Solutions for Mitigating Neighborhood Blight: Innovations and Policy Strategies

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• Webinar link: https://www.webcaster4.com/Webcast/Page/584/22866

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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.
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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
• **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.
What are the causes of blight, vacancy, and abandonment?
systems

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

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Underlying it All: Economics

Population Shifts of Six Upstate New York Cities and Counties

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

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

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

Map of Vacant Properties in City of Atlanta
Cost of Blight Study: Toledo, Ohio (2016)

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

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

- 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
What are successful strategies to tackle blight, vacancy, and abandonment?
Our Systems-based Approach

Full cycle of property revitalization

- Equitable
- Efficient
- Effective

PREVENTION

Code Enforcement
Property Tax Enforcement

PROPERTY DATA

MARKET CONDITIONS

COMMUNITY GOALS

ACQUISITION AND MAINTENANCE

REUSE PLANNING

Receivership

Land Banks
Land Banking
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 – Our Focus

What do we do?

We acquire and fix blighted properties and provide home buyer education, and foreclosure and financial counseling.
What are our objectives?

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

Frayser CDC – Our Objectives
Identifying a focus area

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

Connecting Communities® SPONSORED BY THE FEDERAL RESERVE SYSTEM
A Tipping Point Neighborhood (continued)
A Tipping Point Neighborhood (continued)
Focusing Our Work. A Tipping Point Neighborhood.
Identifying Blighted Properties
Lawsuit Results

The yellow square

- Lawsuit houses
- Fixed houses
- Boarded houses
- Demolished houses
University – Before and After
The CDC’s Work

The yellow square

- Lawsuit houses
- Fixed houses
- Boarded houses
- Demolished houses
- Frayser CDC houses
Fixing Blight Attracts Investors

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

The yellow square
Now It Gets Interesting ...

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

The yellow square
The Cost

Average price $10,000

Rehab budget $46,000
The CDC Invested $1,000,000.
What is the Impact of CDC’s Investment?

- Jump-start the market
- Stimulate other investment
- Raise surrounding property values
- Lower crime in the area
Rise in Housing Values

Amount spent $1,000,000

Housing values increased $6,000,000
Tax Revenue Increases

Housing values increased $6,000,000

Tax Revenue Increase $119,000/year

Amount spent $1,000,000

$1M → $6M

12% Return on Investment
Where Do You Get That Kind of Return?

Clean up blight and receive a 12 percent return on Investment
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 Detroiter and experts
  – Think tank produces framework for DHM
• Local working group convenes:
  – Banks take the lead on development
  – DHM launched February 18, 2016
Program Financial Collaborators

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
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
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
Senior Vice President
LISC
mjosephs@lisc.org
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

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)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building acquisition (assumes no land value)</td>
<td>$20,000</td>
</tr>
<tr>
<td>Rehabilitation</td>
<td>$130,000</td>
</tr>
<tr>
<td><strong>Total Development Cost</strong></td>
<td><strong>$150,000</strong></td>
</tr>
<tr>
<td>Less: market value after development</td>
<td>$115,000</td>
</tr>
<tr>
<td><strong>Total appraisal gap</strong></td>
<td><strong>$35,000</strong></td>
</tr>
<tr>
<td>Maximum NHIA allocation (35% of $150,000)</td>
<td>$52,500</td>
</tr>
<tr>
<td><strong>Final NHIA award</strong></td>
<td><strong>$35,000</strong></td>
</tr>
</tbody>
</table>
Example: NHIA Financing (New Construction)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land acquisition</td>
<td>$35,000</td>
</tr>
<tr>
<td>Construction</td>
<td>$175,000</td>
</tr>
<tr>
<td><strong>Total development cost</strong></td>
<td><strong>$210,000</strong></td>
</tr>
<tr>
<td>Less: market value after development</td>
<td>($160,000)</td>
</tr>
<tr>
<td>Appraisal gap</td>
<td>$50,000</td>
</tr>
<tr>
<td>Maximum NHTC allocation (35% of $175,000)</td>
<td>$61,250</td>
</tr>
<tr>
<td><strong>Final NHTC award</strong></td>
<td><strong>$50,000</strong></td>
</tr>
</tbody>
</table>
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?
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1. Email us at: communities@stls.frb.org.
2. Click the “Ask Question” button in the webinar.
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.
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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.