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Houses sell for far less than taxpayers' rehab costs

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Christy Echevarria lives in a house that cost $307,099 to build on a street with a boarded-up duplex three doors down and a number of other vacant houses.

The house is less than a half-mile east of Nationwide Children's Hospital near Downtown, in a South Side neighborhood the city and hospital want to revitalize.

Federal neighborhood-stabilization money was used to transform the once-derelict duplex on Gilbert Street to a single-family, 2,500-square-foot home with five bedrooms, three bathrooms and " green features" that include foam insulation and an energy-efficient heating and cooling system.

But Echevarria didn't pay $307,000 for her house. She bought it four years ago for $110,000.

"It was hard to pass up," said Echevarria, 34, a first-time homebuyer and a teacher with Ohio Virtual Academy.

City officials say she's the kind of person they want to attract to neighborhoods that have struggled with foreclosures and vacant homes.

But at what price? Houses in Echevarria's neighborhood sold for a median price of $23,250 in 2014, according to the Columbus Board of Realtors.

Still, that's 60 percent higher than they were going for in 2009 — a median price of $14,450 based on 46 sales.

According a spreadsheet the Columbus Department of Development provided *The Dispatch*, the average total development cost for 148 houses built or rehabbed with neighborhood-stabilization money was $266,017.

The average sales price, however, was $121,744. The average difference — something officials call the “development gap” — was $144,273.

There are similar programs across the United States. In Los Angeles County in California, the average rehabilitation cost $313,000 per house. In Wayne County, Mich., home to Detroit, the average is $246,000.

In Cuyahoga County in Ohio, it’s $122,000.

The program is not geared to make money for the city.

The federal government created it to help hard-hit neighborhoods and has provided $7 billion in three rounds of funding.

“It’s an investment into a community and area that, for me personally, you can’t really put a dollar amount on,” said Brandyn McElroy, who leads the Weinland Park Community Civic Association.

The average total development cost of the 10 houses in his neighborhood — when they could be determined — was $307,281. The average sale price was $127,200, leaving an average development gap of $180,081.

That gap worries some.

Linden-area church leaders and residents brought it up during a Columbus City Council meeting in April.

An official with the U.S. Department of Housing and Urban Development in Washington, who declined to be identified, said HUD officials have detected no problems with the way money was spent in the Columbus program.

“They were adhering to policies and regulations of the program,” the official said. “We monitor each grantee to make sure expenditures are correct.”

Mark Calabria, director of financial regulations and studies at the libertarian Cato Institute, said he helped draft the language for the neighborhood-stabilization program when he was an aide to Alabama Sen. Richard Shelby, a Republican.

“We had skepticism how this was going to work,” Calabria said. “There is a lot of room for abuse, fraud and padding of costs.”

He said it is “ridiculous” that houses in some of these neighborhoods cost $300,000 to develop.

“You and I could have got that done for a whole lot less,” he said.

Columbus Housing Administrator Rita Parise said the city went through a variety of cost-containment efforts.

She said bids had to be within 15 percent of cost estimates prepared by the nonprofit developers, such as Campus Partners — Ohio State's nonprofit development arm — Community Development for All People and Habitat for Humanity.

"The money was justifiably spent on these properties," Parise said. "We're working with properties suffering from vacancy and abandonment. No electric wiring."

Parise said the city does not track how much money builders made on each project.

A report by Federal Reserve Board economists this year concluded that the evidence of housing recovery in areas where neighborhood-stabilization money was spent was mixed in the seven metropolitan areas it studied.

The study focused on the counties that include Cleveland, Chicago, Detroit, Los Angeles, Miami, Philadelphia and Phoenix, and looked at projects paid for by the second round of funding.

In Cuyahoga County, the program might have helped slow an increase in vacancy rates and decrease in sales volume, according to the study. That county's land bank used much of the money for demolition.

Echevarria said she stumbled across her Gilbert Street house. She had been looking in the Schumacher Place and Merion Village neighborhoods near German Village and in Olde Towne East when she found the Gilbert Street house.

"It was already built. I didn't choose anything," Echevarria said.

Echevarria's house and others seem to be spurring at least one property owner to do more with his rental house.

Next door, Larry Papier is fixing up a brick duplex. He said he is doing the work for three reasons: "To make it look nicer, to improve the neighborhood, to get more rent."

John Edgar, executive director of Community Development for All People, one of the nonprofit groups that developed houses with neighborhood-stabilization money, said the work is "significant and catalytic in the renaissance of the South Side."

He said as far as he is concerned, there has been no money wasted.

"We do want high-quality homes in these urban neighborhoods on the South Side of Columbus," he said.