

REDEVELOPMENT

Posted 11/7/08

Please clarify how an NSP1 grantee would redevelop blighted structures that do not fall under the definition of foreclosed or abandoned?

To the extent that a grantee wishes to use NSP1 funds for activities that are eligible under only one of the five eligible uses, the five eligible uses listed in HERA and the NSP1 Notice can be viewed as severable and discrete. However, the provisions of the different Eligible Uses become cumulative if a grantee wishes to use NSP1 funding for multiple eligible activities on the same project, and those eligible activities are not all categorized under the same one Eligible Uses.

Under Eligible Use E, a grantee may use NSP1 funds to redevelop a property that is vacant or has been demolished. Providing NSP1 funds are only used for redevelopment activities listed under Eligible Use E, the property need not be abandoned, foreclosed upon or previously residential.

If the property to be redeveloped is not vacant or previously demolished, NSP1 funds can be used to demolish structures on the property prior to redevelopment, under Eligible Use D. However, in order to use NSP1 funds for demolition, the structures must be blighted, but they need not be abandoned and they need not be residential.

If a grantee wishes to use NSP1 funds to purchase and then demolish and redevelop a property, then they must qualify the acquisition under Eligible Use B. Under Eligible Use B, homes and residential properties can be purchased with NSP1 funds if they are abandoned or foreclosed upon; the grantee can rehabilitate, sell, or rent such properties under Eligible Use B; the demolition can be undertaken under Eligible Use D, and the grantee can redevelop the properties under Eligible Use E.

If a grantee wishes to purchase a home and envisions redeveloping the property sometime in the future for some presently-unknown use, the acquisition can be undertaken under Eligible Use C, Land Banks; Eligible Use C can be used only for purchasing and maintaining or disposing of foreclosed upon homes; vacant property, abandoned property or nonresidential property cannot be purchased under Eligible Use C. However, if the redevelopment of the property is imminent, then Eligible Use C would not be appropriate, as the grantee's intent is clearly not to just buy the property and hold it for some indeterminate period for eventual reuse.

If a grantee wishes to use NSP1 funds to provide financing to another entity for that other entity to purchase or redevelop a homes or residential properties, that must be undertaken under Eligible Use A; the property must be foreclosed upon and must be residential.

Posted 11/7/08

Can redevelopment activities be done in an area that does not have a lot of abandoned or foreclosed properties? One of the proposed redevelopment projects would call for the purchase of a vacant multi-unit complex (approximately 270 units of prior LMI housing) from a for-profit individual in the amount of over \$6million. Would the local grantee be able to purchase and redevelop it into a mixed income property?

The NSP1 Notice requires grantees to give priority emphasis and consideration to those metropolitan areas, metropolitan cities, urban areas, rural areas, low- and moderate-income areas, and other areas with the greatest need, but it does not mandate that grantees work only in those areas. HUD advises grantees to have a strong rationale for undertaking projects outside areas of greatest need. If you have determined that your proposed project makes sense, the Notice would allow purchase and redevelopment of a vacant multifamily structure into a mixed use project.

Posted 11/20/08

Does “vacant property” refer to vacant land or vacant buildings?

A vacant property under Eligible Use E can either be vacant land or vacant buildings on the land.

Posted 11/20/08

Is vacant, undeveloped land eligible to be redeveloped under Eligible Use E?

In order for a property to be "redeveloped" under Eligible Use E, it must have been previously developed and is now vacant. Raw land would not be eligible for redevelopment. It will be up to the grantee to demonstrate that the property had been previously developed. Previous redevelopment could include vacant buildings or infrastructure improvements such as roads, water, sewer, power lines, etc. However, land that has been farmland, open space, wilderness, etc. would not be eligible for redevelopment. The Department has not imposed any specific standard on how long a property has to be vacant in order to qualify for redevelopment under Eligible Use E; grantees should exercise reasonable judgment in this area. A property that had once been a factory and has been idle for 20 years is not going to raise any issue. However, reasonable minds might question using NSP1 funds to redevelop a site where the previous development was demolished 100 years ago and the property has lain fallow ever since.

Posted 11/20/08

Can NSP1 grantees redevelop property that was not foreclosed upon?

Yes, under eligible use E, properties need not be foreclosed in order to be redeveloped. NSP1 only requires that these properties be demolished or vacant.

Updated 06/17/09

If a property is acquired for redevelopment purposes and disposed of at a discount, does this constitute a financing mechanism?

No, the scenario you described in your question would not be carried out under eligible use A. A financing mechanism for NSP1 purposes must involve the use of NSP1 grant funds in connection with a loan (e.g., direct loan, loan guarantee, loss reserves established in connection with loans) or other form of indebtedness.