipment		
Furnishings, leased copier, phones, fax, etc.		7,536
Office Expenses		
Postage, phone, fax, printing, supplies, food, travel		8,708
Contractual Services		
Legal, audit, program sub-contractors, equipment maintenance		5,500
Program Expenses		
Marketing, neighborhood events, misc.		8,500
KCNA Overhead Attribution		
Management, supervision and administrative support		28,536
Total		$ 179,994

4. Total Project Costs

Total project costs over five years can be roughly estimated as follows:

Development Activities-	
Vacant Lot Acquisition	$50,000
Lot Landscaping and Maintenance ($3,000/yr x 5 yrs)	$15,000
Development Gap (equity and subsidies, 5 years)	$1,150,000
Community Strengthening Activities (including developer staff costs) - $180,000/yr x 5 years	$900,000
LPO	
Pre-opening	$89,500
Start-up to Break Even	$398,993
Contingency, pre-operational and consulting costs	50,000
Total:	$2,653,493[14]

[14]Of this total, approximately $650,000 represents equity in KCNA developments.

V. IMPLEMENTATION

The critical path for implementing the project includes the following steps:

(1) Review of this Report by project sponsors, Douglass Bank, Shorebank and KCNA, leading to refinement of the plans as appropriate, and decisions whether to proceed.

(2) Establish the Coordinating Committee, including operating agreements and protocols.

(3) Finalize project funding needs and structure, and secure project funding.

(4) Identify particular blocks on which to begin anchor projects, and begin pre-development activities.

(5) Secure and furnish appropriate space (and systems) for the LPO.

(6) Train the lender.

(7) Prepare project and product opening announcements and marketing activities.

It is hoped that steps one through three can be completed in the first quarter of 1994. Steps four, five and seven could then occur in the second quarter. Step six would begin immediately and be completed by the end of the second quarter. As a result, formal announcement of the project could occur - in conjunction with anchor projects beginning and the LPO opening - in six months.

CONCLUSION

It is difficult to measure the social and individual development, and wealth creation, impacts of the multi-faceted activities contemplated by this project. With respect to housing, the project very conservatively anticipates that the community strengthening activities, combined with the 20 subsidized rehabs per year and the activities of other developers, will leverage lender financing for entrepreneurial rehab of 137 units and home improvement of 182 units over the first five years. In reality, as the market improves, this activity can be expected to grow more rapidly (often financed by other lenders). More importantly, the largest impacts occur after the initial project period, as the balance of activities shifts dramatically. Subsidized development is less and less needed as the private market takes over in the form of more and more rehabbers and homeowners investing. An industry of local rehabbers emerges along with a solid resident base committed to their community. This, in turn, is accompanied by broader community revitalization, including human and business development, as healthy market and community dynamics are restored. While this process of revitalization is intensive and prolonged, it fundamentally and permanently reverses the spiral of deterioration into one of renewal for people and communities. The urban core in Kansas City deserves no less.

APPENDIX A

SUPPORTING HOUSING ENTREPRENEURS TO RENEW COMMUNITY ECONOMIES

Intact communities have a healthy local economy tied to a stable resident base with a financial and personal stake in their neighborhood. Neighbors know and care for one another. They support and participate in local institutions - not only businesses, but family, schools, religious organizations, volunteer groups and other "mediating institutions" - which transmit values, provide models, connect people to jobs and education, and create opportunity for recognition and reward. A dynamic of personal responsibility, respect and support prevails. Sustained economic development occurs as local residents invest their savings and talent, and connect to and attract external resources.

One of the principal characteristics of such healthy communities is a core of "owner-present" housing - whether owner occupants or local investor-owners of rental units. Residents and residential real estate are cornerstones of neighborhood stability. Resident owners develop an emotional stake in their communities and have a financial incentive to protect their housing investments. In a healthy housing market, people maintain and invest in their housing because they can realize the value of their investment. They are similarly careful to rent to responsible tenants. They are quicker to help where possible, and in any event not to tolerate, those engaged in behavior destructive to the community. In short, they constitute the stable resident base - creating community ties, establishing buying power and a tax base, encouraging capital and investment activities - which defines healthy communities.

Building healthy communities - particularly local housing markets - requires viewing communities in part through an economic lens. The failure of the local economy - of its markets and market driven investment - ranks high among the many causes of decline in urban communities. In deteriorating communities, capital flows out of the area; people cease upgrading their homes and landlords fail to maintain their buildings; property values fall; store owners quit investing in their businesses and close or move; community residents lose hope, stop investing effort in education and work skills, and fall into unemployment. Revitalizing such communities requires recognition that disinvestment is itself a market phenomenon and, consequently, will only be reversed by fundamentally reinvigorating local markets. As a result of its core relationship to other community markets and dynamics, housing markets are a potent place to focus and lead this revitalization effort.

Shorebank's experience over the last twenty years in a minority community which had become disinvested suggests several observations about the process of community economic revitalization.

1. Many persons in economically distressed communities desire to improve their own life conditions and, although they may lack conventional credit histories, many ordinary residents are fundamentally credit-worthy. Local residents will invest time and money to improve their community when they are confident in its future. Releasing such latent entrepreneurial energy is the critical component of reversing the spiral of decline.

In Shorebank's case, a small core of community based housing development entrepreneurs - "ma and pa rehabbers" - emerged. These tended to be middle aged, mature working class people. Their kids were grown and they owned their homes free and clear, had reasonable credit histories and the quality of being handy and hard working. They were eager to fix up and run small buildings (often six flats in which they lived in one unit) as a source of supplementary income. Over time, with successes, the original core moved on to larger projects, many ultimately leaving their jobs to become full time housing developers, and many more came forward. A virtual industry has evolved, with scores of local entrepreneurs engaged in the business full time. As with many new enterprises, it was critical to start slowly, and build successes which generate further activity.

2. Local development capacity needs to be supported in a disciplined, business-like fashion. Positive community economic development is a long term partnership between residents who care about their communities and local financial institutions with similar motivations.

   Small entrepreneurial rehabbers, often pursuing property rehab as a second source of income, need to be persuaded to risk their personal savings and energy in housing development. Conventional financing alternatives are often prohibitively expensive, have repayment terms which are too short (for acquisition/rental) or, most importantly, are not tailored to their business. Shorebank's experience was that, as it developed specialized expertise in this market, it was capable of delivering products, relating and otherwise adding value to these entrepreneurs in a business like manner that encouraged them to proceed with us as their partner. Understanding and being committed to the success of their business - which was critical to the success of our business (both to development outputs and to profitability) - defined different relationships.

   This "value-added" goes beyond more tailored credit products and more informed underwriting standards. Local geographic focus, creating more market expertise and penetration, allows a development lender to share market information with borrowers and appraisers, and to provide information on problems ranging from tenant screening to finding good subcontractors. Entrepreneurs in South Shore began to informally come together through the Bank to themselves exchange information, connect beginners with experienced rehabbers, and more generally provide peer support. One of the most valuable services - for the rehabbers and the Bank - which the Bank provides is matching entrepreneurs with appropriate projects. (A painful lesson was that many less experienced, mature entrepreneurs often think they can do more, faster, than is possible.)

   Approaching these as business relationships has been remarkably successful for both the rehabbers and the Bank. It has turned out to be a business and wealth creation strategy as well: many of these borrowers are now very wealthy. At the same time, this part of the Bank's loan portfolio has consistently been profitable, with lower loss rates than our peer group banks.

3. To restore market forces in disinvested communities -to attract and partner with rehabbers - requires specialized institutional characteristics and capability, including substantial scale of activity, ability to initiate activity, credibility, depth of market expertise and unusual flexibility and willingness to innovate.

   In addition to the bank subsidiary, Shorebank has several other subsidiary or affiliated companies exclusively dedicated to its targeted activities. City Lands Corporation, its for-profit housing development subsidiary, undertakes development of the neighborhood's worst, strategically located properties (often boarded up, large multifamily buildings in visible locations), requiring more complex development and subsidized financing. These "anchor projects" improve the market for the rehabbers to do the smaller, less deteriorated properties nearby. Similarly, The Neighborhood Institute, a nonprofit affiliate, engages in a broad array of community strengthening programs (as well as having its own housing development subsidiary). This ability to initiate large scale projects, combined with the visible, long term commitment of a bank (which inherently brings credibility, scale and unusual capacity to be knowledgeable about the neighborhood economy), allows creating a critical mass of activity to change perceptions of the neighborhood and thereby expand the housing market.

   This combination of a developer and a bank supporting entrepreneurs has been very powerful. In South Shore, the subsidized activity has been leveraged through bank financed entrepreneurial activity approximately four and a half to one. And the leverage ratio of course keeps increasing. It appears that after approximately 20-30% of the units in the neighborhood had been done, the private market was fully functional - anchor projects were no longer necessary. As of year end 1993 nearly 8,000 units, over one third of the housing in the neighborhood, has been rehabilitated.

4. Finally, targeting is critical to achieving the necessary institutional characteristics and impact. Targeting a particular neighborhood allows the institution to develop specialized market expertise. Specialized expertise allows controlling risk and transaction costs which would otherwise make development lending "unbankable": this is a "niche" business. Targeting also assures that investment will be concentrated in order to create the critical mass of activity which shifts resident and investor perceptions. The multi-faceted activities of a developer, community strengthener and lender are mutually reinforcing, making each less risky, and providing a "spread effect" facilitating further market activity.

   Targeting also facilitates another critical institutional objective: capturing sufficient market share. The depth of local knowledge and accompanying "value added", combined with the fact that the institution is expanding - indeed, in part creating - the market (while simultaneously supporting growth of entrepreneurial expertise), allows the institution to much more positively affect the market. By highly penetrating and "commanding" the market, Shorebank is not only able to reduce the amount of bad underwriting (such as inappropriate use of FHA/VA financing in ways which cause high turnover of residents, poor maintenance and abandonment), but can also encourage quality control.

> *The Bank only finances deals which it thinks will permanently improve the housing stock in the neighborhood. Thus, for example, nearly all of the Bank's mortgage loans are accompanied by Title I home improvement loans. This level of market penetration also allows influencing price speculation, to bring stability to the market .*

Applying this approach, an institution combining (1) the capacity to initiate projects to begin the process of changing neighborhood perceptions, with (2) business-like development lending expertise, can attract and support local entrepreneurial activity to restore healthy housing markets in a targeted neighborhood which offers the appropriate housing and population base.

APPENDIX B

Project Team

Kansas City Neighborhood Alliance

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Executive Director

Jim Bridgeford
Program Director of Community Building Initiative

Shorebank Advisory Services

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Managing Director

Kirk Harris
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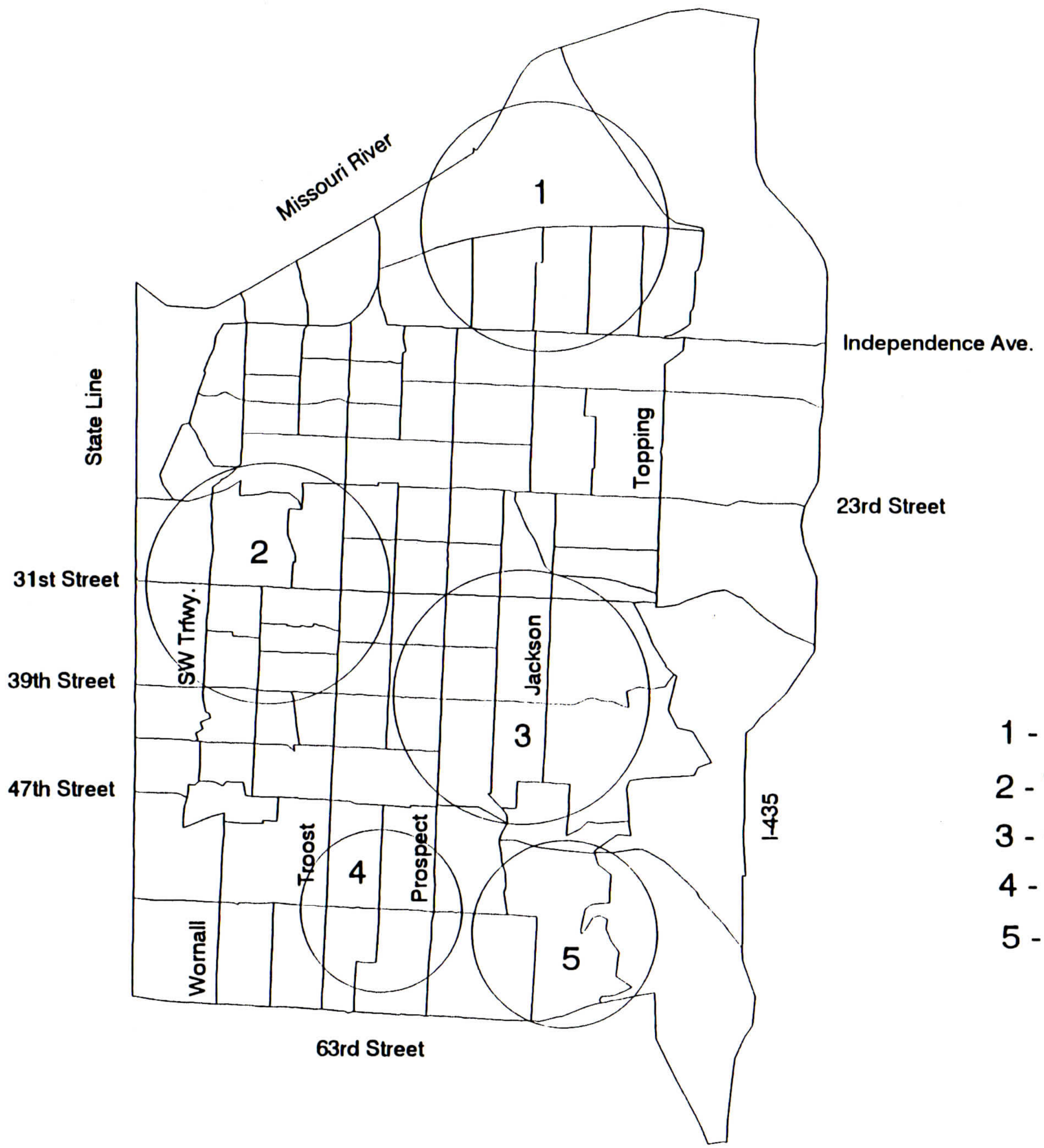
KCNA Target Area



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2 - Westport/Longfellow

3 - Oak Park/Vineyard

4 - Blue Hills

5 - Mt. Cleveland & Swope Parkway/Elmwood

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APPENDIX D

Demographic Charts

1. Age Distribution, 1990
2. Household Composition Distribution, 1990
3. Poverty Rate for Families: 1970, 1980, 1990
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APPENDIX D.1
Age Distribution, 1990

Region	Total Population 1990	Under 15		Ages 15-25		Ages 25-45		Ages 45-65		Ages 65 and over	
		(#)	(%)	(#)	(%)	(#)	(%)	(#)	(%)	(#)	(%)
Blue Hills	14,154	3,590	25.4	2,781	19.6	4,162	29.4	2,590	18.3	1,031	7.3
Town Fork Creek	7,147	1,780	24.9	1,007	14.1	1,971	27.6	1,388	19.4	1,001	14.0
Mt. Cleveland, Swope Parkway, and Elmwood	2,715	603	22.2	415	15.3	802	29.5	488	18.0	407	15.0
Target Area	24,016	5,973	24.9	4,203	17.5	6,935	28.9	4,466	18.6	2,439	10.2
Kansas City	435,141	91,913	21.1	58,257	13.4	148,667	34.2	79,999	18.4	56,305	12.9

Source: U.S. Census Bureau, 1990.

APPENDIX D.2
Household Composition Distribution, 1990

Region	Total Households 1990	Married Couple Headed		Single Parent Headed		Female Headed		Nonfamily	
	(#)	(#)	(%)	(#)	(%)	(#)	(%)	(#)	(%)
Blue Hills	4,598	1,597	34.7	1,683	36.6	1,460	31.8	1,318	28.7
Town Fork Creek	2,499	855	34.2	841	33.7	693	27.7	803	32.1
Mt. Cleveland, Swope Parkway, and Elmwood	947	376	39.7	289	30.5	26.9	282	29.8	
Target Area	8,044	2,828	35.2	2,813	35.0	2,408	29.9	2,403	29.9
Kansas City	177,157	77,942	44.0	32,264	18.2	26,668	15.1	66,951	37.8

Source: U.S. Cenus Bureau, 1990.

APPENDIX D.3
Poverty Rate for Families: 1970, 1980, 1990

Region	Total Families			Total Families in Poverty					
	1990	1980	1970	1990		1980		1970	
	(#)	(#)	(%)	(#)	(%)	(#)	(%)	(#)	(%)
Blue Hills	3,280	3,559	3,922	650	19.8	488	13.7	280	7.1
Town Fork Creek	1,696	2,116	2,392	511	30.1	437	20.7	292	12.2
Mt. Cleveland, Swope Parkway, and Elmwood	665	839	850	76	11.4	111	13.2	81	9.5
Target Area	5,641	6,514	7,164	1,237	21.9	925	14.2	653	9.1
Kansas City	110,206	113,081	126,117	12,899	11.7	16,510	14.6	11,193	8.9

Source: U.S. Census Bureau, 1990.

APPENDIX D.4
Household Income Distribution, 1990

Region	Household Income by Range, 1990											
	Less than $15,000		$15,000 - 20,000		$20,000 - 25,000		$25,000 - 35,000		$35,000 - 50,000		Greater than $50,000	
	(#)	(%)	(#)	(%)	(#)	(%)	(#)	(%)	(#)	(%)	(#)	(%)
Blue Hills	1,638	35.6	590	12.8	378	8.2	809	17.6	643	14.0	540	11.7
Town Fork Creek	1,177	47.1	248	9.9	159	6.4	472	18.9	267	10.7	176	7.0
Mt. Cleveland, Swope Parkway, and Elmwood	313	33.1	84	8.9	77	8.1	173	18.3	168	17.7	132	13.9
Target Area	3,128	38.9	922	11.5	614	7.6	1,454	18.1	1,078	13.4	848	10.5
Kansas City	48,584	27.4	17,691	10.0	16,297	9.2	29,828	16.8	30,575	17.3	34,182	19.3

Source: U.S. Census Bureau, 1990.

APPENDIX D.5
Occupation Distribution, 1990

Region	Total Population 16+	Manager / Profesional		Technical/ Sales / Administrative		Service		Farm / Forestry / Fishing		Precision Production / Craft / Repair		Operators / Fabricators / Laborers	
	(#)	(#)	(%)	(#)	(%)	(#)	(%)	(#)	(%)	(#)	(%)	(#)	(%)
Blue Hills	6,090	998.0	16.4	1,939	31.8	1,514	24.9	62	1.0	486	8.0	1,082	17.8
Town Fork Creek	2,685	442	16.5	825	30.7	713	26.6	34	1.3	165	6.1	506	18.8
Mt. Cleveland, Swope Parkway, and Elmwood	1,230	208	16.9	385	31.3	227	18.5	8	0.7	109	8.9	293	23.8
Target Area	10,005	1,648	16.5	3,149	31.5	2,454	24.5	104	1.0	760	7.6	1,881	18.8
Kansas City	211,817	56,218	26.5	75,139	35.5	32,018	15.1	1,574	0.7	17,981	8.5	28,887	13.6

Source: U.S. Census Bureau, 1990.

APPENDIX D.6
Housing Unit Distribution, 1990

Region	Total 1990	1 Unit		2-4 Units		5-50 Units		Over 50 Units		Other	
	(#)	(#)	(%)	(#)	(%)	(#)	(%)	(#)	(%)	(#)	(%)
Blue Hills	5,233	4,297	82.1	596	11.4	305	5.8	0	0.0	35	0.7
Town Fork Creek	2,833	2,243	79.2	127	4.5	188	6.6	165	5.8	110	3.9
Mt. Cleveland, Swope Parkway, and Elmwood	1,140	978	85.8	25	2.2	15	1.3	112	9.8	10	0.9
Target Area	9,206	7,518	81.7	748	8.1	508	5.5	277	3.0	155	1.7
Kansas City	201,773	127,753	63.3	17,144	8.5	40,939	20.3	11,888	5.9	4,128	2.0

Source: U.S. Census Bureau, 1990.

APPENDIX D.7
Housing Unit Distribution, 1980

Region	Total 1980	1 Unit		2-4 Units		5-50 Units		Over 50 Units		Other	
	(#)	(#)	(%)	(#)	(%)	(#)	(%)	(#)	(%)	(#)	(%)
Blue Hills	5,365	4,088	76.2	753	14.0	519	9.7	6	0.1	0	0.0
Town Fork Creek	2,902	2,404	82.8	179	6.2	193	6.7	126	4.3	0	0.0
Mt. Cleveland, Swope Parkway, and Elmwood	1,006	934	92.8	29	2.9	36	3.6	5	0.5	2	0.2
Target Area	9,273	7,426	80.1	961	10.4	748	8.1	137	1.5	2	0.0
Kansas City	439,113	331,130	75.4	34,447	7.8	70,109	16.0	0	0.0	3,427	0.8

Source: U.S. Census Bureau, 1980.

APPENDIX E

Memorandum of Understanding Between Community Builders and the Kansas City Neighborhood Alliance

November 15, 1993

In a partnership effort with residents and leaders of the community focused on rebuilding the near southeast corridor of Kansas City, Missouri from 47th street to 63rd street, from Paseo to the Blue River, Community Builders and the Kansas City Neighborhood Alliance offer the following memorandum to give direction and clarity to the redevelopment process.

Values

The following values and philosophy guide this effort:

•that residents and indigenous leaders of a community hold the power to guide its development and redevelopment;

•that other partners engaged in the community rebuilding process work at the invitation of and direction of community residents and leaders;

•that efforts to rebuild the community need to have a dual focus on improving the quality of life for the people who live there and improving the physical built environment, the housing, the infrastructure, the businesses and institutions;

•that the ultimate goal of community building is to create a drug-free, crime free neighborhood, to provide all residents who need or want to work with a job with a future, to support families in living productive, healthy lives.

Roles and Responbilities

Community Builders will take the primary responsibility for providing assistance to the community in the following areas:

1. Comprehensive land use planning, defined by input and direction from the community and culminating in the creation of a master plan to guide physical development and redevelopment.

2. Major redevelopment of vacant land.

3. Lead planner and negotiator for the 53rd and Woodland abandoned real estate.

The Kansas City Neighborhood Alliance will take the lead in providing assistance to the community in the following areas:

1. Working with neighborhood leaders to strengthen their groups and their own skills, to build their capacity to bring resources to their areas and solve problems confronting their communities.

2. Identifying new programs and resources, particularly social programs serving youth, families, substance abusers, unemployed and underemployed; focusing these programs within the development corridor.

3. Developing on a small scale, i.e., scattered site single family construction and/or rehab, small multi-family construction and/or rehab.

4. Attracting bank investment, working with small contractors to purchase, rehabilitate and re-sell homes and working with the neighborhoods to sell the rehabilitated homes.

Joint Efforts

Working together CB and KCNA will work with the neighborhoods to:

1. Improve the image of living in southeast.

2. Focus the efforts of the police department and the prosecutors office on cleaning up crime in southeast.

3. Turn the Little Sisters of the Poor site into a productive use.

Neighborhood Groups

There are five neighborhood groups in the development corridor, Sherator Estates, Mount Cleveland, Swope Parkway/Elmwood, Town Fork Creek and Blue Hills. Both Community Builders and the Kansas City Neighborhood Alliance hope for a standard of true participation and partnership from each of the neighborhood groups. That true participation will hopefully manifest itself in strong, clear direction for the planning and redevelopment efforts, in full attendance at meetings, in working committees that assist with planning and development tasks, in marketing the new housing, in identifying problems and resources, in being goodwill ambassadors for the overall effort, in supporting the projects in the necessary public arenas.

R. Charles Gatson
Community Builders of Kansas City

Colleen D. Hernandez
Kansas City Neighborhood Alliance

Turner Davis
Blue Hills Community Association

Patricia Golden
Town Fork Creek

Vera Baker
Mount Cleveland

APPENDIX F
Kansas City Special Affordable Housing Loan Products

Bank	Downpayment Terms	Other Special Terms	Comments
Bank IV	5%: at least 3% from buyer (2% can be gift)	Income limits: Below 80% of area median	Geography: No Target Area
Boatman's Target Program	5%: at least 3% from buyer (2% can be gift)	Income limits: Below 80% of area median	Geography: Must buy in Target Area
Commerce Mortgage Target Program -- CHPP	5% with 3/2 option Sliding scale • 2% down .50% discounted for 60% or below • 3% down .25% discounted for 80% or below • 5% down, no discount for 115% or below	No PMI House inspection: Paid by bank Application fee: refunded at closing	Purchase rehab available under programs also; must be 30% or below purchase price
Rehab Loan 70/30 Program	$1,000	Income limits: Below 80% of area median Other: 30% of purchase price to bank as declining mortgage converting to grant	Geography: Metro KCMO
Farm and Home Bank; Welcome Home Program	Sliding scale	PMI required above 80% Income limits: Up to 115% of area median	Geography: No Target Area
First Federal Savings	Fannie Mae 5% or 3/2 option		Geography: No Target Area
MHDC	Greater of $500 or 2% of purchase price	Sliding scale subsidy: 65.01% - 75% = 10% of purchase price 55.01% - 65% = 15% of purchase price 55% or less = 20% of purchase price	Subsidy is 4% loan for first 10 years and must be paid after the first mortgage is paid off or the house is sold
United Missouri Mortgage; Community Pride Program	Downpayment: None		Also Fannie Mae 3/2 program, and participate with all other local programs