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South Norwalk 2- to 4- Family Housing Market Study

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Introduction

Report Purpose

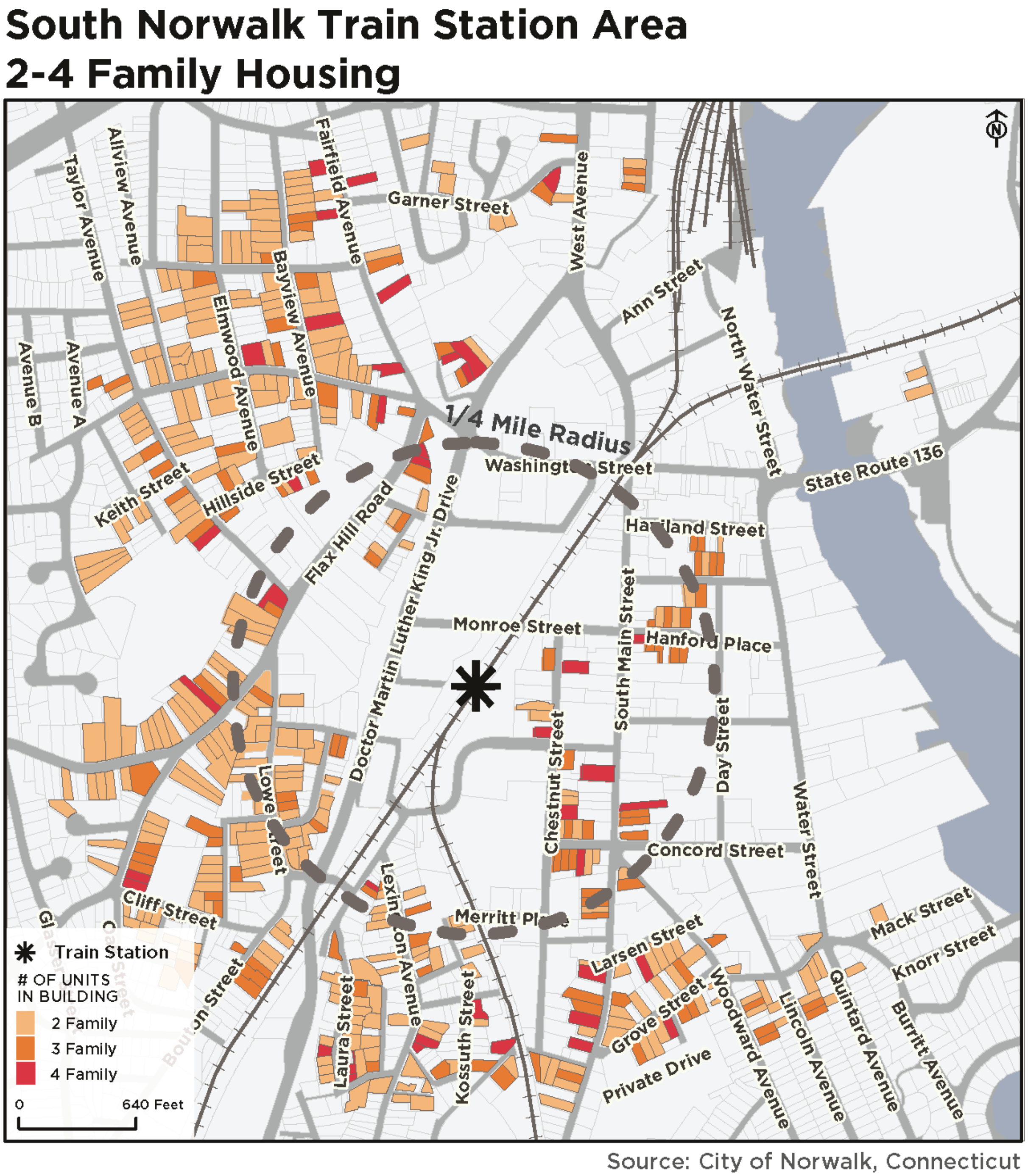
The goal of this report is to provide public officials in the City of Norwalk, Connecticut a resource to assist in the development of policies to support and enhance the stock of 2- to 4-family houses in the neighborhood surrounding the South Norwalk Train Station. This study is supported by the One Region Funders Group, which awarded the Norwalk Redevelopment Agency a grant to study the 2- to 4-family housing market as a part of its broader neighborhood revitalization efforts. As referenced in the grant application, the purpose of the study is to better understand the dynamics of this market in order to determine strategies to increase the amount of owner-occupation of 2- to 4-family housing and deed-restricted affordable housing in the neighborhood surrounding the South Norwalk Train Station. 2- to 4-family housing makes up a sizeable amount of the "unrestricted" affordable housing in South Norwalk, due to its comparatively lower rents and sales prices, which brings it within reach of low- and moderate-income families. However, because it is unrestricted affordable housing, the occupants of 2- to 4-family housing are at greater risk of dislocation due to gentrification or redevelopment. The market information contained within this report is intended to assist the City of Norwalk in developing a detailed understanding of current and past market conditions in the 2- to 4-family housing segment in South Norwalk, Connecticut.

The Norwalk Redevelopment Agency contracted Jonathan Rose Companies to complete this market study of the 2- to 4-family housing stock in South Norwalk, Connecticut. Over a four-month period in 2012, Jonathan Rose Companies compiled data from several sources to describe existing market conditions, including rents and sales prices; trends in the 2- to 4-family housing market from 2004 to 2012; a demographic profile of residents, renters and purchasers of 2- to 4-family housing in South Norwalk; and national data on 2- to 4-family housing. The sources of data are described in more detail below. Additionally, the Norwalk Redevelopment Agency assembled a Steering Committee, which received biweekly updates from Jonathan Rose Companies containing interim research findings and advised on directions for further research. The members of that Steering Committee are listed in the Appendix.

Target Geography

The target area for this study is a quarter-mile radius circle around the South Norwalk Train Station, located at 24 Monroe Street, South Norwalk, Connecticut. A map of this area is below.

Figure 1



There are a total of 103 2- to 4-family properties located within this target area, of which 62 (60%) are 2-family, 32 (31%) are 3-family, and 9 (9%) are 4-family houses (total of 256 units).

Due to the limitations inherent with a data set this small, the market analysis also utilized a larger geography to note temporal and spatial trends in the 2- to 4-family housing market. This geography varied by data source:

- For purposes of analyzing market data on sales and rentals of 2- to 4-family houses on the Multiple Listing Services (MLS), all such properties classified as located in the South Norwalk Market Area were considered.

- For purposes of analyzing U.S. Census and American Community Survey (ACS) data, the three census tracts that make up the South Norwalk neighborhood were considered. This area is shown in the Appendix .

For purposes of clarification, the following terminology is used to distinguish between the different geographic scales of analysis:

- The area within a quarter-mile radius of the South Norwalk Train Station, shown above in Figure 1, is referred to as the "Target Area."

- The area used to describe wider market or demographic trends using MLS or U.S. Census data, which is shown in the Appendix, is referred to as "Greater South Norwalk."

Executive Summary

Jonathan Rose Companies found the following key observations of the South Norwalk 2- to 4-family housing market:

- **Values in the sales market for 2- to 4-family houses in Greater South Norwalk have dropped nearly 50 percent during the period from 2004 to 2012.** Average sales prices of 2- to 4-family houses in Greater South Norwalk dropped from a peak of $512,474 in 2006 to $226,179 in 2010, before recovering modestly in 2011 and 2012 to an average of $252,833 among houses currently listed on the MLS.

- **Monthly rental rates in 2- to 4-family houses in Greater South Norwalk, however, have increased 13 percent during the same period.** Average rents for apartments in 2- to 4-family houses have gradually risen from an average of $1,400 in 2007 to $1,575 among apartments currently listed on the MLS. Current MLS listings average $1,400 for 1-bedroom apartments, $1,419 for 2-bedroom apartments, and $1,775 for 3-bedroom apartments.

- **2- to 4-family houses constitute a considerable portion of Greater South Norwalk's housing and are generally more affordable to low- and moderate-income households than other housing types.** In Greater South Norwalk, 2- to 4-family houses constitute 30 percent of all housing units, or about 1,700 houses, of which nearly one half are 2-family houses and the remainder 3- or 4-family houses. The average rentals for one-bedroom, two-bedroom and three-bedroom apartments are comparable to both the HUD Fair Market Rent and the gross rents under the Low Income Housing Tax Credit program. Additionally, the average sales price for 2- to 4-family houses is well below the average for single family houses in the City of Norwalk.

- **Foreclosure and short sale activity has dominated the Greater South Norwalk 2- to 4-family sales market since 2008, constituting 65 percent of all sales from 2008 to today.** Short sales or foreclosure sales heavily impact the population able to purchase the properties and favor investors over owner-occupants. For example, foreclosure auctions typically require an all-cash purchase, which most prospective homebuyers cannot do.

- **A diverse population purchases and owns 2- to 4-family houses in Greater South Norwalk and the Target Area, including owner-occupants, local landlords, and absentee landlords, and many owners purchase for a long-term hold.** Within the Target Area, approximately one half of 2- to 4-family houses are held by owner-occupants, with the rest split nearly evenly between local and absentee landlords. The average hold period for current owners is 16 years.

- **Trends in the purchasers of 2- to 4-family houses in Greater South Norwalk show a rapid drop in owner-occupants from 2006 to 2010, often due to foreclosures, with an increase of owner-occupants in 2011 and 2012.** The percentage of purchasers of 2- to 4-family houses who are owner-occupants dropped from 91 percent in 2006 to 47 percent in 2009, largely due to financing limitations and a plethora of foreclosures and short sales. 89 percent of 2- to 4-family houses purchased in 2009 were short sale or foreclosure properties.

- **Demographic analysis indicates changing patterns of occupancy and ownership of 2- to 4-family houses in Greater South Norwalk among specific ethnic groups.** Occupants of 2- to 4-family houses were more likely to be White or Asian and less likely to be Black than the general Greater South Norwalk population. However, new purchasers of 2- to 4-family housing in Greater South Norwalk were found to be largely Hispanic, constituting 45 percent of all purchasers and 58 percent of new owner-occupants from 2004 to 2012.

Market Analysis

This Market Analysis consists of a detailed analysis of 2- to 4-family housing in South Norwalk, Connecticut, with a specific focus on the Target Area, which is the area within a quarter-mile radius circle around the South Norwalk Train Station. The Analysis will begin with a description of the current conditions of the 2- to 4-family housing in both the Target Area and in Greater South Norwalk. Next, market and demographic data on the 2- to 4-family houses in the Target Area and in Greater South Norwalk are analyzed to determine existing market conditions, market trends, and key demographic groups active in this market segment. Finally, an analysis of the underwriting and financing of the purchase of sample 2- and 3-family houses is presented from the viewpoint of an owner-occupant and an investor in order to better understand the financial goals and motivations of each type of owner.

The South Norwalk 2- to 4-Family Housing Stock

Greater South Norwalk's 2- to 4-family housing is considerably older housing than the rest of Norwalk's housing stock. South Norwalk, Connecticut contains a legacy of 2- to 4-family houses that reflects its historical development as an industrial city in the late 19th Century. Following the completion of the South Norwalk railroad depot and freight facilities in 1870, there was a rapid expansion of commercial and manufacturing activity, which was followed by the construction of many multifamily houses in the late 19th- and early 20th-Century. These houses were built for the workers of the factories, mills and shops that existed in South Norwalk at that time.[1] According to City of Norwalk tax assessor data, the average year built is 1912 for 2-family houses and 1905 for 3-family houses in Greater South Norwalk.[2] These housing units are far older than the average age of all housing in City of Norwalk (1946) and the Northeast (1958).[3]

The age of this housing leads to greater levels of deterioration and demolition, although Greater South Norwalk's multifamily housing is in comparatively good shape. Because of the age of the housing units, they are frequently of inferior condition or ill-suited to modern living standards. Many 2- to 4-family houses have lead and asbestos-containing materials present in their construction or have not been maintained well over time, leading to deterioration. For these reasons, demolition and deterioration of 2- to 4-family housing units is common. In his national study of 2- to 4-family housing, Alan Mallach reports that between 1995 and 2001, the number of 2- to 4-family houses declined by 12.6% (660,000 units), and the number of units lost was highest among 2- to 4-family houses built before 1939 (356,000 units).[4] Review of City of Norwalk tax assessor data, presented below in Figure 2, indicated that

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[1] United State Department of the Interior: National Park Service. *Haviland and Elizabeth Streets / Hanford Place Historic District: Registration Form*. 1987.

Accessed online: (http://pdfhost.focus.nps.gov/docs/NRHP/Text/88000664.pdf) on 12/28/12.

[2] Note: Due to the way the City of Norwalk codes tax assessor data, we could not separate out 4-family houses for this analysis.

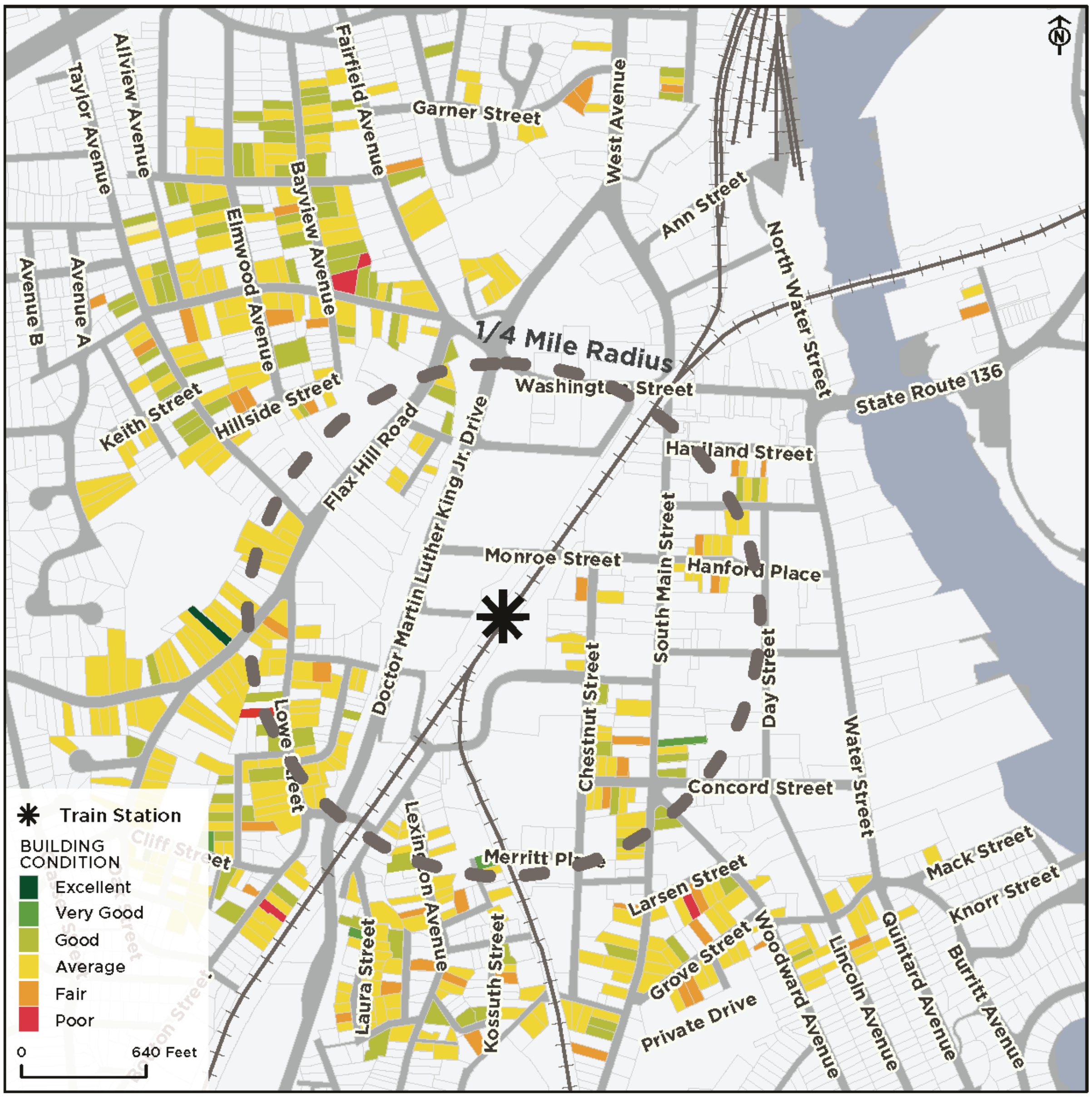
[3] American Housing Survey and City of Norwalk tax assessor data.

[4] Mallach, Alan. "Landlords at the Margins: Exploring the Dynamics of the One to Four Family Rental Housing Industry." *Joint Center for Housing Studies of Harvard University*: March, 2007.

2- to 4-family houses in the Target Area vary in condition, ranging from "Poor" to "Very Good". Although many properties belonged to the "Average" classification, a significant number in the Target Area were "Fair". In Greater South Norwalk, 2- to 4-family housing conditions were better in the Golden Hill neighborhood to the north, which is characterized by higher levels of owner-occupancy, and worse south of the train station, which has higher levels of absentee landlord ownership.

Figure 2

South Norwalk Train Station Area
Building Conditions, 2-4 Family Housing



Source: City of Norwalk, Connecticut

An additional challenge is the architectural layouts of 2- to 4-family houses, which are often obsolete due changes in living standards and practices since the houses were constructed over 100 years ago. Below are some of the primary differences:

- Kitchens in multifamily houses constructed in the late 19th- and early 20th-Century were small and often detached from the rest of the apartment due to fears of fire and unsanitary conditions. Today, the kitchen has become the heart of the house, often occupying a large amount of space at the center of the house and open seamlessly to other living areas.
- Similarly, multifamily houses in the late 19th- and early 20th-Century were often organized into many smaller rooms to conserve expensive and limited space heating. Today, homebuyers prefer an open floorplan with many living spaces seamlessly connected.
- In the late 19th- and early 20th-Century, indoor plumbing was an expensive luxury or was added later after the house had already been constructed. This often resulted in bathrooms that were small and awkwardly situated, and few houses contained more than one. Modern homebuyers often look for multiple bathrooms and a typical desire is a master bathroom, which is a bathroom that is only accessible from one of the bedrooms.
- Lastly, provisions for washing machines and clothes dryers were absent from houses built in the late 19th-and early 20th Century and were either awkwardly added later or not added at all. However, modern homebuyers demand a conveniently accessible washing machine and clothes dryer.

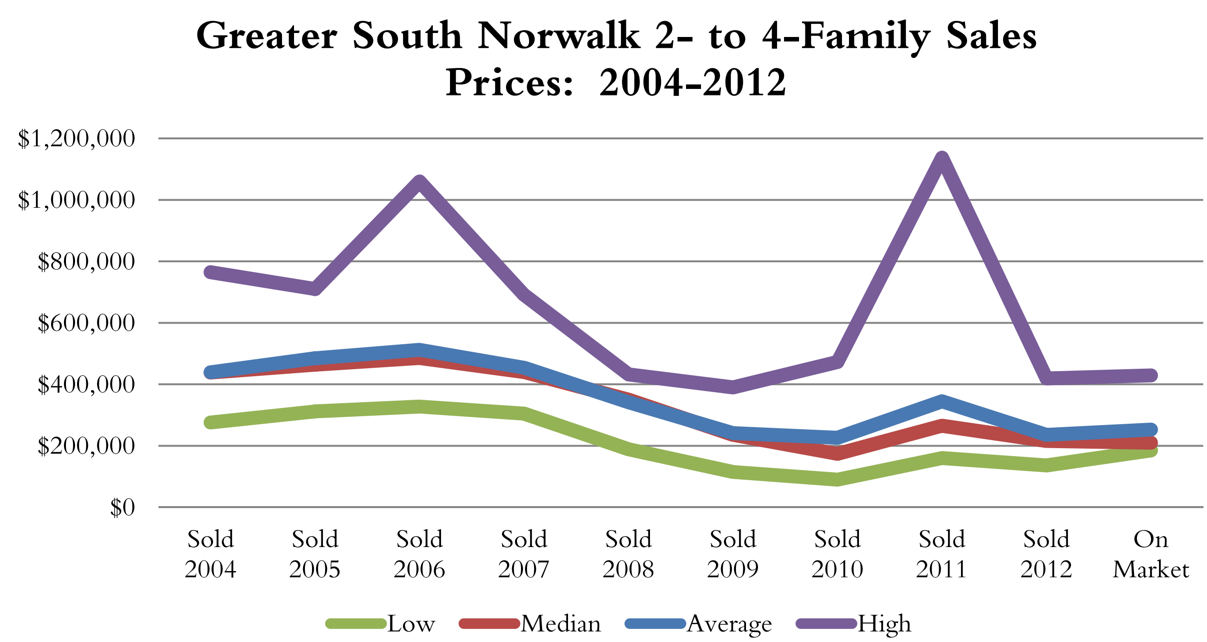
Due to these factors, modern homebuyers will sometimes avoid 2- to 4-family houses built in the late 19th- and early 20th-Centuries or look to modernize the interior layouts to meet today's living patterns.

Current Market Conditions and Trends in the South Norwalk 2- to 4-Family Segment

The average price for 2- to 4-family houses in Greater South Norwalk currently on the market is $252,833 and the average cost per unit is $112,265. As of December, 2012, the MLS contained fifteen 2- to 4-family houses in Greater South Norwalk for sale, of which eleven were 2-family, three were 3-family and one was 4-family.[6]

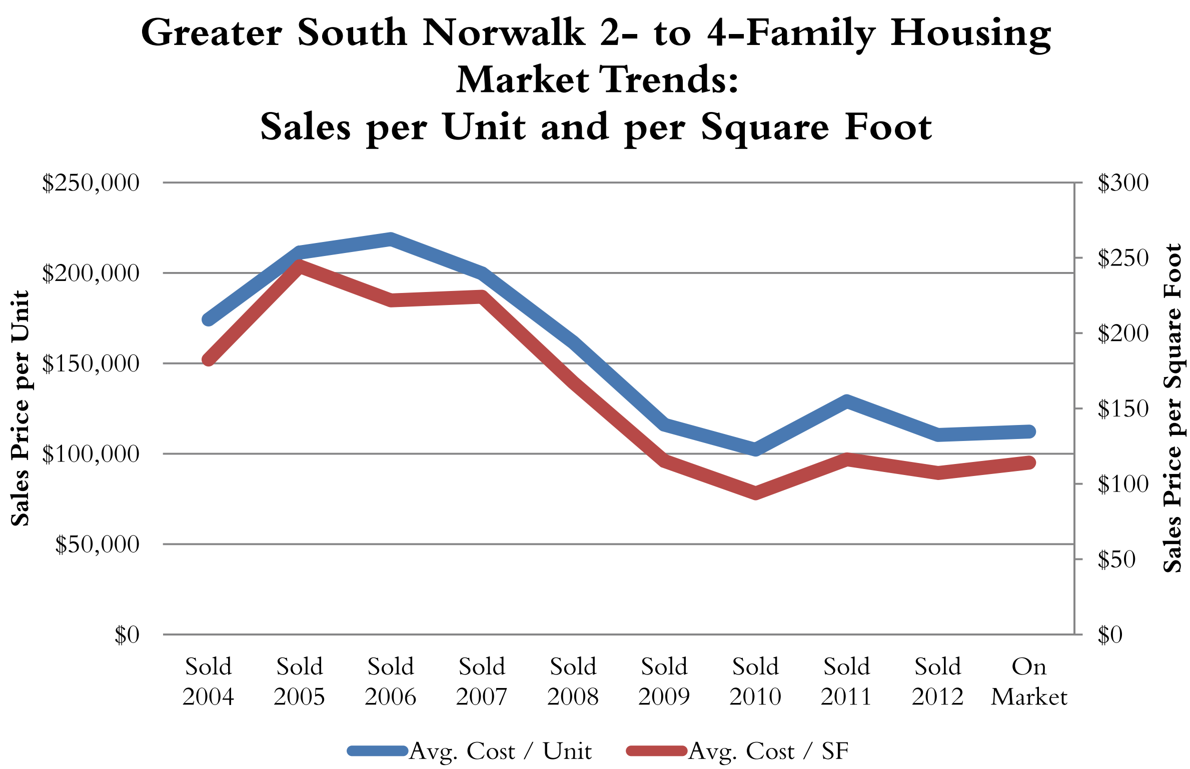
Average sales prices and prices per unit for 2- to 4-family houses in Greater South Norwalk plummeted 44 percent between 2004 and 2012, due to the effects of collapse of the national housing bubble after 2007. As shown in Figure 3, the average sales prices of Greater South Norwalk 2- to 4-family houses fell from a peak of $512,474 in 2006 to a nadir of $226,179 in 2010, a loss of 56 percent. Since 2010, values have modestly recovered 12 percent. At the same time, prices per unit fell from $218,688 in 2006 to $102,214 in 2010, a loss of 53 percent, as shown in Figure 4. Figure 4 also shows the range of prices from high to low in each year. Prices spanned a broad range from 2004 to 2007, which has since tightened. This indicates that the market may be returning to a healthy state, because a narrower range of values may mean that buyers and sellers are more in alignment on the valuation of properties on the market. Lastly, Figure 4 demonstrates the dire position buyers of 2- to 4-family houses from 2004 to 2006 face today: The low sales price in 2006, $327,500, is $100,000 higher than the average sales price in 2012, $235,717, and only five properties sold in 2012 higher than the 2006 low price.

Figure 3



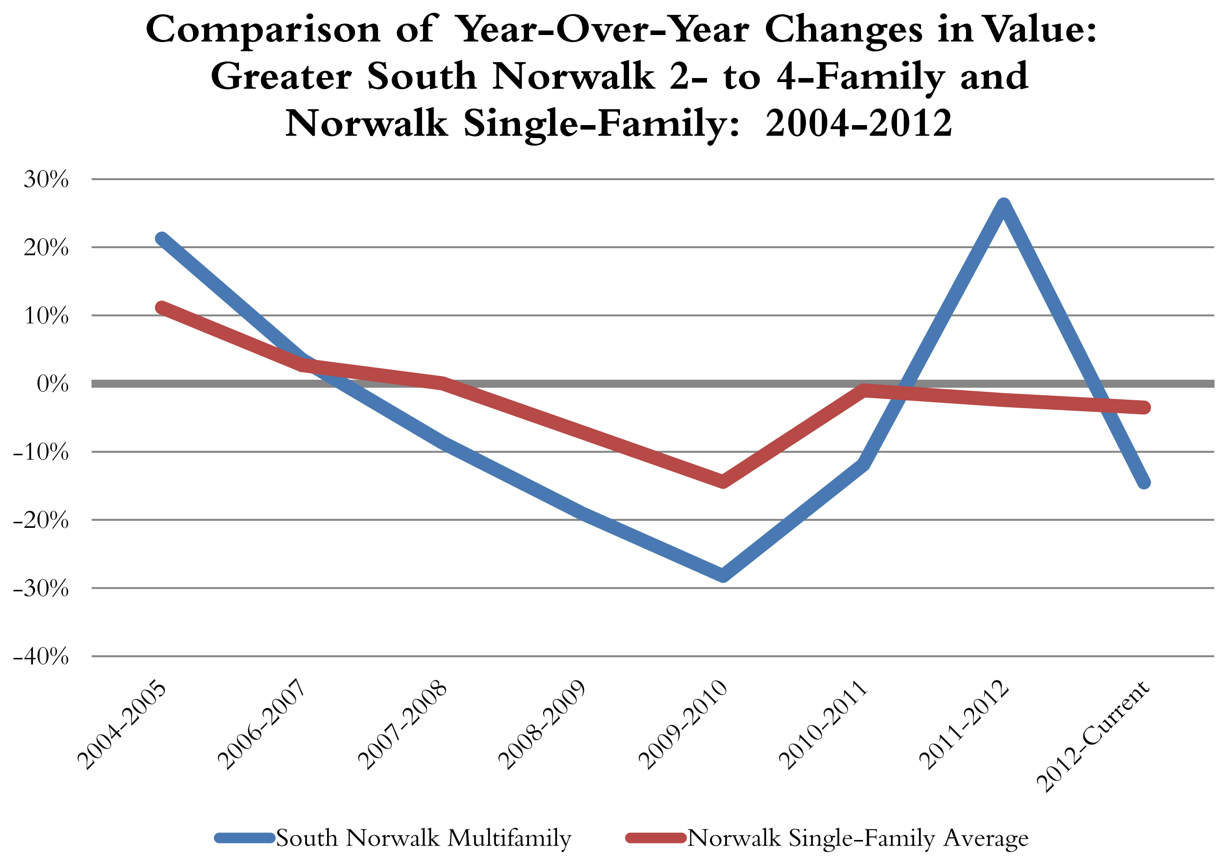
[6] Note that due to the size of the Greater South Norwalk 2- to 4-family sales market, the data set is relatively small. Between 2004 and 2012, 180 2- to 4-family houses sold on the MLS, which corresponds to an average of 20 houses sold per year. This imposes some distortions on the statistical analysis of the data set, since a few high sales prices can skew the average or median sales prices.

Figure 4



The Greater South Norwalk 2- to 4-family market is more volatile than the market for single-family houses in Norwalk as a whole, which has resulted in a greater losses in value from 2006 to 2010 in the 2- to 4-family sector. Figure 5 compares the average year-over-year change in sales price per unit of 2- to 4-family houses in Greater South Norwalk against the average year-over-year change in single-family sales prices in Norwalk as a whole. While the general patterns are similar, the yearly increases or decreases in value in the 2- to 4-family sector are more extreme.

Figure 5



Foreclosures and Short Sales have dominated the 2- to 4-family sales market since 2008, constituting an average of 62% of properties on the market from 2008 to 2012. The Greater South Norwalk 2- to 4-family housing market has felt the effects of the national housing market crisis heavily since 2008. According to Warren Group data, there have been 27 Foreclosure notices and 262 Lis Pendens notices sent to owners of Greater South Norwalk 2- to 4-family houses since 2004.[7]

In Connecticut, a Lis Pendens action marks the commencement of a foreclosure action once a borrower has fallen behind significantly in their home loan payments. Many times, the borrower will try to sell the house via a "Short Sale" process, whereby any offer received is subject to bank approval. The bank frequently agrees to a sales price that is below the outstanding debt on the property to avoid a foreclosure process. If the borrower is unable to sell the house and/or pay the balance owed to the lender following a

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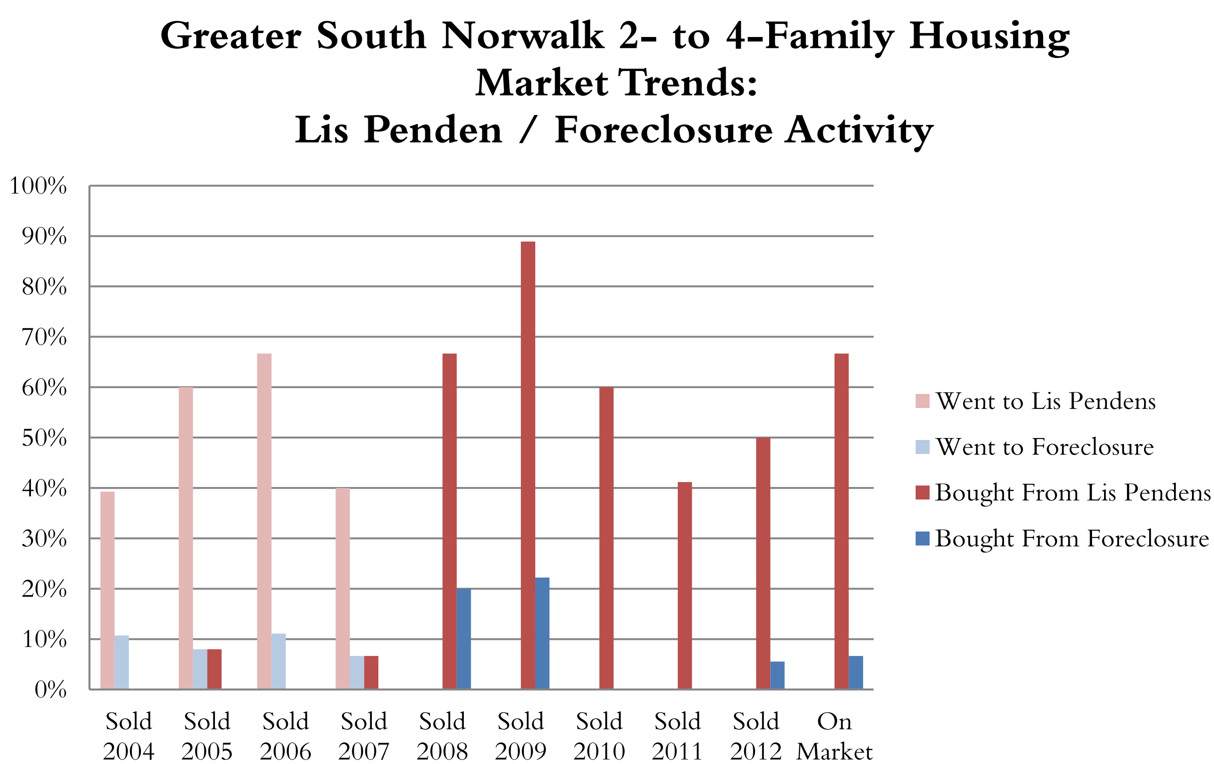
[7] Warren Group, 2012. Data provided by the Warren Group as of 12/17/2012. Note that more than one Lis Pendens and/or Foreclosure Notices are sometimes sent to the same address, particularly if the homeowner has continuing difficulties in paying his or her mortgage.

Lis Pendens notice, the foreclosure proceeds to trial where, if the bank prevails, a judge orders a foreclosure sale.

Figure 6 shows the impact of foreclosure activity on the South Norwalk 2- to 4-family market. Starting in 2008, the percentage of 2- to 4-family houses sold while in the Lis Pendens stage (i.e. Short Sales) has averaged 62%, peaked at 89% of all sales in 2009, and comprises 67% of the houses currently on the market. Foreclosure sales constituted as much as 22% of the sales in 2009, though the number has since dropped off. Figure 6 also shows how many houses sold from 2004 to 2007 later went to Lis Pendens or Foreclosure: At the peak of the housing bubble in 2006, 67% of houses sold later went to Lis Pendens and 11% went to Foreclosure.

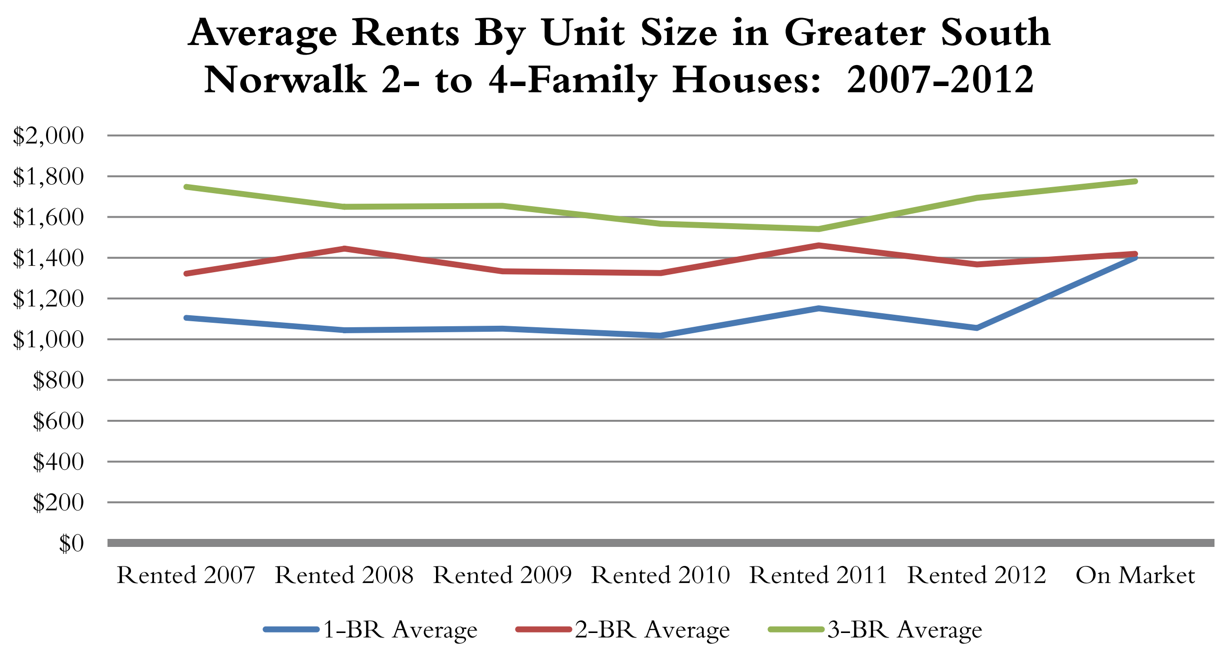
Figure 6



The average asking price for a rental in a 2- to 4-family house in Greater South Norwalk currently on the market is $1,575. The average price for units rented in 2012, however, was $1,355, a difference of 16 percent, which indicates that demand for rental units may be increasing. Rents in 2- to 4-family houses in Greater South Norwalk span a broad spectrum of values, ranging in 2012 from a low of $675 to a high of $2,000. Rents in 2012 averaged $1,056 for 1-bedroom apartments, $1,367 for 2-bedroom apartments, and $1,694 for 3-bedroom apartments.

Rent values have been stable in Greater South Norwalk 2- to 4-family houses, growing 13 percent from 2007 to the current time. Figure 7 additionally shows the change in rents by bedroom size. Rents for all bedroom sizes have remained stable during the period, though 1-bedroom and 3-bedroom rents have grown the most.

Figure 7



Rental units in Greater South Norwalk 2- to 4-family houses constitute an important element of Norwalk's affordable housing. Although not rent controlled or subsidized, rental units within 2- to 4-family houses in Greater South Norwalk often rent at levels below government-subsidized affordable housing rental programs. Figure 8 compares the 2012 average rents by bedroom size in Greater South Norwalk 2- to 4-family houses against the HUD Fair Market Rent (FMR) and the Low Income Housing Tax Credit (LIHTC) rent limit for housing affordable to households earning at or below 60 percent of Area Median Income (AMI). The FMR represents the maximum amount a landlord may be paid as rental income for a tenant receiving Section 8 voucher assistance, a program in which a low-income tenant pays 30 percent of his/her annual gross income towards the rent and HUD pays the balance up to the FMR. Thus apartment rents above the FMR are generally out of reach for Section 8 households. The 60 percent of AMI rent limit is the maximum amount a landlord may charge a tenant who resides in a building financed by LIHTCs.

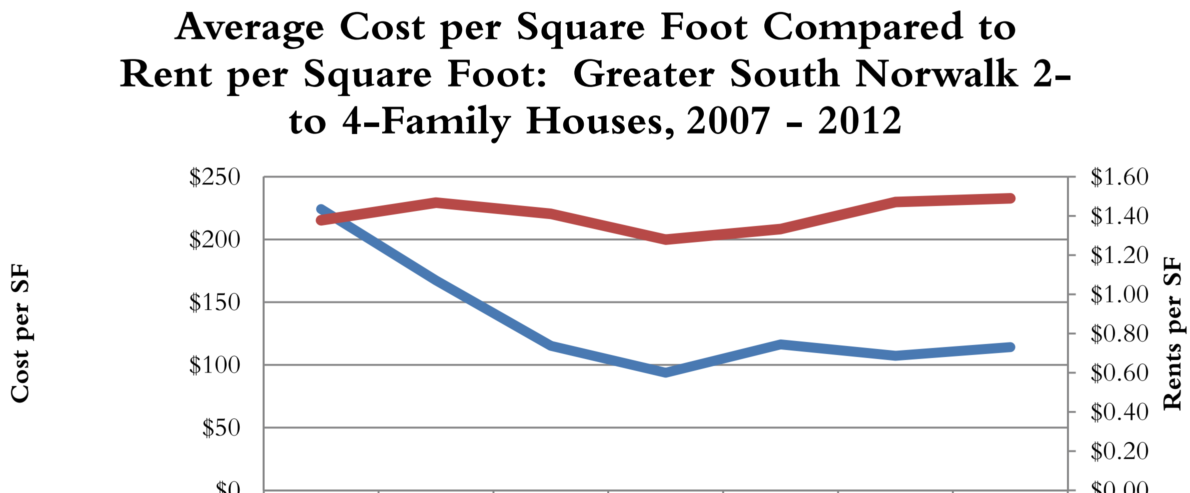
Figure 8: 2012 Rental Comparison

Unit Type	1-Bedroom	2-Bedroom	3-Bedroom
Average Rents in Greater South Norwalk 2- to 4-Family Houses	$1,056	$1,367	$1,694
HUD FMR	$1,415	$1,769	$2,305
60% of AMI Rent Limit[8]	$1,445	$1,734	$2,003

[8] Rent limit includes heat, hot water and electricity utility costs ("Gross Rent"). Commonly, landlords deduct an "allowance" for average utility costs from the Gross Rent to calculate the tenant's rent, where the landlord does not supply utilities. However, rents in 2- to 4-family houses also often include utility costs.

The sales prices of Greater South Norwalk 2- to 4-family houses during the national housing bubble (2004 - 2007) became detached from the underlying rental income stream, leading to severe over-valuation. Figure 9 compares the rents per square foot (right y-axis) against the sales prices per square foot (left y-axis) during the period 2007 to 2012, showing a deep plunge in sales prices while rent amounts remained constant. This is evidence of over-valuation, because 2- to 4-family houses are generally considered an investment property, which is a class in which sales prices and rents generally correlate.

Figure 9



	Rented 2007	Rented 2008	Rented 2009	Rented 2010	Rented 2011	Rented 2012	On Market
Avg. Cost / SF	$224	$167	$115	$94	$116	$107	$114
Avg. Rents / SF	$1.38	$1.47	$1.41	$1.28	$1.33	$1.47	$1.49

An investment property is one in which a purchaser invests capital in the acquisition of the property with an expectation of a cash flow return from the residual income generated from the operations of the rental unit(s). This compares against a single-family, owner-occupied house in which the purchaser expects no regular cash flow from the investment but rather a stable place to live. The amount of cash flow generated by a 2- to 4-family house is determined, to a large extent, by the growth or decline of the rents charged for the rental unit(s). Therefore it is expected that sales prices and rents will correlate in a 2- to 4-family house market. Figure 9 shows that prices before 2007 were driven by expectations of future appreciation more than by rent growth. Once the expectations of future appreciation evaporated following the housing market crash in 2008, values of 2- to 4-family houses plummeted. The Valuation Section will further describe how 2- to 4-family houses are generally valued and the relationship between rental income and sales prices.

Target Area Existing Conditions

The 2- to 4-Family Houses in the Target Area were analyzed further to investigate micro-patterns of market values, ownership, tenure and landlord activity by street. Due to varying conditions found within, the Target Area was divided into three districts, as displayed in Figure 10 below:

- The West District comprises the largest number of 2- to 4-family houses and includes all streets within the Target Area to the west of the South Norwalk Train Station. Properties in this District are more likely to be of higher value and owner-occupied.

- The Station District comprises a diverse mix of owner-occupied and landlord-owned properties of generally higher value and varying condition, likely due to the higher levels of landlord ownership.

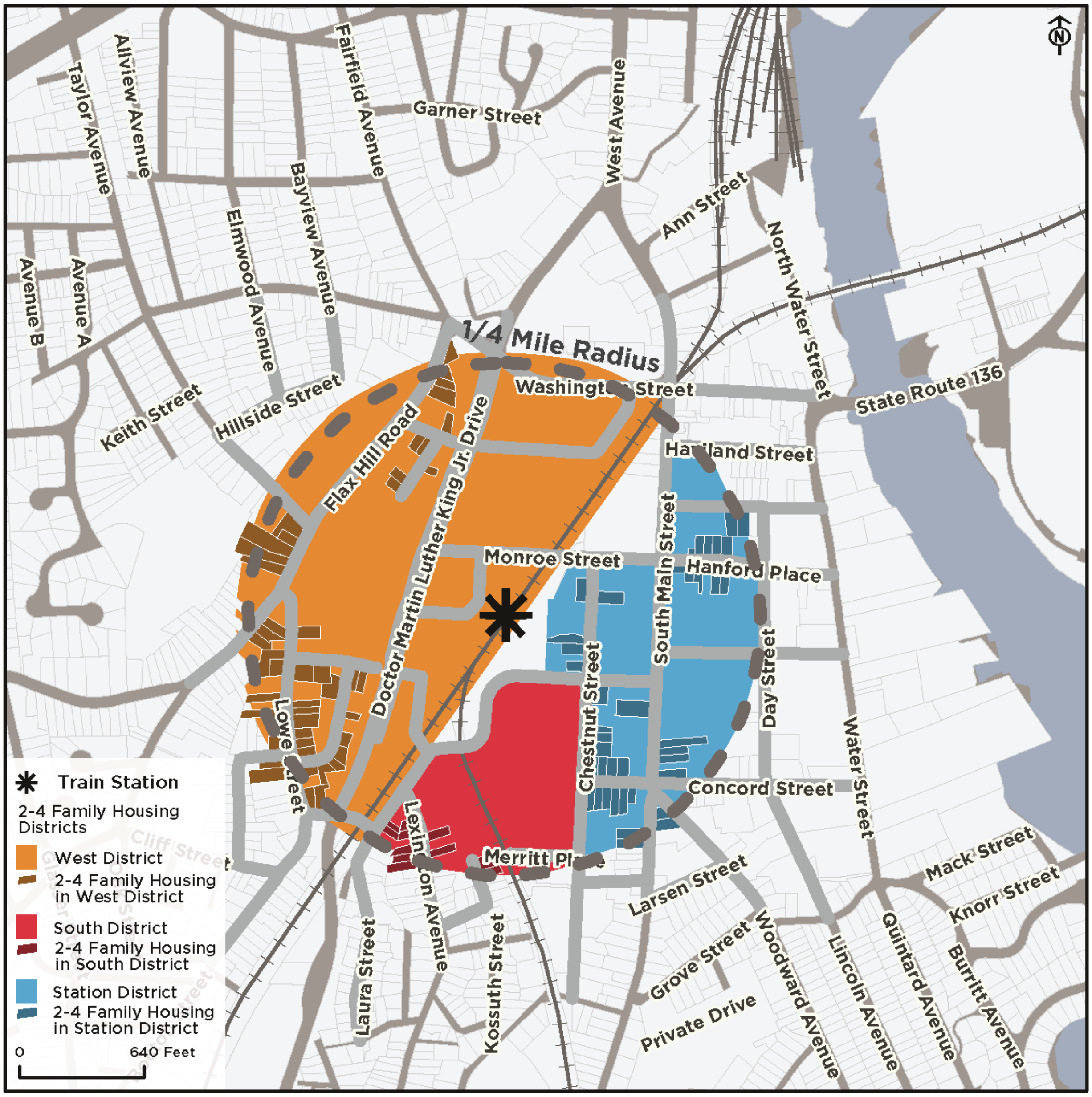
- The South District were found to be of lower value and owned by investors.

There are also important differences between 2-family and 3- or 4-family houses in the Target Area:

- 2-family houses are more prevalent in the West District and more commonly owned by owner-occupants.
- 3- or 4-family houses are more prevalent along historically prominent streets and the Station District, and are more likely to be owned by landlords.

Figure 10

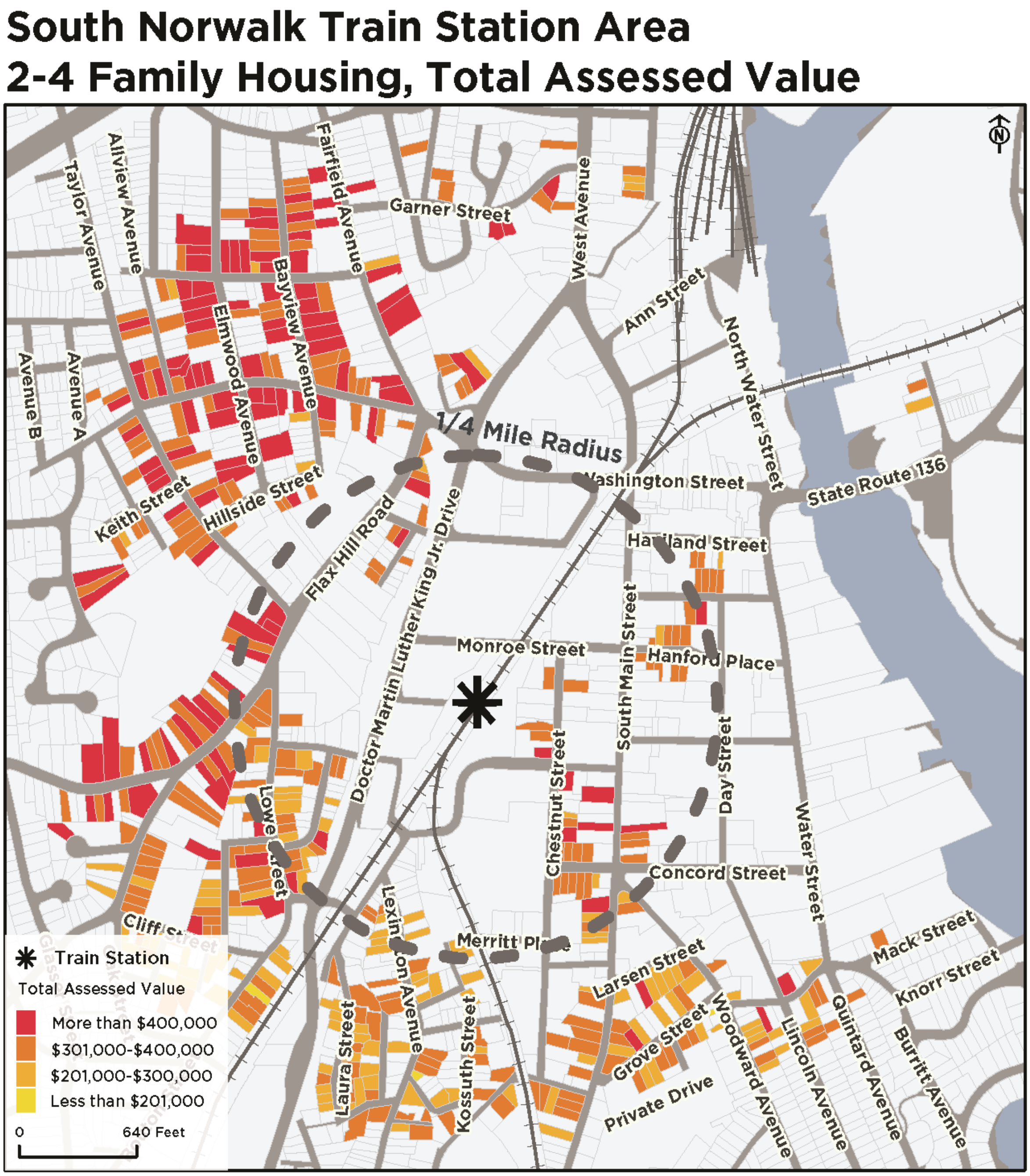
South Norwalk Train Station Area
2-4 Family Housing Districts



Source: City of Norwalk, Connecticut

Market conditions vary across the Target Area, with the highest values found in the Station and West Districts. Due to the small number of transactions that occurred within the past eight years within the Target Area, it was impossible to draw from that data set any conclusions about the market value of Target Area properties. However, the assessed values, as calculated by the City of Norwalk as of the 2008 Revaluation[9] of 2- to 4-family houses in the target area were analyzed in Figure 11. The data show a pattern of higher valuation of properties in the Station and West Districts and lower in the South District.

Figure 11



Source: City of Norwalk, Connecticut

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[9] Note that the valuations are as of October, 2007.

There are relatively few 2- to 4-family houses available for purchase within the Target Area. Figure 12 shows the properties within and outside of the Target Area that are either listed on the MLS as of March 11, 2013 or have been issued a Lis Pendens between June and December, 2012. Only 2 of 14 MLS listings and 1 of 17 Lis Pendens properties are located within the Target Area. Additional data on each property is available in the Appendix.

Figure 12

Building types vary by street within the Target Area with a concentration of 2-family houses in the West District. Figure 13 displays the street-by-street percentage of 2-, 3- and 4-family houses. Overall, 60 percent of multifamily houses in the Target Area are 2-family, although the West District generally contain a higher percentage of 2-family houses. Many of the 3- and 4-family houses are located on the streets that were historically prominent, such as South Main Street (71%) and Flax Hill Road (54%) and also in the Station District.

Figure 13

Street	**# of 2-Family**	**# of 3-Family**	**# of 4-Family**	**% 2-Family**	**% 3-Family**	**% 4-Family**
Chestnut Street	6	0	3	67%	0%	33%
South Main Street	4	7	3	29%	50%	21%
Concord Street	4	6	0	40%	60%	0%
Hanford Place	4	5	0	44%	56%	0%
Lowe Street	21	4	0	84%	16%	0%
Clay Street	2	1	0	67%	33%	0%
Gibson Court	2	1	0	67%	33%	0%
Flax Hill Road	5	3	3	45%	27%	27%
Hamilton Terrace	1	2	0	33%	67%	0%
Cleveland Terrace	6	1	0	86%	14%	0%
Lubrano Place	2	0	0	100%	0%	0%
Lexington Avenue	5	2	0	71%	29%	0%
Totals	**62**	**32**	**9**	**60%**	**31%**	**9%**

The pattern of ownership type and tenure shows that landlord ownership is more prevalent in the Station District, while owner-occupancy is more prevalent in the West District. Figure 14 shows the percentages of 2- to 4-family houses in the Target Area owned by owner-occupants, local landlords[11] and absentee landlords[12] as determined by the mailing address of the property owner, according to City of Norwalk Tax Assessor data. Many streets in the Station District have high percentages of absentee landlord ownership, while in the West District, properties are more likely to be owner-occupied.

[11] Defined as absentee landlords with a mailing address in Norwalk, CT.

[12] Defined as absentee landlords living outside of Norwalk, CT.

Figure 14

Street	# of Properties	% Owner Occupied	% Local Landlord Owned	% Absentee Landlord Owned	Avg. Years Owned
Chestnut Street	9	33%	33%	33%	16
South Main Street	14	21%	21%	57%	15
Concord Street	10	40%	50%	10%	13
Hanford Place	9	22%	56%	22%	16
Lowe Street	25	52%	32%	16%	13
Clay Street	3	33%	67%	0%	17
Gibson Court	3	33%	33%	33%	22
Flax Hill Road	11	64%	0%	36%	16
Hamilton Terrace	3	67%	0%	33%	14
Cleveland Terrace	7	100%	0%	0%	8
Lubrano Place	2	100%	0%	0%	33
Lexington Avenue	7	43%	43%	14%	14
Totals	**103**	**47%**	**29%**	**24%**	**16**

Ownership tenure in Target Area 2- to 4-family houses is often long, with the average period of ownership being 16 years, but varies by ownership type. 2- to 4-family houses in the Target Area are often held by individuals or in families for long periods of time, sometimes passed from one family member to another. This pattern of long-term ownership is remarkably constant across the Target Area, with only Cleveland Terrace notably showing a substantially shorter average period of ownership. However, period of ownership varies by ownership, with local landlords holding properties for an average of 18 years, owner-occupants for 14 years, and absentee landlords for 12 years.

The data suggest a pattern of owner-occupants becoming landlords over time. The deed history shows that many of the owners in the Local Landlord category began as owner-occupants and later moved to a different house within Norwalk while retaining ownership of their original house and renting it as a landlord. This pattern helps explain the long tenure of Local Landlords, who held their property, on average, much longer than either owner-occupants or absentee landlords. While owners in this category hold the property for investment purposes, they likely have a greater concern for the property than an outside investor, because they often still live nearby and may have an emotional connection to a property in which they once resided. This translates often to better property maintenance and greater tenant selectivity and oversight.

Ownership type varies by building type, with 2-family houses more likely to be held by owner-occupants than 3- or 4-family houses, as well as by location. Figures 15 and 16 display the percentages of 2-family and 3- or 4-family houses owned by owner-occupants, local landlords or absentee landlords. 58 percent of 2-family houses are owned by owner-occupants versus 39 percent of 3- or 4-family houses. The pattern also varies geographically: More 2-family houses are owned by landlords in the Station District, while 3- and 4-family houses are more likely to be owned by owner-occupants in the West District.

Figure 15

2-Family Houses			
Street	**% Owner-Occupied**	**% Local Landlord Owned**	**% Absentee Landlord Owned**
Chestnut Street	33%	33%	33%
South Main Street	50%	25%	25%
Concord Street	25%	50%	25%
Hanford Place	25%	50%	25%
Lowe Street	48%	33%	19%
Clay Street	50%	50%	0%
Gibson Court	0%	50%	50%
Flax Hill Road	100%	0%	0%
Hamilton Terrace	100%	0%	0%
Cleveland Terrace	100%	0%	0%
Lubrano Place	100%	0%	0%
Lexington Avenue	60%	20%	20%
Totals	**58%**	**26%**	**16%**

Figure 16

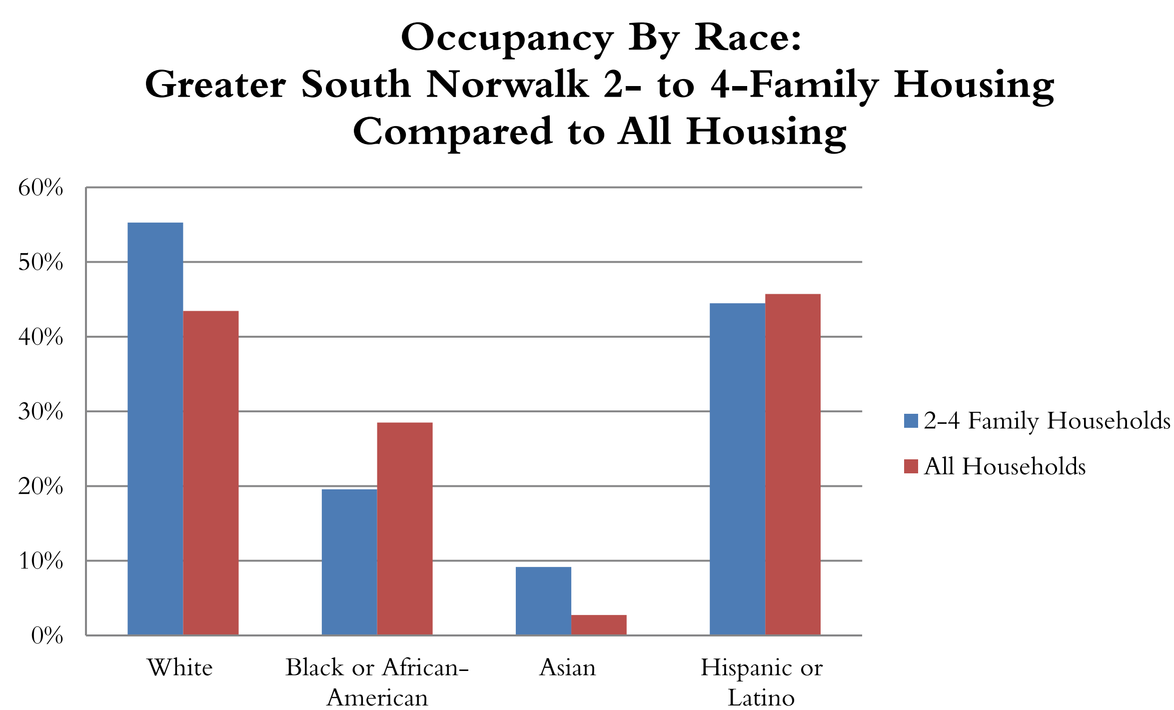
3- and 4-Family Houses			
Street	**% Owner-Occupied**	**% Local Landlord Owned**	**% Absentee Landlord Owned**
Chestnut Street	33%	33%	33%
South Main Street	10%	20%	70%
Concord Street	50%	50%	0%
Hanford Place	20%	60%	20%
Lowe Street	75%	25%	0%
Clay Street	0%	100%	0%
Gibson Court	100%	0%	0%
Flax Hill Road	33%	0%	67%
Hamilton Terrace	50%	0%	50%
Cleveland Terrace	100%	0%	0%
Lubrano Place	0%	0%	0%
Lexington Avenue	0%	100%	0%
Totals	**39%**	**32%**	**20%**

Demographic Profile of Purchasers of 2- to 4-Family Houses

The demographic trends in occupants and purchasers of 2- to 4-family houses in Greater South Norwalk were analyzed to determine patterns in the ownership and occupancy that may indicate target populations that are more likely to be interested in purchasing 2- to 4-family houses in Greater South Norwalk.

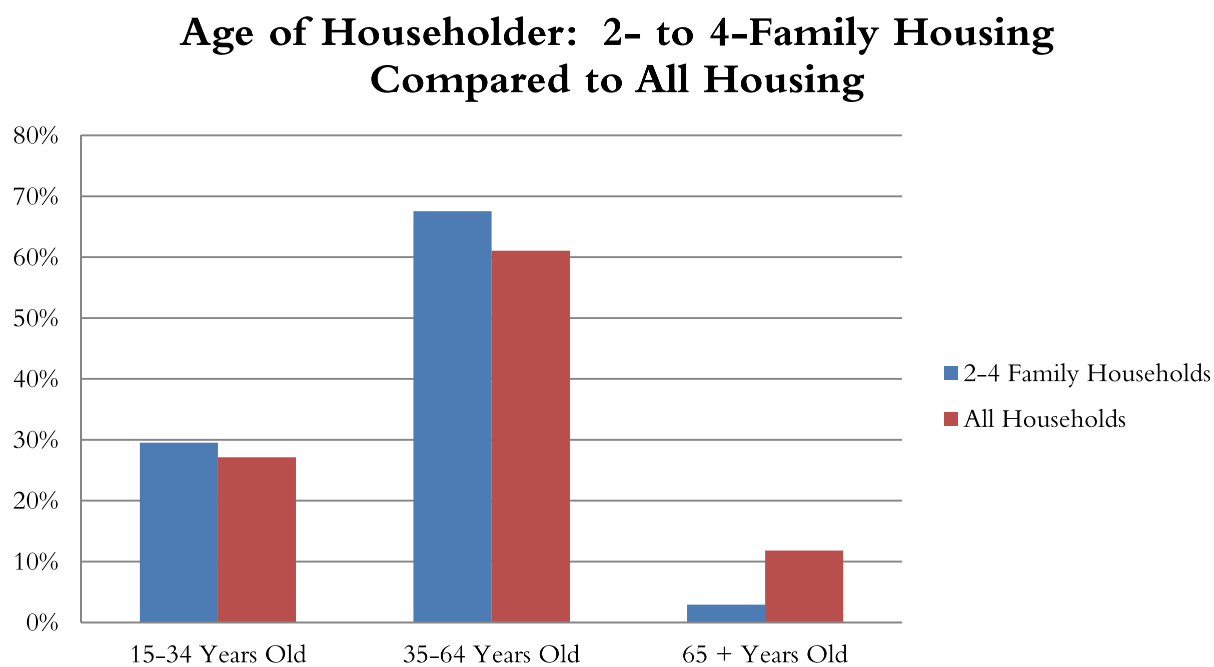
A greater proportion of White and Asian households and a lower proportion of Black or African-American households occupy 2- to 4-family housing in Greater South Norwalk. Figure 17 shows the proportion of Greater South Norwalk 2- to 4-family housing occupied by White, Black, Asian, and Hispanic or Latino households compared against the South Norwalk population as a whole, according to the 2006-2011 ACS. While the proportions of Hispanic or Latino households are similar, Asian and White households are significantly more likely to reside in 2- to 4-family houses and Black or African-American households are significantly less likely to reside in 2- to 4-family houses.

Figure 17



The occupants of Greater South Norwalk 2- to 4-family housing are younger than the population of Greater South Norwalk as a whole. Figure 18 shows the age of householders living in 2- to 4-family housing in Greater South Norwalk compared to the Greater South Norwalk population, according to the 2006-2011 ACS. Occupants of 2- to 4-family housing are more likely to be younger, which may be partially because of the challenges of accessing 2- to 4-family houses at an older age. Because 2- to 4-family houses are more likely to be older and do not contain elevators or handicapped accessibility features, they are challenging for older individuals. Additionally, younger occupants may be more tolerant of the inconveniences of aging 2- to 4-family houses, such as walk-up apartments with narrow, steep stairs, lack of in-house laundry equipment, etc.

Figure 18

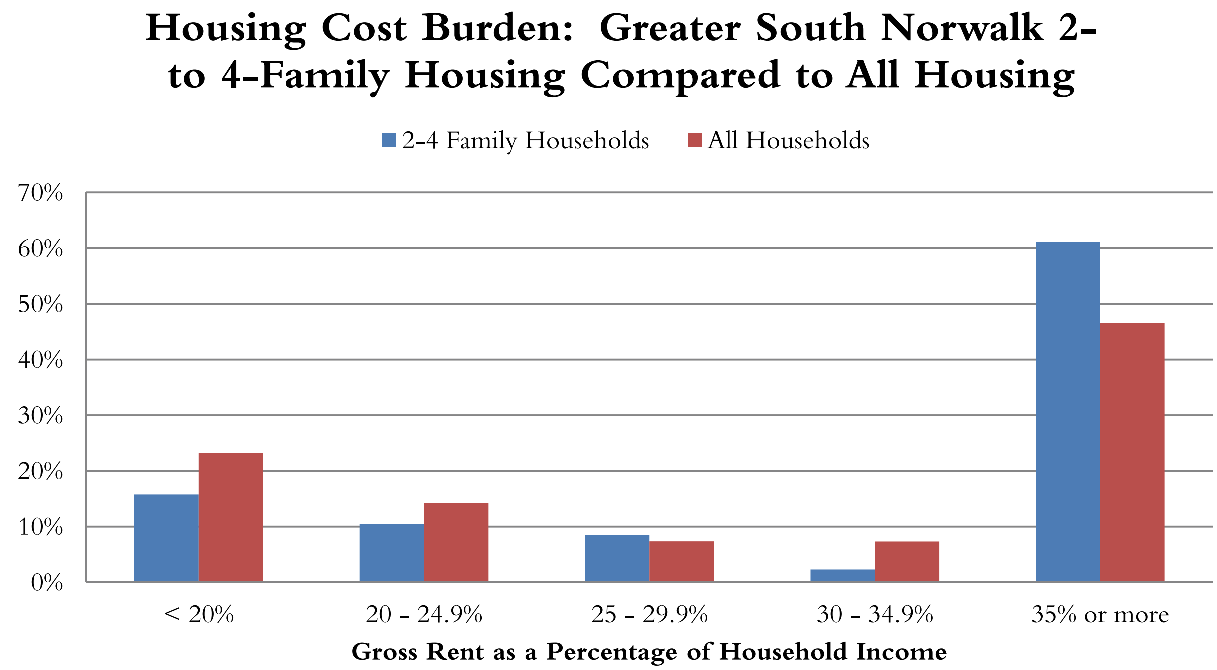


Most occupants of 2- to 4-family housing are renters. 83 percent of households occupying 2- to 4-family housing in Greater South Norwalk are renters and they make up 37 percent of the renting population of Greater South Norwalk, according to the 2006-2011 ACS.

Occupants of 2- to 4-family housing have a high housing cost burden and the 2- to 4-family sector houses a large proportion of low-income families. Figure 19 compares the percentage of household income spent on gross rent by renters of 2- to 4-family housing and all South Norwalk renters, according to the 2006-2011 ACS. Occupants of 2- to 4-family housing spend a greater proportion of their household income on rent, with a staggering 62 percent spending more than 35 percent of their income on rent. Most government affordable housing programs limit the amount of income a tenant can pay towards their rent at 30 percent. This may be because 2- to 4-family houses often house low-income families: In a national study in 2002, 25.5 percent of non-governmentally assisted low-income households were found to live in 2- to 4-family houses.[14] Low-income families are more likely to spend a higher percentage of their gross income on housing than higher-income families.

[14] Millenial Housing Commission, Finance Task Force, Multifamily Rental Housing Background Paper by Shaun Donovan, 2002. Cited in Mallach, 2007.

Figure 19



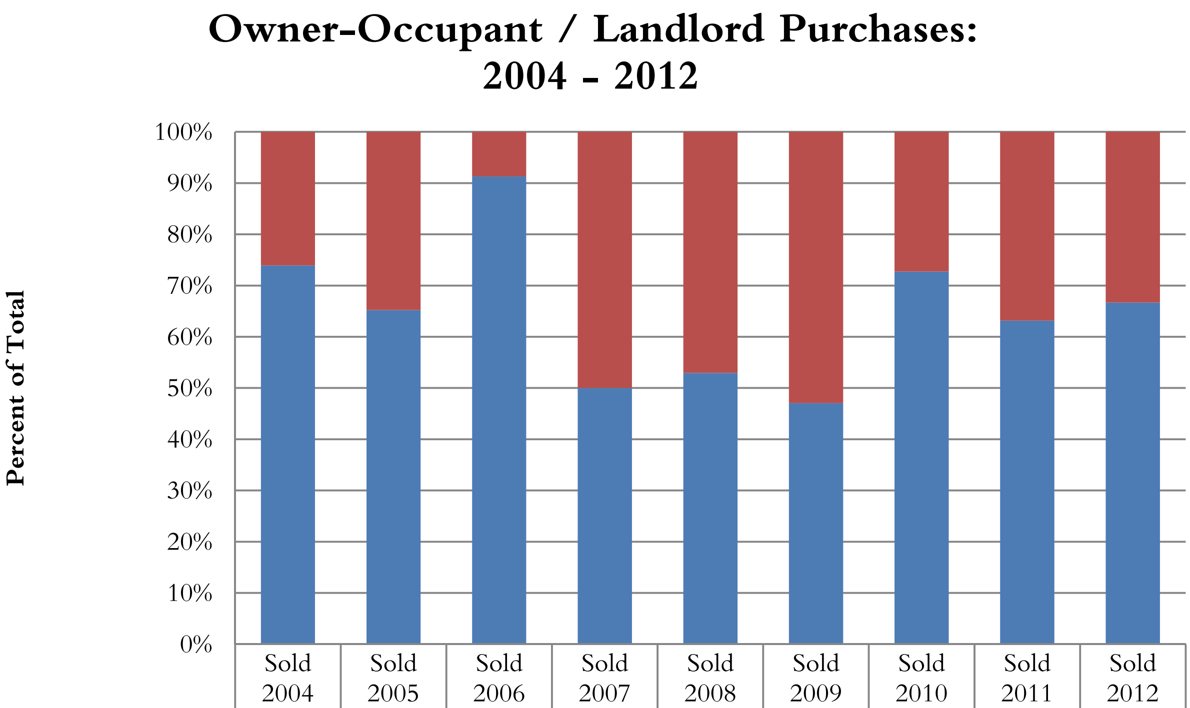
The majority of purchasers of Greater South Norwalk 2- to 4-family houses between 2004 and 2012 were owner-occupants. Between 2004 and 2012, 180 2- to 4-family houses were purchased in Greater South Norwalk, of which 117 (65 percent) were purchased by owner-occupants, according to MLS and City of Norwalk Tax Assessor records.[15] Figure 20 shows the change in the percentage of owner-occupants between 2004 and 2012. In the housing bubble leading up to 2007, a large majority of purchasers were owner-occupants. However, from 2007 to 2009 the number of owner-occupants declined dramatically, from 91 percent in 2006 to 50 percent in 2007. It is presumed that the sharp reduction in mortgage financing impacted the ability of households to purchase 2- to 4-family houses for occupancy. Additionally, many of the houses purchased between 2007 and 2009 were bought from foreclosure sales, auctions or short sales, in which there is a large bias to cash buyers, who are generally investors.

Anecdotal information gathered from interviews with realtors and mortgage lenders indicated that first-time homebuyers may constitute an important cohort of 2- to 4-family owner-occupants. Because the houses are among the most affordable in the City of Norwalk, they naturally appeal to first-time homebuyers with more limited cash savings for a downpayment, and first-time homebuyers additionally benefit from the rental income provided by the apartment unit(s). It is also common for 2- to 4-family houses to serve as inter-generational housing, with multiple family members living separately in the

[15] This is determined through review of the purchaser's mailing address. If an owner listed his/her mailing address as the property address, he/she was presumed to reside at the property. It is acknowledged, however, that some landlords use the property mailing address for government correspondence, but it is unusual.

different apartments. One anecdote is that of a family living in Greater South Norwalk where the owners live on the second floor, their daughter lives on the first floor and their son lives on the third floor. This type of flexible, inter-generational housing is becoming increasingly popular, especially for families that desire to house their aging parents in their residence.

Figure 20



	Sold 2004	Sold 2005	Sold 2006	Sold 2007	Sold 2008	Sold 2009	Sold 2010	Sold 2011	Sold 2012
Landlord	26%	35%	9%	50%	47%	53%	27%	37%	33%
Owner Occupant	74%	65%	91%	50%	53%	47%	73%	63%	67%

A large number of Greater South Norwalk 2- to 4-family houses are purchased by Hispanic or Latino households, who also constitute a majority of the purchasers buying 2- to 4-family houses for owner-occupancy. Of the 180 houses purchased between 2004 and 2012 in Greater South Norwalk, 81 (45 percent) were purchased by Hispanic or Latino households, of which 68 (84 percent) were purchased for owner-occupancy, as shown in Figures 21 and 22.[16] Hispanic or Latino households comprised 58 percent of the purchasers of 2- to 4-family housing for owner-occupancy. The proportion of Hispanic or Latino purchasers, however, peaked in the housing bubble years of 2004 to 2006 and has not yet recovered to its prior amounts, dipping to only 28 percent of all 2- to 4-family houses purchased in Greater South Norwalk in 2012. This is indicative of the difficulty that many households face in obtaining mortgage financing. However, these data indicate that Hispanic or Latino households heavily impact the Greater South Norwalk 2- to 4-family housing market.

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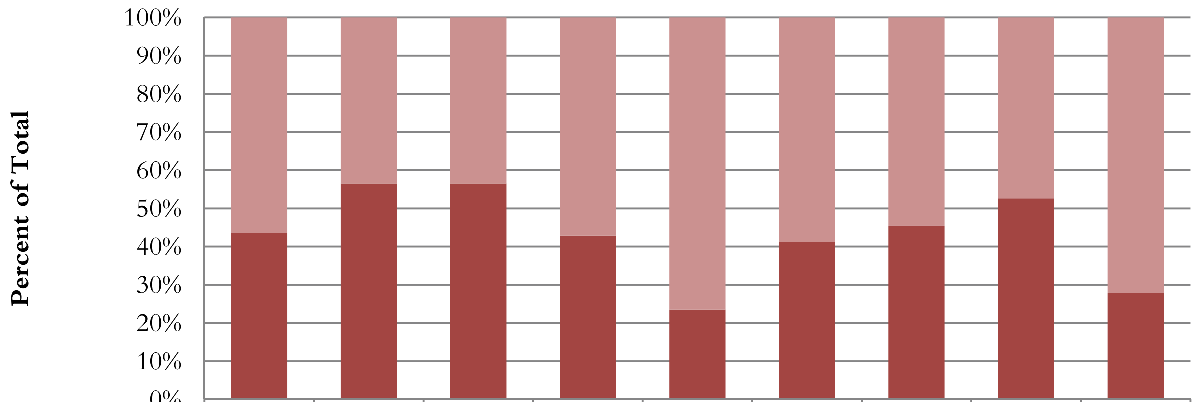
[16] The Study Team determined Hispanic or Latino ethnicity of the purchaser through a review of the names of the purchaser, according to City of Norwalk Tax Assessor data.

Figure 21

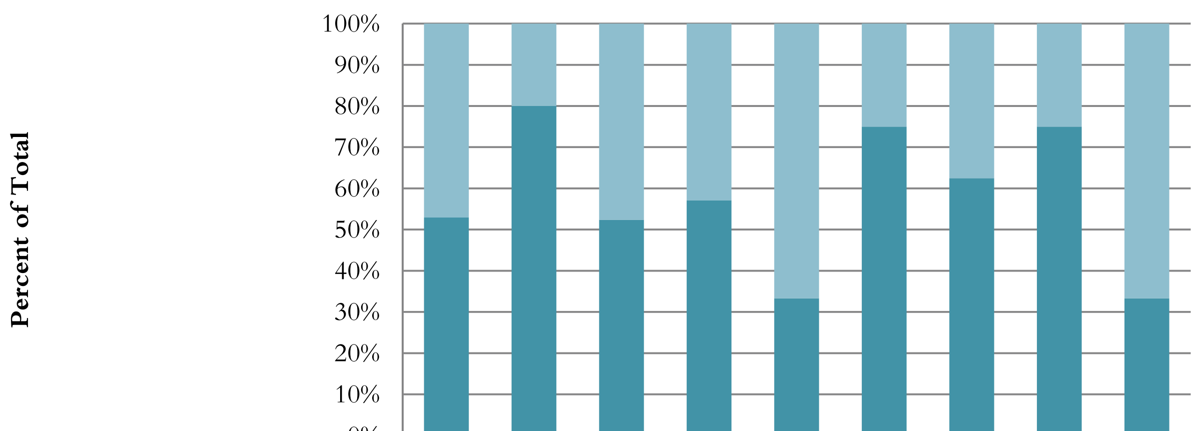
Hispanic / Non-Hispanic Purchasers of Greater South Norwalk 2- to 4-Family Houses: 2004 - 2012



	Sold 2004	Sold 2005	Sold 2006	Sold 2007	Sold 2008	Sold 2009	Sold 2010	Sold 2011	Sold 2012
Non-Hispanic	57%	43%	43%	57%	76%	59%	55%	47%	72%
Hispanic	43%	57%	57%	43%	24%	41%	45%	53%	28%

Figure 22

Hispanic / Non-Hispanic Owner-Occupying Purchasers of Greater South Norwalk 2- to 4-Family Houses: 2004 - 2012



	Sold 2004	Sold 2005	Sold 2006	Sold 2007	Sold 2008	Sold 2009	Sold 2010	Sold 2011	Sold 2012
Non-Hispanic Owner-Occupant	47%	20%	48%	43%	67%	25%	38%	25%	67%
Hispanic Owner-Occupant	53%	80%	52%	57%	33%	75%	63%	75%	33%

A large majority of owners of 2- to 4-family houses own one to three properties and most are non-incorporated individuals or couples. Although outdated, the 1995 Property Owners and Managers Survey (POMS) is the best source of national data on ownership and management practices of the owners of 2- to 4-family houses. According to this study, approximately 70 percent of the owners of 2-family houses owned between 2 and 4 units (i.e. one or two buildings) and 71 percent of 3- or 4-family house owners owned between 2 and 9 units (i.e. one to three buildings). 91 percent of 2-family owners and 87 percent of 3- or 4-family owners were non-incorporated individuals or couples.[17]

Most owners of 2- to 4-family houses purchase for a long-term hold and many purchase the property principally for use as a residence. According to the POMS, approximately 46 percent of 2- to 4-family owners plan to hold their properties for five or more years and 30 percent purchase the property principally as a residence. This is slightly below the percentage who buy principally for rental income (33 percent).[18]

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[17] Mallach, 2007

[18] Ibid

Valuation of 2- to 4-Family Houses

The final section of this report presents two models for underwriting and valuing a 2- to 4-family house in order to explore the factors that influence valuation of 2- to 4-family houses and the constraints faced by prospective buyers of 2- to 4-family houses.

Within the 2- to 4-family market, there are substantial differences in who buys 2-, 3- or 4-family houses, with 2-family houses more likely to appeal to owner-occupants and 3- and 4-family houses more likely to appeal to investors. The data on purchasers of Greater South Norwalk 2- to 4-family houses between 2004 and 2012 bear this out:

Figure 23

	2- to 4-Family Houses in Greater South Norwalk Purchased 2004-2012 for Owner / Non-Owner Occupancy by House Type		Percentage of Total Owner / Non-Owner Occupied 2- to 4-Family Houses in Greater South Norwalk Purchased 2004-2012 by House Type	
House Type	Percent Owner-Occupied	Percent Non-Owner-Occupied	Percent of Total Owner-Occupied	Percent of Total Non-Owner-Occupied
2-Family	69%	31%	90%	64%
3-Family	33%	67%	8%	28%
4-Family	33%	67%	3%	9%

The valuation exercise looks at two hypothetical purchases:

- Purchase of a 2-family house by an owner-occupant.
- Purchase of a 3-family house by an investor owner.

Average sales and rents for 2- and 3-family houses in 2012 are used as the input for the analysis, derived from the MLS. Taxes, insurance and maintenance costs were calculated from a variety of sources, and mortgage underwriting terms were accessed from available online sources.

2-Family Purchase by Owner-Occupant

Below is an analysis of a sample purchase of a 2-family house by an owner-occupant, assuming one of the units is rented at the average 2-bedroom rent.

1	Purchase Price	$230,000	Average 2-family sales in 2012: $228,867
2	2-BR Rent	$1,370	Average 2-BR rental in 2012: $1,368
3	Vacancy Loss Factor	10%	Average for 2-family houses, per Mallach, 2011
4	Broker's Commission	$1,370	1 month's rent
5	Annual Operations & Maintenance Expense	$2,400	Estimate of annual maintenance expense, per Mallach, 2011

6	Annual Property Taxes	$6,600	Average for 2-family houses on MLS, 2012
7	Annual Insurance Premium	$700	
8	Mortgage Interest Rate	3.125%	Obtained from Fairfield County Bank website*
9	Mortgage Term (Years)	30	""
10	Maximum Mortgage Amount	$225,834	"", Includes $3,884 MIP
11	Mortgage Amount net of MIP	$221,950	10 - $3,884 MIP
12	Closing Costs	$3,345	Estimated
13	Capital Improvements Needed	$10,000	per Mallach, 2011
	Calculation of Income Eligibility / Return		
14	Gross Rental Income	$16,440	2 x 12 months
15	Less Vacancy Loss	($1,644)	3 x 14
16	Effective Gross Income	$14,796	14 + 15
17	Broker's Commission	($1,370)	4
18	Less Operating & Maintenance Expenses	($2,400)	5
19	Less Property Taxes	($6,600)	6
20	Less Insurance Premium	($700)	7
21	Less Replacement Reserve Escrow	($500)	
22	Total Expenses	($11,570)	17 + 18 + 19 + 20 + 21
23	Annual Net Operating Income (NOI)	$3,226	16 + 22
24	Monthly Mortgage Payment	$967	PMT(8,9,10)
25	Minimum Yearly Income Needed to Support Mortgage Payment	$38,697	Assumes PMT max is 30% of gross income
26	Cash needed at Sale	$21,395	1 - 11 + 12 + 13
27	Cash on Cash Return	15%**	23 / 26

* Assumes 30-year, fixed-rate FHA loan with owner-occupant (www.fairfieldcountybank.com)

** Note: This calculation assumes the borrower is able to pay the principal and interest due on the mortgage and that the cash flow is applied to the cash paid at acquisition.

The analysis indicates that an average 2-family house in Greater South Norwalk would be affordable to a qualified purchaser with an income as low as approximately $39,000 at current interest rates and underwriting terms. The buyer could additionally earn approximately $3,200 in cash flow annually from the operations of the second unit, although an important caveat is that operating expenses are variable and can fluctuate greatly, especially if the owner has a non-paying tenant whom he must evict a tenant or must make a costly repair in one year. Note that the amount of borrowing capacity a given household has within its annual income is limited by its existing debts, i.e. a household earning $40,000 per year may not be able to qualify for a loan if it has a existing debts, such as car loans, credit card debts and/or student loans. However, the analysis indicates that the purchase of 2-family houses is within reach for many prospective homeowners.

Purchasers of 2-family houses for owner-occupancy may be motivated by a variety of reasons, but research indicates that financial factors are most prominent. A national survey of owners of 2- to 4-family houses found that the leading reason for purchasing a 2- to 4-family house was "for rental income" (32.8%), followed closely by "as residence" (29.2%) indicating that the cash flow appeal of 2- to 4-family houses may overshadow the interest in having a place to live. However, this also indicates that a substantial portion of 2- to 4-family owners are "inadvertent" landlords who buy primarily for a place to live. Owners of 2- to 4-family houses must be willing to take on basic property management and maintenance tasks and often spend their own time at the property to avoid incurring expense, with 48.2% spending between one and eight hours per week managing their property (median: 3.9 hours per week).[19] As referenced earlier, most 2- to 4-family house owners hold and plan to hold their properties for a long time.

The above analysis shows that, for the typical buyer, a 2-family house can provide an affordable residence as well as a potential source of cash flow. While the initial motivation may be the former and not the latter, some owner-occupants discover an aptitude for real estate and purchase other, nearby multifamily houses or move out to another house while continuing to manage their original house as an absentee landlord.[20] Other owner-occupants are attracted by the prospect of cash flow. Mallach found in his study of 2- to 4-family owners in New Jersey that ownership often follows ethnic groups, with patterns of, for example, ownership by Puerto Rican families in one locality, that create informal associations of landlords to share knowledge and socialize. In these communities, owning a 2- to 4-family house represents a path to building wealth and savings.

3-Family Purchase by Investor

Below is an analysis of a sample purchase of a 3-family house by an investor, assuming two 2-bedroom units and one 3-bedroom unit. There are several important differences from the owner-occupancy model, which are described more fully below.

1	Purchase Price	$266,000	Average 3-family sales in 2011-2012: $266,243
2	2-BR Rent	$1,370	Average 2-BR rental in 2012: $1,368
3	3-BR Rent	$1,700	Average 3-BR rental in 2012: $1,694
4	Vacancy Loss Factor	10%	Average for 3-family houses, per Mallach, 2011
5	Broker's Commissions	$2,740	2 units x 1 month's rent
6	Annual Operations & Maintenance Expense	$9,000	Estimate of annual maintenance expense, per Mallach, 2011
7	Annual Property Taxes	$6,600	Average for 3-family houses on MLS, 2011-2012
8	Annual Insurance Premium	$1,000	

[19] Mallach, 2007. Data from 1995 POMS.

[20] Ibid.

9	Mortgage Interest Rate	3.375%	Obtained from Fairfield County Bank website*
10	Mortgage Term (Years)	30	""
11	Maximum Mortgage Amount	$199,500	75% Loan-To-Value
12	Closing Costs	$3,453	Estimated
13	Capital Improvements Needed	$20,000	per Mallach, 2011
	Calculation of Income Eligibility / Return		
14	Gross Rental Income	$53,280	Assume 2x 2-BR units and 1x 3-BR Unit
15	Less Vacancy Loss	($5,328)	4 x 14
16	Effective Gross Income	$47,952	14 + 15
17	Less Broker's Commissions	($2,740)	5
18	Less Operating & Maintenance Expenses	($9,000)	6
19	Less Property Taxes	($6,600)	7
20	Less Insurance Premium	($1,000)	8
21	Less Replacement Reserve	($3,000)	
22	Total Operating & Maintenance Expenses	($22,340)	17 + 18 + 19 + 20 + 21
23	Annual Net Operating Income (NOI)	$25,612	16 + 22
24	Annual Mortgage Payment	($10,584)	PMT(9,10,11)
25	Net Cash Flow	$15,028	23 + 24
26	Cash needed at Sale	$89,953	1 - 11 + 12 + 13
27	Cash on Cash Return	17%	25 / 26

The investor model differs from the owner-occupancy model in the following ways:

- The debt parameters are stricter: The maximum Loan-To-Value ratio is 75%, which caps the mortgage at an amount lower than what the cash flow could support. This increases the investor's cash need at the closing to approximately $90,000 and limits the pool of potential buyers.
- Lenders often require a personal guarantee and/or a strong borrower balance sheet for investment loans, which further limits the pool of buyers.
- Operating Expenses are assumed to be higher, due to the need for property management services, which owner-occupants generally do not utilize.

Purchasers of 3-family houses for investment generally fall into one of four categories, according to Mallach: Rehabbers, Flippers, Milkers, and Holders.[21] Of these, the data on the Greater South Norwalk 2- to 4-family houses indicate that the most prevalent is likely the Holder, which is an investor who purchases for long-term cash flow and capital appreciation. This is because the underlying economic fundamentals of purchasing a 2- to 4-family house in Greater South Norwalk are sound, as described above. Over time, a savvy operator of multifamily housing in Greater South Norwalk can earn a cash flow

[21] Mallach, 2011

profit. Holders are most similar to owner-occupants in motivation, often holding the property for a long time and maintaining a basic standard of care to ensure the property will continue to be rented. The data presented here on the long average hold time and large proportion of locally-residing landlords confirms this point.

However, there is evidence that the Greater South Norwalk 2- to 4-family housing market was influenced by Flippers during the period from 2004 to 2007. During this period, some properties transacted multiple times and/or sold to absentee landlords. Additionally, many of the 2- to 4-family houses sold in foreclosure auctions from 2008 to 2010 were purchased by investors who flipped the property within one to two years for an increased sales price.

There are two other factors that complicate the acquisition of multifamily houses:

- Much of the 2- to 4-family housing for-sale inventory since 2008 has been short sales and foreclosures. These properties are typically difficult, if not impossible to purchase with mortgage financing. Foreclosure sales require an all-cash, as-is closing, which greatly limits the pool of potential purchasers, even if the underlying economics of the properties support a leveraged acquisition.
- The models include an assumption for capital improvements, which may be required in many of the 2- to 4-family houses available for sale, but actual amounts vary by building. Mallach, in his analysis of the New Haven multifamily investment market, assumed an average cost of $10,000 to $20,000 of investment required in most 2- to 4-family houses.[22]

The Bottom Line

The feasibility analysis indicates that the relationship between rent amounts, sales prices and debt underwriting terms in the current Greater South Norwalk 2- to 4-family market is sound. Prices appear to be in line with rents and a qualified and effective purchaser / operator could potentially turn a profit from the cash flow of a 2- or 3-family house. 2-family houses are a feasible option for owner-occupants and may be affordable to a qualifying household earning as little as $40,000. However, there are other factors, such as foreclosure / short sale limitations and capital needs, that may limit the pool of potential owners and investors.

[22] Ibid.

Conclusion - Next Steps

This report constitutes a detailed evaluation of the existing conditions within the 2- to 4-family housing market in Greater South Norwalk and the Target Area. The investigation has found that the 2- to 4-family housing market in Greater South Norwalk and the Target Area has special characteristics that differentiate it from the general housing market in Norwalk, as follows:

- Properties are older than other housing in Norwalk.
- Pricing in the Greater South Norwalk 2- to 4-family housing market is more volatile.
- The Greater South Norwalk 2- to 4-family housing market has been heavily impacted by foreclosure activity, which continues to dominate the sales market even today, either through short sales or foreclosure auctions.
- Owner-occupancy remains the most prevalent form of ownership, particularly among 2-family houses, however investors play an important role in the market. Owners tend to hold properties for a long time, in many cases starting as owner-occupants and becoming absentee landlords when they move to another house while still retaining their 2- to 4-family house.
- 2- to 4-family houses in Greater South Norwalk appeal to specific demographic groups, with purchases by Hispanic households for owner-occupancy being an important recent trend.
- 2- to 4-family houses in Greater South Norwalk constitute an important part of the City of Norwalk's unassisted affordable housing and can be a feasible and affordable route to homeownership for moderate-income households. However, occupants of 2- to 4-family housing in Greater South Norwalk are more likely to pay a disproportionately high share of their household income towards housing costs.

The policy implications of these findings are numerous and suggest a number of policy steps. The following are a series of recommended next steps that we believe will respond to the findings of this analysis and will assist in stabilizing and improving the market for 2- to 4-family houses in the Target Area:

1. **Develop financing programs that target the specific challenges faced by prospective purchasers of 2- to 4-family houses**. This analysis found that the 2- to 4-family housing market is heavily affected by the lingering effects of the national foreclosure crisis, with as many as 65 percent of the inventory of 2- to 4-family houses being short sales, bank REOs, or foreclosure auctions. These types of sales often impose stringent and difficult conditions upon buyers and the brokerage community alike, including:

    a. Large cash deposit requirements.
    b. Difficulties in financing the purchase. Lenders will typically not lend to borrowers who looking to purchase a home from a foreclosure auction. In a short sale situation, prospective buyers sometimes have difficulty obtaining third-party property condition reports and/or must purchase as-is, which may cause lenders to refrain from making loans for the purchase.
    c. Requirements of immediate financing availability, as the timelines for short sales and foreclosure sales is sometimes brief.

d. Buyers brokers are sometimes denied a commission by the bank in a short sale or REO purchase, which then falls upon the buyer to pay. For this reason, buyers and brokers alike often avoid short sale or REO properties.

Due to these difficulties, short sales, foreclosures and bank REOs are often purchased by investors all-cash. One solution to these problems is a flexible financing program, supported by a government or non-profit entity, that can supply acquisition capital to qualified buyers to purchase a short sale, foreclosed or bank REO property. In this program, a buyer could be qualified to borrow up to a specific mortgage amount and receive specialized training in purchasing a property in some stage of foreclosure, which often has higher capital needs. Once qualified, the buyer could be given the equivalent of a letter of credit, which he or she could use to acquire a short sale, foreclosed or bank REO property. In this structure, however, the government or non-profit entity must be willing to accept some of the risks associated with as-is purchases, which include major capital needs, title issues and other concerns.

2. **Partner with a local non-profit to help obtain state and/or federal funds and to administer a loan program for prospective buyers of 2- to 4-family houses**. The Housing Development Fund is currently preparing to roll out a loan program later this year specifically for 2- to 4-family house purchases, which would include financing for acquisition, renovation and greening. The Norwalk Redvelopment Agency could consider working with the Housing Development Fund to make this financing available in Norwalk and to investigate opportunities to mix financing sources to increase the amount available to Norwalk purchasers.

3. **Enable borrowers to shift from owner-occupant to landlord**. A common feature of government-sponsored loan programs is a prohibition on renting the property, sometimes for a specified period of time and sometimes for the life of the loan. This analysis found that, over time, some owner-occupants of 2- to 4-family houses choose to move to another house but retain their original house as a source of cash income, rather than selling it. Often times these individuals stay in the same neighborhood and continue to maintain their original 2- to 4-family house in good condition. The income the house provides and its asset value is important to assisting low- and moderate-income families to move into the middle class by enabling them to finance college education and/or retirement without government support.

4. **Reach out to the Hispanic community with any new financing or other programs.** A major trend identified in the analysis is that the Hispanic community comprises an important segment of the population that purchases 2- to 4-family houses for owner-occupancy. Any new financing or other programs targeting the 2- to 4-family market should be provided in Spanish, community outreach should target Hispanic churches and community groups, and loan officers should be fluent in Spanish. Another less obvious targeting strategy is developing an alternative method of loan underwriting for households with little or no credit history, which is common among Hispanic immigrant families.

5. **Purchase and renovate a 2- or 3-family house as a pilot program**. The analysis found that 2- to 4-family houses are old and many are in need of renovation, particularly if they are short sales or foreclosures. Challenges such as abating lead paint and asbestos, re-modeling interior layouts to better meet to modern preferences, and estimating and financing renovation costs may dissuade many prospective buyers from considering 2- to 4-family houses. As a pilot program, the team could purchase a 2- or 3-family house, which the analysis showed are more likely to appeal to owner-occupants, work with an architect and contractor to develop a simple, efficient and easily replicable redevelopment plan that could serve as a template for other homeowners to follow. From this pilot program, a set of model interior renovation plans, abatement / renovation specifications, and cost estimate could be developed and provided to prospective buyers to de-mystify the renovation process. If paired with a renovation loan program, the result could be an increased interest in purchasing 2- to 4-family houses in the target area for owner-occupancy. Following the renovation, the house could be sold to a qualified buyer, thereby recuperating some of the costs of the pilot program.

6. **Partner with local institutions to create a low-cost landlord training course**. Owner-occupants of 2- to 4-family houses must serve as property managers, but few are trained in basic property management law and practices, including fair housing, landlord/tenant law, preventative and routine maintenance, marketing, etc. By partnering with a local non-profit entity or community college, a low-cost course could be offered to prospective buyers and existing owners alike.

Appendix

Steering Committee

Bruce Beinfield, Beinfield Architecture

Keith Brown, RBA Properties

Ernie Dumas, local resident

Matthew Edvardsen, Spinnaker Real Estate Partners

Data Sources

This report relies on a number of data sources that were compiled and analyzed to support the conclusions contained within the report. These sources are as follows:

- Multiple Listing Services (MLS) sales and rents of all 2- to 4-family houses in the South Norwalk Market Area from 2004 to 2012, including all active and/or pending listings, compiled as of 12/4/2012.

- American Community Survey (ACS) estimates from 2006 to 2010 for Census Tracts 440, 441 and 445, available from the U.S. Census Bureau.

- City of Norwalk Tax Assessor parcel data, accessed online as of December, 2012 for certain characteristics (e.g. owner name and address), and from a spreadsheet of all parcels, updated as of the 2007 revaluation, for all other characteristics.

- National data on 2- to 4-family housing available from the *American Housing Survey for the United States*, which was last updated as of 2009 and issued March, 2011, made available by the U.S. Department of Housing and Urban Development (HUD) and the U.S. Department of Commerce

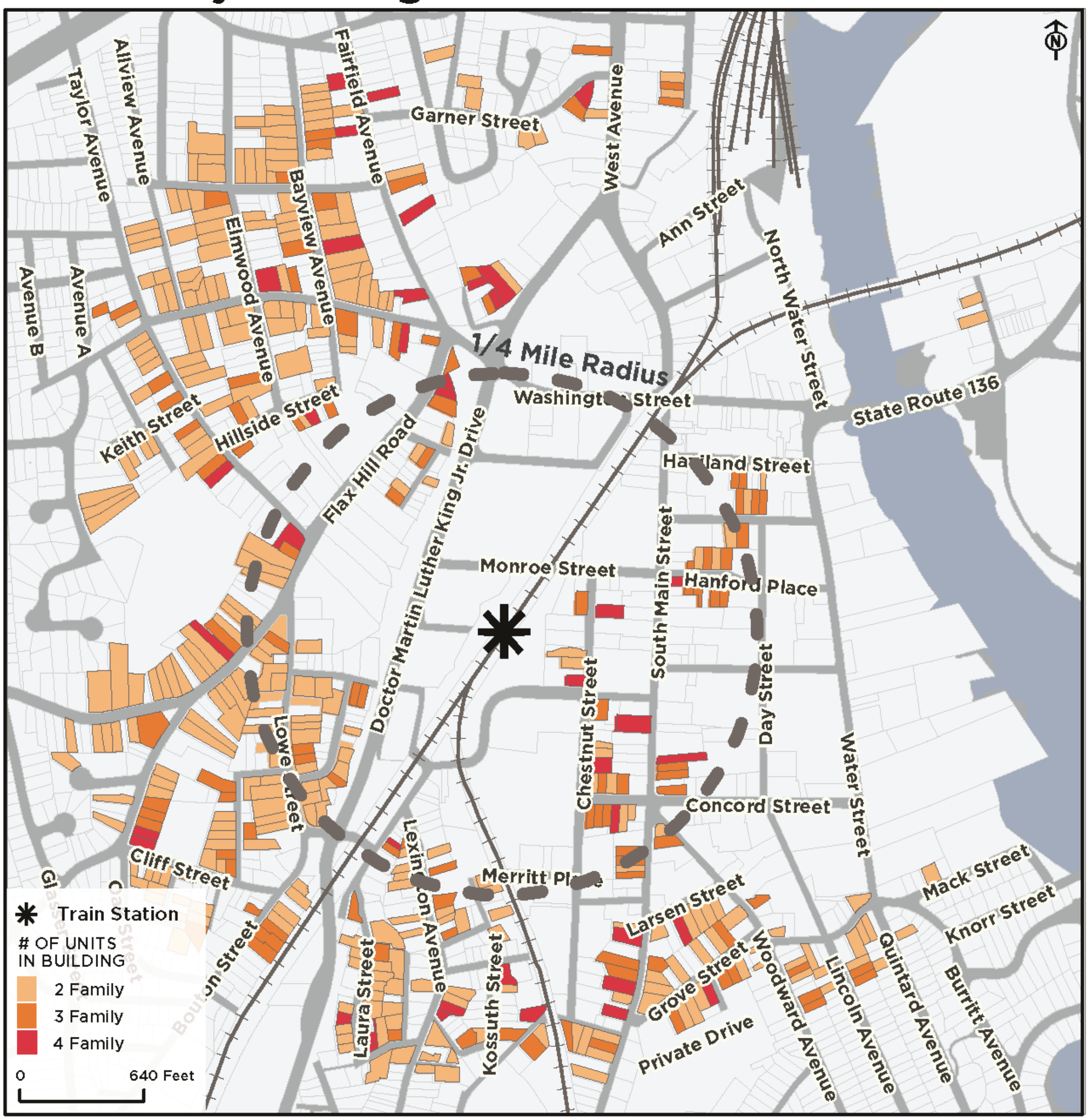
- Best practices research studies, which are cited as used throughout the report.

- Interviews with individuals active in the South Norwalk multifamily market:
  - Ray Rumer, Prudential Connecticut Realty (Interviewed November 14, 2012)
  - Julien Delepine, Christofor Realty (Interviewed November 14, 2012)
  - Joan Carty, Executive Director, Housing Development Fund (Interviewed October 12, 2012)
  - Tim Carney, Housing Development Project Manager, Norwalk Redevelopment Agency (Interviewed November 27, 2012)

Target Geography

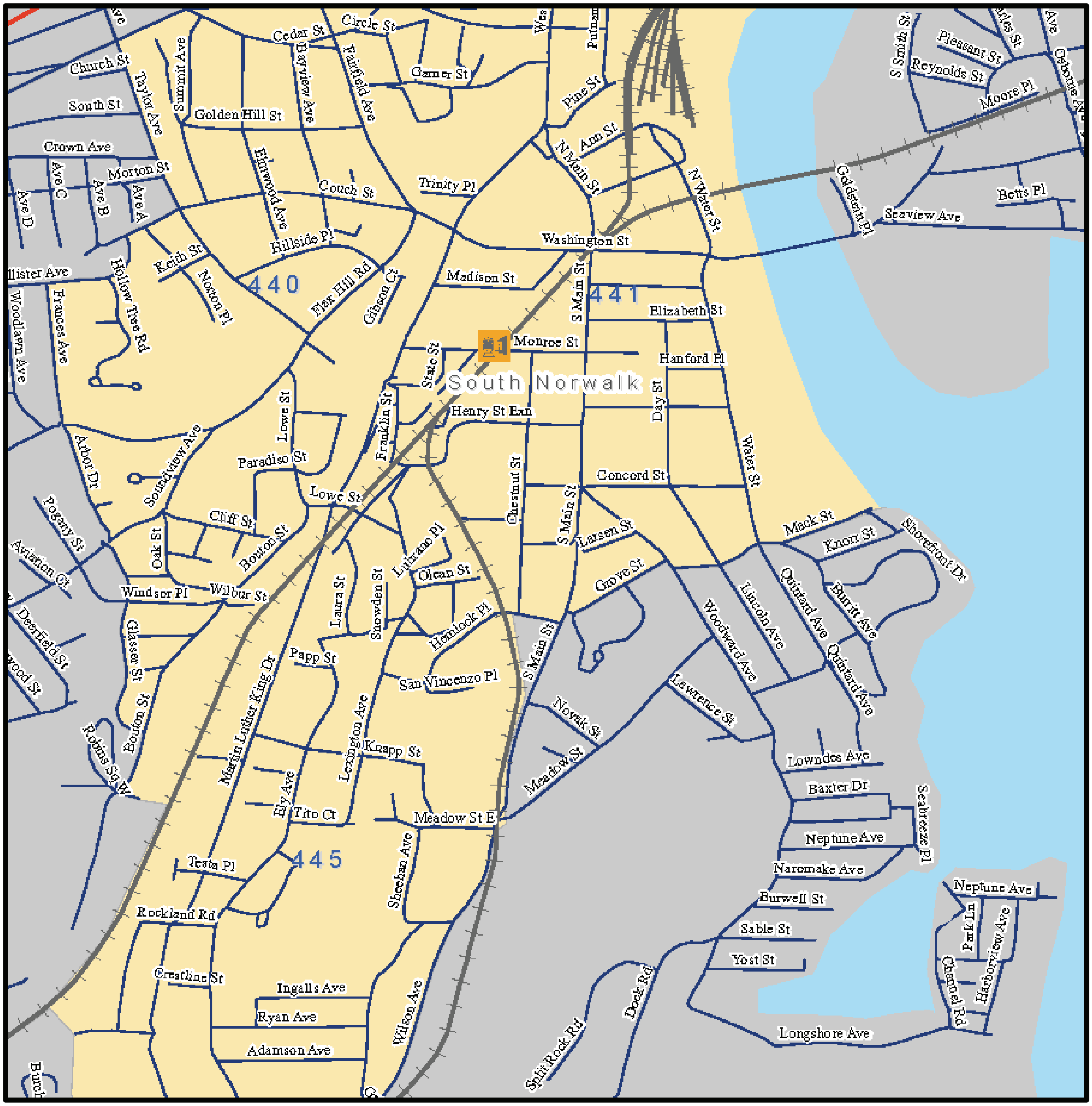
Target Area

South Norwalk Train Station Area
2-4 Family Housing



Source: City of Norwalk, Connecticut

Greater South Norwalk



Matrix of Available Properties

Current MLS Listings*

Property Address	List Price	# of Units	Price / Unit	Square Feet	BRs	Baths	Year Built
Target Area							
106 South Main St.	649,000	4	162,250	3,112	4	4	1890
91 Ely Ave.	189,000	3	63,000	2,892	8	3	1890
Non-Target Area							
153 South Main St.	189,000	4	47,250	3,007	6	4	1920
74 Woodward Ave.	199,000	2	99,500	2,002	5	2	1908
2 Oak St.	289,000	2	144,500	2,020	3	2	1926
286 Ely Ave.	219,500	2	109,750	1,240	3	2	1900
36 Burritt Ave.	299,900	2	149,950	2,207	5	2	1900
6 Butler St.	499,000	4	124,750	3,324	N/A	N/A	1926
66/68 Taylor Ave.	778,000	6	129,667	4,149	11	6	1920
12 Putnam Ave.	295,000	2	147,500	3,081	N/A	N/A	1920

Lis Pendens**

Property Address	Estimated Value	Current Mortgage	# of Units	Est. Value / Unit	Square Feet	BRs	Baths	Year Built
Target Area								
12 Elizabeth St.	290,000	637,500	3	96,667	3,183	5	3	1870
Non-Target Area								
41 Lowe St.	259,000	400,000	2	129,500	1,860	4	2	1880
29 Oxford St.	390,000	394,000	2	195,000	2,658	6	2	1935
28 Lincoln Ave.	279,000	391,500	2	139,500	1,568	3	2	1911
46 Fairfield Ave.	303,000	N/A	2	151,500	2,549	5	3	1880
10 Olean St.	274,000	236,060	2	137,000	2,310	5	2	1910
215 Ely Ave.	284,000	370,000	2	142,000	2,213	4	2	1890
6 Bethel St.	285,000	421,000	2	142,500	2,853	4	3	1922
6 Quintard Ave.	245,000	327,200	2	122,500	1,639	2	2	1896
216 Ely Ave.	289,000	312,000	2	144,500	2,451	2	N/A	1900
56 Taylor Ave.	266,000	351,000	3	88,667	3,255	9	4	1902
131 Lexington Ave.	271,000	392,000	2	135,500	2,770	2	2	1915
73 Lexington Ave.	281,000	350,000	2	140,500	3,379	7	2	1906
35 Bayview Ave.	308,000	381,600	2	154,000	2,199	5	2	1855
25 Lincoln Ave.	311,000	438,750	2	155,500	2,821	3	3	1910

* As of March 11, 2013

** Property owner has been issued a Lis Pendens sometime since June, 2012.