Housing for Neighbors
New Opportunities in Durham

In Durham, North Carolina's Old North Durham neighborhood, residents have begun to experiment with a "sweat-equity" form of low-cost housing development. Durham administrators have replaced the term "sweat-equity" with the less descriptive title: "owner-builder". For all practical purposes, the administrative process and housing goals of these self-help programs are equal. The Durham owner-builder program attempts to provide incentives and some direct assistance for rehabilitation of the community's deteriorating housing stock.

Under the proposed program guidelines, owner-builders will develop eight new townhouses and rehabilitate an historic apartment building into condominiums. The rehabilitation project will be the first such Neighborhood Housing Services (NHS) project in the United States. The program's primary service will be to reduce or eliminate down-payments for rehabilitation projects. Homeownership opportunities will be provided for households otherwise excluded from conventional housing finance markets. A secondary goal of the NHS is an improved state of security and stability within the neighborhood as a consequence of the owner-builders' direct attention to property improvement.

In the following analysis, objectives of an NHS and the relationship between an NHS and an owner-builder program will be described.

Durham NHS, A Public-Private Partnership

Durham's NHS, like sister programs in over 200 other communities, involves a public-private partnership which brings together neighborhood interests that are needed to ensure revitalization. Local residents, lenders, governmental officials and businesses are typical participants in the partnership. Technical assistance and funding for most NHS groups comes from the national Neighborhood Reinvestment Corporation (NRC). An appointed Board of Directors governs the overall direction of the NHS. The Board maintains committees to provide residents with adequate expertise and resources for the design and implementation of NHS programs. Owner-builder, public relations, and loan committees are examples of special function groups within the NHS hierarchy.

An NHS may help arrest decay in target neighborhoods by leveraging public monies with private investment to promote mutually beneficial results. City funding constitutes only about 15 percent of Durham NHS's operating budget, with the remaining funds coming from local business, grants and income projects (such as loan origination fees from state Housing Finance Agency loans.) Matching funds from private organizations have allowed the city a substantial return on its initial investment. In Old North Durham, one dollar of city investment has yielded thirty-five dollars of private investment.

Durham NHS Program Tools

Durham NHS uses a variety of programs to achieve its goals. A revolving loan fund provides low interest loans to allow property acquisition and rehabilitation. Technical assistance for rehabilitation work is also provided. Other activities include a "problem properties" program and the Section 8 moderate rehabilitation program. Both allow acquisition and rehabilitation of substandard properties for creation of homeownership opportunities.

Families in Durham's first round of projects are supervised by professional Durham NHS staff knowledgeable in the building trades.

Daniel Freedman is a Master's Candidate in the Department of City and Regional Planning at The University of North Carolina at Chapel Hill.
Money for this round is provided by the Neighborhood Reinvestment Corporation. It is anticipated that profits and contributions from NRC and members of the NHS partnership will fund subsequent owner-built projects. Durham NHS costs for the program, exclusive of materials and site acquisition fees, are approximately $50,000 per year.

**Motivations for Participation**

In the Old North Durham neighborhood, the owners' labor, or "sweat equity," may eliminate the need for a cash down payment. Minimal closing costs may be required in some instances. Owner labor will reduce mortgage loans by about 20 percent for the rehabilitation projects and approximately 30 percent for the new construction.

Interest in owner-built housing is in part a response to rapidly escalating housing costs. Soaring interest rates and construction costs have made first-time home purchases extremely difficult. In 1970, assuming that housing expenses were 25 percent of a family's total income, nearly half of all families could have purchased a home. By 1980 less than one third of all families could afford to buy a house even if housing expenses were 30 percent of total income. Increases in family income have not kept pace with increasing costs. Thus, sweat equity provides an innovative mechanism to bridge the growing financial gap.

... THE OWNER-BUILDER IS SENTENCED TO A YEAR OF HARD LABOR AND IN RETURN GETS A HOUSE...

The prospects for successful owner-built housing projects have been enhanced by a renewed enthusiasm for "home-made" goods and "traditional" construction methods. Many families, regardless of their background, are interested in gaining skills necessary to build and maintain their homes. Conventional financing is frequently available for owner-built housing when sponsored by an NHS. The only requirement for participants in the Durham owner-builder program is that the individuals or families be eligible for conventional loans without down payment requirements.

Owner-built housing fosters greater NHS involvement in the development and implementation of neighborhood revitalization strategies. This involvement spurs greater resident interest in NHS activities. In fact rehabilitation loan activity has been steadily increasing at the Durham NHS as the owner-builder projects have gained momentum.

Construction of new homes that will be architecturally compatible with adjacent historic properties will help foster neighborhood revitalization. Recent housing construction, especially many duplexes in Old North Durham, have been inappropriately designed. The National Trust for Historic Preservation has demonstrated an interest in Durham's owner-built housing program as a mechanism for neighborhood revitalization, and has helped provide property acquisition and construction financing for the rehabilitation work in Durham.

**Owner-Builder Characteristics**

Owner builders are not typical homebuyers; they consider more than price, location, and amenities in their home buying decision. Richard Furr, a vice-president at Central Carolina Bank, states that the owner-builder is "sentenced to a year of hard labor (the time typically required to build a new house) and in return gets a house." Many owner-builders maintain full-time jobs and work on their homes on weekends and in the evening.

Tight construction work schedules dictate labor input from more than one person in each home. Thus, couples or families are preferred, although husband and wife teams working on the same home have created domestic stress. Attracting owner-builders is a difficult enough task without mandating family income or composition. Buyers will, however, need to qualify for conventional financing, i.e. meet Federal National Mortgage Administration (FNMA) require-
ments for loan to debt ratio, (an individual's allowable debt based on his or her income), and expected income of participants is approximately $20,000-25,000. The sweat-equity greatly reduces the down payment requirement and reduces the loan amount financed.

Site Selection

A desire to minimize housing costs while ensuring a significant economic and social boost for Old North Durham, influenced the site selection for the two owner-built housing projects. The Perry Building, located on the northwest corner of Geer and Mangum Streets was acquired at less than its assessed value. The adjacent vacant parcel, as well as two parcels with severely dilapidated housing (the townhouse construction site), were also obtained through bargain sales, where a property owner will sell his or her property at less than its fair market value. The Geer and Mangum intersection is a transition area for Old North Durham. Mangum Street is a major one-way artery, and the area immediately to the south of site exhibits signs of advanced decline.

Building Design

NHS management began with the creation of an owner-built housing committee. The committee sought to develop design alternatives for the new townhouses, to program the rehabilitation, and to achieve financial success of the projects.

Delegating building design to the owner-builder committee should help guarantee successful long-term NHS neighborhood revitalization efforts. Original owner-builder committee goals required the committee to identify its roles. For example, selection of the most appropriate designs, specification of basic unit features like floor plans, and review of cost estimates. The committee appointed a group of North Carolina State University students to develop preliminary design proposals.

Among the owner-built housing committee members were an architect, realtor, builder, and preservation technology instructor. Their ideas for the new construction differed. Concerns arose regarding common spaces, homeowners' associations, and floor plans. The rehabilitation also sparked substantial debate. Although design improvements resulted from the committee's involvement, technical issues and questions of extent of rehabilitation or replacement did not lend themselves well to resolution by committee.

Two months after the owner-builder committee began its design work, services of an architect were obtained to remedy the inadequate design process. The committee now periodically reviews plans submitted by the architect.

The owner-built housing committee is a unique example of how a not-for-profit organization has designed and facilitated construction of privately-financed housing. The experience Durham NHS gains in current owner-built housing projects will vastly improve the efficiency and effectiveness of subsequent projects.
Marketing the Project

The owner-built housing committee learned some important marketing lessons with the first owner-built housing projects. In December 1983, the committee was split into marketing and design review groups. The Perry Building rehabilitation estimates and designs were completed before a sufficient pool of potential owner-builders had committed themselves because early marketing was not pursued until rehabilitation costs were determined.

The committee learned its lesson and marketing for the new townhouses began even before preliminary designs were complete. The townhouses will have three bedrooms and are therefore best suited for families. The Perry Building, on the other hand, might better suit smaller families, couples, or people interested in fewer home maintenance chores.

National Experiences

Like those in Durham, owner-built projects throughout the country have been tailored to individual community needs. An owner-built new construction program in Hartford, Connecticut will provide rental units in owner-occupied homes. These rentals will provide the community with needed housing and will provide the additional income needed to make homeownership affordable.

Improving the opportunities for families to become homeowners and achieve visible evidence of a shared sense of community adds significant momentum to the NHS goal of creating a neighborhood with a healthy investment and re-investment environment. Experiences throughout the country have demonstrated that governmental agencies and private companies, as well as the neighborhood, perceive benefits from owner-built homes and are willing to contribute to the program.

In Oakland, California the city provided substantial discounts for NHS purchase of under-utilized land. An insurance consortium in Hartford, Connecticut increased its financial involvement in the NHS and has provided monies for acquisition of a playground. State Housing Finance Agencies in Alaska, Connecticut, Colorado, Minnesota, and Missouri are participating in financial arrangements for NHS owner-built programs. NHS groups have found that these programs have greatly increased awareness of other NHS services. In Durham, inquiries about owner-built opportunities have sparked increased interest in weatherization and home rehabilitation loans.

National experience has shown that owner-built housing is best-suited to areas with high labor costs. Labor typically comprises 30 percent or more of the cost of a new home. Labor-intensive versus technology-intensive designs are promoted with owner-built schemes. The owner builder's labor contribution for new construction should account for 50 percent of the total labor invested. Even in areas where labor costs are modest, owner-built projects are still attractive alternatives.

Conclusions

Owner-built projects are not a panacea for the problems of homeownership. Owners must be willing and able to work with their neighbors and invest long hours on their homes. Personality and schedule conflicts must be accommodated. For many families with little savings, however, owner-built projects offer an opportunity for homeownership in the spirit of the old-fashioned community barn raising. Owner-built housing can also strengthen neighborhood involvement in setting and implementing NHS policies. Durham's experience should provide lessons for those interested in the viability of owner built alternatives in their own communities.