

Solutions for Mitigating Neighborhood Blight: Innovations and Policy Strategies

November 2, 2017

Organized by the Federal Reserve Bank of St. Louis

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Welcome

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- Call-in number: 888-625-5230
- Conference code: 3729 7975#
- Webinar link: <https://www.webcaster4.com/Webcast/Page/584/22866>

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- Email us at: communities@stls.frb.org
- Type your question into the chat box of the webinar

An archived recording of this session will be available on the **Connecting Communities**[®] website shortly after the session ends. Please visit www.stlouisfed.org/connectingcommunities/

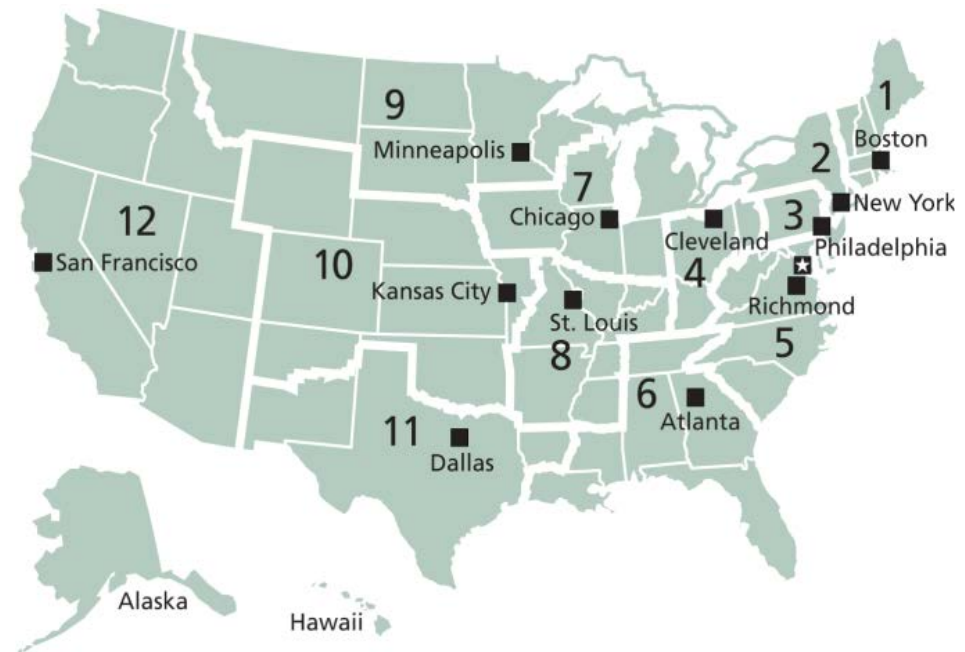
In connection with this session, you can find a variety of additional resources on this topic, available at www.fedcommunities.org. We encourage you to browse through this site and to contact your regional office if you would like additional information on any of these items.

Legal Notices and Disclaimer

The information, analyses, and conclusions set forth are those of the presenters and do not necessarily indicate concurrence by the Board of Governors of the Federal Reserve System, the Federal Reserve Banks, or members of their staffs.

Community Development (CD)

- The CD function in the Federal Reserve System – consisting of individual departments at each of the 12 Federal Reserve Banks as well as at the Board of Governors – promotes economic growth and financial stability for low- and moderate-income (LMI) communities and individuals through a range of activities, including:
 - **Convening stakeholders**, including practitioners, financial institutions, nonprofits, governmental agencies, and the philanthropic and private sectors
 - **Conducting and sharing research** to examine economic challenges facing LMI communities and attendant policy implications
 - **Identifying emerging issues**



Today's Presenters and Agenda

- Kim Graziani, Vice President and Director of Technical Assistance, Center for Community Progress
- Steve Lockwood, Executive Director, Frayser CDC
- Krysta Pate, Program Director, Community Reinvestment Fund, USA
- Matthew Josephs, Senior Vice President, LISC
- The following will be discussed:
 - Causes and costs of blight, vacancy and abandonment
 - Two innovative programs that offer working solutions to address the appraisal gap and mitigate the impact of vacancy and abandonment in distressed communities
 - Potential new federal tax credit to attract capital to distressed neighborhoods

Mitigating Neighborhood Blight: National Perspective

Kim Graziani

**Vice President and Director of National
Technical Assistance
Center for Community Progress
kgraziani@communityprogress.net**



About Us

- **Center for Community Progress**
 - We are the only national nonprofit solely focused on building a future in which entrenched, systemic blight, and vacancy no longer exist.
 - We serve communities through policy development, **technical assistance**, leadership development, education, and research.
 - Since 2010:, **technical assistance** has been provided in more than 200 communities in 30 states, and trainings have reached 1,000s of professionals.
 - Our next **Reclaiming Vacant Properties Conference** will be held in Milwaukee on May 15–17, 2018.



A map of the United States with numerous red location pins scattered across various states, including Minnesota, Wisconsin, Illinois, Michigan, Ohio, Pennsylvania, New York, and Texas. The pins are concentrated in the Midwest and Northeast regions. The text "What are the causes of blight, vacancy, and abandonment?" is overlaid in large, bold, orange letters.

What are the causes of blight, vacancy, and abandonment?

housing
speculators
inefficient underwater
opportunity lack ineffective
deteriorated
limbo predatory legal economic
lien
systems
disconnected racism
values property tax inequitable
lenders leadership
antiquated
absentee landlords

Underlying it All: Economics

Population Shifts of Six Upstate New York Cities and Counties

Jurisdiction	1950	2010	Net Change	% Change
City of Schenectady	91,785	66,135	-25,650	-28%
Schenectady County	142,497	154,727	12,230	9%
City of Troy	72,311	50,129	-22,182	-31%
Rensselaer County	132,607	159,429	26,822	20%
City of Utica	100,489	62,235	-38,254	-38%
Oneida County	222,855	234,878	12,023	5%
City of Buffalo	580,132	261,310	-318,822	-55%
Erie County	899,238	919,040	19,802	2%
City of Syracuse	220,583	145,170	-75,413	-34%
Onondaga County	341,719	467,026	125,307	37%
City of Rochester	332,488	210,565	-121,923	-37%
Monroe County	487,632	744,344	256,712	53%

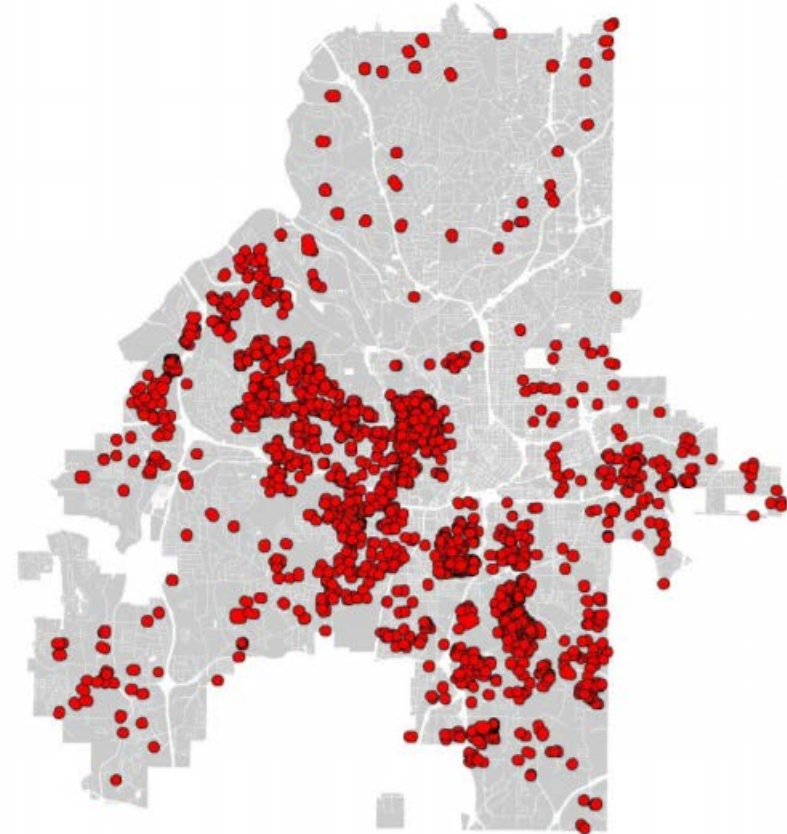
Source: New York State Land Banks, April 2017, New York Land Bank Association and Center for Community Progress.

A map of the United States with numerous grey location pins scattered across various states, indicating areas of interest. The pins are most densely clustered in the Northeast and Midwest regions. The text 'What are the costs of blight, vacancy, and abandonment?' is overlaid in large, bold, orange letters.

What are the costs of blight, vacancy, and abandonment?

Cost of Blight Study: Atlanta, Georgia (2016)

- **\$1.67 million to \$2.96 million** in annual code enforcement, fire, and police direct service costs, incurred by the city of Atlanta, that are related to vacant properties.
- **\$55 million to \$153 million** reduction in single-family property values in the city due to distressed, vacant properties.
- **\$985,000 to \$2.7 million** lost in property tax revenue annually due to the decline of property values.



Map of Vacant Properties in City of Atlanta

For full report (Immergluck, 2016): <https://tinyurl.com/jbyfk8d>

Cost of Blight Study: Toledo, Ohio (2016)

- Cumulative lost residential property values imposed by vacancy and abandonment in Toledo: **\$98,700,000**

ASSUMPTIONS	EFFECT OF DISTRESSED VACANT PROPERTIES WITHIN 500 FEET ON RESIDENTIAL VALUES (1)	CUMULATIVE EFFECT OF DISTRESSED VACANT PROPERTIES ON SF VALUES	AVERAGE EFFECT PER DISTRESSED VACANT PROPERTY	POTENTIAL CUMULATIVE IMPACT ON ANNUAL PROPERTY TAX REVENUE (2)
Best Reasonable Estimate	-3.15% per vacant <u>bldg</u>	- \$98,721,606	- \$50,627	-\$2,678,295
Very Conservative	-1.12% per vacant <u>bldg</u>	- \$35,101,016	- \$18,000	-\$952,283

- Each of the 1,950 distressed vacant properties reduces the aggregate value of homes within 500 feet by a total of \$50,627.
- Calculations are based on findings of most recent, most respected research.

For full report (Center for Community Progress, 2016): <https://tinyurl.com/y77njypt>

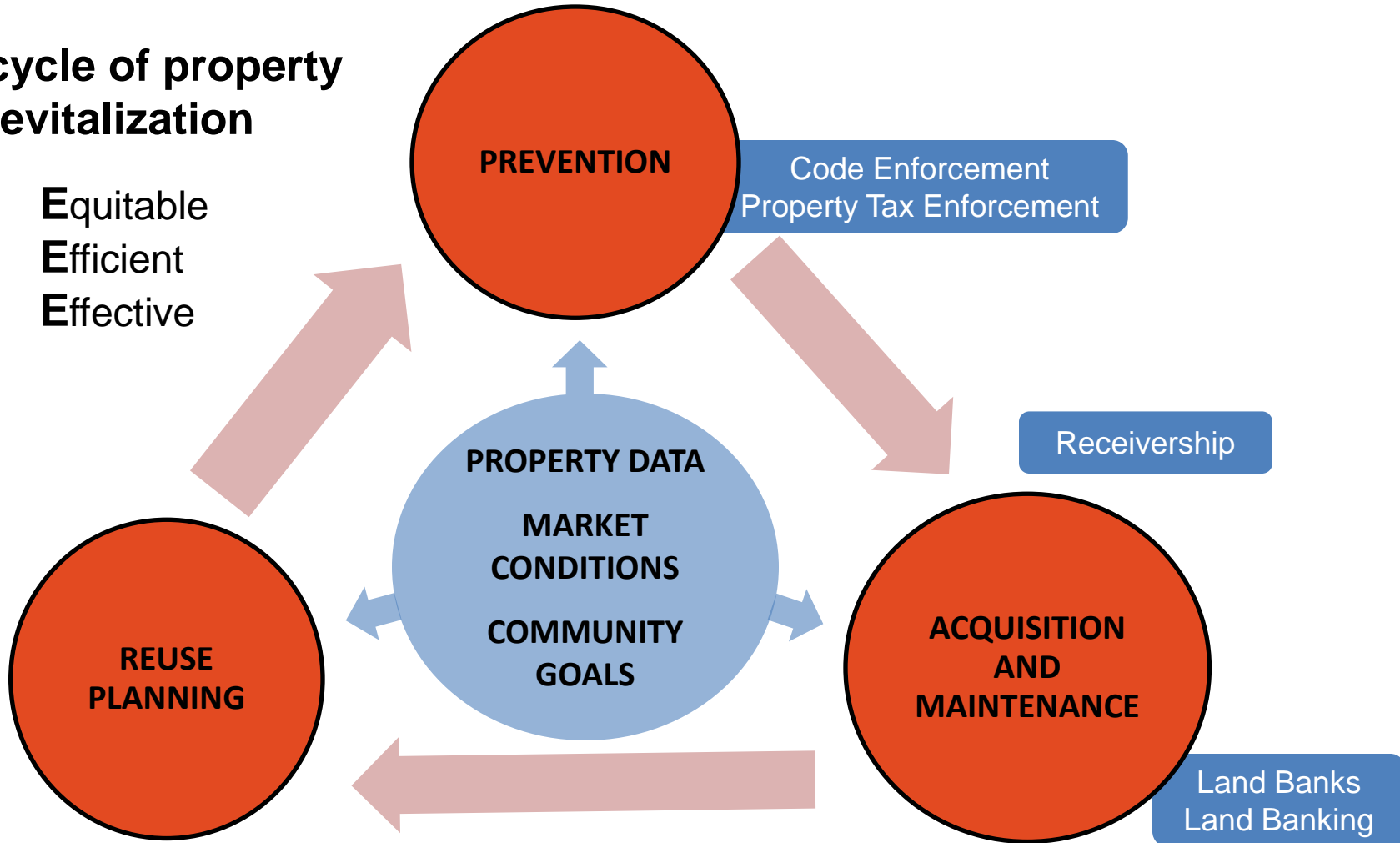
A map of the United States with numerous red location pins scattered across various states, primarily concentrated in the Northeast and Midwest. The text is overlaid on the map.

What are successful strategies to tackle blight, vacancy, and abandonment?

Our Systems-based Approach

Full cycle of property revitalization

Equitable
Efficient
Effective





Headquarters:

111 E. Court St.
Suite 2C-1
Flint, MI 48502

National Office:

1001 Connecticut Ave. NW
Suite 1235
Washington, DC 20036

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communityprogress.net

twitter.com/CProgressNews

facebook.com/CenterForCommunityProgress

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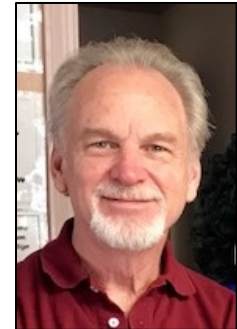
The Frayser Model – Reinvesting in Blight

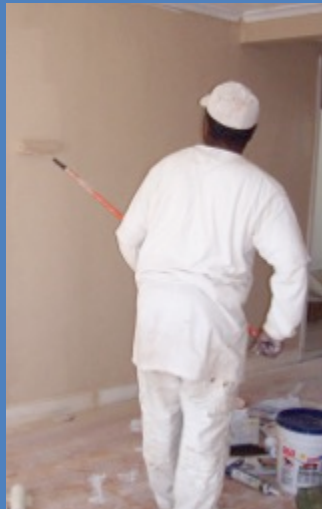
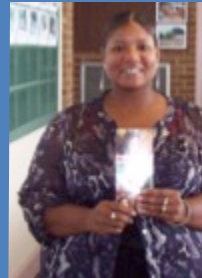
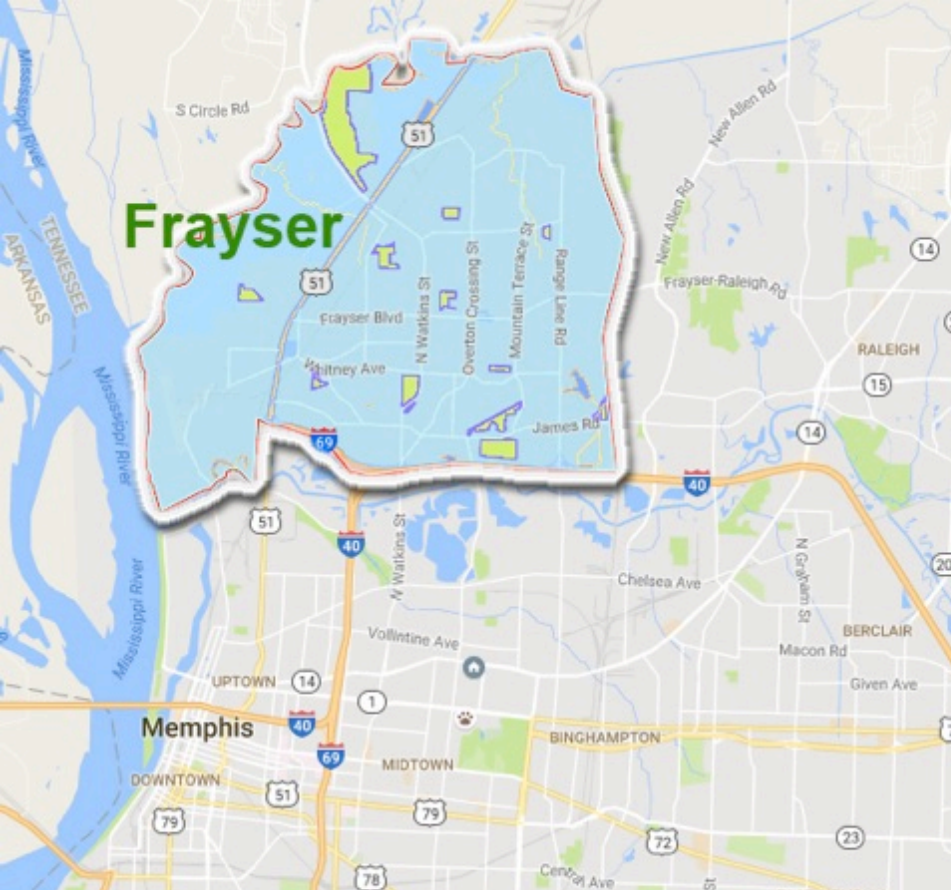
Steve Lockwood

Executive Director

Frayser CDC

slockwood@fraysercdc.org





Frayser is a 25 square mile community in north Memphis. It consists of 14,000 parcels and has a population of 42,000.

Welcome to Frayser Community Development Corporation (CDC)



Who are we?

We are a neighborhood-based nonprofit revitalizing Frayser through our housing work.



Frayser CDC



What do we do?

We acquire and fix blighted properties and provide home buyer education, and foreclosure and financial counseling.

Frayser CDC – Our Focus

Before



What are our objectives?

We reduce blighted homes, increase home ownership rates, and raise property values.

After



Frayser CDC – Our Objectives

Abandoned houses



Boarded houses



The Tennessee Housing Development Agency provided funds for the purchase and redevelopment of housing in two census tracts of Frayser.

Identifying a Focus Area

Focusing
our work

Grandview
North –
the **Yellow**
Square

A Tipping Point Neighborhood



A Tipping Point Neighborhood (continued)




A Tipping Point Neighborhood (continued)



The **yellow** square

Focusing Our Work. **A Tipping Point Neighborhood.**





The **yellow** square

 Lawsuit houses

Identifying Blighted Properties

The yellow square



-  Lawsuit houses
-  Fixed houses
-  Boarded houses
-  Demolished houses

Lawsuit Results



Before



After



Before



University – Before and After

The yellow square



-  Lawsuit houses
-  Fixed houses
-  Boarded houses
-  Demolished houses
-  Frayser CDC houses

The CDC's Work

The yellow square



-  Lawsuit houses
-  Fixed houses
-  Boarded houses
-  Demolished houses
-  Frayser CDC houses
-  Investor houses

Fixing Blight Attracts Investors

The yellow square



Lawsuit houses



Fixed houses



Boarded houses



Demolished houses



Frayser CDC houses



Investor houses

Now It Gets Interesting ...



Average price
\$10,000



Rehab budget
\$46,000



The Cost



**For Sale
or Lease**
Frayser CDC

354-2778

The CDC Invested \$1,000,000.



Jump-start
the market



Stimulate
other
investment

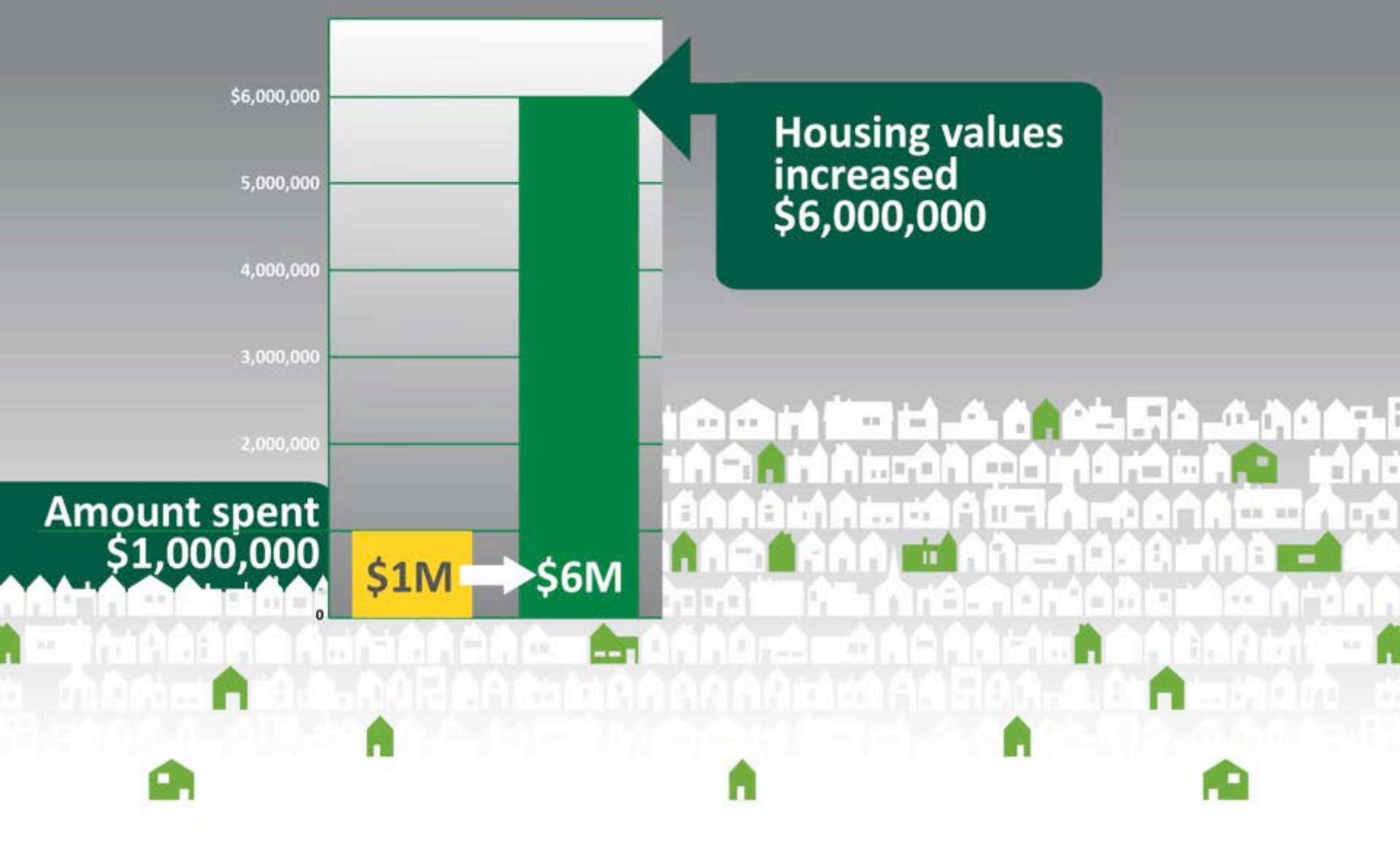


Raise
surrounding
property
values

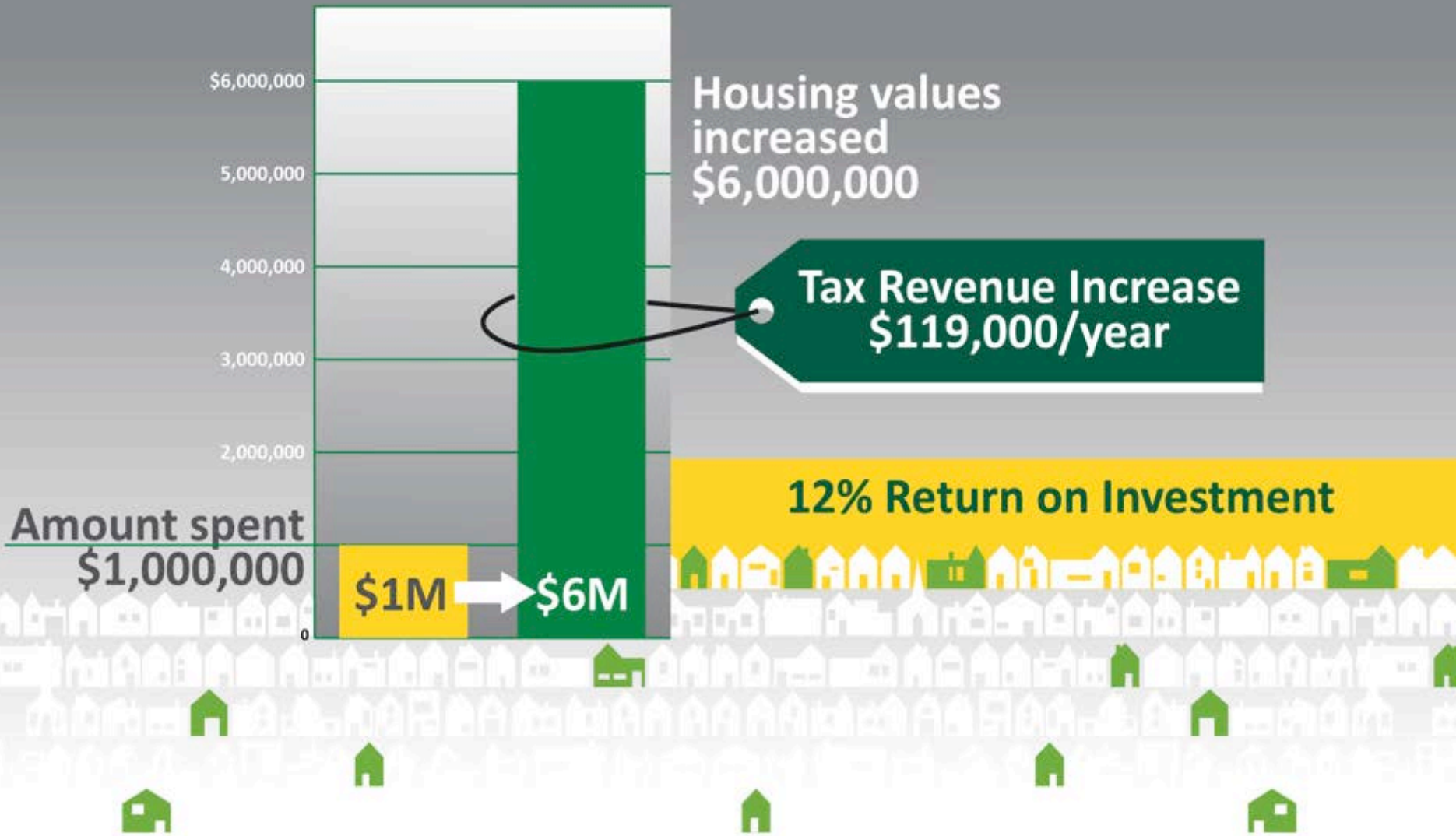


Lower crime
in the area

What is the Impact of CDC's Investment?



Rise in Housing Values



Tax Revenue Increases

Before

After

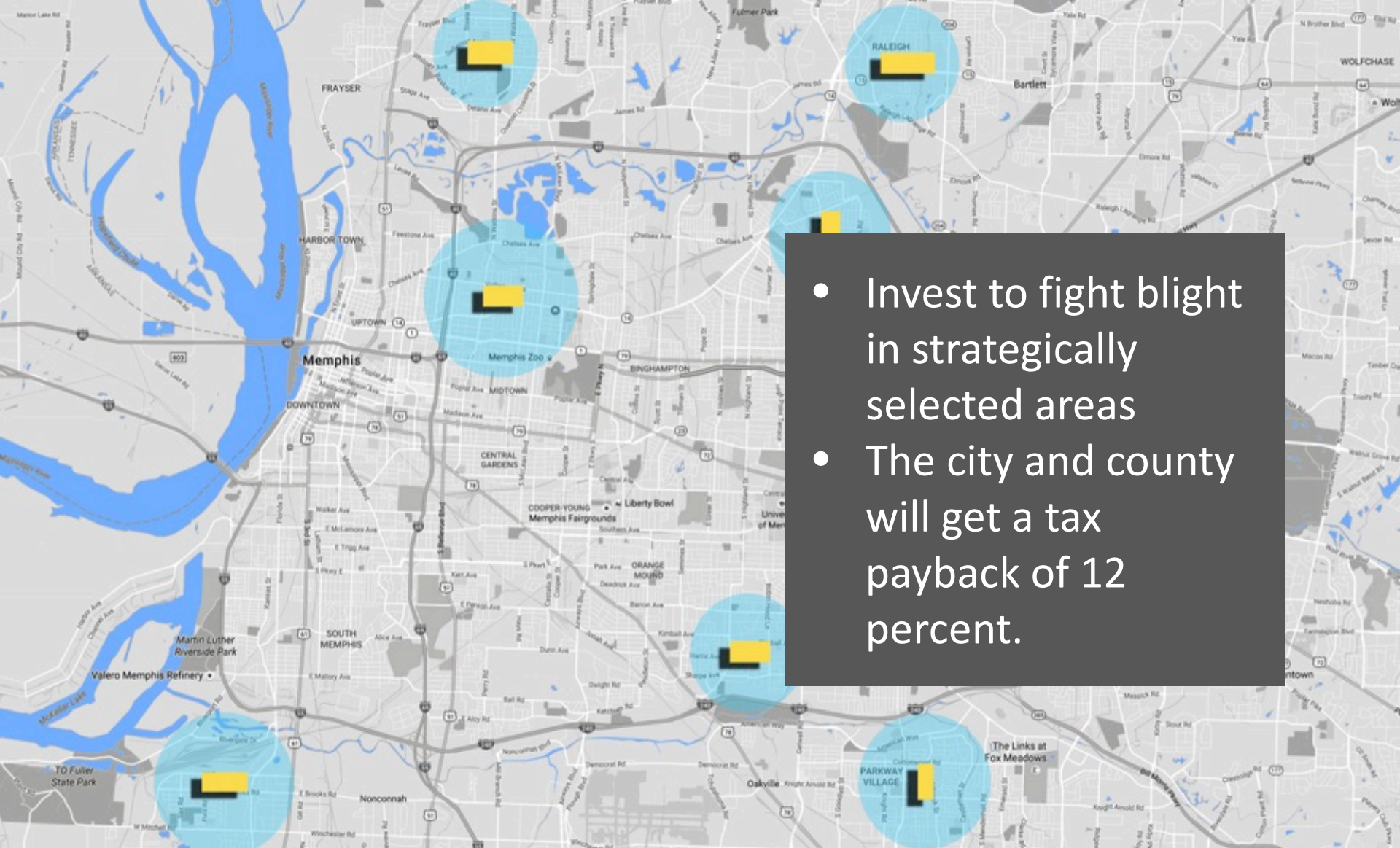


Clean up blight and receive
a 12 percent return on Investment

Where Do You Get That Kind of Return?

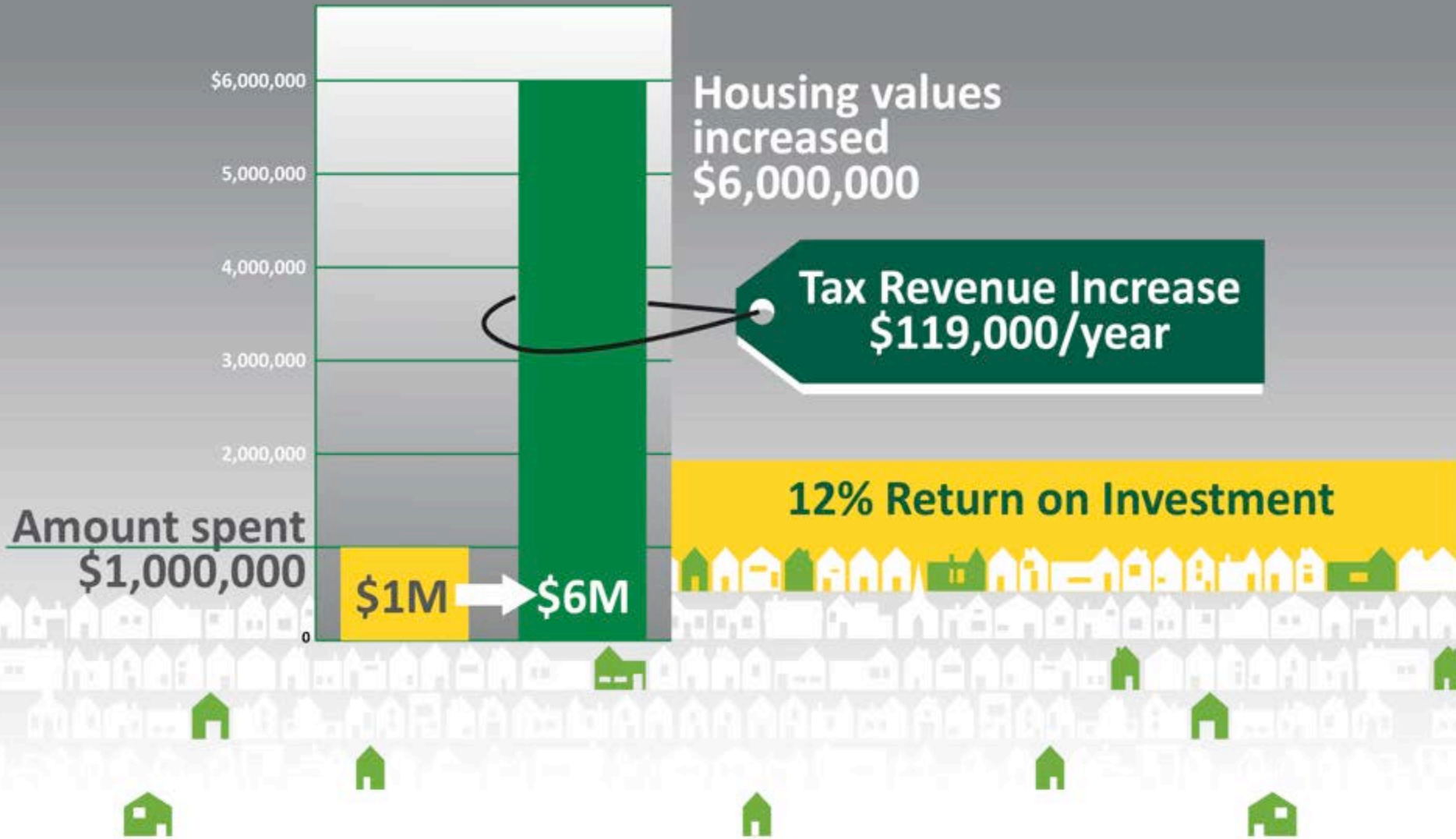


Reducing Blight Makes us Safer



- Invest to fight blight in strategically selected areas
- The city and county will get a tax payback of 12 percent.

Let's Do This Again



Investing \$1 Million Raises Values to \$6 Million



A Blight Solution that Works in Memphis

Detroit Home Mortgage (DHM)

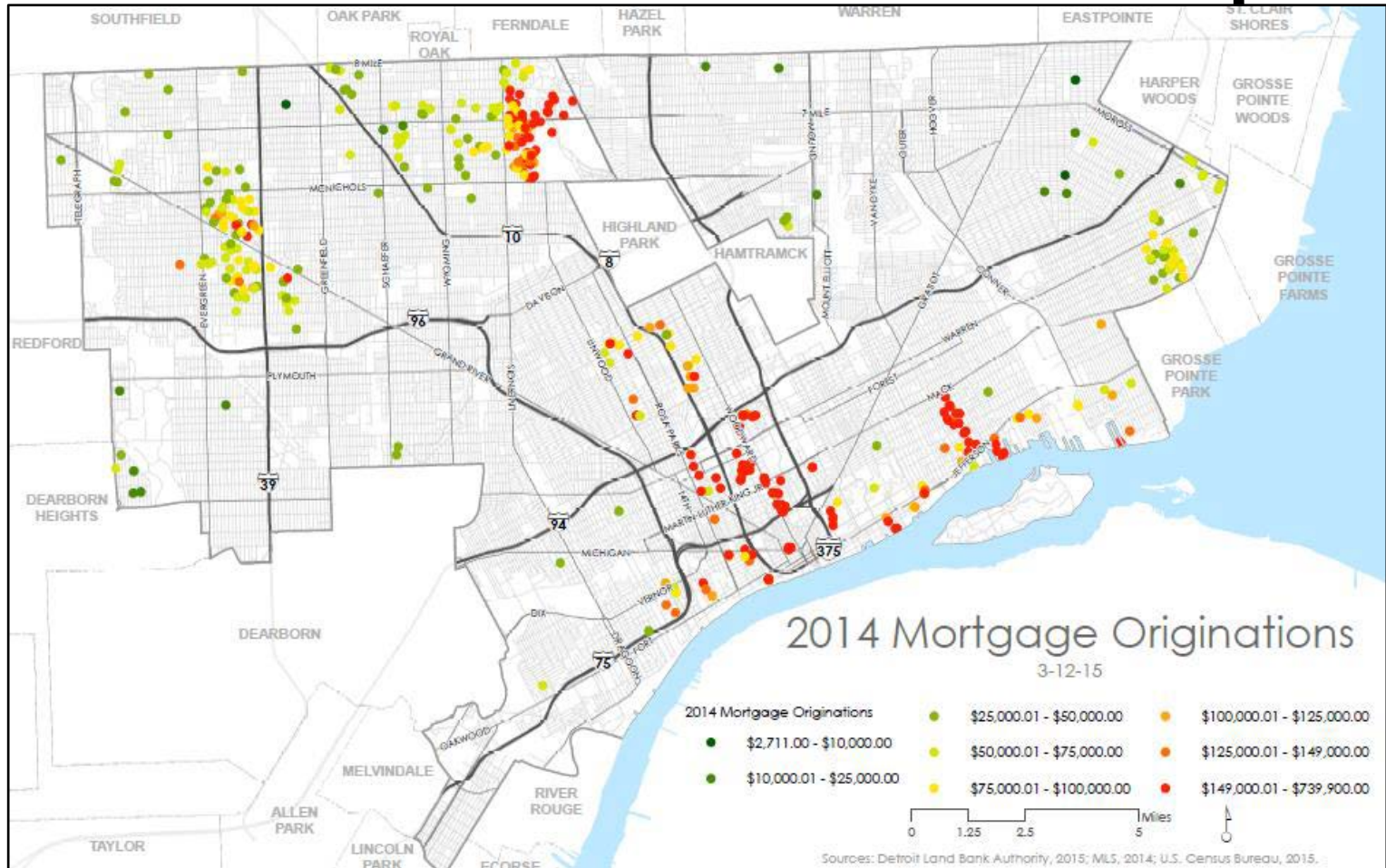
Krysta Pate

**Program Director
Community Reinvestment Fund, USA
Krysta@crfusa.com**



Detroit Market Conditions

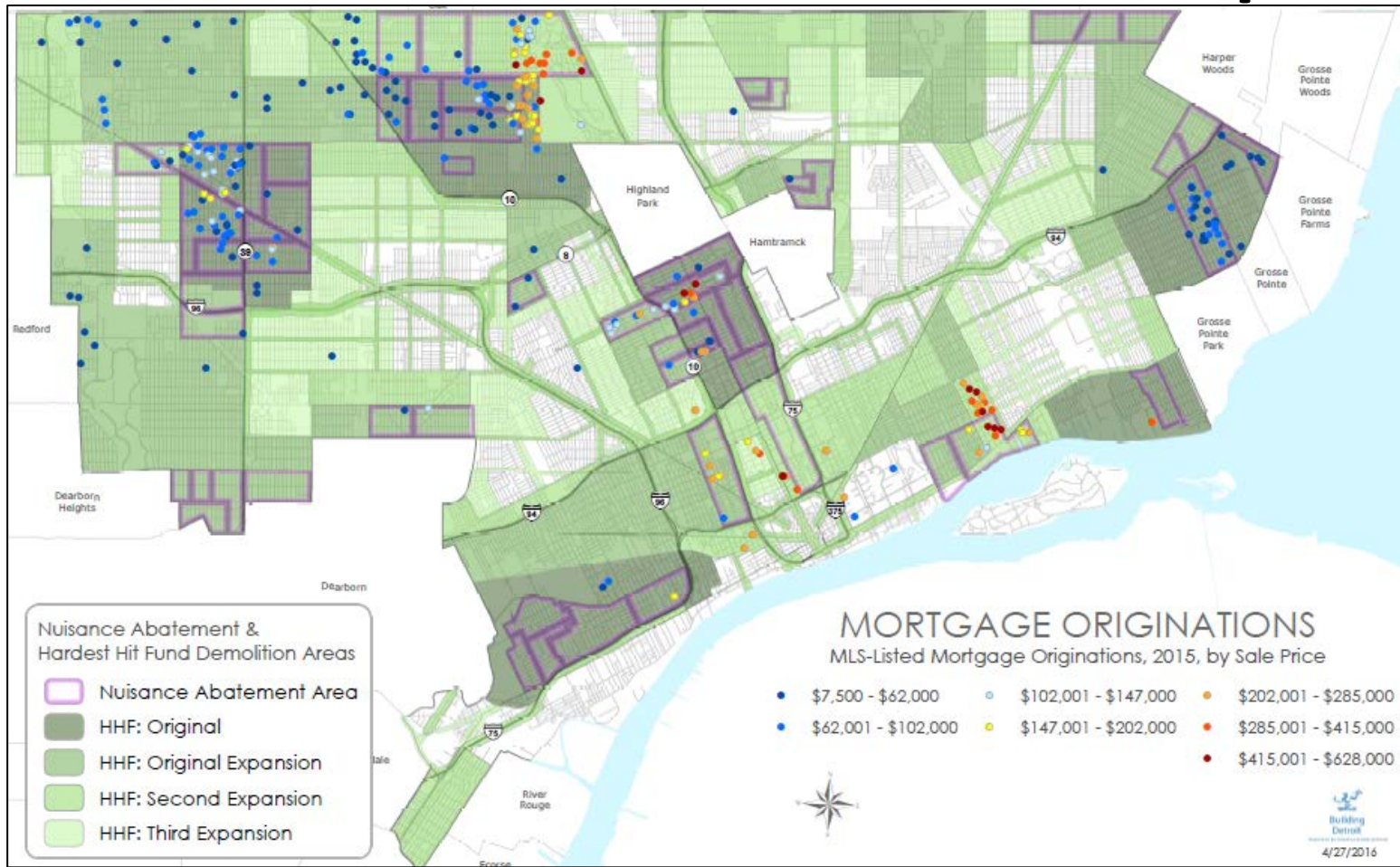
2014 Realcomp Data



The Detroit Land Bank Authority derived from Realcomp data

Detroit Market Conditions

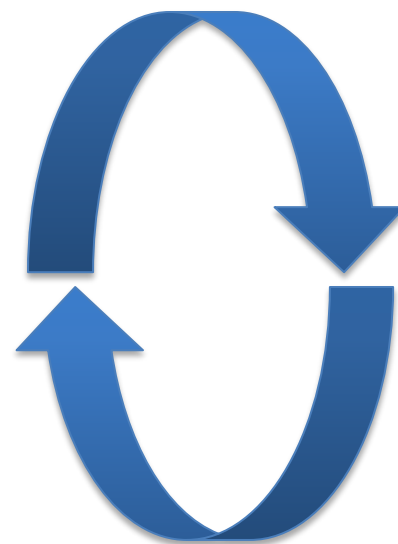
2015 Realcomp Data



The Detroit Land Bank Authority derived from Realcomp data

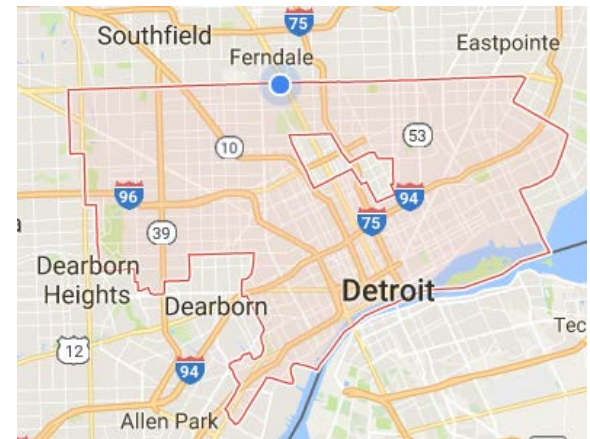
Detroit Market Conditions Explained

- Mortgages only work in a few areas:
 - Concentration is in 5–10 neighborhoods out of 201.
 - Even in those neighborhoods, appraisals are inconsistent.
 - There is a scarcity of data available for appraisers.
- Detroit is in a cyclical cash market:
 - Scarce data leaves appraisers with homes that are not comparable to subject property.
 - Because comparable homes are inappropriate, appraisers assign artificially low values.
 - Buyers cannot get mortgages, leading to more cash transactions.
 - Properties continue to be perpetually undervalued.



DHM – A Solution

- President Barack Obama visits Mayor Mike Duggan:
 - Greatest problem identified
 - Federal working team assigned
- Clinton Global Initiative:
 - Detroit workshop with Detroiters and experts
 - Think tank produces framework for DHM
- Local working group convenes:
 - Banks take the lead on development
 - DHM launched February 18, 2016



Google Maps

Program Financial Collaborators



Capital for Communities -
Opportunities for People™



FORD FOUNDATION



Banking

Citizens Bank®

Flagstar®
Bank

CHEMICAL
BANK

Creating Community Chemistry

Huntington



INDEPENDENT
BANK

LIBERTY BANK

MSHDA

Michigan State Housing
Development Authority

HUDSON
WEBBER
FOUNDATION

Comerica Bank

Community
Foundation

FOR SOUTHEAST MICHIGAN

Logos owned by each organization and provided to CRF

Program Details

- Lends up to \$75,000 above appraised value:
 - Borrower receives two mortgages funded by participating banks:
 - First mortgage:
 - 96.5 percent of appraised value fixed at average prime offer rate
 - Maximum Federal Housing Act limit (about \$270,000)
 - Second mortgage:
 - Amount above appraised value up to \$75,000 fixed at 5 percent



DetroitHomeMortgage.org



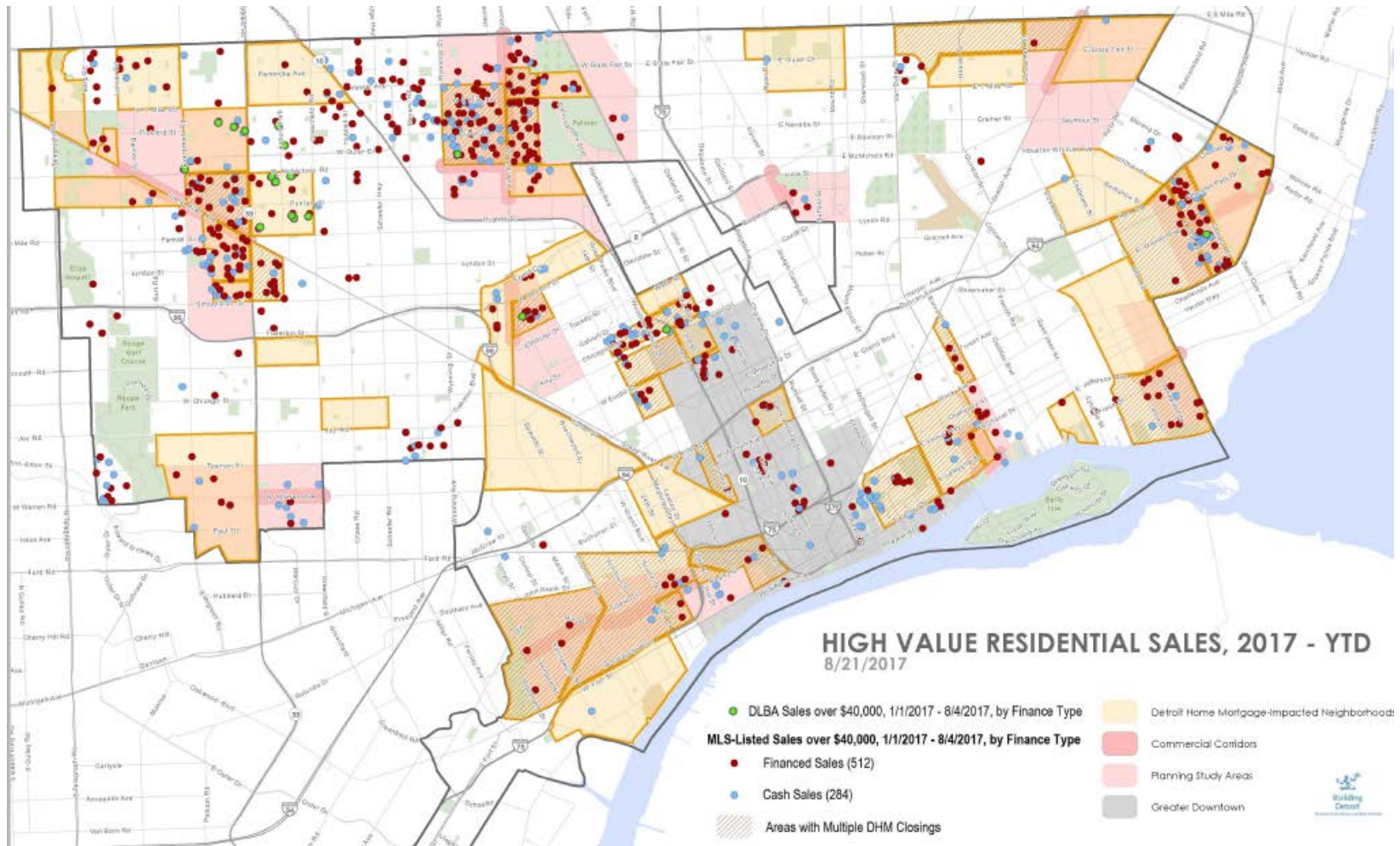
Program Details (continued)

- Buyers use DHM three ways:
 - Buy a move-in-ready home
 - Buy a home and renovate
 - Refinance and renovate current home
- Terms:
 - Owner occupant 1–4 family property within Detroit city limits
 - Minimum score of 600 and 3.5 percent down payment
 - Terms available 10, 15, and 20 years
 - No bank origination fees, points, or private mortgage insurance
 - Second mortgage hardship forgiveness

Market Impact to Date

- Program Impact (over 250 served):
 - 140 pre-qualified shoppers
 - 116 closed families to date
- Impact on 2016 broader market:
 - 736 residential properties sold with financing via Realcomp
 - DHM-related originations at 10 percent in comparison (direct and indirect)
 - Uncovered supply shortage of move-in-ready homes
 - A few neighborhoods are beginning to push DHM out.
- Long-term vision:
 - Temporary market catalyst to reset neighborhood value
 - Estimated program length is 3–5 years.
 - Coordination with other programs citywide

Detroit 2017 High-Value Sales Map



The Detroit Land Bank Authority derived from Realcomp data, internal CRF data, and city of Detroit planning area data

Neighborhood Homes Reinvestment Act

Matthew Josephs

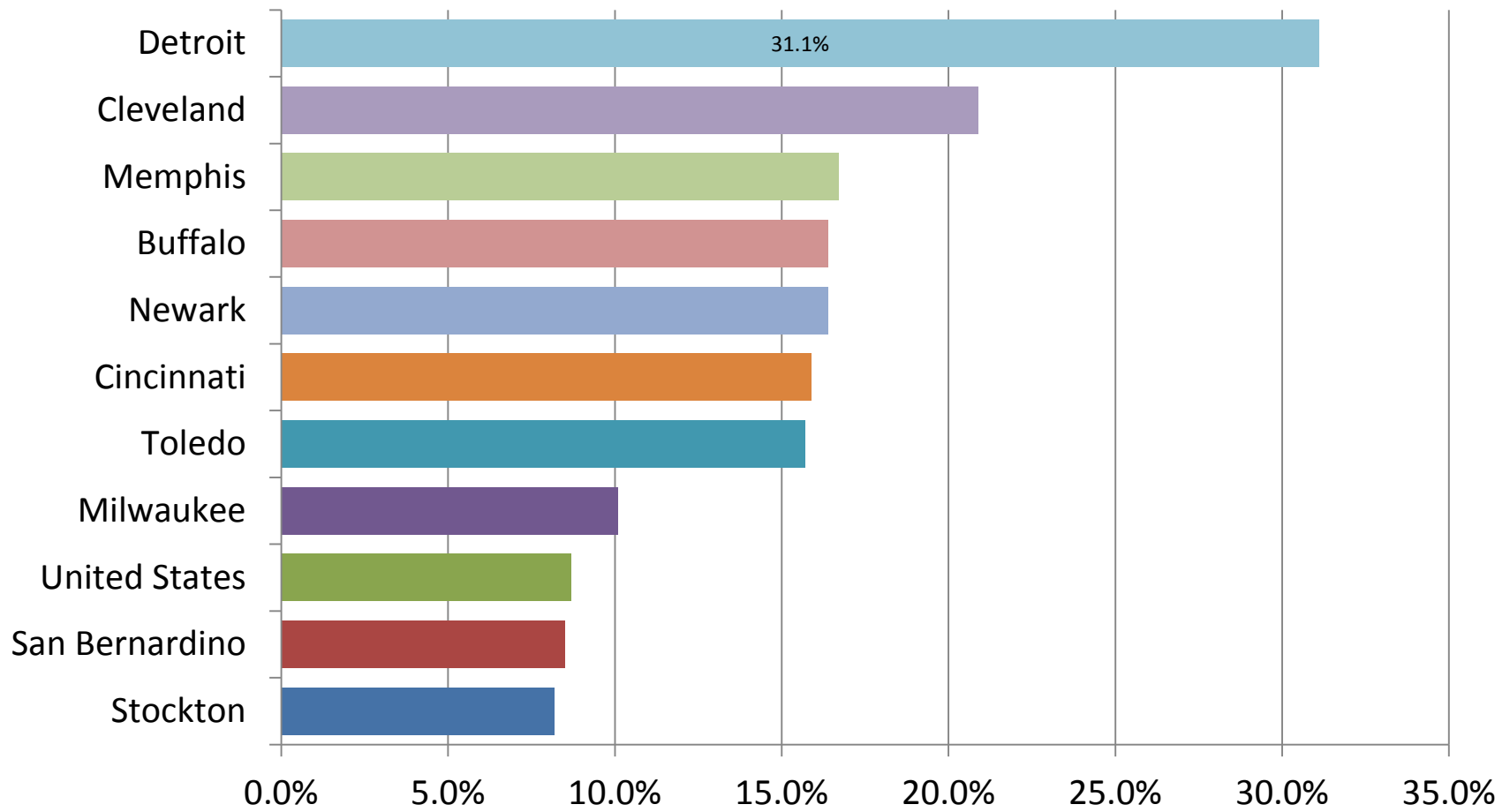
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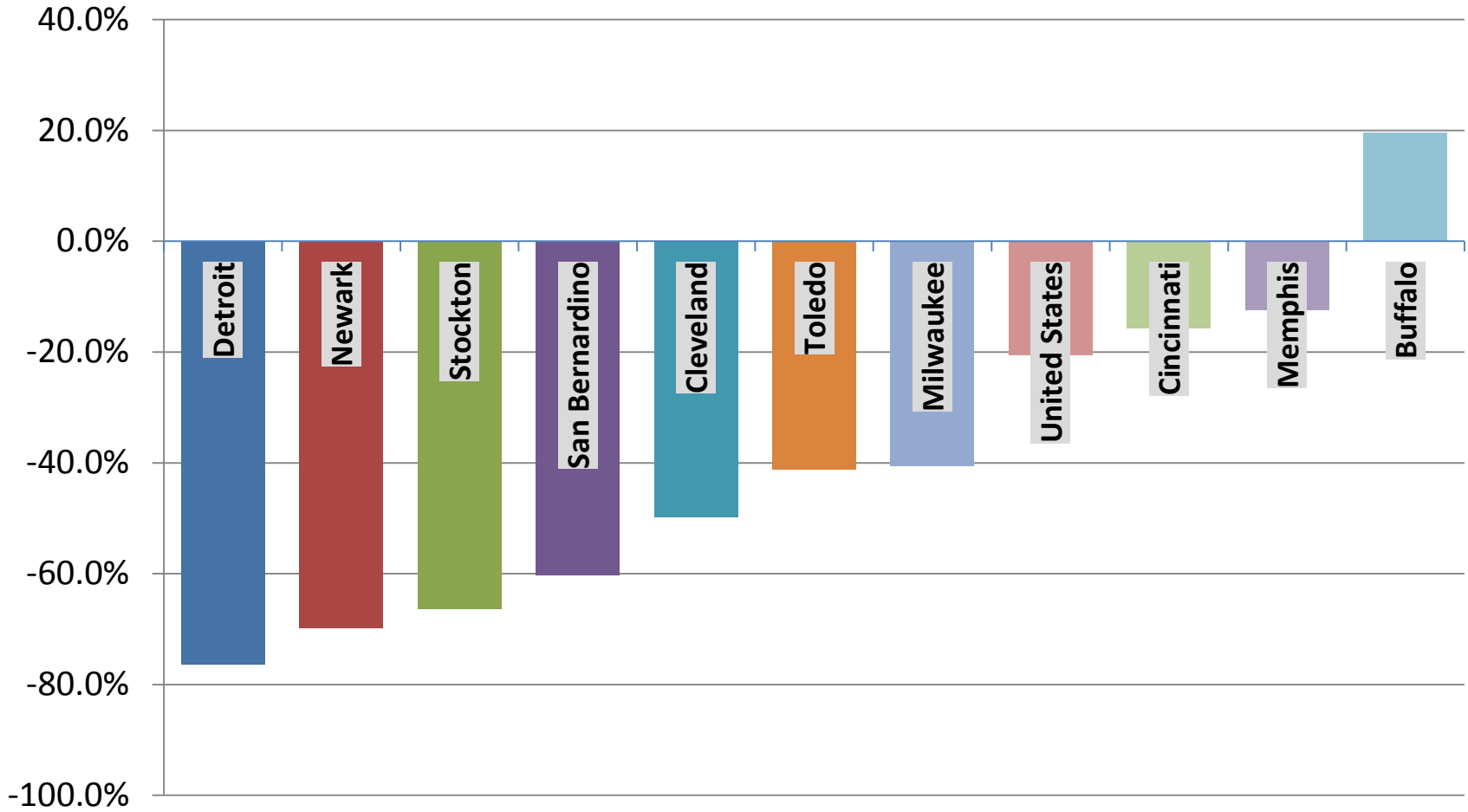


Vacant Housing Units, 2014 (as a Percentage of Total Housing Units)



Source: One-year American Community Survey, 2014

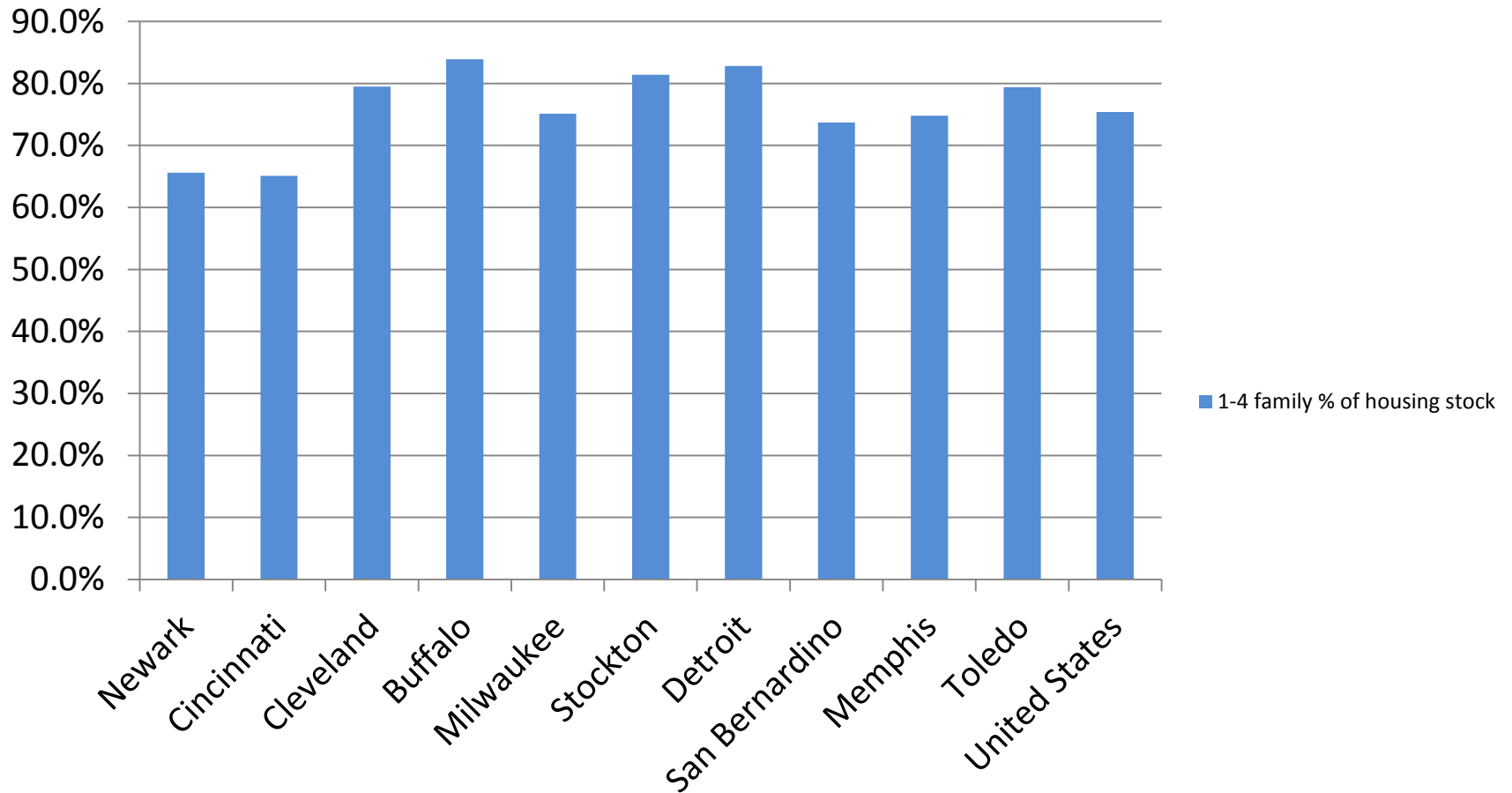
Median Sales Price Changes (2006–2013)



Source: Boxwood Means; Federal Housing Finance Agency Index

Single-Family Housing Stock

1-4 family housing, as percent of overall housing stock



Source: One-year American Community Survey, 2014. Data excludes mobile homes.

What Are We Proposing?

- The Neighborhood Homes Investment Act (NHIA):
 - A new federal tax credit to attract capital to stressed neighborhoods.
- Can be used for:
 - New construction and substantial rehabilitation of single-family (1-4 unit) housing

How Would the NHIA Work?

- States write allocation plan.
- States make allocation to NHIA managers.
- Managers could include developers, investors, and lenders.
- Managers use tax credit allocation to raise equity capital from investors.
- Investors claim credits once property is occupied by an eligible homebuyer.

What Areas Would the NHIA Target?

- Census tract criteria:
 - Poverty rate > **130 percent of area poverty rate**
 - Median family income < **80 percent of area median income**
 - Median house value for owner occupied < **100 percent of area median owner-occupied house value**

Housing Eligibility

- Eligible home types:
 - Single-family homes with 1–4 units
 - Condominium units
 - Cooperative housing
 - Factory-made housing permanently affixed to real property
- Maximum home price cannot exceed 4x area median family income (MFI)
 - E.g., if area median family income = \$122,500 (St. Louis) then maximum home price = \$490,000
- Uniform Relocation Act applies if renter displaced

Homeowner Eligibility

- 90 percent for homeowners with incomes < **140 percent of area or state MFI** (adjusted by household size)
 - Includes 10 percent of homes for owners < **80 percent of area or state MFI**
- 10 percent of homes have no income limits
- States may set additional criteria

NHIA Financing

- Covers up to 35 percent of building acquisition, rehab, demo, and construction costs
 - Land acquisition excluded (in cases of new construction)
- Minimum rehab of \$25,000 per unit
- Eligible building acquisition costs limited to 50 percent of rehab/construction costs

Example: NHIA Financing (Rehab)

Building acquisition (assumes no land value)	\$ 20,000
Rehabilitation	\$130,000
Total Development Cost	\$150,000
Less: market value after development	\$115,000
Total appraisal gap	\$ 35,000
Maximum NHIA allocation (35% of \$150,000)	\$ 52,500
Final NHIA award	\$ 35,000

Example: NHIA Financing (New Construction)

Land acquisition	\$ 35,000
Construction	\$175,000
Total development cost	\$210,000
Less: market value after development	(\$160,000)
Appraisal gap	\$ 50,000
Maximum NHTC allocation (35% of \$175,000)	\$ 61,250
Final NHTC award	\$ 50,000

Claiming the NHIA

- NHIA credits are claimed when a home is completed, inspected, and occupied by an eligible owner.
 - Investors are repaid from homeowner equity, permanent mortgage, and tax credits.
- Investors are not subject to recapture.
- If homeowner sells within five years, 50 percent of appreciation (up to the tax credit amount) is paid to state for reuse to support neighborhood revitalization.

NHIA Outcomes

- Livable homes built or rehabilitated
- Reduced blight and vacant properties
- Affordable homeownership opportunities created
- Private-equity investment generated
- New jobs in construction and related industries
- Tax revenues for federal, state, local government

Questions?

You have two options to ask questions today:

1. Email us at: communities@stls.frb.org.
2. Click the “Ask Question” button in the webinar.

Wrap-Up/Closing

Thank you to today's presenters and to all participants for joining this session.

Next steps:

- All session materials are available on our website and, in the next few days, we will post an audio file of today's session.
- If you have topical suggestions for future sessions, or any questions about this program, please feel free to contact us at communities@stls.frb.org.
- Information about future sessions will be posted on our website along with archived materials from past sessions:
<https://bsr.stlouisfed.org/connectingCommunities>

Related Resources



In connection with this session, you can find a variety of additional resources on this topic, available at **www.fedcommunities.org**.

It provides an array of practical resources to help you in your role as a community development professional, whether your work involves supporting people, places, the policy and practice of community development, or small business development.