

Housing Market Evaluation and Recommendations for Strategic Interventions
Submitted by czb to the City of Danville, VA
Final - November 2014

Wake Up Call

Great progress has been made since the bottom began falling out of the Danville economy in the mid 1990s. Downtown today is polished, bright, and with additional changes, quite well positioned to meet some of the demands of its current and next generation of renters and home buyers. There are housing customers who, once living downtown in greater numbers, will be able to anchor an increasingly competitive Danville as a vibrant city on the move. The River District's strengths - historic warehouses, an attractive river walk, a state-of-the-art Y, downtown architecture, and an adjacent historic district, are all evidence of thoughtful economic development planning and execution. For this, Danville has much to be proud.

But these gains - significant as they are - are at serious risk of plateauing. The residential blocks between Averett and the Medical Center, between the Medical Center and the River District, and between Averett and the Community College, lack a critical mass of success. Additional housing supply in these areas - especially between DRMC and the River District - is essential to capturing the housing aspirations of hospital, downtown business, River District business, and other employees who want a rich, urban, living experience. And if housing is not soon complemented with a richly textured package of retail amenities, bike lanes, and other upgrades, the upwardly mobile employees that Danville needs will be that much harder to retain, never mind attract. More even than infilling around the River District with exciting new supply and retail amenities, the glut of thousands of unimproved brick ranch-style homes throughout the city is so pervasive that when the time comes for young professionals who are pivotal to the city's success to have families, they will show decreasing interest in staying in Danville unless their move up options improve. These and a surfeit of pre 1930s wood residences without any but imputed value to existing residents require attention. **In short, the data is clear: additional economic gains for Danville will not happen if serious attention isn't given to the matter of Danville's weak housing market.**

- More high quality River District warehouse lofts and related housing products have to be built. The market will not do this by itself at the pace the city needs to have occur, given legitimate concerns about demand. Spending in the form of incentives to encourage new infill and additional rehabilitation in the District will have to be committed by the public and philanthropic sectors.
- Demolition of thousands of dilapidated structures will have to occur, and the limited public resources available for this won't be enough. So just as partners will be needed to seed on-going redevelopment of the downtown and River District and adjoining areas as the future vibrant center of Danville, partners will be needed to spread the expense of acquisition and demolition of blighted properties in far greater numbers than the city has done so far, or can do alone.
- Over the next ten years, thousands of unimproved ranch style homes need attention in the form up upgrades. New roofs, second baths, upgraded kitchens, exterior treatments, and landscaping are needed, and the private market will not tend to this without significant encouragements from the public and philanthropic sectors.

Economic development sometimes is and sometimes is not explicitly a set of housing tasks. The conventional - and appropriate - way to think about economic development is part business development, part labor force development, and part commercial and industrial real estate development. But in the case of Danville, severe oversupply coupled with the fierce nature of competition for knowledge workers means that Danville's continued recovery will hit significant walls if these and related housing issues are not addressed. And addressed now.

Executive Summary

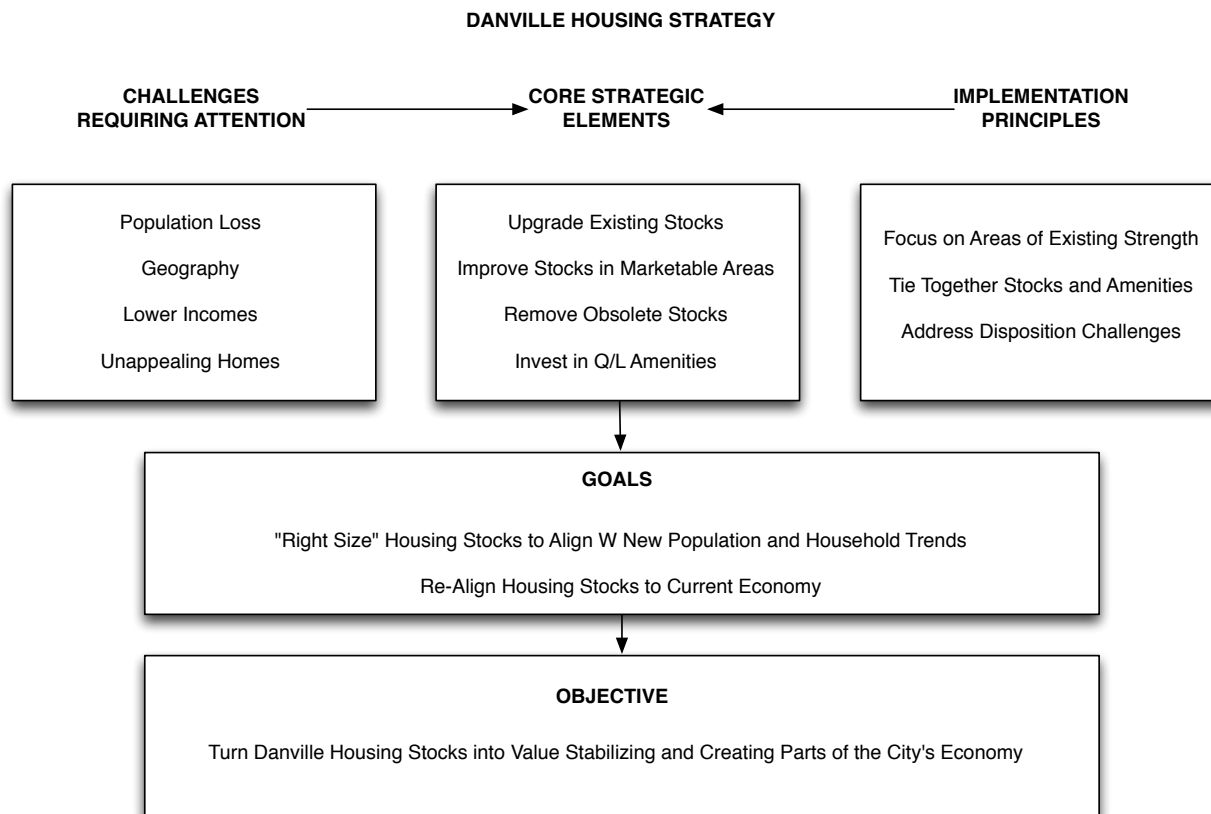
It is recommended that the City of Danville and its partners agree that four housing issues require attention: excess supply in general, geographic isolation of the city from external markets, lowering incomes, and a large inventory of unappealing housing stocks.

1. **Population loss** has left the city with fewer households chasing housing units. In this case, excess demand translates into weaker values as both too many houses in general and too many unappealing houses specifically undermine the city's path to recovery .
2. Second, Danville's **distance from other markets** (like Greensboro) means that virtually the entire pool of buyers and renters must come from *within*, a second problem that magnifies the first. Put another way, Danville can't easily leverage the upside of its downside - an affordability advantage - the way, for example, Hoboken, NJ was able to do in the mid 1980s. Where Hoboken could promote its comparatively less expensive housing to New Yorkers working in but priced out of Manhattan, Danville is too far away from other markets to adopt such a strategy. In this regard, Danville's population (fewer people who are increasingly older) and household formation trends (smaller) are major indicators of current and future housing market health.
3. Third, housing is never exclusively a residential commodity; it *always* relates strongly to quality of nearby homes, the feel of the block or street, and the services available in the nearby vicinity. Not only has Danville lost population - itself a primary cause of reduced demand and reduced values - those in Danville today earn less than in past decades, so **buying power is down**.
 - a. They can afford less house, less in the way of upgrades, and less discretionary spending. Consequently, housing prices are undermined, reinvestment levels are lower, the quality of reinvestments is lower, maintenance is deferred, and capital improvements rarely occur.
 - b. Reduced discretionary spending capacity also translates into fewer dollars going towards coffees and baked goods, confections and dinners out, and when spending in these and related areas declines, lower priced goods and services come to redefine local retail. The result is that many of the amenities certain segments of the market look for today are not readily available throughout Danville.
4. Fourth, excess inventory invariably magnifies the **true nature of demand - less** - and the **true characteristics of supply - unappealing homes**. The wide range of choices that exist in Danville (a buyer's market) means that any house that doesn't stand out and that is not on a desirable, eye-catching block, will not fetch a good price. This leaves both the seller and a potential buyer frustrated. Sellers cannot get the price they need to move up the housing ladder, retire, or finance the next stage of their life. Possible buyers - who have good jobs in Danville - cannot justify buying a home they aren't excited about. Moreover, less appealing homes on less appealing blocks in less appealing parts of town lose so much value that it simply ceases to make sense to reinvest anything in them. In Danville, investors have figured this out, and that has led to a high turnover rate of owner-occupied homes and blocks to absentee owned and renter occupied.

In sum, job loss, population loss, and reduced income combine with geographic isolation to make housing challenges in Danville an employee retention as well as recruiting challenge. Current and potential employees don't see the housing product they want, and when they do find it, it's often a home suffering from some amount of neglect that buyers have to deal with. And if they do find the a home they are willing to remake into their own, it frequently is on a street that has problems of some sort, and in any case, almost never comes with the array of neighborhood-scale retail amenities strong households demand today. *Housing in Danville is an economic development challenge.*

This situation requires the following thrusts:

- There needs to be an effort to **upgrade the existing supply of homes** in the city. This can be done through rehabilitation and through new construction.
- Homes that will be appealing to the market won't sell if they are on troubled streets. This means that **rehabilitation and infill development efforts must be targeted to desirable areas**.
- Overall supply and demand are out of balance, so not only must existing inventory be upgraded when it makes sense, **obsolete stocks have to be removed altogether**.
- Because Danville's essential nature shifted from that of a compact, bound, river-fronting city before World War II, to a more sprawling suburban place afterwards now out of sync with today's market, once optional **quality-of-life amenities like neighborhood-serving retail, parks and trails, and bike lanes are now essential**.
- In certain parts of Danville - where a market is emerging and needs to be strengthened - in and around downtown - and where a market cannot afford to be weakened (around Averett and the Community College) - a place-based focus is required. In the former, new infill development along with historic rehab and investments in amenities are needed. In the latter, a resident-oriented Healthy Neighborhoods strategy will work.



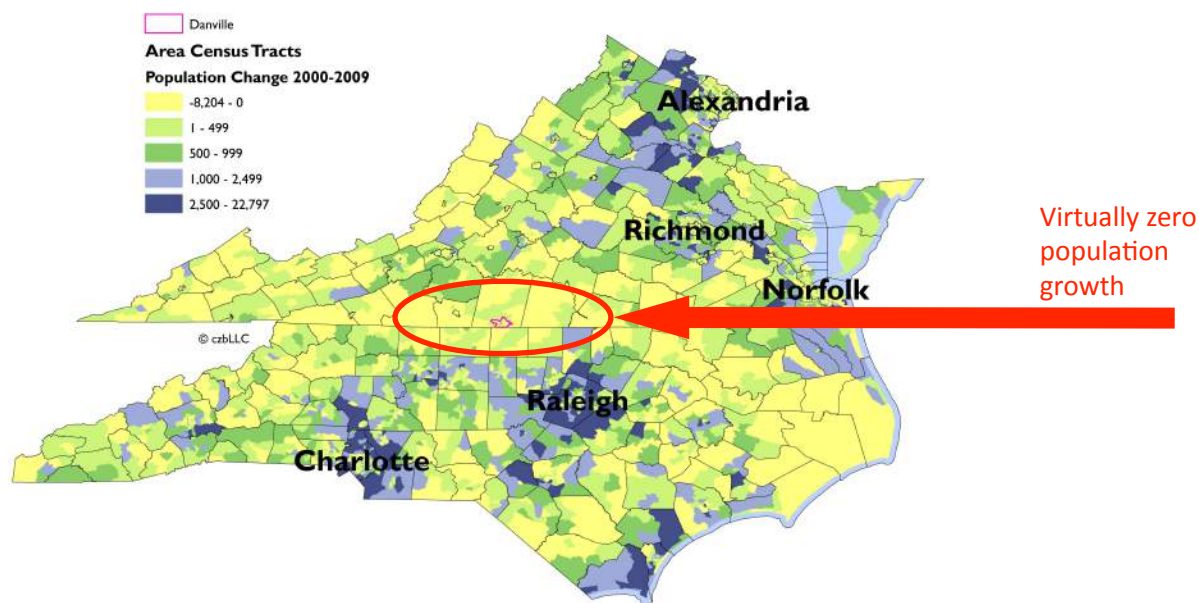
It is recommended that a strategy to upgrade existing and infill new housing stocks, stabilize streets and neighborhoods, and invest in quality-of-life amenities (retail and otherwise) be adopted, financed, implemented, and, as circumstances change, modified along the way.

It is also an expensive requirement owing the depth of the Danville market's trouble. And because of limited resources, a set of guiding principles must govern decision making in the process.

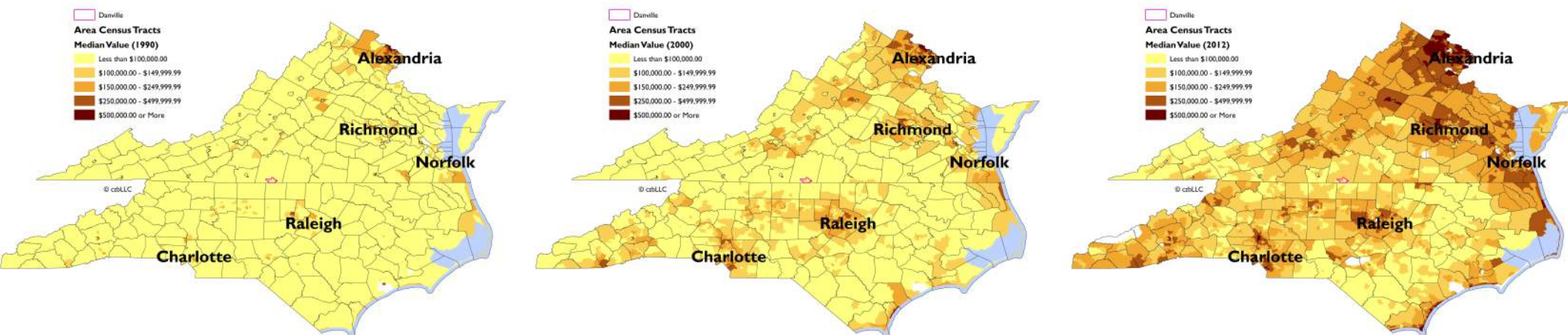
Existing Conditions

Before looking internally at Danville's housing market and neighborhoods, it is important to understand the larger context in which that market operates. That larger context can best be summarized by the word "isolation." In recent decades, Danville has proven to be located outside the orbit of growing centers in central North Carolina and northern Virginia.

Census tracts in Danville and surrounding Pittsylvania County (which together comprise the Danville Micropolitan Statistical Area) all either lost population or saw only modest growth between 2000 and 2009 (the last year before Census tract boundaries were adjusted as part of the 2010 decennial Census). This was in stark contrast to Census tracts in Greater Washington, DC, Greater Richmond, and Greater Norfolk to the northeast, and to Census tracts in Greater Charlotte and Greater Raleigh/Durham to the south.



Sources: 2000 Census, 2009 American Community Survey 5-Year Estimates, czbLLC.



Sources: 1990 and 2000 Census, 2012 American Community Survey 5-Year Estimates, czbLLC.

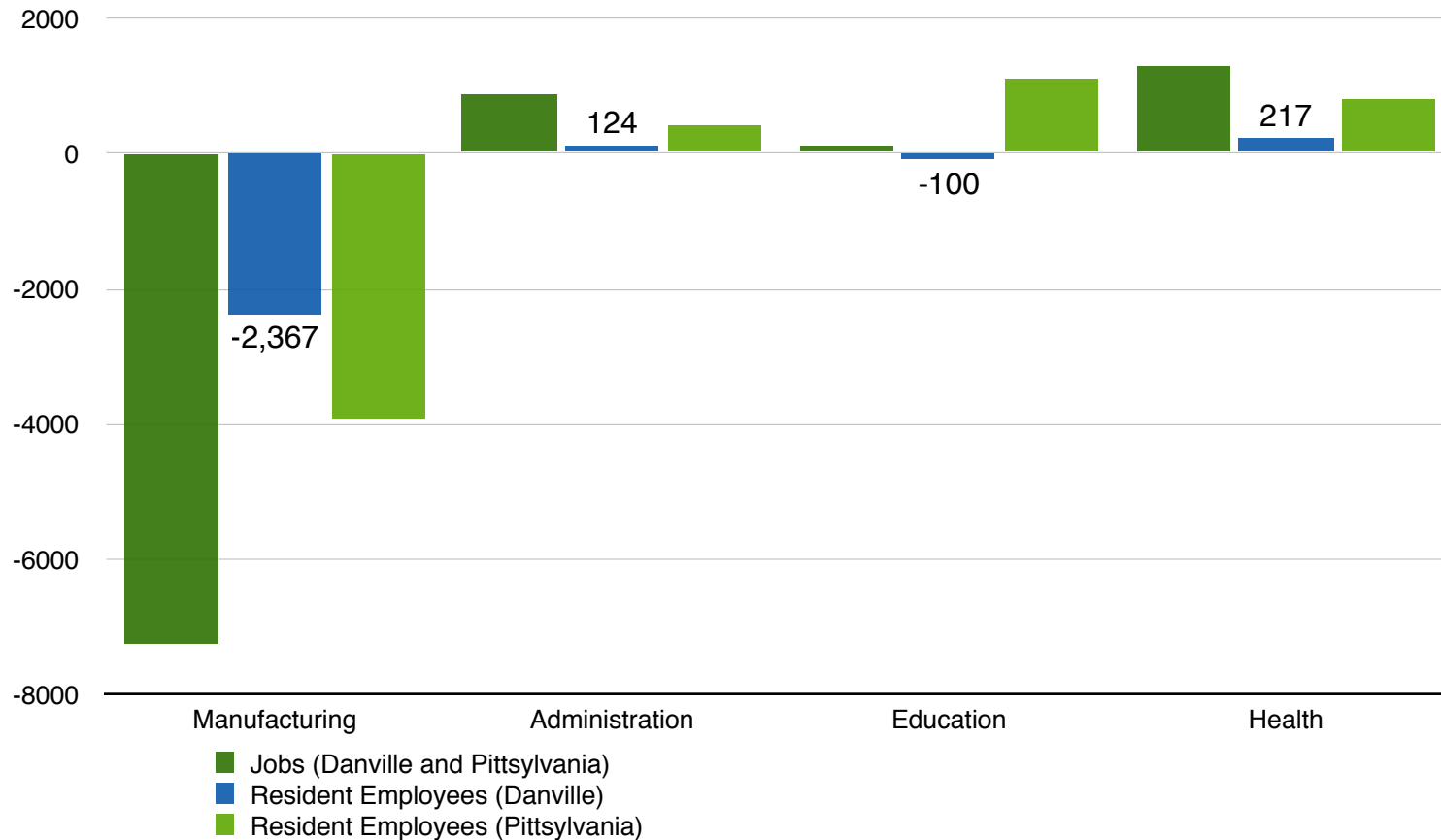
Closely related to these population trends, Census tracts in Danville and surrounding Pittsylvania County have lagged these growing markets in terms of median value increases.

What are the implications of this larger context? **The City of Danville has relatively lower-value housing and must look internally to build demand for that housing and neighborhoods it is in.**

And it must do so in the face of fairly dramatic economic shifts, which are themselves having profound effects on Danville households and neighborhoods. The most profound of these economic shifts has been the collapse of the manufacturing sector – in both Danville and Pittsylvania County – in recent years. In all, the Danville Micropolitan Statistical Area lost 7,266 manufacturing jobs between 2000 and 2012. (The number of manufacturing jobs fell from 9,624 to 4,663 within the City of Danville, a 4,961 decline; in Pittsylvania County, the number of manufacturing jobs fell from 4,392 to 2,087, a 2,305 drop.) In 2000, one-in-three (36%) area jobs were in manufacturing; by 2012, just one-in-five (21%) of jobs in Danville and Pittsylvania County were manufacturing jobs. As manufacturing jobs decline, jobs in education and health care, and administrative support and waste management, are on the rise – particularly within the City of Danville but also, to a lesser extent, in Pittsylvania County.

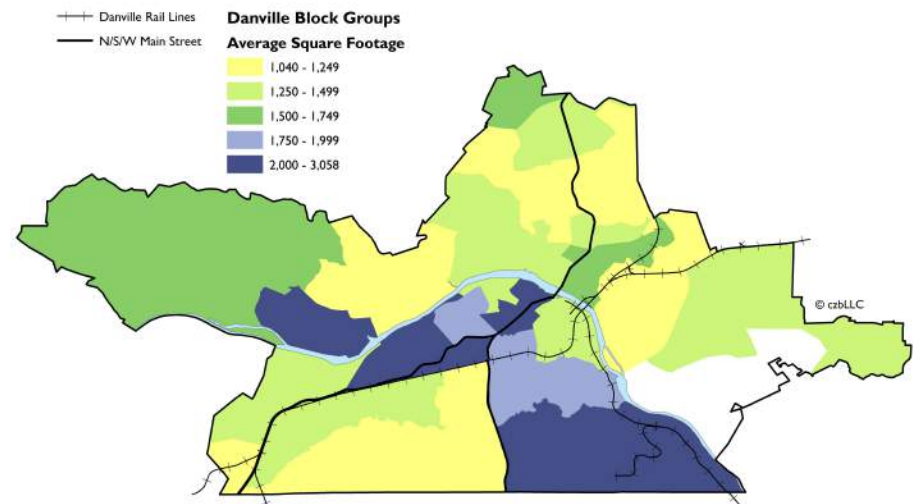
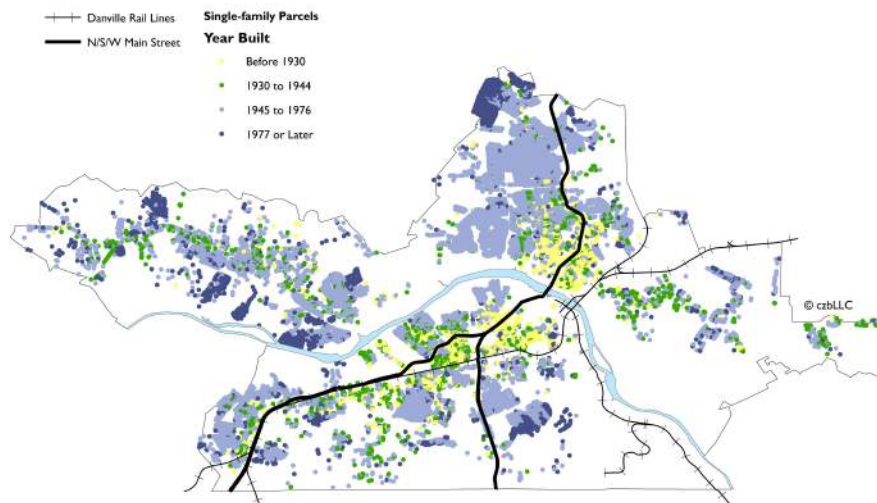
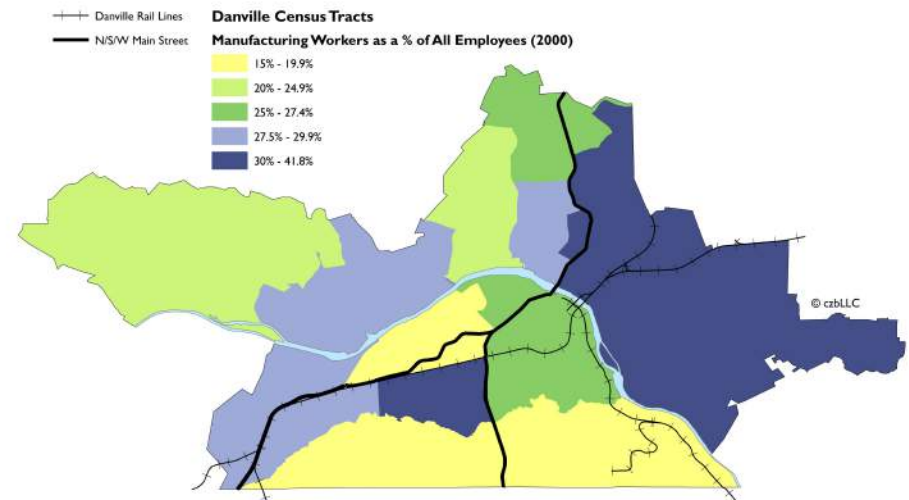
However, as the city's economy shifts from manufacturing to these other sectors, the types of jobs held by its residents has not followed the same shift. As the chart below illustrates, manufacturing jobs in the area and residents employed in manufacturing jobs in Danville and

Pittsylvania County are both down. But while jobs in the service sector (education, health care, social services, etc.) are up in the region, the numbers of Danville residents employed in these sectors are not: the City of Danville saw only nominal increases in the number of its residents who were employed in the administrative support and waste management sector and the health care and social service sector, and actually saw a decline in the number of its residents who were employed in educational services, between 2000 and 2012. The numbers of residents employed in all of these sectors were up, and to a far greater degree, in Pittsylvania County.



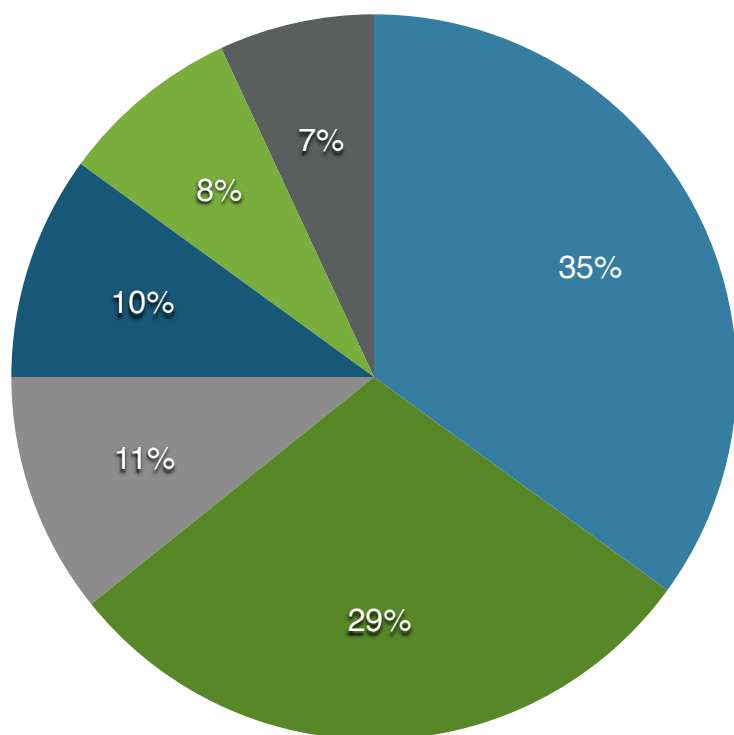
Sources: 2000 and 2012 County Business Patterns, 2000 Census, 2012 American Community Survey 5-Year Estimates, czbLLC.

This suggests that Danville's housing stocks and neighborhoods are not attracting and capturing these new workers. It also at least partially explains why those neighborhoods where people employed in manufacturing were concentrated in 2000 – those neighborhoods just south of West Main Street and to the east of North Main Street, which are not attracting “new economy” workers – have experienced significant decline in the last decade. Certain housing stock characteristics are contributing to these neighborhoods' competitive disadvantage. Citywide, approximately 20% of single-family homes were built before 1945. These older homes, though, are almost entirely concentrated in certain neighborhoods (shown in dark blue). These housing units are not only old but also tend to be small: the average square footage of properties selling in most of these neighborhoods was less than 1,500, sometimes less than 1,250.

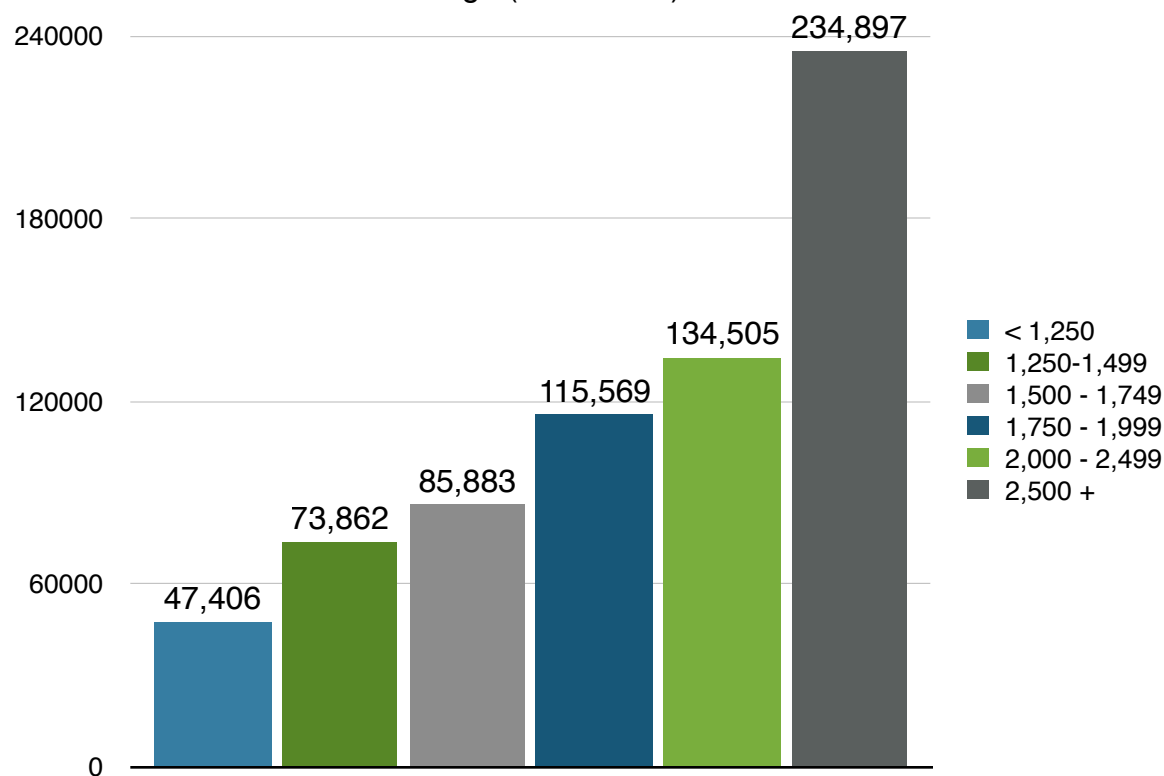


Citywide, properties smaller than 1,750 square feet – which represented 70% of the units sold between 2009 and 2014 – commanded lower sale prices than larger ones: the average sale price of properties under 1,250 square feet was \$47,406; the average for properties between 1,250 and 1,499 was \$73,862, and the average for properties between 1,500 and 1,749 was \$85,883. This contrasted with \$115,569 for properties between 1,750 and 1,999, \$134,505 for properties between 2,000 and 2,499, and \$234,897 for properties larger than 2,500 square feet.

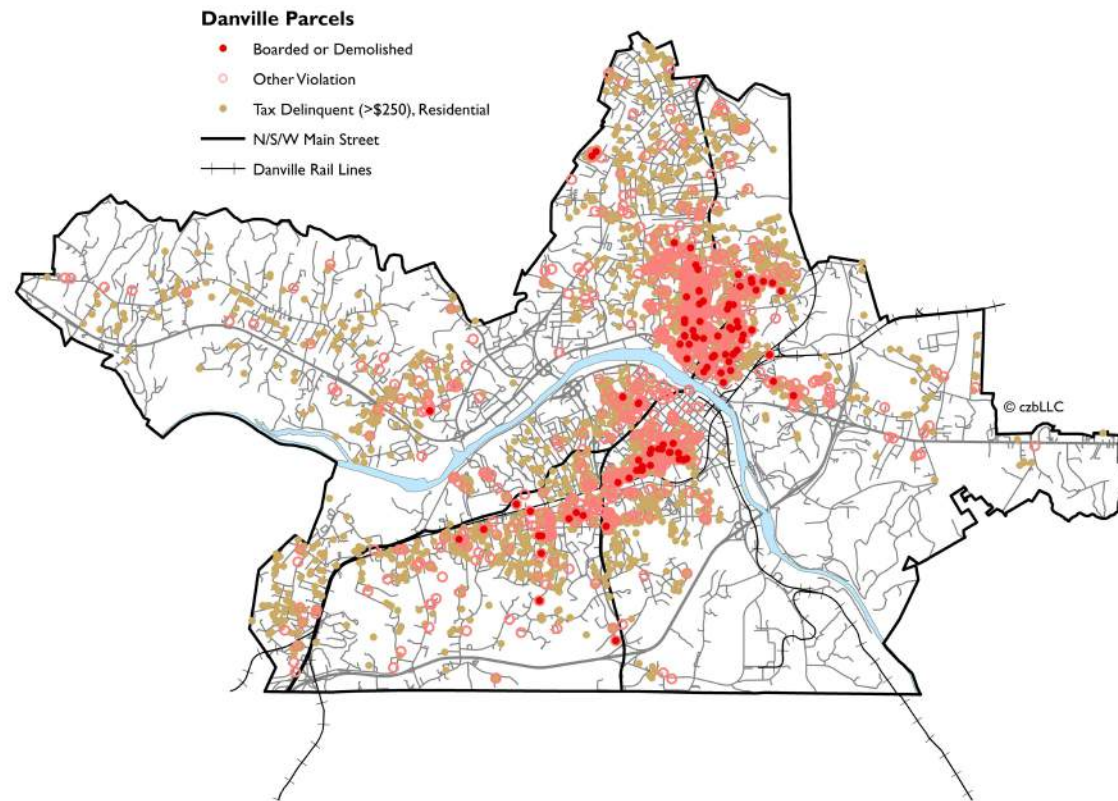
Residential Sales in Danville by Above-Ground Square Footage (2009-2014)



Residential Sales in Danville by Above-Ground Square Footage (2009-2014)

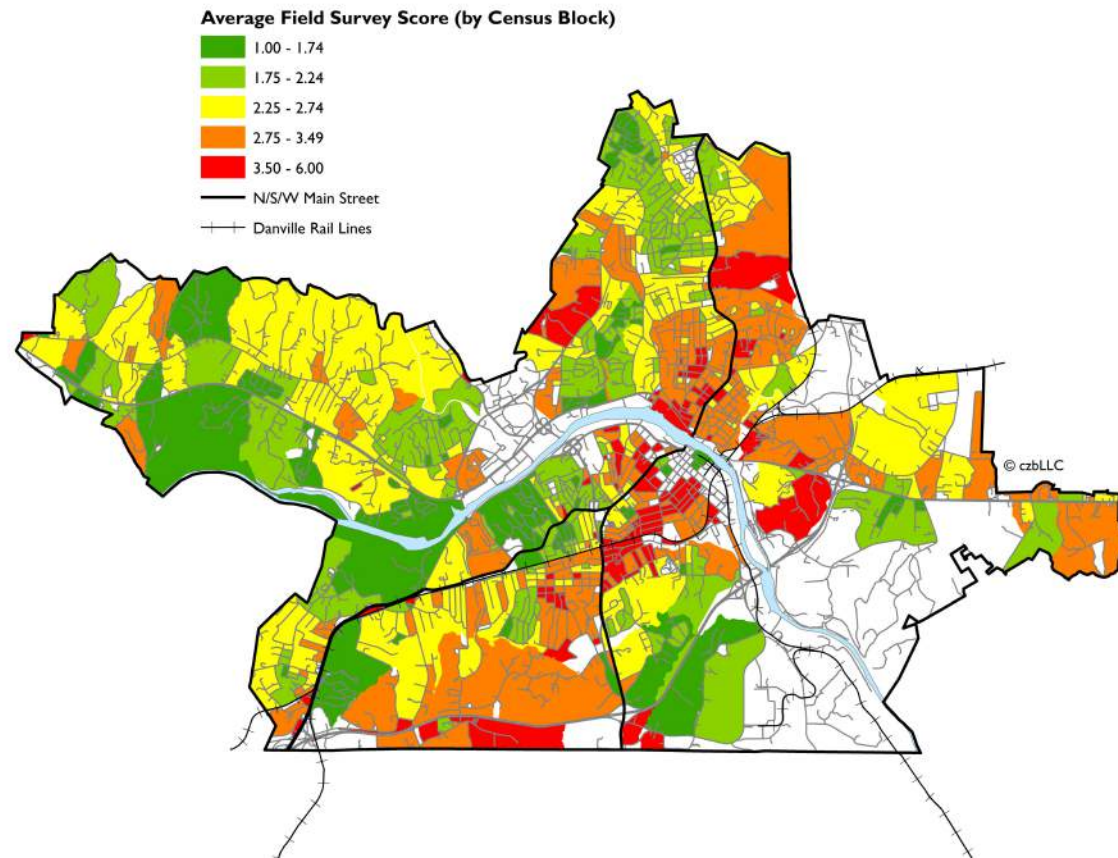


Together, the concentrations of manufacturing workers – those most heavily negatively impacted by the economic shifts underway in Danville – and the overlapping concentrations of older and smaller housing stocks (particularly those with fewer bathrooms) has undermined the marketability of several Danville neighborhoods. This weaker marketability is visible in several ways. First, problematic housing conditions are becoming increasingly common in sections of Danville. For one, boarded and demolished properties, code violations, and tax delinquency are all prevalent in these areas.



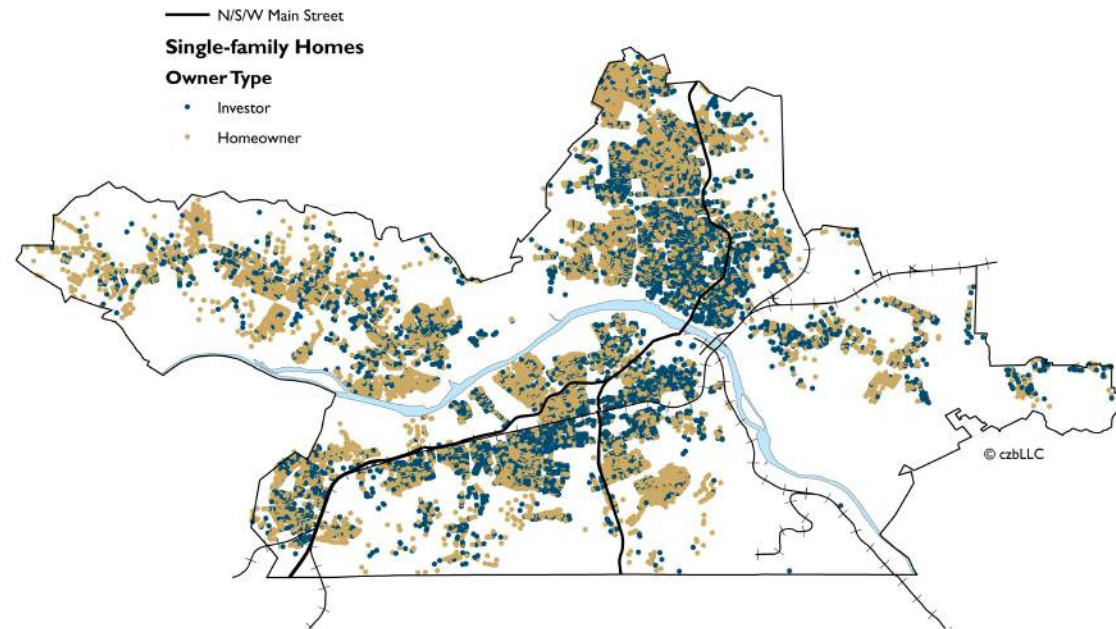
Sources: City of Danville, czbLLC.

So were problematic conditions identified during building-by-building field surveys conducted by czb. Census blocks in these neighborhoods averaged “fair” to “poor” scores:



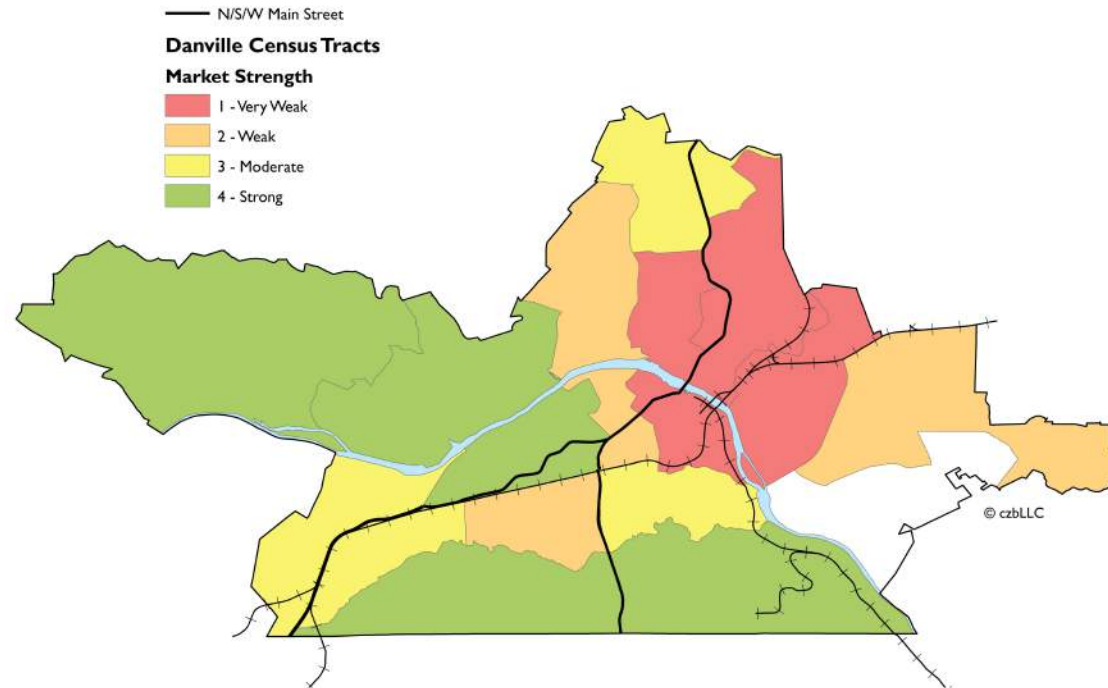
Source: czbLLC.

Problematic conditions and the presence of fewer homeowners and home buyers demanding Danville properties has also meant that the city's single-family stock is shifting from homeowner-occupants to investor owners, and at increasingly rapid rates, particularly in the neighborhoods most impacted by the loss of local manufacturing jobs.

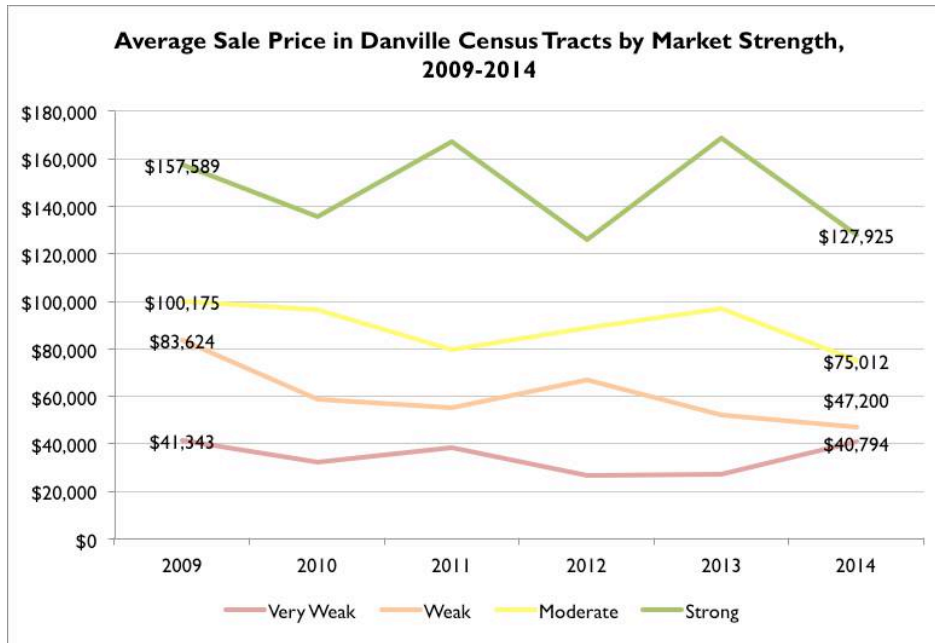


Sources: City of Danville Parcel File, czbLLC.

To put the market position of these impacted neighborhoods into a citywide context, czb used recent (2009-2014) sale prices of single-family homes to divide Danville Census Tracts into 4 market types – from “very weak” to “strong.” “Very Weak” market Census tracts were those with average sale prices between roughly \$25,000 and \$35,000 between 2009 and 2014, or had averages more than one standard deviation away from the target area average sale price during that time. The average sale price and Z Scores (or how many standard deviation units each average stood from the overall average) are listed in the table below; the market strength for each target area Census tract are shown in the map below:



Across all market types except the weakest, the average sale price has declined since 2009. Interestingly, “Very Weak” markets have largely recovered from the downturn – these tracts’ average sale price in 2014 was nearly identical to their average in 2009. In contrast, the average value in all other market types remained below, and in some cases well below, 2009 levels in 2014. “Strong” market tracts’ average sale price declined from \$157,589 in 2009 to \$127,925 in 2014; “moderate” market tracts’ average sale price declined from \$100,175 to \$75,012; and the average in “weak” market tracts (those heavily affected by manufacturing declines) fell by half – from \$83,624 to just \$47,200.



While significantly stronger in 2009, “weak” market tracts largely resembled “very weak” market tracts by 2014. By 2014, too, “moderate” market tracts had slipped to levels more typical of “weak” tracts in 2009.

Therefore it is now necessary for policies and programs in Danville to aim to reposition these “weak” and “moderate” neighborhoods, and mitigate as best as possible the significant distress found in “very weak” neighborhoods.

The strategy outlined here is focused on enabling Danville’s housing stock and neighborhoods to meet the demands of “new economy” workers and better leverage key city assets (most notably the River District, the historic features in the Old West End, the Regional Medical Center, and Averett University and the Community College campuses).

Average Sale Price

Market Type	2009	2010	2011	2012	2013	2014	2014 / 2009
1 - Very Weak	\$41,343	\$31,934	\$38,153	\$26,780	\$27,280	\$40,794	98.7%
2 - Weak	\$83,624	\$58,818	\$55,191	\$66,852	\$52,058	\$47,200	56.4%
3 - Moderate	\$100,175	\$96,832	\$79,934	\$88,769	\$97,035	\$75,012	74.9%
4 - Strong	\$157,589	\$135,567	\$167,266	\$126,173	\$168,723	\$127,925	81.2%

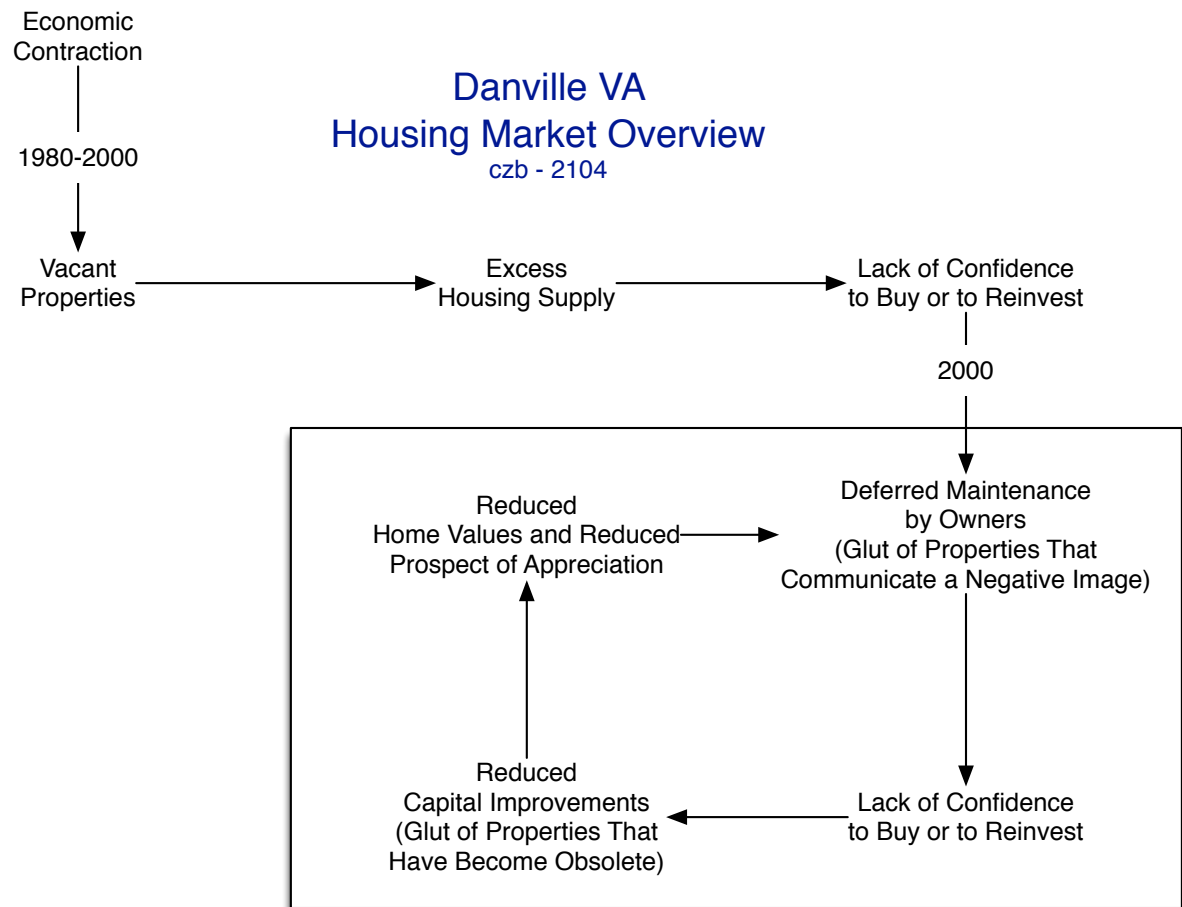
Danville's Underlying Challenge

Despite the presence of great value in some neighborhoods, the overall Danville VA housing market is severely challenged. The general dilemma is the problem of excess supply across the board. The result – and **one problem to solve** – is **extremely weak home values**.

When home values have been not perceived to be stable, owners have been more reluctant to make improvements to their properties, and when they have done so, they undertook them less frequently and less robustly. The result – and **a second problem to solve** – is **across the board disinvestment in the form of deferred maintenance**. When home values have been unstable, a condition that undermines a major reason for ownership, and when a large portion of the city's housing stocks communicate a negative image, the combined result – and **a third problem for Danville to solve** – is **even less willingness on the part of owners to make capital improvements** to their properties such as adding second baths or new kitchens. Since the mid-1990s it has made less and less sense for owners in Danville to invest their time and money in their homes.

When there is little willingness to undertake routine maintenance, much less make capital improvements, the city's housing market overall becomes prone to free fall, whereby weakened values and lack of confidence become self-fulfilling, prices remain soft at best, and rapid turnover from a largely owner-occupied to an absentee market occurs. It is this feedback loop that has merged the problematic conditions of properties with excess supply to solidify the viewpoint in Danville that it doesn't make economic sense for owners to paint their homes, repair their porches, replace their roofs, add second baths, and, in general, show pride of ownership sufficient to communicate that living and buying in Danville is wise.

Strategy Overview

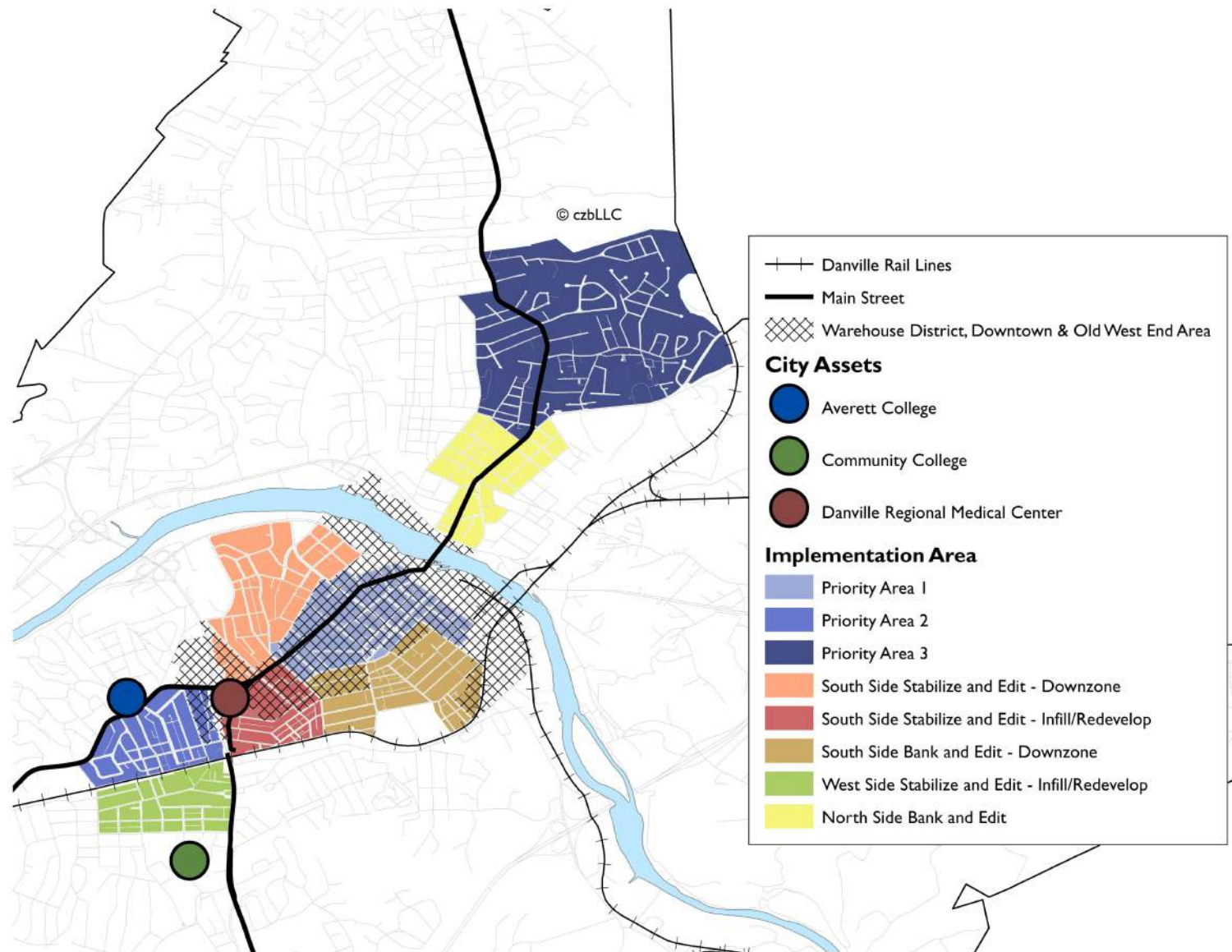


When this viewpoint settles in, as it has in Danville, and when this perspective is set in the context of low levels of confidence in the local schools and job market uncertainty, stabilizing the city's housing market becomes daunting.

The question is how can Danville – through policy and programming – begin to reverse these trends and create a different set of outcomes? What are the right outcomes to work towards?

Several important points need to be made and become the **framework for policy and intervention.**

- The Danville market is very affordable. It would be counterproductive to Danville's health to add more affordable housing. Indeed, Danville is



among the most affordable markets in the United States with a value to income ratio of less than 2.2:1. While many Danville households struggle to afford housing costs, this is not because housing costs in Danville are excessive; it is because Danville has a poverty problem that is a complex function of poorly-educated households and an economy not creating jobs for unprepared workers. This is a serious problem in Danville, but at its core it is an economic development problem, *not a housing affordability problem*. The City of Danville has to frame its housing market challenges solely and strictly as a weak value problem.

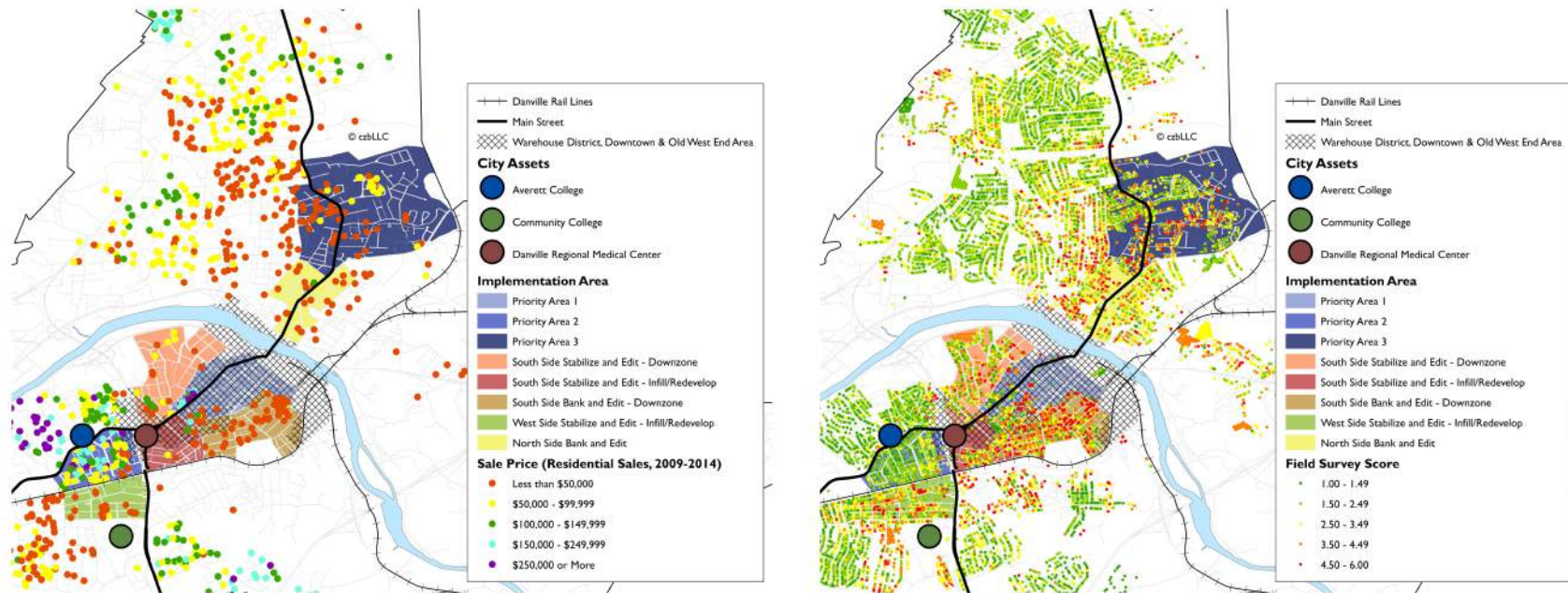
- The Danville market is saturated with homes suffering from years and in some cases decades of deferred maintenance. It would be counterproductive to Danville's health to not address the problem of persistent neglect. Costly indifference to the basics has to be addressed. Danville cannot fail to intervene in the market to spur maintenance and subsequent confidence by owners that maintenance pays off.
- The Danville market is also saturated with homes that for all intents and purposes are obsolete in their current condition and may require being removed from the inventory, either by attrition or outright condemnation, seizure, and demolition. While some have remaining life, the better long term view is to edit these structures from the city's inventory, the persistent presence of which will continue to underline values. Leaving these obsolete stocks in place - while beneficial to absentee owners - would be counterproductive to the long term health of the city's housing market.
- The marketability of hundreds of stable residential blocks throughout Danville are almost always compromised by the absence of enough quality of life amenities - bike paths, coffee shops, tree canopies, parks, restaurants – to matter; the result is reduced attractiveness to middle market families and “new economy” workers. Failing to make investments in the development of businesses and quality of life amenities would limit the potential for any gain that might come from investments aimed at improving the supply of housing.
- The River District, the historic district, Danville Community College, a downtown of emergent vibrancy, Averett University and the residential fabric around it, Ballou Park, the River, and the Danville Regional Medical Center. These are the city's great assets and they are not just disconnected from one another in function and habit, they are disconnected from the day-to-day lives of residential life in ways that would ordinarily result in a stronger housing market. Indeed, it is imperative that investments be geographically concentrated around and leverage these assets. Tackling distress, deferred maintenance, stock obsolescence, or the problem of missing neighborhood amenities in a scattered but not geographically targeted way would be counterproductive.

These five points – a value problem, an abundance of neglected homes, too many obsolete homes, a shortage of quality-of-life amenities, and a disconnect from the city's rather remarkable assets – can and should be reimagined in a linked way to form an intervention strategy. Linked, they transform housing policy into an overt element of the city's economic development strategy.

To address these important issues, three place-focused interventions are recommended to go along with a parallel focus on specific supply challenges that are present on a citywide basis.

PLACE FOCUSED INTERVENTIONS

First, the primary focus should be to strengthen the housing market and neighborhoods between the city's four chief assets – the Danville Regional Medical Center, the downtown, and the River District. Presently this area has considerably valuable housing stocks and blocks with great potential. But this area also has large and problematic gaps between downtown and the hospital, between downtown and the River District, between the River District and the hospital, and between all of them and the river, itself. It also has good properties but a significant number of failing ones, and has strong blocks but a significant number of distressed ones.



Sources: City of Danville Parcel File, Multiple Listing Service, czbLLC.

In this area ("Priority Area 1," the two "South Side Stabilize and Edit" areas, and the "South Side Bank and Edit" area on the maps above), **the City should seek to create a vibrant, urban, mixed-income district that is home to hospital employees, downtown workers, River District area employees, and others who want a sense of residential life in a close-in, diverse, walkable heart of a historic city.** This will mean intensive

editing out of troubled properties, downzoning key parcels to green space that will become a quality of life additive for residents, large scale investments in infrastructure, and redevelopment both of historic single family homes and highly desirable formerly industrial spaces into residences. The resulting district should be a thriving community of neighborhoods of owners and renters that reflect the dominant contribution to the emergent Danville economy made by the medical and technology and other knowledge sectors, while being home to service workers supporting those institutions.

The second focus should also be place-based, and should be concentrated in the blocks between Averett University and the Community College ("Priority Area 2" and the "West Side Stabilize and Edit" area on the maps above). This second area is vitally important to Danville – as home to hospital and Averett and DCC employees, and because many of these pre WWII homes (particularly between West Main and Chatelaine) constitute an important middle market asset the city cannot afford to let decline in value. These blocks represent a real marketing opportunity. The homes were well built, and the underlying urban form is highly desirable. A significant percentage of these homes have been well maintained over the years, and that plus their desirable designs, mature tree canopy, and proximity to downtown, make these blocks an asset that must be protected.

The third focus area is on the city's North Side ("Priority Area 3" and the "North Side Bank and Edit" area on the maps above). This area is too distressed to be affordably recovered, and unless extraordinary resources are available, a revitalization endeavor in this area is not recommended. What is recommended is a focus on the North Main Street corridor and an effort to prepare this corridor for a moment in the future when it may become an asset. Here, in Area 3, intensive code enforcement and, where necessary, condemnation and land banking is recommended.

CITYWIDE SUPPLY INTERVENTIONS

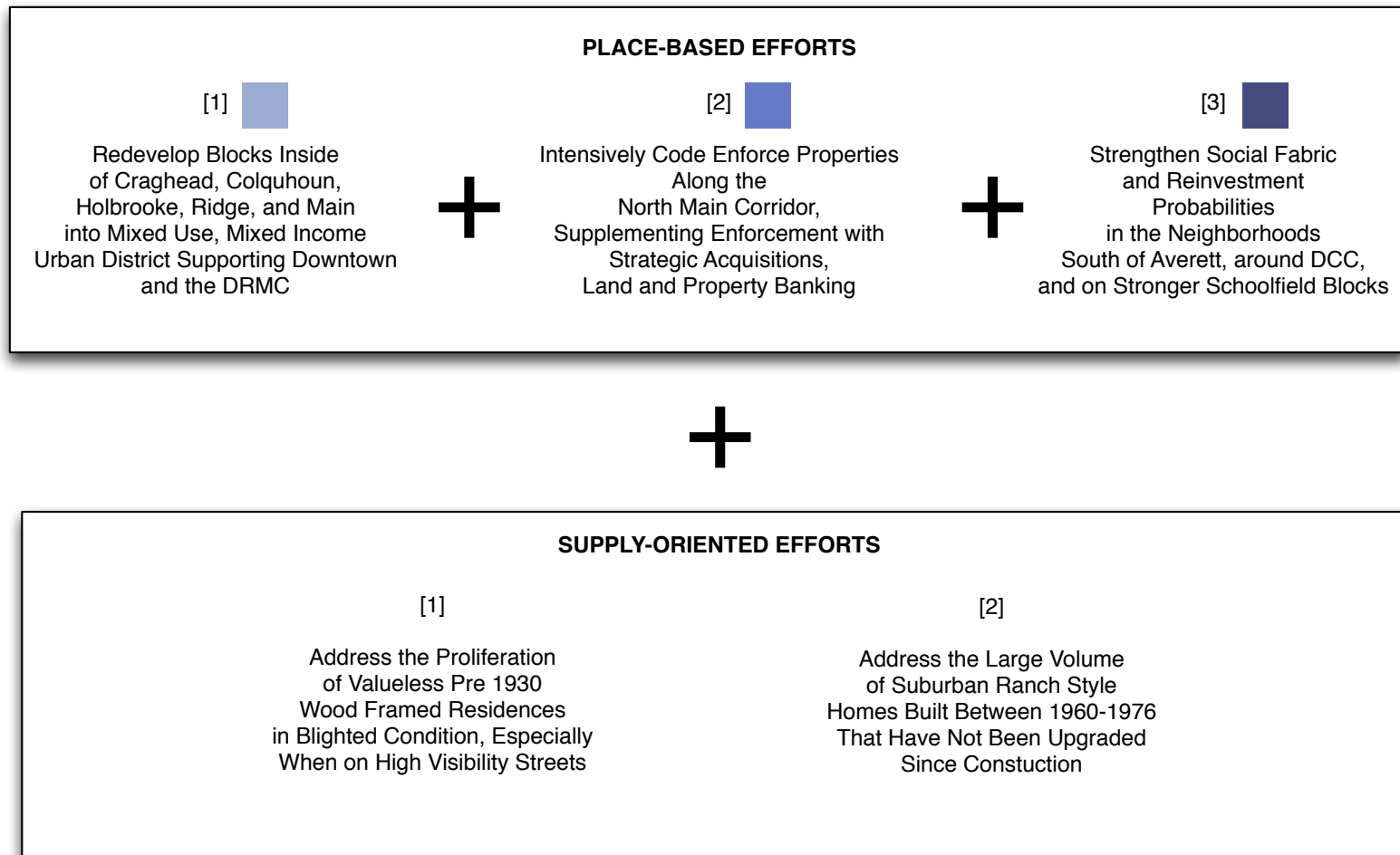
Outside of these priority areas, the dominant housing market challenges are best understood - and tackled - as a function of the condition, size and age of the local housing stocks, which largely predict where along the spectrum of marketability to obsolescence different blocks sit.

- The first are those single family houses built before the end of World War II that are wood-framed, very small (typically less than 1,500 square feet but often less than 1,250 square feet, with only two bedrooms and one bathroom), often poorly built, and, for the most part, nearly impossible to market today to households with any options to live elsewhere.
 - When they are in good condition, they are usually occupied by retired elderly owners. These owners have been increasingly hard-pressed to find good buyers when they want to sell, and as a result, these properties have become attractive low-cost acquisitions for absentee owners.
 - Many of these properties still have several years of useful life to them, and what is needed is **a home maintenance grant product that will allow current owners to make important (and sometimes long-neglected) basic repairs**. In enabling owners to stay in their homes and raise the quality of those homes, important blocks throughout the city can be stabilized, provided multiple interventions on the same street occur, and all interventions result in a home equal to or greater than the average quality of adjacent properties. The long term strategy for these roughly 3,250 homes is to recognize their limited marketability and to be prepared to deploy a more aggressive redevelopment strategy if the city's economic condition improves substantially.

- The second and by far largest challenge facing Danville in terms of housing market strength are those single family brick, ranch-style homes that were primarily built between 1945 and 1976. (These homes are largely concentrated on the western half of the North Side.)
 - With nearly 11,000 such homes in Danville, a large portion of which are very hard to market today to families given their small size (typically less than 1,500 square feet), lack of amenities (like upgraded kitchens and baths), and deferred maintenance, this enormous part of the Danville market presents a serious risk to the city, indeed the greatest risk from a housing market point of view.
 - Of these, more than 8,000 were built between 1960-1976 and constitute the core of the city's housing supplies that require the most attention, for these are homes that are *both* still in essentially good condition *and* that in their present condition will not market well to buyers and will instead become increasingly absentee owned. These homes frequently are owned and occupied by older, middle and working class families. Large numbers of these homes have flipped to renter occupancy in the last ten years, and this is a troubling trend that will only accelerate if these stocks are not improved. They need second and third bathrooms, new roofs, new appliances, kitchen and bath upgrades, landscaping, exterior treatments, and a coherent marketing strategy, so that working Danville families continue to consider owning and living in them a mark of achievement and success. These are the bread and butter middle market homes that no city can do without, and are essential if Danville is to have a complete housing ladder.

Implementation

This report has shown clearly that Danville's housing market is weak. Successful implementation of strategies to address Danville's weak housing market hinges on treating housing stabilization as economic development. Without a full housing ladder, Danville will be hard-pressed to retain its most needed workers, much less recruit successfully. Failing to rebalance supply and demand will mean prolonged weak values. A focus only on supply will still leave unaddressed the challenge of increasing borrower capacity.



PLACE BASED EFFORTS: River District

These parts of the City contain Danville's greatest assets: spectacular intact blocks of historic buildings, and powerhouse economic institutions. The successes and lessons of the redevelopment of the River District can be extended and applied along the South and West Main Street neighborhoods to showcase upward mobility, connecting institutional assets and rebuilding Danville's stock of middle and upper income housing to meet the demands of current homebuyers.

River District Findings

Interviews with developers and residents of new residential housing here, as well as a few business owners, plus staff from the City's Economic Development, Community Development, and Parks and Recreation Departments suggest the following:

1. Developers Are Bullish on River District

Developers are very enthusiastic about their investments in the River District, and of the City's work in the District and facilitation of their investment there. Overall, developers have high occupancy rates, and feel very confident about the future and the District's ability to absorb more housing units. They seemed well informed about the status of efforts to recruit additional entertainment retail, and the pipeline of other development interest and satisfied with the pace of progress.

2. Downtown Is Successfully Attracting the Upper Middle Professional But They Are Transient

Residents of downtown housing are reported to be almost exclusively upper middle income professionals (one empty nest retired couple was also reported), which means River District stock is working well to attract a greater share of the County's \$50-\$150,000 households. However, these households are understood and expected to be transient because of their life stage. Examples include residents who are only employed in the hospital system for a few years, and residents who bought or rented apartments as single people and subsequently grew their households and moved out for more space. Downtown is a place on the ladder, *not more than a rung or two*.

3. Residents Love Downtown, But Danville Lacks Next Rungs In The Housing Ladder

Residents reported that one of the main attractions of downtown housing is that it is the only high-quality housing stock in the city that does not require rehab or updating; other attractions include the walkable urban environment, downtown river trail and being offered leadership positions in public planning efforts.

Residents are enthusiastic about living downtown, but some could also picture themselves living in a lower density home when their life stage changes, if that home were in a similarly walkable urban environment that is safe and attractive.

4. Residents Look Forward To Increased Retail And Entertainment Options

Residents are somewhat less patient than developers about the pace of retail recruitment to downtown. They would like to see more restaurants, bars that stay open late, a coffee shop that stays open late, upscale shopping and groceries. A small gourmet grocery would be acceptable. Midtown Market is seen as too far away (particularly because it is not walkable). Many people we interviewed reported

traveling an hour or more to do their main grocery shopping, skipping over Food Lion for more upscale groceries in Roanoke or Greensboro, if not the Raleigh-Durham area.

River District Strategies

- A. Continue current Economic Development and Parks And Recreation strategies in the River District
- B. Add retirees to target markets for downtown housing in order to balance the transiency of the young professional market
- C. Consider establishing a downtown neighborhood association
- D. Diversify board and volunteer leadership of arts and cultural events with younger and minority members
- E. Accelerate development of the old west end as a next rung on the housing ladder for downtown residents; make transition from downtown to the Old West End seamless
- F. Cultivate Averett University neighborhoods as next rung up on the city's housing ladder by ensuring that realtors continue to market the blocks between West Main and Chatelaine as a place where those selling their River District units might move to next.
- G. Target key sources of blight for condemnation: the apartments at the intersection of Holbrook and Colquhoun is key.
- H. Consider modifying the Monument-Berryman strategy so that anticipated future flex space is enriched with amenities such as green space.

River District Capacity

The lead should be a partnership of the City's Parks and Recreation and Economic Development departments working with private developers, the Chamber of Commerce, and Danville United. A combination of resources from general revenue, private equity, local philanthropy, and VTICRC should be considered.

PLACE BASED EFFORTS: Old West End

The historic districts of Millionaires' Row, Old West End and Holbrook-Ross could be to single family housing what the tobacco warehouses are becoming to multifamily housing. They are a critical part of the City's future both because they represent an unreplicable competitive advantage over the county, and because they contain housing stock that is potentially grand enough to meet the expectations of the growing population of upper middle income young professionals as they age out of apartment dwelling.

Old West End Findings

1. Current Developers Lack Capacity To Create a Tipping Point

There are many mostly intact blocks of beautiful historic homes in the Old West End. They represent a potentially valuable rung in a future housing ladder: near downtown single family detached homes with character. Unfortunately, not enough of them have been restored to bring the area to a tipping point. At present there isn't the confidence needed to attract a second wave of developers with the capacity to complete professional quality restorations within a short time period. Current developers are mainly innovators with an outsize tolerance for risk owing to their emotional connection to preservation. They tend to be under-resourced and continuously at work on their own and perhaps one or two other properties, using mainly their own sweat equity supplemented by day labor.

2. Old West End Is Attracting Middle Income Renters to Restored Properties

Some of the homes in the Old West End district that have been restored are commanding strong rents (\$1,000 and up) and attracting the same demographic of renters as the River District. This reinforces the case that these historic districts could become another part of the housing ladder for Danville's upwardly mobile professional class who value urban environments. It makes the case that the wider area between the hospital and downtown and the train station is the core of Danville's most marketable strength.

3. Holbrook-Ross Faces Particular Challenges To Restoration But Holds Great Historic Significance

The Holbrook-Ross Historic District has not had even a fraction of the modest restoration cones thus far in the Old West End and along Millionaires' Row. Still, it has deep historic significance. It has always been an African-American neighborhood, and its housing stock suffered the same economic disadvantages as its population. As is true of most historically African-American neighborhoods, desegregation and suburbanization precipitated movement of the most economically advantaged households to new opportunities, leaving behind those least able to maintain or restore grand, old homes. Holbrook-Ross has not experienced much of a resurgence of interest by upwardly mobile African Americans with the means to restore large homes, though its history is important to the community.

4. Confusion And Inexperience With Requirements Of Historic District Restoration Hampers Progress

Historic restoration is never for the faint of heart, but small, one-off developers are particularly unlikely to be able to invest the time to comprehend and comply with regulations and the paperwork required to seek Historic Tax Credits that might subsidize their projects. Some who own high-end rental units in the district and also live there report that housing values are not yet strong enough to comply with regulations and be able to rent or sell a home as a single unit. Consequently, investors tend to turn properties into duplexes in order to generate gains.

Old West End Recommended Strategies

The recommendations in the Old West End Rental District Plan (which only includes portion of the Old West End neighborhood), are sound. The following considerations are recommended.

1. Commit to a Policy and Financial Investment in the Historic Districts Applying the Techniques Used in the River District:

The successful elements and techniques used in the River District can be applied to the Old West End

- Holistic approach to the collection of buildings;
- High value of historic assets and commitment to making them one of the core elements of the neighborhood “brand”;
- Proactive recruitment of appropriate developers and technical and policy support to ensure their success;
- Streamlining of City permitting and other procedures in service to the goals of redevelopment;
- Aggressive public relations to build excitement and confidence in redevelopment;
- Alignment of public and private investments to support goals of redevelopment and reinforce brand;
- Cultivation of leadership among investors and residents to continuously grow capacity and networks, leveraging confidence, momentum and idea generation.

2. Create and fully fund a Nonprofit 501(c) 3 Development and Marketing Organization to coordinate accelerated restoration

Responsibilities of the nonprofit should include:

- Giving technical support to owner-rehabbers and small developers on planning, financing, state and federal Historic Tax Credits, finding qualified contractors, navigating city building code, etc.
- Streamlining City permitting processes and possibly rewriting zoning and building code to support a restoration-friendly experience for rehabbers.
- Managing an incentive program to owners and developers to help cover appraisal gaps, in a concentrated zone with intention of building comps for higher appraisals. This could be a combination of loans and grants to bring property to owner-occupant, certified historic standard. Requirements of rehab should be shaped to desires of professional buyer target markets (balancing historical accuracy with modern conveniences.)
- Managing a Buy-Hold Fund in which properties in targeted zone (in need of rehab) that come for sale are purchased, stabilized and secured, and marketed to a reliable developer or owner rehabber. Consider restoring the exteriors for immediate impact on the neighborhood and easier sales to prospective buyer-rehabbers.
- Developing brands and marketing materials for the residential historic districts; implement marketing strategies to recruit buyers and developers locally (home tours, print ads, media stories, etc.), statewide and from historic buff communities in Northeast and Midwest.
- Building the capacity of neighborhood associations in the residential historic districts.
- Building community among rehabbers via social events that make it easy for rehabbers to meet and trade tips, and get emotional support and maintain sense of excitement about rehab process.

- 3. Inventory Stock And Solicit For-Profit and Nonprofit Developers**
- 4. Use Grants and Loans to Push Appraisals Until Market Rate Development Occurs Without Historic Tax Credit Subsidies**
- 5. Acquire Property, Complete Exterior Renovation, And Remarket to Owner-Occupant Developers**
Completing exterior renovation before marketing properties allows Danville to control the quality and pace of renovation, confers positive impact on the neighborhood while the property is being marketed, and may inspire more prospective buyers.
- 6. Develop A Marketing Campaign for The Districts That Recruits Preservationists Locally and Nationally**
- 7. Streamline Permitting And Provide Training and Technical Assistance On Restoration And Historic Tax Credits**
- 8. Protect Some Affordable Housing By Working With A Developer (Possibly Danville Redevelopment and Housing Authority) To Assemble Several Properties For Restoration With Low Income Housing Tax Credits and Historic Tax Credits; Manage As Subsidized Rental**
- 9. Develop A Brand and Marketing Plan For Each District**
The City has engaged a destination brand developer for the River District. We suggest a similar strategy for the Old West End historic districts.
- 10. Invest In Wayfinding and Historic Signage For Districts And Individual Properties, Especially in Holbrook-Ross**
- 11. Contract Historic District Management Advice From a Strong District in Richmond**
- 12. Wherever Possible, Reduce Non-Historic Uses That Are Incompatible Or At Least Mitigate Their Visual Impact**
- 13. Consider Establishing a Neighborhood Improvement Tax District to Help Fund Nonprofit Staff And/Or Capitalize Exterior Restoration Grant Fund**

Old West End Capacity

The lead should be a new Non-Profit Historic Development and Marketing Organization. It should work closely with the City's Community Development, Economic Development and Parks and Rec Departments; the Danville Historical Society; Private and Nonprofit Developers. It will need to be able to utilize Historic Tax Credits, Low Income Housing Tax Credits, Foundation Grants, Tobacco Settlement Funds, General Revenue, Neighborhood Improvement District, CDBG and HOME funds, and secure private financing.

PLACE BASED EFFORTS: Residential Areas Around Institutions: Averett, DRMC, Danville Community College

czb refers to the residential areas around and between these key institutional assets in Danville as “middle neighborhoods” - neighborhoods that are neither the best nor the most troubled in a community, that are the backbone of the community’s housing stock for working and middle income households. These neighborhoods are routinely overlooked in public and private housing policy and programs because they are not in crisis. However, in weak housing markets, middle neighborhoods are often experiencing slow disinvestment and foundational shifts in their ability to compete, evidenced by minor to moderate levels of deferred maintenance, slowing sales, and increasing competition from suburban development. These neighborhoods can still be redirected with relatively minor investments of time and money so that they continue to be relevant to the next generation of working and middle class buyers. In Danville, these neighborhoods will be critical.

It is recommended that these communities be strengthened and maintained using a “Healthy Neighborhoods” approach. Healthy Neighborhoods is a framework of outcomes and strategies for revitalizing and maintaining quality of life in middle neighborhoods that focuses on four areas:

- 1. Neighborhood Management**

Building social connections and management skills among neighbors.

- 2. Image**

Proactively managing neighborhood image, building confidence and promoting the neighborhood to target market buyers;

- 3. Real Estate Market**

Building and protecting housing value and ensuring strong replacement households as homes turn over;

- 4. Physical Conditions**

Growing and maintaining high standards of physical maintenance and curb appeal to keep the neighborhood attractive to current and prospective residents.

Applying The Healthy Neighborhoods Strategy to Middle Neighborhoods Surrounding Institutional Assets in Danville

- 1. Neighborhood Management:**

Social connections bind people positively to their places, and cultivate norms of behavior and property maintenance that enhance quality of life. Social connections also provide the foundation for neighbors to collectively solve problems as they arise day to day.

Building and supporting social connections among neighbors, and growing their capacity to manage day to day issues typically requires the existence of an organization with the expertise and capacity to devote considerable **staff time to community building activities**, including meeting neighbors one-on-one, connecting them in small groups where there are none, unearthing the ideas they have for engaging socially and helping them organize those activities with **small grants**. The exact nature of the activities is not as important as whether they build social connections.

A relevant model for Danville is Rochester, New York’s Healthy Blocks initiative, managed by nonprofit NeighborWorks Rochester. This organization has several years of experience in choosing and building community management skills in manageably sized middle

neighborhoods, and have achieved measurable results in building market value, raising standards of physical conditions, and promoting a recognizable and positive image of each neighborhood that attracts buyers – all via building social connections and skills among neighbors.

The Community Development department already devotes some staff resources to supporting neighborhood associations and block watches, and could lead and coordinate the initial application of Healthy Neighborhoods strategies to these neighborhoods.

Sooner or later, it will make sense to assign a staff person or create a staff position to be the Healthy Neighborhoods Coordinator. The goal is to build neighborhood capacity to the point that neighbors can manage the following three areas with some technical and financial assistance.

It is not necessarily important that each geography have a neighborhood association. Rather, it is important that whatever formal and informal neighborhood groups exist (or are created) are willing and able to manage the neighborhood's image, monitor the real estate market and assist Realtors in finding solid replacement buyers, and maintain and cultivate high standards of physical maintenance and curb appeal sufficient to keep the neighborhood competitive for buyers and maintain confidence among existing neighbors.

It is also critical that the point early in this report - that Danville is a very affordable housing market - be restated here. In deploying a Healthy Neighborhood strategy, the focus must be on the role of choice in a housing market, that is, the willingness of housing consumers to buy this house versus that house, or live in this neighborhood as opposed to that neighborhood. The crux of a Healthy Neighborhoods approach is a focus on marketable strengths combined with resident capacity to manage change on a block day after day in ways that result in that block, or that neighborhood being better able to compete for strong households with choices. This strategy cannot succeed if *affordability* becomes a preeminent initiative component. The *willingness to invest time, energy, and money into one's home and neighborhood* takes unilateral precedence over concerns about the *financial ability to do so*.

2. Neighborhood Image:

Middle neighborhoods often benefit from branding and marketing strategies to take charge of the neighborhood's image and promote it to target markets. The City's Community Development department, in partnership with Realtors, should develop ***training resources*** for neighborhood associations and crime watch groups to help them become clearer about their target markets. A few core brand elements can be prioritized by identifying attributes of the neighborhood that are both important to target markets, and on which the neighborhood can deliver.

These brand elements provide themes around which neighbors can focus activities and communication to promote pride and confidence among existing residents and to recruit new residents.

A ***small funding program*** could support these neighborhood image-building campaigns with logo design, logo launch events, and neighborhood signage, and it is recommended that one be established.

One citywide strategy that could provide substantive support to neighborhood groups' marketing campaigns is a **central website** similar to livebaltimore.org and livecleveland.org that promotes living in the City of Danville, and includes individual pages for specific neighborhoods. The National Association of Realtors reports that most homebuyers now use the Internet as their first step in looking for a home to buy, so giving Danville neighborhoods an easy way to promote themselves online is important.

In Baltimore and in Cleveland, the websites are managed outside of City government by small nonprofit partnerships of government, Realtors, neighborhoods, foundations, major employers and other stakeholders. Think of them as mini convention and visitors bureaus set up to attract residents to neighborhoods in the city. They are funded by grants from local government, Realtors, foundations, developers and home mortgage lenders. Work done by the City of Geneva, NY to create the Greater Geneva Resource Center (GGRC) which operates the Office of Neighborhood Initiatives offers an outstanding model to follow in Danville in the residential blocks from Baltimore to Carlson and from Chatelaine to Kemper. The GGRC's website shows how specific subareas can be described and marketed.

The websites provide information on opportunities to rent and buy, as well as all of the benefits of living in their cities, including any special incentives available. The managing entities also take on a **variety of supporting activities**, including training neighborhood leaders in marketing, organizing Realtor tours and neighborhood open houses for homebuyers, and delivering weekly and monthly workshops on homebuying in general and buying into their cities in particular.

3. Real Estate Market

The goal in this area is to maintain enough real-time knowledge about the neighborhood real estate market to recognize warning signs, and to ensure that for-sale homes secure strong replacement buyers. In order to keep the neighborhood competitive for strong owner-occupant buyers (and strong landlords and renters), policies and projects that build and protect housing value should be prioritized.

Regarding market knowledge, local government and neighbors, in partnership with a Realtor, need to monitor a few key points of data to answer the following:

- Are sales prices trending up or down? Why?
- Is the share of owner-occupant buyers trending up or down? Why?
- What is the quality of investor buyers? What does that mean for the neighborhood?
- Do properties for sale need improvement to attract an owner-occupant buyer? Are sellers making them? Why or why not?
- Are buyers making improvements after purchase? Why or why not?
- What properties are currently for sale and what can neighbors do to help market the property to their circle of contacts? What can neighbors on the block do to improve curb appeal to help the home sell?

Depending on the rate of change in the market, **this analysis should be done with neighborhood residents every one to three months**. The assessment will return immediate ideas and actions to help homes sell to strong buyers, and will, over the long term, reveal trends and ideas for broader strategies that can be implemented neighborhood- or city-wide.

In each of the neighborhoods employing this approach – Averett University, Danville Regional Medical Center, Danville Community College – the institutional anchors should be integrally engaged insofar as their employees and students can be a target market of homebuyers, and their self interests include healthy surrounding neighborhoods.

Always the objective is to manage change, day in, day out, so that when properties in and around Danville Community College sell, they sell to good buyers. For this to occur, for the disposition of property to have a positive market outcome, there must be a strong partnership of residents, owners, and institutions that work together to constantly monitor and raise the standards on each block. It is time-consuming, slow, essential work that is not cost effective on troubled blocks undermined by blighted property. Rather, it is work that has a measurable return on *middle blocks*.

Short-term strategies for helping to market homes for sale include:

- Neighborhood-only open houses with Realtors leading work sessions about marketing property to neighbors' contacts,
- Promotion of homes on neighborhood Facebook pages, newsletters, Craigslist;
- Targeted marketing of homes to institutional neighbors (employees, students) via newsletters, websites, bulletin boards and presentations;
- Targeted marketing to homebuyer education classes,
- Curb appeal projects on blocks with a home for sale.

Policies for these neighborhoods need to build and protect housing value. For example, home purchase incentives should not be income restricted, home improvement incentives should focus on exterior improvements that build curb appeal, and on updates that will make homes more appealing to current homebuyers such as adding a bathroom or updating a kitchen. These need to be viewed as integral to maintaining the home and neighborhood's relevance to the next generations of homebuyers, rather than luxury items.

4. Physical Conditions:

The goal in this area is to create and maintain high standards of maintenance on private and public property, sufficient to create confidence and keep the neighborhood competitive for strong replacement buyers.

Physical conditions strategies are best carried out at a number of levels to create confidence and a culture of home improvement. Examples include:

- Small grants (\$500 to \$2,500) to support block beautification projects,
- Exterior home repair, beautification and landscaping workshops in the neighborhood,
- Organizing "Friends of" groups to monitor and program parks and other key public areas,
- Free technical assistance with design of exterior home makeovers, plus simple financing,
- "Best House on the Block" contests, awards banquets, public tours,

- Spring and fall delivery of compost and mulch to gardening events,
- Group purchase of driveway resurfacing, front yard lighting, or other improvements,
- “Fresh Eyes” block walks for neighbors to heighten awareness of curb appeal issues,
- Fence removal incentives where appropriate,
- Free dumpsters delivered to blocks,
- Photos of curb appeal on neighborhood Facebook pages.

Most of these strategies would also be good ways to expand the impact of the Make Danville Shine program. Two of the best programs in the country that Danville should emulate are in Western New York, in Jamestown (Jamestown Renaissance Corporation) and Oswego (Oswego Renaissance Association). A Healthy Neighborhoods strategy requires the presence of an organization capable of working closely with residents, the business community, banks, local foundations, and the city. It may take advantage of state and federal housing and related community development dollars, but generally finds success with private funding that is not income restricted.

SUPPLY ORIENTED EFFORTS: Address the Proliferation of Valueless Pre 1930 Wood Framed Residences in Blighted Condition

The City of Danville must continue its efforts to address the housing stocks build before 1930 that in 2014 are simply not marketable anymore. While habitable, they are end of their useful life. Whenever possible, the city should intervene in the disposition of these structures as follows:

1. Conduct a census of all structures to determine which are owner occupied and which are absentee owned.
2. Endeavor to obtain a first right of refusal to purchase all owner occupied structures of less than 1,000 SF, without significant architectural or cultural heritage value at the time owners opt to sell or die.
3. Demolish properties acquired by this process
4. Aggressively deploy code inspection officers to absentee owned structures in this category, moving to condemn uninhabitable structures, and use code enforcement tools to bring the balance into compliance.
5. Develop a resource to purchase from absentee owners those structures on highly visible corridors.

With 2,000+ boarded up homes weakening the Danville market, continuation successful on going efforts to reduce that number through acquisition and demolition is crucial. It is estimated that 500 such houses (or 25% of the current inventory of boarded up structures) need to be demolished by 2020 to send sufficient signals that the market is stabilizing.

In a weak market situation, though, indiscriminate demolition does not get to the core of the issue. The challenge is the surgical removal of the right structures at the right locations. The removal of an abandoned house on a distressed street rarely matters in terms of market stability. By contrast, the demolition of a problem property on an otherwise fair street that has marketable strengths can have a significant impact. This is one reason the scoring of each structure was done for the city. Where structures with a score of 5 or 6 are on streets with an average score of 4 or below, demolition of just a house or two will not have much impact. But on streets with average scores of 3 and higher, the removal of a boarded up structure can be the difference needed to tip that street into a marketable condition.

In the same vein, sequencing matters. And matters greatly. The first demolition dollars need to be spent in the areas of Danville with the greatest chance for near stability and recovery. When scoring parameters are met equally by two more locations at the same time, priority should be given to the removal of blight near assets: principally anything that is visible from Main, anything within 1/3 mile of Averett, DCC, DCMC, or within 1/2 mile of the River District on the south side of the city.

Finally, disposition matters as well. After a structure is acquired and removed, the core reason for removal - the weakening of market confidence that occurs amidst persistent blight - must continue to receive attention. Once a structure is removed, the essential task is "control". The scraped site must convey order. Disorder is the single most dangerous threat to markets with unstable recent histories. Newly vacated lots must be quickly brought under control, either through tree planting and maintenance of consistent alternative use.

SUPPLY ORIENTED EFFORTS: Updating the Post War Ranch-Style Home

There are about 8,500 homes in Danville built between 1945 and 1976. Among these are many subdivisions of brick ranch-style homes, largely clustered in the western half of the North Side. When they were built they were a move-up opportunity and considered to be a modern, low-maintenance, low utility cost, predictable alternative to the 19th and early 20th century housing stock south of the river. To move into one of these subdivisions was to identify as solidly middle class, successful, upwardly mobile, living the American Dream. There are notable levels of slipping maintenance on a number of these homes, though overall they still tended to score well.

Field Survey Score	#	%
1	2,489	31.97%
2	3,356	43.10%
3	1,471	18.89%
4	375	4.82%
5	78	1.00%
6	17	0.22%
Subtotal	7,786	
Not Surveyed	714	
Total	8,500	

Interviews with Realtors shed light on a disturbing trend: that it is still relatively easy to sell a 3-bedroom, 2-bath brick ranch to an owner-occupant buyer, but a one-bath home tends to sell to investors and be converted to rental property. In fact, owner-occupant buyers will often not even look at a home with only one bath.

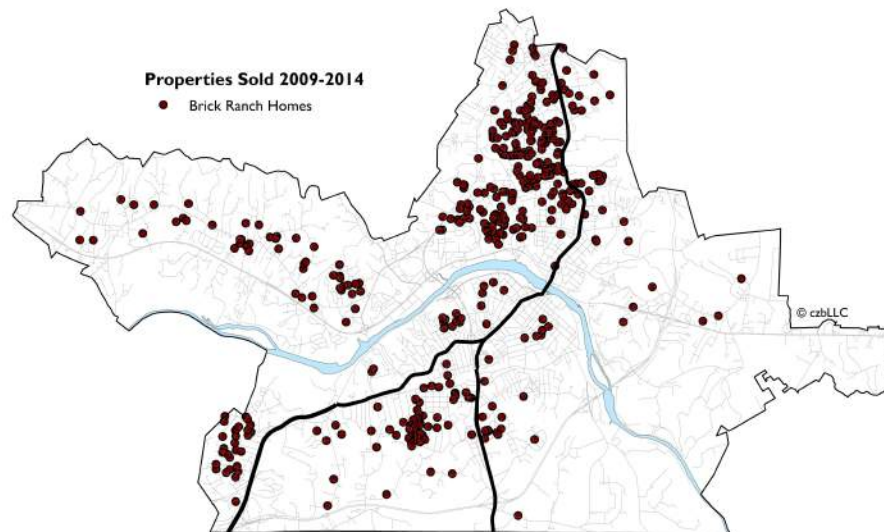
It is important to look first at the configuration of all of the homes from this time period that sold between 2009 and 2014, the number of homes built between 1945 and 1976 that sold each year, and then at the average sales price for different configurations. About 55% of homes sold had only one bath. These properties accounted for one-third (31%) of the property sales in Danville between 2009 and 2014.

The difference in sales price between one- and two-bath homes was significant: \$34,278 for a two-bedroom home and \$23,174 for a three-bedroom home. And prices of \$43,116 and \$54,606 probably represent the maximum affordability for households earning between \$17,000 and

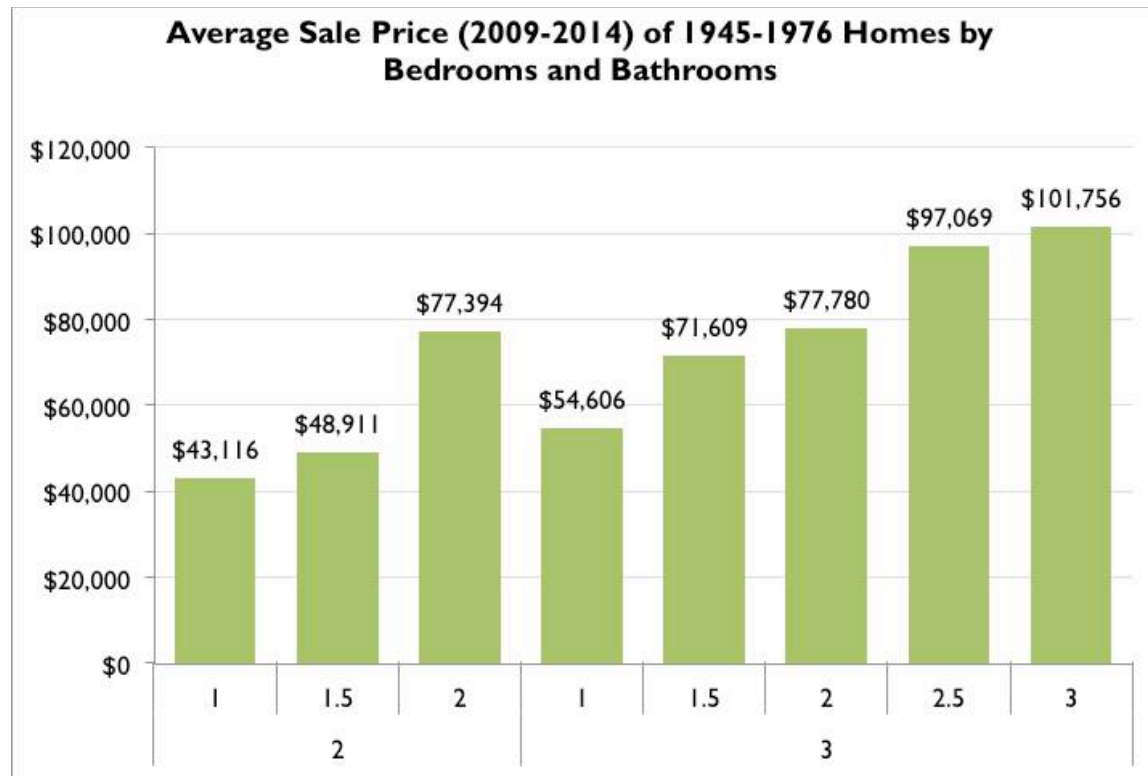
Year Sold	# Sold	% Total	Average Sale Price
2009	90	11.72%	\$ 64,719.00
2010	146	19.01%	\$ 64,733.00
2011	175	22.79%	\$ 58,298.00
2012	127	16.54%	\$ 65,060.00
2013	171	22.27%	\$ 57,147.00
YTD 2014	59	7.68%	\$ 66,195.00
Total	768		\$ 62,328.00

\$22,000. Households with incomes that low tend to have insufficient credit scores to secure a purchase mortgage, which would explain why Realtors have a hard time interesting anyone but investors in these properties.

Realtors also report that sellers of one-bath properties tend to be older and/or unwilling or unable to make the improvements (adding a bath, replacing the original roof, updating the kitchen, exterior cosmetics) that would make the property sell at a higher price and attract an owner-occupant buyer. Owner occupancy has declined significantly in these Danville neighborhoods, and this is due to the combination of an aging owner-occupant population, the mill closing, and the recession which depressed confidence and housing values to the point that only investors have been willing to buy the least competitive of the housing stock.



It is recommended that Danville consider working with lenders to create a loan product to break the cycle of disinvestment and to update and reposition these housing stock so that when in middle neighborhoods they remain relevant to future homebuyers and prevent more of the stock from flipping to investor ownership.



SUPPLY ORIENTED EFFORTS: Danville Home Makeover Loan Product

It is recommended that the City of Danville consider the creation of a low-interest home improvement loan targeted to certain one-bathroom housing stock built between 1945 and 1976, designed for sellers as well as new buyers or current owners. The product would target improvements that would raise value and make the property more competitive for owner-occupants.

The main criteria for property eligibility is that the cost of updating it with a second bath, and kitchen update and exterior curb appeal where needed, could be recovered at sale – within one year for a seller property, and within five years for any other property. These properties are likely to be found in middle neighborhoods – not the best nor the worst. The loan product would be capitalized and administered by the currently dormant bank CDC (Danville CDC) and some of the default risk would be addressed through a loan loss reserve/loan guarantee pool capitalized by a philanthropic investor. City Community Development has capacity for property inspections for loan payouts, and could help with marketing the loan product through neighborhood associations and crime watch groups. The final details of the product should be developed by the Danville CDC members with the advice of Realtors. Following is what we propose.

SUPPLY ORIENTED EFFORTS: Danville Home Makeover Loan Product

Purpose	Assist sellers, owners and buyers to update ranch-style homes in target areas so that they command higher sales prices and compete more effectively for owner-occupant buyers.
Allowable Uses	<ul style="list-style-type: none">• Add 2nd bath to one-bath home. (This is a first priority for all loans where the home has but one bath.)• Kitchen updates.• Replace roof, windows, front door.• Exterior cosmetic improvements to add curb appeal: paint, porch repair, landscaping, driveway repair.
Maximum Loan Amount	\$50,000
Ratios and Credit Score	To be determined. We think this loan should not be as restrictive as a first mortgage purchase loan. For sellers and new buyers, it's possible that no credit requirements are necessary (sellers will be out of the deal quickly, and buyers will already meet first mortgage lender's requirements). For owners, we recommend a lower-than-usual credit score requirement, such as 520. The risk to lenders should be managed by a loan loss reserve/loan guarantee put up by a social investor.
Combined LTV Seller	CLTV (this loan plus balance of first mortgage) not to exceed 100% after rehab value as established by Broker Price Opinion (BPO).
Combined LTV Buyer or Owner	CLTV (this loan plus balance of first mortgage) not to exceed 110% after rehab value as established by Broker Price Opinion (BPO). Loans to buyers can use first mortgage documentation and be closed simultaneously with the first.
Position	First or second, secured by lien on property.
Interest Rate	X% fixed for one borrower on a block; deduct 1% for each additional borrower on the same block to encourage clustered improvement.
Term	10 years or sale/transfer of property.
Amortization - Seller	No payments for one year or sale, whichever comes first.
Income Limits	None
Occupancy Requirements of Borrower	Ideally, none. The main goal is to get this type of housing stock updated in order to interrupt a downward spiral of value. Also, presumably, these kinds of improvements will make the property able to sell at a higher price when it does sell, which will attract more owner-occupants.

Fees	None
Requirements	Complete Ranch Makeover Orientation class. This 1-2 hour class could be taught by a Realtor/Lender team to educate prospective borrowers on the purpose of the loan, on the data that supports increases in value for certain improvements, before-after examples of recommended improvements, advice on selecting contractors, terms of the loan, interest rate discount for multiple borrowers on the same block.
Marketing	<p>Borrowers: Ranch Makeover Orientation should be offered weekly, on the same day and time. Direct mail, door hangars, and presentations at neighborhood association or crime watch meetings can all be implemented in target areas promoting loan product and encouraging Orientation as next step.</p> <p>Realtors: Presentations to Realtor sales meetings will be key to reaching sellers. Production of promotional materials (print and electronic) for use by Realtors will help them market the product.</p> <p>Lenders: Presentations and bimonthly email updates and marketing with recent case studies will make loan officers familiar with the product and able to promote it to first mortgage purchase clients.</p>
Capitalization	Loan pool capitalized by Danville CDC lenders. Each lender owns a share of each loan equal to the lender's share in the pool.
Loan Loss Reserve	To be funded by a social investment by a foundation, local government, or other social investor. To cover a percent of loan loss negotiated with lenders in exchange for concessions on credit requirements.
Production (Annual)	<p>There are about 8,500 homes in Danville that were built between 1945-1976. About 2% sell each year. About half have one bathroom. We recommend that the program expect to be offered for ten years. A possible rollout scenario:</p> <p style="text-align: right;">Year 1: 20% of homes for sale = 34; 1% others = 83; total = 117 Year 2: 10: 25% homes for sale = 43; 1% others = 83; total = 126</p> <p>Total: 1,251</p>

SUPPLY ORIENTED EFFORTS: Danville Home Makeover Loan Product (con't)

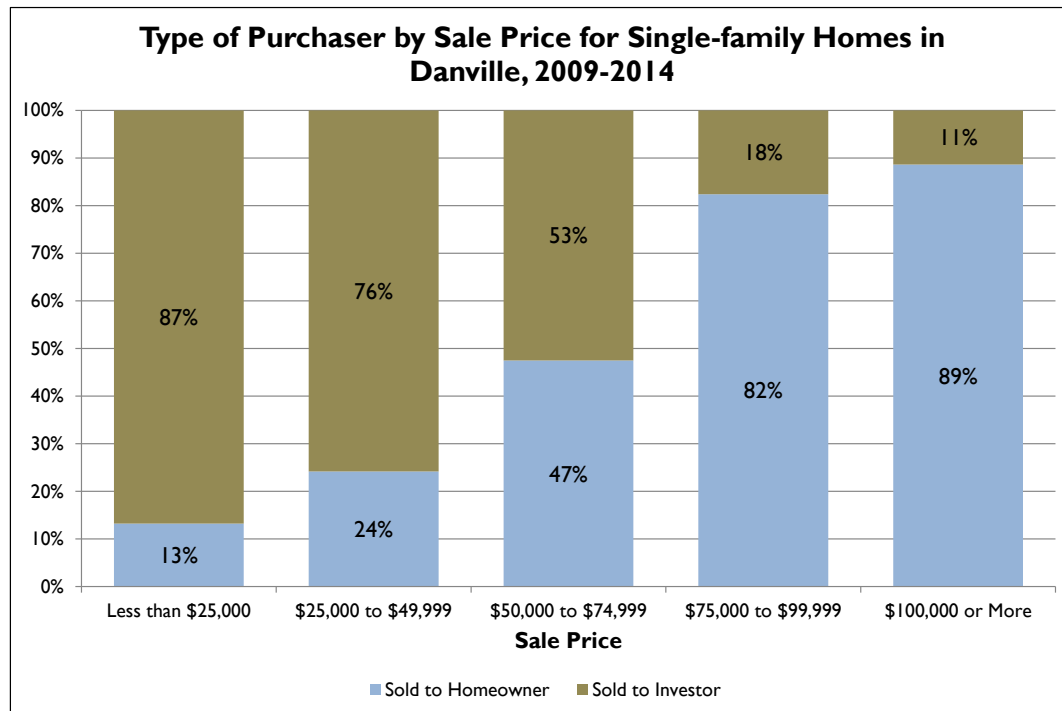
Steps to moving forward with this or a similar loan product include:

1. Present to meeting of Danville CDC, secure commitment to move forward with design of product.
2. Encourage appointment of Realtors to CDC board to assist in design and marketing of product.
3. Danville CDC and partners design product, including percent and total dollar amount of loan guarantee.
4. Secure commitment from funder for loan guarantee
5. Secure commitments from bank members to capitalize loan pool
6. Danville CDC create loan policies and procedures, marketing plan.
7. Create marketing material, curriculum for Ranch Makeover Orientation, and hire or train staff as needed.
8. Implement program.

Intervening to manage the disposition of these properties is perhaps the single most critical step the City of Danville must endeavor to undertake if the long term health of its housing market is deemed critical. The sheer number of at risk properties - marginally marketable today, under maintained, and everywhere - requires strategic attention. It is estimated that 15% of these will need to be managed to a successful sale to a strong buyer the next ten years for this challenge to be adequately addressed. On this basis, roughly \$60M is Makeover Loan Product origination capacity - about \$6M per year - will need to be developed for the period 2015-2025.

SUPPLY ORIENTED EFFORTS: Managing the Low Cost Home Ownership Gap

Addressing the physical stocks by alone focusing on supply however will be insufficient. Demand (the willingness and capacity to act) requires attention in Danville. In the aftermath of the foreclosure crisis, lenders tightened credit considerably, so much so that the Mortgage Bankers Association (MBA) created a new index to measure and track it, the Mortgage Credit Availability Index (MCAI). The index uses a proprietary mix of metrics related to borrower eligibility (e.g., credit score, loan type, loan-to-value) to assess the extent to which mortgage credit is more or less available, indexed to March of 2012 as the baseline of 100. Working backward or forward, any number greater than 100 indicates more credit available, and less than 100 means less credit available.



Working with historical data, the MBA estimates that the Mortgage Credit Availability Index was in the range of 750-850 during the period of 2006-2007. In September, it was 116. The peak of credit availability in 2006-2007 was due in large part to the availability of low-doc, no-doc, stated income, and interest-only loans, and significant cash-out refinance activities. But it was also true at that time that a hardworking household of modest means could begin to build a credit history (or work with a housing counselor to repair one), save a down payment of 3%, and buy a modestly-priced home with a 30-year fixed rate mortgage, without paying premiums for mortgage insurance. Since the dramatic tightening of credit in about 2010, a whole stratum of the homebuying market, whose income matches up with low-cost homes, has been made ineligible for a mortgage.

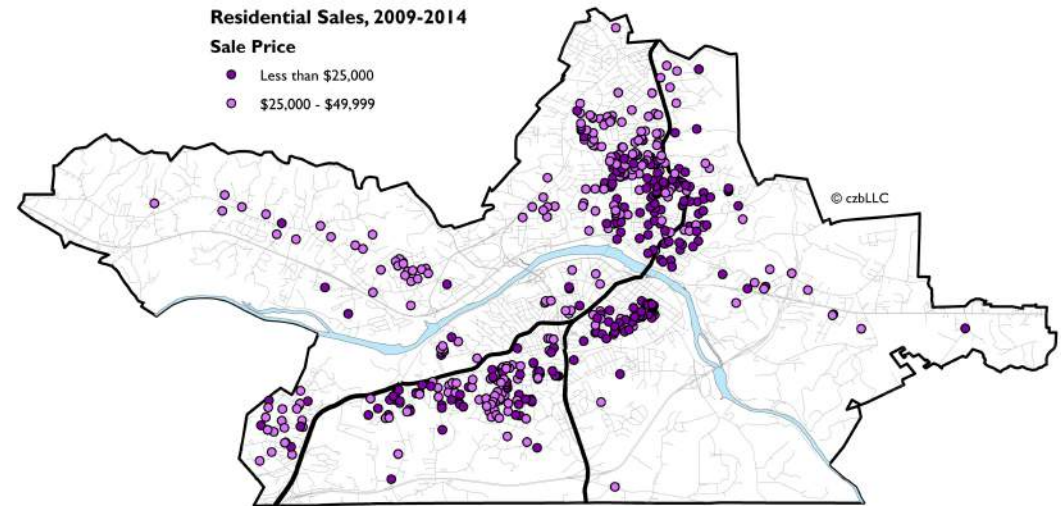
Housing markets are like ecosystems in that a significant change in one part creates a matching reaction in another part. Without this segment of the owner-occupant market, low-cost homes that used to be purchased by them are now being purchased by landlords.

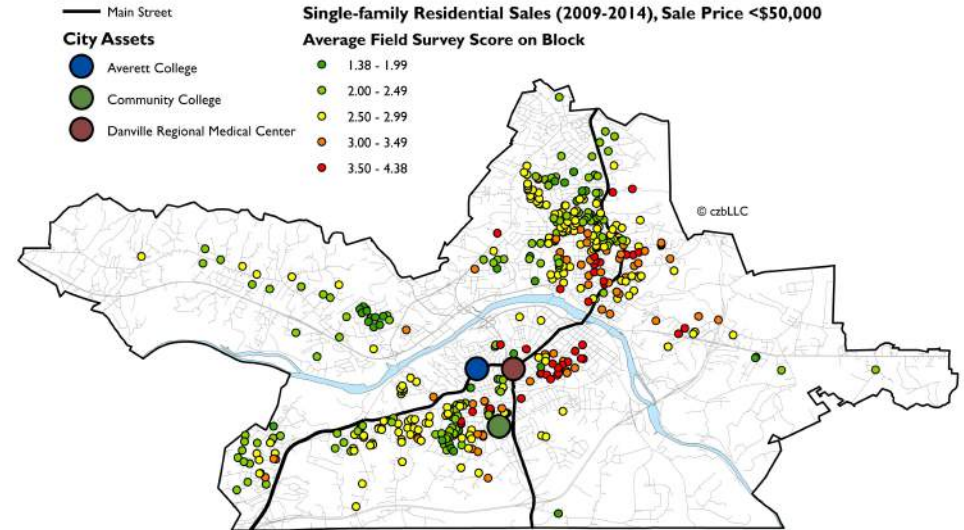
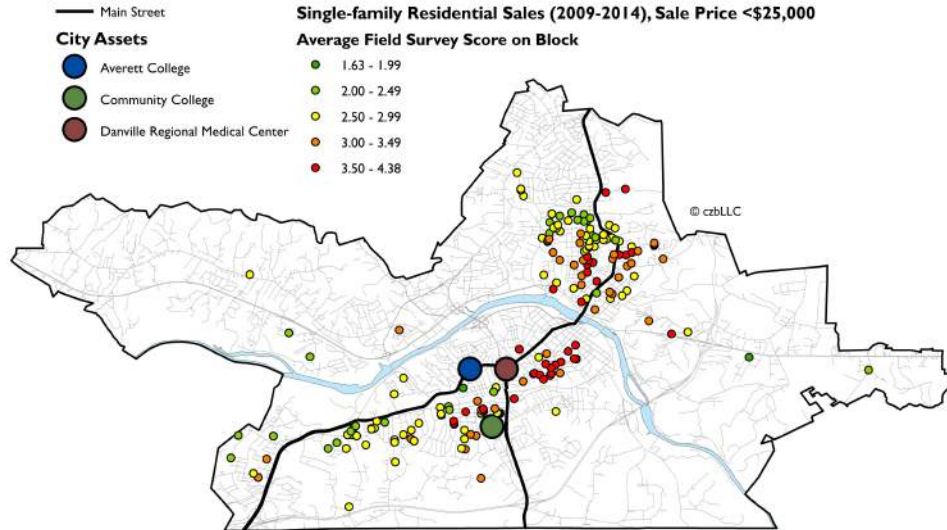
And this comes at a time when housing values in Danville are depressed, creating more bargains for landlords that are inaccessible by households of modest means to purchase with a mortgage.

This scenario is happening all over the nation in weak markets, and neighborhoods of modestly priced homes that used to be natural habitats for low-to-moderate income first-time buyers are tipping to investor-ownership. In Danville, a number of the middle class professionals we interviewed about other topics revealed that they had recently acquired several properties (2-bedroom, 1 bath) in the Schoolfield neighborhood for \$25,000 apiece, and are renting them out for \$500 a month (which translates to a principal and interest payment of \$114 if there were a 30-year fixed rate mortgage available at 4.5% with a 10% down payment).

Mapping the lower rungs of sales prices shows neighborhoods that are vulnerable to increased investor purchasing.

This matches up with neighborhoods that, in 2000, had the highest proportions of manufacturing workers.





Not all homes under \$50,000 are of good quality, of course, nor are they necessarily on desirable blocks.

But in neighborhoods like Druid Hills, Schoolfield, Springfield, and Edgewood, there is still a lot of visible pride and strong maintenance on intact blocks.

While affordable rental homes are an important part of any market, rental property in this value range is especially unlikely to enjoy the type of investment behavior that protects the quality of the property in order to achieve long-term equity gain, because any moderate investment creates an appraisal gap.

Rather, these are the price range of homes that attract investment for short-term cash flow, milking the property and allowing conditions to decline. In particularly troubled markets, cash-flow investors also stop paying taxes, knowing the taxes they don't pay - in the two years it takes for tax foreclosure to happen - add up to more than the property is worth.

SUPPLY ORIENTED EFFORTS: Strategies to Manage the Gap

There are a number of strategies that Danville employ to mitigate potential negative impacts of increased investor ownership and to increase the ability of low-mod income households to purchase these homes instead of renting them. Some are population-based: helping more low-income households to meet today's credit requirements, and making more mortgage credit available by mitigating risk to lenders.

Others are most effective applied to specific places: supporting and influencing small landlords, acquiring property for lease-purchase, and raising values with home improvement lending. These strategies will all work well with a Healthy Neighborhoods place-based strategy. The places where it makes most sense to invest Danville resources in saving these low-cost homes will be where average block scores are strongest, such as Druid Hills, Schoolfield, Springfield and Edgewood on the south, and in the north, the blocks right above and below Third Avenue. In the maps below, these would be the areas with green and yellow dots, as opposed to orange and red (for the orange and red areas we recommend a different strategy).

1. Help More Low-Income Households Meet New Credit Requirements

Some homebuyer counseling and education, through the Danville Redevelopment and Housing Authority and Telemon Corporation, is available in Danville though it is not marketed widely (little or no information about it is on the organizations' websites) and is mainly targeted to prospective purchasers of specific homes the organizations develop rather than to people buying on the open market.

The most aggressive homebuyer development programs are offered by nonprofit organizations in the NeighborWorks America network. Those that are designated as NeighborWorks Home Ownership Centers do substantial marketing to recruit prospective homebuyers, offer one-hour orientations, classes and one-on-one counseling at frequent intervals in a variety of times and locations convenient to customers, and often provide down payment and closing cost assistance (which is currently available in Danville provided one knows to look for it), as well as first and second mortgage loans to help finance the purchase, usually in partnership with local lenders. The NeighborWorks nonprofit closest to Danville is headquartered in Christiansburg (Community Housing Partners). It is suggested that Danville explore two paths to expand homebuyer development capacity in Danville: with CHP, test the feasibility of opening a satellite office in Danville; and, with DRHA, explore the feasibility of significantly expanding their homebuyer development capacity.

2. Make More Mortgage Credit Available

It is suggested that Danville explore with the Danville CDC a number of alternatives to mitigate lender risk so that more credit is available to a threshold of households they perceive as riskier (the exact parameters of which would have to be negotiated in the context of credit enhancements to the banks, but we mean households with credit scores around 520 who have completed homebuyer education and met other underwriting guidelines). These could include:

- A partial loan guarantee fund for a first mortgage pool capitalized by banks, which the CDC would lend to low cost home purchasers and service indefinitely,
- Origination and aggregation of small mortgages (banks often do not like to make mortgages of less than \$50,000) for sale as a package to an individual lender,
- Creation of a new loan product designed for low-cost homes and buyers, originated by the CDC, then seasoned for a period of time (this is what lenders call it when a loan has been serviced for 6+ months to get past the time the loan is most likely to default) and then sold to individual lenders to replenish the loan fund.

3. Support and Influence Small Landlords in Targeted Neighborhoods

Where new landlords are coming into a market, help them to be the best property managers they can be by convening them on a neighborhood basis to solve problems, share strategies, and receive training on renter screening, dealing with the police and problem renters, low cost improvement strategies, and other issues they care about. If Danville creates the Home Makeover Loan described earlier, make it available to them if they add bathrooms, upgrade kitchens, beautify exteriors in ways that raise the property value.

4. Encourage Nonprofit Developers to Acquire Property for Lease-Purchase in Targeted Neighborhoods

In areas where prices are low but block scores are strong, encourage nonprofit developers such as Telemon Corporation and the Danville Redevelopment and Housing Authority to acquire properties at risk of purchase by investors and convert them to a lease purchase option for lower-income homebuyers who are on their way to repairing their credit and establishing work history. Both organizations do lease purchase now. It is important to target this strategy to strong blocks, however, as DRHA had properties when we last visited on blocks so tough that they could not even persuade anyone to rent them.

5. Raise Values in Targeted Block Clusters With Home Improvement Lending

This strategy would use the Home Makeover Loan product but with very proactive marketing on blocks at risk to build value and appraisals to the point that those properties are less appealing to bottom-feeding investors. For this to work, improvements need to add substantial value (adding a bathroom, adding a bedroom, updating kitchens, increasing curb appeal), and be clustered together and/or on blocks where the improvement can improve the whole block's score. The first step (after the loan product is available) would be to identify the areas Danville wants to target and start meeting one-on-one with residents to talk about it, emphasizing the improvements that most increase value, and the fact that the interest rate drops by a point for each additional borrower on a block. This approach is especially effective used in concert with the Healthy Neighborhoods approach described earlier.