



Policy Memo: The Appraisal Gap Guarantee

The City of Syracuse should partner with lenders to set aside housing and development funds as loan collateral on select housing and commercial construction and renovation projects where a gap between appraised value and construction cost challenges feasibility.

Overview:

In the City of Syracuse, low real estate values can prevent new construction and renovations. This can be a hindrance to the redevelopment and resurgence of our city.

A major factor is the gap between appraised value and construction cost. An individual, family, or business may not have the extra cash available to cover the difference, forcing them to cancel the project. This situation is a loss for a city in need of revitalization.

A partnership between the city and lenders can address this issue. Lenders lend based on appraised value because that reflects the value of their loan collateral in the event of a default. If the city can guarantee to pay the lender the value of the gap between the appraised value and construction cost in the event of a loan default, some lenders may be able to lend more, requiring a down payment equal to a percent of construction cost instead of appraised value.

This program would significantly reduce the initial cost of borrowing for city-selected capable borrowers on projects that align with the city's vision. Though publicly and privately administered programs do exist to provide grants to help borrowers cover their appraisal gaps, this program would cover the difference in a way that would cost far less to the city than direct down payment assistance or grant funding. The city could be able to lower down payments by a sum of possibly ten times more than the value of a down payment assistance or grant program would be able to cover, accounting for expected default rates plus a contingency.

This program could be combined with other efforts to achieve desired results. It could be reserved for renovating houses into housing cooperatives, shops in underserved corridors, specific historic properties, providing affordable rental or for-sale housing, accessory dwelling units, specific blocks and streets, homes in housing strategy neighborhoods, buildings in formerly redlined neighborhoods, or other uses. Minor home renovations, gut renovations of vacant houses, new apartments across a wider variety of neighborhoods, and shops along struggling corridors are just a few of the types of projects that could arise from this program.