COMMUNITIES AT RISK

HOW THE FORECLOSURE CRISIS IS DAMAGING URBAN AREAS AND WHAT IS BEING DONE ABOUT IT

LIVING CITIES
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About Living Cities

Founded in 1991, Living Cities is an innovative philanthropic collaborative of 22 of the world's largest foundations and financial institutions. Our members are not simply funders. They participate at the senior management level on the Living Cities Board of Directors and contribute the time of 80+ expert staff toward crafting and implementing our agenda, which is focused on improving the lives of low-income people and the urban areas in which they live.

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Letter From the CEO

Living Cities, a longstanding collaboration of 22 of the world's leading foundations and financial institutions, works to connect low-income people and underinvested urban communities to the economic mainstream.

Those communities were the first to bear the brunt of the foreclosure crisis. Several years ago, cities were hit by a wave of foreclosures and evictions, leading a staggering number of homeowners and tenants to lose their homes.

Losing a home is devastating for a family. But it also tears into the fabric of a community, as abandoned homes attract thieves and vandals, leading to a spiral of crime, decay and disinvestment in neighborhoods which were already vulnerable.

As the crisis mounted, Living Cities — with a long history of working on affordable housing and community development — saw an opportunity to respond. We pride ourselves on the ability to act quickly, without waiting for the wheels of bureaucracy to slowly spin. So we promptly convened a national working group to consider appropriate responses to the foreclosure crisis.

Our advisers urged us to get involved and Living Cities in July 2008 began funding 10 pilot projects to address the crisis in what we called the Foreclosure Mitigation Initiative. The idea was not just to offer badly-needed funds at a critical moment, but to identify ground-breaking responses that could be useful to other groups and other cities as the crisis spread and deepened.

This report is an effort to report back on that experience. We found these groups have struggled to reverse the oft-overwhelming tide of abandonment. Yet even as they struggle, they have begun to forge a path towards rebuilding their neighborhoods. These community leaders, advocates and their allies are rethinking housing – and we're proud to have supported them.

We not only learned about the tactics these innovators are developing, but we also heard about their frustrations and concerns. From that, and conversations with the sharpest minds in the field, we are taking an opportunity in this report to articulate a series of policy recommendations, found in Chapter 4. These are hardly the final word on what government

and the private sector need to do to rebuild neighborhoods devastated by foreclosures, but we're confident it's a solid first step in that direction.

This report is just one piece of Living Cities' agenda for assisting vulnerable communities at a trying time. Let me briefly tell you about some other upcoming products we have commissioned that will help all of us understand how we can strategically address this crisis:

- A recent case study by the consulting firm BWB Solutions examines the National Community Stabilization Trust and several regional programs to purchase foreclosed properties. That report, a bid to identify models for addressing foreclosure and abandonment at scale, is available on our website. An additional case study, due out early next year, will examine land banking in the context of NSP funding.
- The Urban Institute is completing a thorough evaluation of the 10 Foreclosure Mitigation Initiative projects that Living Cities funded. They will assess the work these groups have done, seeing what has worked and what hasn't, with an eye towards lessons for philanthropy as it responds to crises. The final evaluation will be complete early next year.
- This summer, PolicyLink launched an addition to its Equitable Development Toolkit to support communities responding to the foreclosure crisis. Drawing from the experience of Living Cities-funded pilots and others, the tool provides a framework for developing foreclosure recovery plans and showcases the most innovative and promising strategies underway to reclaim these properties. The Annie E. Casey Foundation also supported this new tool.
- The Center for American Progress is nearing completion of a major report on the future of the U.S. housing finance system. The report, guided by CAP's multifamily working group, is expected to shape the actions the Obama Administration and Congress take regarding the future of Fannie Mae and Freddie Mac. Living Cities' participation and funding have ensured the report includes a strong focus on multifamily and affordable housing.

Through this report you're reading now, and the additional resources we're excited to soon share with you, we're eager to help frame the debates that are looming about how to repair our neighborhoods.

We look forward to continue working with you on that process.

Sincerely,

Ben Hecht
President & CEO
Living Cities

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Introduction

At first, stories about the current foreclosure crisis focused on half-built McMansions in suburbia. But, all along, the hardest hit have actually been low-income Americans — and the communities they live in.

Now that the mortgage crisis has spiraled into a full-blown financial meltdown, the interconnections between the fate of individual homes and our nation's financial health has become clearer.

But a story is still getting lost: The housing crisis is not only devastating families, but gutting neighborhoods, many of which were already struggling economically. Many are not in new suburbs, but in older urban areas, which now confront a tidal wave of vacant properties. Foreclosures are weakening blocks, neighborhoods, cities and even whole regions. Abandoned homes are the motor driving a vicious cycle of plummeting property values, increasing crime, and dwindling municipal revenue.

In these cities there are blocks upon blocks where foreclosures are happening at rates even higher than the numbers we hear from the once-booming West and South.

The sooner the cycle of foreclosure and abandonment can be broken, the sooner our neighborhoods, from Queens to Cleveland to Los Angeles, can be rebuilt.

The good news is that in even the hardest-hit neighborhoods, talented and dedicated people and institutions have jumped headfirst into the foreclosure crisis. Many work for community development organizations with decades of experience fighting to improve their neighborhoods. They face an unprecedented challenge, but they are developing new tools and innovative strategies in a desperate bid to ward off a relentless surge of foreclosure and abandonment.

In these groundbreaking efforts, Living Cities, a philanthropic, corporate and public sector partnership dedicated to supporting urban neighborhoods, saw an opportunity to battle the foreclosure crisis. In July 2008, Living Cities began providing funding to projects in 10 cities. The idea was not just to offer badly-needed financial support to organizations at a vital time, but to look for successful models that could be replicated and brought to scale during the current crisis.

The philosophy, as always, is that the answers to seemingly intractable problems are usually found in our communities, where cities and their allies in the streets have a bird's eye view of what's happening.

This document is an effort to take a look at the work of these pilot projects, to identify obstacles keeping these community groups from greater success, and to recommend changes to local, state and federal policies, while also identifying strategies that are beginning to work, home-by-home and block-by-block.

In some cities, the crisis is so severe that these strategies may not succeed by any traditional definition. The impact of skyrocketing unemployment and foreclosure rates in cities that were already struggling will be felt for decades. However, in the long run, Living Cities hopes to boost structures and mechanisms that can endure, remaining in place once the immediate crisis is over.

Before we look closely at these projects, we must briefly explore the forces destabilizing so many American communities. In Chapter 2, we explore how the housing crisis has weakened cities, drawing on data, the insights of local leaders, and interviews with national experts.

Chapter 3 offers the results of our investigation into 10 ambitious solutions to the foreclosure crisis. In these 10 regions, leaders in the field of urban revitalization are reconsidering long-accepted practices and developing ambitious new answers to thorny problems. Our research shows they are refining existing models, while also embracing new partners.

Despite the achievements of these groundbreaking efforts, it is clear that the problems facing communities are too big for neighborhood-level or even city-level organizations to tackle alone. Broad solutions require both significant investments and an array of changes to policies — from City Hall to the White House. Therefore, in Chapter 4, we draw on the successes, frustrations, and challenges of those on the frontlines to articulate a set of policy recommendations for how to halt the fraying of our urban fabric.

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How the Mortgage Crisis Has Weakened Cities

Slavic Village in Cleveland has lived through America's housing boom — and bust. In the 1990s, the formerly industrial neighborhood was a stable if ramshackle alcove of senior homeowners living in modest homes. But, earlier this decade, as younger homeowners moved in looking for bargains, Slavic Village's real estate market began to heat up.

The newcomers fixed up homes and brought new energy, but on the heels of the legitimate buyers came other parties interested only in quick profits. Unscrupulous lenders pushed fraudulent refinance and purchase loans, taking advantage of the aging population. Once values stopped going up, Slavic Village became a poster child for foreclosure devastation. On some blocks full of boarded homes, nothing will sell. Crime is rising and homeowners are walking away.

Stripping of materials has become so endemic in some neighborhoods that the thieves aren't even sticking to uninhabited homes. At the home of Alan Barnette's in-laws, vandals were "trying to steal siding off the house with people in it," said Barnette, a resident of Slavic Village. "It's been absolutely crazy."

On Barnette's street alone, there are roughly 12 houses that are abandoned, about one in four of all the homes. Across Slavic Village, over a thousand homes have gone through foreclosures.

Cleveland is a "weak market" city. These are urban areas, largely in the Northeast and Midwest, which were losing jobs and residents even when the national economy was strong. In "weak market" cities, even when some neighborhoods were reviving, overall housing demand remained weak and poverty levels were high. Foreclosures have hit these already-vulnerable regions hard.

However, stronger market cities are also suffering.

Take New York City. Although somewhat cushioned by its high rate of renters and its still-strong housing market, New York is projected to lose billions in home value, mostly in outer-borough neighborhoods home to African-American and Hispanic homeowners. In those neighborhoods, squatters and drug dealers are

Stripping of valuable materials from homes in Cleveland got so bad that some residents even reported that thieves were stealing their siding—while they were home.

moving into empty houses. Speculators turned landlords are illegally carving up single-family homes into apartments for rent. In neighborhoods like Jamaica, Queens, some longtime homeowners who were pushed into predatory loans have now been forced to walk away from their homes.

One thing that defines this mortgage crisis is that there are many different stories happening at once, from Cleveland to New York and beyond. There are places like Southern California and Florida where overheated markets led to extensive and unsustainable speculation. There are borrowers everywhere who overreached, believing prices would keep rising. There are also older neighborhoods where door-to-door lenders aggressively pushed purchase and refinance loans; some even employed outright fraud.

Foreclosures in Older Cities Need Greater Attention

Though foreclosures are hitting all across the country, low-income neighborhoods in older core cities are worst off.

The news is full of stories about states with the most foreclosures — Nevada, Florida, California and Texas. However, those figures mask the super-high concentrations of foreclosure in older Northern and Midwestern cities and their first-tier suburbs.

There, blocks upon blocks have foreclosures are happening at rates even higher than in the once-booming West and South. Part of the reason these areas have gotten less attention is that localized data on foreclosures is not easily available. But local researchers have put together figures that are staggering.

The worst foreclosure rates by metro area in 2007 belonged to Detroit (4.92 percent of households), Stockton, Calif. (4.87 percent), and Las Vegas (4.23 percent), according to RealtyTrac.[1] But if you look at the neighborhood level, Cuyahoga County, which includes and surrounds Cleveland, had 15 neighborhoods in 2007 with foreclosure rates between 5 and 8 percent.[2] Forty-six neighborhoods in just that county alone had foreclosure rates higher than any of the top 20 cities in the country.[3]

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Distressed loans and foreclosures often occur in highly concentrated areas. In New York City, for example, fewer than one-fifth of the city's statistical areas account for 57 percent of foreclosure filings and 58 percent of foreclosure auctions.[4] A single neighborhood, Jamaica Queens, accounted for 12.7 percent of the filings and 17.0 percent of the auctions, though it contains only 4 percent of the city's owner-occupied units.[5] It also is the bastion of black homeownership in the city; 74.4 percent of its residents are black.[6]

Though they begin in city neighborhoods, high foreclosure rate areas often grow out into inner ring suburbs. In the Cleveland region, following the paths of the subprime lenders, foreclosures have spread outward from a swath of east-side neighborhoods. Last year, nearly 5 percent of the housing units in the inner-ring suburb of Maple Heights were foreclosed upon.[7]

This pattern is repeating itself in other metropolitan areas, as the problems that have long plagued cities move outward. Still, many observers fear that the unexpected spectacle of foreclosure in once-thriving areas has distracted from the heavier price being paid in urban cores. TV news crews have rushed to document vacant subdivisions in the exurbs, but have rarely ventured into the urban core, where the problem in most regions is actually worse.

Urban leaders in cities such as Chicago, Los Angeles, and Cleveland, who have been fighting increasing foreclosures since the beginning of the decade, note the irony that they only began receiving attention from county, state, and federal officials once the problem began spreading to the suburbs. "When it was only the inner-city residents howling, it wasn't a crisis," says Kermit Lind, a law professor at Cleveland State University. "There wasn't a crisis until the suburban mayors recognized it."

The Ripple Effect on Neighborhoods and Beyond

Once a foreclosed homeowner has moved on, problems are just beginning for their neighborhood, especially in urban areas with a concentration of foreclosures.

The effects of going through foreclosure are devastating for a household — the loss of wealth, destroyed credit, psychological distress, and disruption of children's education. And it's not just homeowners who pay the price — foreclosure has also dislocated millions of tenants who rented foreclosed property.

Increases in abandoned and vacant properties also have ripple effects on neighboring properties, neighborhoods, and entire cities and regions.

The costs of foreclosure are particularly steep in low- or moderate-income urban areas. There, homeowners were closer to the financial margin. Neighborhood stability was hard won — or had not

yet been fully achieved. There, vacant property was already an issue.

Unchecked, these hot spots have the potential to pull wider areas down and wreck the finances of a whole city or county. Before turning to what community groups are doing to fight off the effects of foreclosures, it's valuable to see how the crisis is playing out in strong versus weak market cities.

Weak Market Regions

In weak market regions, abandonment and physical decay are just the first effects of widespread foreclosures.

In weak-market areas, housing prices were already relatively low. After the housing price collapse, values became less than what a homeowner owed on his or her mortgage. On some blocks there is hardly a market for these homes — at any price. Therefore, defaulting borrowers have been much more likely to head to foreclosure than to be able to sell or refinance. Homes that are foreclosed on are also much more likely to end up owned by the mortgage company than sold at auction.

Maintenance is a terrible challenge in a weak market city — with huge numbers of foreclosures that have little prospect of resale, not all mortgage lenders are taking responsibility for securing and maintaining empty properties. In many areas, thieves move in to strip out copper wire and pipes, fixtures, and even aluminum siding within days of a vacancy — or sometimes even a few days before.

Such decay is one reason that foreclosed properties, especially empty ones, drive down surrounding property values. They do this in two ways: First, if they are resold, it is usually very cheaply. When realtors assess the value of a home, they look at "comparables," nearby homes with characteristics that are similar. When a few foreclosed homes sell, they start to drive down the value of all nearby homes, affecting the whole area. One study found that each foreclosed home within an eighth of a mile reduces a home's value by nearly 1 percent.[8] Another found that houses "within 150 feet of a vacant or abandoned property experienced a net loss of $7,627 in value. Properties within 150 to 300 feet experienced a

All else being equal, houses on blocks with abandoned homes sold for $6,715 less than houses on blocks with no abandonment.

NET LOSS IN PROPERTY VALUE BASED ON PROXIMITY TO ABANDONED PROPERTY

Temple University Center for Public Policy & Eastern Pennsylvania Organizing Project. "Blight Free Philadelphia: A Public Private Strategy to Create and Enhance Neighborhood Value." Philadelphia, 2001.

OLGA STELLA
DETROIT ECONOMIC GROWTH CORPORATION

ALAN MALLACH
THE BROOKINGS INSTITUTION

loss of $6,819 and those within 300 to 450 feet experienced a loss of $3,542."[9]

Second, and perhaps more dramatically, the visual appearance of vacant properties and the crime and fires that they spawn decrease the desirability of neighborhoods.

Vacancies affect commercial development as well. "It's difficult to get a retailer to take a chance on a neighborhood when they think the whole neighborhood would empty out due to foreclosure," says Olga Stella of the Detroit Economic Growth Corporation.

The problem with concentrated foreclosures is that once the problem starts, it tends to speed up. People in ravaged neighborhoods who face problems such as job loss, illness, or divorce find that they can't sell or refinance. Adding insult to injury, as vacancies and related problems mount, it drives away residents who aren't even facing mortgage troubles — not being able to sell, they walk away from their homes in order to seek out a neighborhood with a higher quality of life.

The Fire Sale

As if this weren't enough, weak market cities are now seeing yet another wave of destabilization: Some lenders and investors with large portfolios of foreclosed property are selling them en masse for very little money — under $10,000 each, sometimes for as little as $100. They're "trading real estate like used cars," says Cleveland Councilman Tony Brancatelli, who represents Cleveland's Slavic Village. "You're seeing signs go up on these houses '$300 down, $400/mo. Buy here, pay here.'"

Many of the new buyers are buying sight unseen, and do not know anything about the condition of the property. Few of these new buyers are actually occupying the houses. Brancatelli says he gets a call every day from someone who bought a property, didn't know what they were getting into, and now wants to "donate" it. This second wave of transfers is making it even harder for municipal governments or community groups to get a handle on the growing vacancy problem.

Hitting the Balance Sheets

The negative consequences of concentrated foreclosures extend beyond the hardest-hit neighborhoods. Over the coming years, falling property values will shrink municipal, school, and county budgets. Cuyahoga County treasurer Jim Rokakis notes that a single percentage point drop in values for Cleveland area homes means that the city brings in $1 million less while the school district loses $300,000.

At the same time, foreclosures drive up costs for cities: They have to seal and maintain properties, pursue court actions, carry out demolitions, and respond to increased police and fire calls. Each foreclosed and vacant property costs a city between $430 and $34,000.[10] There is

increasing evidence that displaced homeowners and tenants are becoming homeless, which will also strain local budgets.

Schools also suffer. In the 2007–08 school year, schools in Cleveland served more than 2,100 homeless students, 30 percent more than the previous year.[11] It has long been recognized that children who don't have a stable residence struggle more with academics and have more behavior problems. Just as budgets are tightening, these school systems are facing an influx of kids who need additional support.

The one-two punch of lower revenue and greater expenses means cities have to cut essential services, further hurting neighborhood quality of life and contributing to a vicious cycle. "The phenomenon of vacant abandoned properties is going to be with us a lot longer than the financial crisis," says Kermit Lind of Cleveland State. "There's going to be a period measured in decades over which there are profound adjustments in the way land in the city is used. We need to find a way to deal constructively with that rather than in a way that caters to speculation and abuse."

Strong-Market Regions

In strong-market cities, housing prices have fallen, but there are still buyers. However, they are beginning to face the same serious problems as weak-market cities.

At first glance, the effects of the foreclosure crisis on stronger market cities are less dramatic. But there are real and troubling consequences in those cities there as well.

In a strong market, distressed borrowers can often sell their homes before foreclosure. Or, at least, the homes sell at auction, leading to lower numbers of bank-owned properties and far lower rates of abandoned properties. "Even if the banks take a bath, the [units] sell for real money." says Bill Carbine, assistant commissioner for the New York City department of Housing Preservation and Development.

However, absentee investors often buy these distressed homes. These buyers typically ignore maintenance needs and turn the homes into rental properties, sometimes illegally converting one- or two- family houses into multiple units.

And even though demand still exists for these homes, speculators will often bid higher than legitimate homebuyers in hopes they can milk the properties for as much profit as possible. The credit crunch also blocks qualified moderate-income families who want to buy, even though the housing price drop has brought homes into their price range.

Despite the differences, strong market cities are beginning to face trends that have crippled their weaker sisters. Recent news reports have portrayed areas of Queens as quite similar to Cleveland or Detroit: bank-owned properties not selling; squatters and drug dealers moving it; arson and copper stripping.[12]

When a home is transferred from a family with roots in a neighborhood to an absentee owner, it's a big loss for a community. The neighborhoods that are the hardest hit in strong market cities are ones that had recently improved. Over the past couple decades, time, energy, and money went into improving a number of New York's neighborhoods that now have the highest foreclosure rates, such as Bedford Stuyvesant, East New York, and Jamaica, Queens.

"A lot of investment was geared to stabilizing low-income renters and homeowners," says Mike Hickey of the Center for New York City's Neighborhoods. "Not only are these neighborhoods at risk of destabilizing, those very homeowners are vulnerable all over again."

The response strategies differ in a strong-market area as well. Officials have a better chance of keeping homes in good shape. Authorities in the worst-hit areas of Southern California, such as Stockton and Chula Vista, are actively pursuing owners of vacant property who don't do maintenance. "In a community where you've got a fighting chance of demand picking up again, [code enforcement] can make the difference between the foreclosure problem being a hiccup

or a hemorrhage," says Alan Mallach of the Brookings Institution. In a weak-market area, he says, code enforcement won't make a difference, because lenders don't care if they lose their properties.

A note about mixed-market cities

Some cities' housing markets cannot be put in a neat box. These mixed-market cities have some areas with healthy demand and others where demand is weak. These cities, such as Chicago and the Twin Cities, are trying to fight off a looming wave of foreclosures. They expect — and are seeing — that if not interrupted, the vicious cycle of foreclosures, abandonment, and falling property values will spill out of the weak market areas and could mean a tipping point for these cities' markets as a whole.

Opportunities

Although the foreclosure crisis is causing huge and lasting amounts of pain for families, neighborhoods, and regions, no upheaval is without its opportunities.

The crisis provides a window for governments, nonprofits, lenders, funders, and the entire development community to rethink neighborhood revitalization, foreclosed and vacant properties, and regional and neighborhood planning.

This is a time for new models of urban development and sustainability. The very neighborhoods that are suffering and emptying out due to foreclosure could be a centerpiece for more environmentally friendly, lower-carbon, smarter growth living. But, that recovery is only possible if action comes soon enough to preserve their physical, human, commercial, and historic assets.

As Chapter 3 will show, many of these opportunities are already being considered or seized.

CHAPTER 2: HIGHLIGHTS

The foreclosure crisis has hammered all cities, but in different ways. "Weak market" cities which never had strong real estate markets are fighting abandonment and its wide-ranging effects, while stronger cities where houses still sell are trying to hang on to families and not slide into further decay.

Foreclosure and abandonment can quickly trigger a cycle of plummeting tax revenue and skyrocketing costs for cities, challenging efforts to turn the tide.

3 The Local Response — What's Being Done

Although the federal government until recently was slow to address the foreclosure crisis, cities did not wait to act. They have made concerted efforts to stanch the bleeding, slow the downward spiral, and preserve something of value in their hardest-hit neighborhoods.

Living Cities has provided funding — both grants and affordable capital — to pilot projects in 10 cities that are diving into these uncertain waters.

The projects that Living Cities is funding represent a range of responses to foreclosure and abandonment. Several are traditional CDCs (community development corporations) with roots that go back 20 or 30 years. Others are new partnerships between nonprofits and businesspeople that have sprung up. Some are closely tied to their local municipal governments, while others work independently. (See attached chart for full list and description of the projects.)

The hope is that these projects will lead efforts to return vacant properties to productive use in order to fight off neighborhood decay in their cities. "Keeping these buildings mothballed is not going to be the solution," says Geeta Pradhan of the Boston Foundation.

Living Cities is proud to support these critical efforts. In addition, Living Cities hopes to identify models that can be replicated and quickly brought to scale during the current crisis. We also asked the projects what they needed to bolster their work. In Chapter Four, therefore, we turn to conclusions and recommendations, with the aim of informing ongoing policy debates on the local, state and federal levels.

The projects Living Cities is funding vary widely in their structure and origin, but many are employing similar strategies. To learn more, we conducted a survey of project leaders. This chapter presents the sometimes startling results of that survey of the institutions and coalitions on the front line of battling to save America's cities.

Pushing the Community Development Envelope

A deepening crisis is demanding new strategies from organizations that have spent several decades honing tactics.

The nonprofit community development sector and its allies in the private sector are leading the way in battling the foreclosure wave. Especially in the weaker market cities, for-profit developers are barely operating. City governments are strapped for cash and unable to take on such complex work on their own. The community development sector, with its extensive experience in neighborhood stabilization and complex financing, was well positioned to take the helm. And unlike national lenders, servicers, or foreclosed properties investors, they have intimate knowledge of the neighborhoods in question.

Community development groups, born in the wake of urban riots and deindustrialization in the 1960s and 1970s, have gotten very good at taking a slow and steady approach to rebuilding neighborhoods. A 2005 study from the Urban Institute found that their work boosted property values by 69 percent, by doing everything in distressed neighborhoods from removing blight to proving their profit potential.[1]

But stepping into neighborhoods in free fall and attempting to respond quickly and massively is different than managing decades of slow and steady improvement. The industry is courageously and inventively stepping up, but not without some growing pains. "This is a completely different world for CDCs," says Pradhan. "This is not something they are coming to happily, but there's such an intense need, they are stepping up to the plate."

That doesn't mean they have easy answers, or even unequivocal ones. The work in many of these cities is preliminary. Due to the breakneck speed at which the crisis has hit, the projects have had to hit the ground running, without the luxury of time for developing detailed plans or building broad coalitions. What these pioneers have quickly realized is that the tools they built up in decades of community development work will not be sufficient this time. This moment is rewarding those willing to move out of their comfort zone, and consider both limitations and opportunities that had not been recognized before.

Their tried and true model of buying distressed properties, fixing them up thoroughly and finding qualified buyers can sometimes still work. But it often won't. Community institutions are finding themselves in a new place — turning to renting properties, limiting how much they fix them up, and, sometimes, even knocking them to the ground.

Getting Properties — at the Right Price

Getting properties cheaply can help stabilization work, but it has not been easy.

The first and most central finding in our survey is no surprise: Every project is wrestling with how to quickly gain control of foreclosed properties in order to stanch the effects of foreclosures and vacancies.

It's an obvious — if risky — strategy. The first challenge is to find the appropriate price point: What are these houses worth, anyway? With the market for the properties uncertain, at best, project leaders are struggling to buy properties cheaply enough to make the numbers work.

"The very retail nature of this is a very big challenge," says Joe Flatley of Massachusetts Housing Improvement Corporation (MHIC), a private lender specializing in affordable housing financing.

"What's the value of that house now? That's what everyone doesn't know. It's kind of scary," adds Becca Goldstein, assistant to the mayor of Chicago, who is coordinating that city's efforts to address foreclosure.

Timing makes a huge difference. The key is to take title before foreclosure is final and before vandals and thieves have moved in.

Vacant properties quickly reach the point of negative equity – meaning it would cost more to

fix them up than they could fetch on the open market – even if they didn't start there. "By the time properties get to [foreclosure], they are so severely blighted that the costs of bringing them back into service exceed the value. It no longer is useful for anything other than speculation," says Lind of Cleveland State University.

Given the huge volume of foreclosed homes, there are many properties that servicers aren't even marketing. If it costs more to ready a house for sale than they are likely to get by selling it, many don't bother.

Servicers often try to "donate" these properties. However, the donations are rarely accepted because they are offered contingent upon municipalities waiving all fees, fines, and liens and shouldering demolition costs, which can turn a possible asset into a liability for a city.

Over the past year, lenders have become more willing to negotiate before foreclosure is final and the vacant house deteriorates. But some institutional owners still won't sell before the process is complete, even if it means taking less, because they need to complete foreclosure to claim insurance payouts and tax write-offs. Or, many say, they are bound by their legal "fiduciary responsibilities" to the trustees who actually hold the securitized loans.

In weak-market areas, where investors have begun selling at steeply discounted prices, another challenge is to target select clusters of properties, rather than citywide packages that are beyond the capacities of most CDCs.

Further complicating the process is the legal limbo of what are called "walkaways," where some mortgage holders start the foreclosure process but don't finish it. In cities such as Cleveland or Buffalo, this means some properties have no identifiable owners.

"So the house sits in limbo and you can't get clear title," says Linda Warren of Cleveland's Village Capital Corporation, a subsidiary of Neighborhood Progress, Inc.

Because most homeowners leave after foreclosure notices are stapled to their doors, these "walkaways" stand vacant, complicating city efforts to keep them maintained or get them into new hands.

But despite all this uncertainty, and even chaos, pilot cities and their partners have developed strategies to push negotiations with lenders forward.

They're each working locally, but some are also collaborating more broadly. The National Community Stabilization Trust is a collaboration formed by six national organizations[2] designed to facilitate negotiations between localities and the departments of lenders or servicers which take title to foreclosed properties (also known as Real Estate Owned or REO properties).

Through NCST's "first look" program, participating servicers (currently including the eight largest servicers) notify cities and counties (80 now, with a goal of 100) of properties that have been foreclosed within 24 hours, before they can be put on the open market. Localities then must tell the servicers within 10 days — their "first look" window — if they want the property. If they want it, the parties do the deal for a price determined by an agreed-upon calculation such as "net realizable value" or "net present value" formulas. The buyer gets a discount from the market value because the servicer is avoiding certain costs, such as taxes, maintenance and marketing, by selling so quickly.

Bulk negotiation is also being tried on a regional level. In Chicago, one citywide entity, Mercy Portfolio Services, a subsidiary of Mercy Housing, is negotiating sales for neighborhood-level groups. "The way they're negotiating is not new, but one organization negotiating on behalf of others is a twist," notes Katie Ludwig of Chicago's Department of Community Development.

Community groups are moving away from helping people buy homes — to helping them rent them. 'We have to get out of the notion that everyone is going to be a homeowner,' says one.

Despite these innovations and successes, serious obstacles to buying properties remain. For example, disaggregating securitized mortgages — peeling the onion and figuring out who actually has title to a distressed property when it was owned by dozens or even hundreds of investors — remains a huge challenge. "That's the problem that we're still confronting," says Eric Hodderson of Cleveland. "Do the parties actually have the ability to make a deal?"

Return to Rental

The homeownership boom overlooked the fact that owning a home is not right for everyone. Nearly all of the pilot cities are now recognizing a need to emphasize rental housing.

Although predatory lending and subprime scams have devastated families who could otherwise have been successful homeowners, this crisis also includes buyers with uncertain financial lives who likely should never have bought a home in the first place. To put it bluntly, they probably should have kept renting — and now are returning to the role of tenant. With the economic crisis, soaring unemployment, tight credit, and millions of displaced homeowners, it is becoming clear that there is a need for more rental housing.

"There are no buyers," says Deborah Younger of Detroit LISC. "Maybe we can sell 5 percent. [But] it's about renters. We have 51 months of inventory. We have to get out of the notion that everyone is going to be a homeowner."

"In Lawrence and Worcester [Mass.], I'm not sure there's a buyer's market at all," adds Flatley.

The Community Housing Land Trust of Rhode Island, which used to only do homeownership, has begun to focus on rentals because of how foreclosures have hit the communities they work in. Sixty percent of their local foreclosed properties are two- to three-family homes, according to the trust's executive director Jeanne Tracey-McAreavey. "So we have a huge rental population without housing right now," she said.

Facing these realities, 70 percent of the pilot programs — and all of the ones in weak or mixed market cities — have increased the proportion of their work devoted to rental, according to the Living Cities survey. In some cases, these projects are adding it to their toolbox for the first time, or the first time in many years.

Even in strong markets, projects are advocating rentals. In Chicago, where many of the foreclosures are happening in two- to six-unit buildings, it's especially crucial. "Some properties just can't sell," says Goldstein. "Without rental as a component it just won't work and the need for affordable rental is increasing."

Because single-family home rentals are challenging to manage, Chicago is looking into developing innovative leases that spell out how

responsibilities are divided between tenants and landlords. Tenants would have use of an entire property, but would be responsible for maintenance such as shoveling sidewalks and mowing lawns while still being able to call for repair needs. Tenants would also take classes, similar to first-time homebuyer classes.

Chicago is are also seeking to bundle groups of The city's prevalent two- to six-unit buildings and contract them to large property management groups skilled at running larger buildings.

There seems to be little danger of the community development sector abandoning the goal of affordable homeownership. But project leaders have quickly come to realize that the current crisis demands a greater emphasis on rentals.

Many groups also hope that rentals can be a bridge to homeownership. "We're also trying to consider how we can tie our tenants into a homebuyer club and help prepare them for homeownership at some point," says Richard Pine, vice-president of Enterprise Home Ownership Partners in Dallas.

Increasing the rental mix can be easier said than done. The fact is, backed by an enormous push from the federal government, most community development groups had become primarily focused on homeownership. This left many community developers without expertise in rental development, and even fewer with capacity for property management. Ramping up new capacity mid-stream is a big task.

It's particularly challenging to create quality, well-maintained rental housing out of housing intended for ownership, especially in scattered-site single- or two-family homes.

Another issue is that in many low-income neighborhoods, the elected officials and community leaders that groups partner with don't want more rentals. They have traditionally associated rental housing with absentee landlords who don't bother keeping up properties, leading to more decay, crime and drugs.

Advocating rentals is "politically more difficult," said Andriana Abariotes, executive director of Twin Cities LISC. "Council members tend not to like it. Residents don't like more rental property. What we need to do is show you can have quality rental housing that is well managed."

Changing Rehab Goals

Limited resources and a growing need have caused many pilot cities to get vacant properties reoccupied as quickly and affordably as possible.

One of the hallmarks of community development was a commitment to quality rehabs. CDCs often distinguished themselves by ensuring that the distressed homes they worked on, and transferred to new owners, were not just affordable, but were safe and well-designed.

But faced with the urgency of increasing vacancies and falling markets, lead agencies in many cities now say gut rehabs with new fixtures and ideal layouts aren't the best strategy. There is just no time to do everything perfectly. This crisis demands speed and breadth, if neighborhood decline is to be arrested and reversed.

Also, the dollars now just aren't going as far: Since many of these houses are in dismal condition, vacant and gutted, the level of investment that once bought a full rehab now may only serve to bring it up to basic standards.

And so, the projects surveyed by Living Cities have to do less. Two-thirds of the pilot programs have scaled back their rehab levels. The projects say they don't like the idea of developing affordable housing to anything but top standards. But, with limited resources and the need to quickly save as many properties as possible, they are making sure at least that homes are safe and that their basic systems work.

ANDRIANA ABARIOTES
EXECUTIVE DIRECTOR OF TWIN CITIES LISC

RICHARD PINE
ENTERPRISE HOME OWNERSHIP PARTNERS

"For most of our properties we used to replace the carpeting because there was money in these deals to do that," said Richard Pine. But now, he added, they're considering not doing quite as much. "Can we clean the carpet to save that money and make this a more affordable unit?"

"We can't over-improve. I think given the limited number of dollars and with the scale of the issue, we can't afford to dither," notes Becca Goldstein of Chicago. "Our primary goal is up to code and occupied, whatever that means. Vacant and redeveloped doesn't do anything for us."

In Providence, Rhode Island, city officials struggling to deal with so many abandoned properties are urging their local organizations to scale back their rehab ambitions, according to Tracey-McAreavey. "They've actually proposed to lessen up on what they'd normally require, just to get the properties back in service," she said. "We're doing triage. We need major systems working, code compliance, no safety hazards, fresh coat of paint, then sell it."

In Boston, reports Joe Flatley of MHIC, "responsible small for-profit developers" may be best suited to do this level of rehab. He suggests that combining their expertise with nonprofits' skills at community planning and organizing might be ideal. "It's not like there's a right answer here," he notes. "Everyone would support a gut rehab. But if it costs $300,000 per unit, it doesn't make sense."

Even as they talk of scaling back, CDCs are conscious of holding themselves to higher standards than real estate flippers. "We will always have an obligation to make sure housing is safe, sanitary, decent, and deal with lead, asbestos, mold," says Lori Gay of LA Neighborhood Housing Services, Inc. But, she adds, "We have to scale back to some extent. Amenities are going to be done on your own."

That approach is being used widely, but not by all cities. In Cleveland, NPI's Hodderson says, the major problems their target neighborhoods are facing are low values and unmarketable housing. Creating decent but not exciting for-sale products won't help. Instead, in a bid to raise the value of neighborhoods by creating housing products that are competitive, NPI is raising rehab levels, specifically emphasizing green retrofits.

There may be room for both approaches. Given the conditions of many houses, even meeting basic codes will often require a substantial rehab, representing an opportunity to introduce energy efficiency and durable construction along the way.

CDCs are willing to embrace new approaches when it comes to rehab, but finding the right balance between scale and quality

LORI GAY
LA NHS

MARIE KITTREDGE
EXECUTIVE DIRECTOR OF THE SLAVIC VILLAGE DEVELOPMENT CORPORATION

remains a challenge. The severe conditions of so many buildings may make it hard to target whole blocks for rehab, if CDCs only select those that just need moderate work.

Putting Demolition — and Rightsizing — on the Table

In many neighborhoods, much of the housing stock was outdated and dilapidated even before the foreclosure crisis. Under certain conditions, such homes can work as starter homes. But with the dramatic population losses in these regions, and after vacancy and stripping, many of these homes are prohibitively expensive to save. And, even if they were rehabbed, there may be no market for them.

That disturbing reality has led many to an obvious conclusion: tear 'em down. Seventy percent of the program sites, including all of the weak-market cities, report they are including demolition as an option in their neighborhood stabilization work.

The leader in the movement toward radically rethinking its land use is the city of Cleveland, which is planning to use most of its federal Neighborhood Stabilization Program funding to tear down vacant homes. The city will spend $15 million of its $25 million in NSP funds on demolition, plus an additional $500,000 to generate "creative uses" for vacant land, such as converting them to sites for gardening, stormwater management, biohazard remediation, or green energy generation. Cleveland also plans to invest funds in code enforcement and a real-time data system to identify vulnerable properties. Analysis shows that Cleveland is focusing much more on demolition than other cities: Enterprise Community Partners found that cities in general were planning to spend just 6 percent of their NSP funds on demolition.

They may not be putting quite as much of their NSP funding into it, but other cities are also eyeing demolition. On one Chicago block, according to Goldstein, three newly developed high-quality homes were sitting alongside a half-dozen foreclosed houses in bad condition. The new homes weren't selling. If the foreclosed homes were demolished, she said, the city's previous investment could be protected — and possibly expanded.

There are even blocks in Chicago with just one house, according to Katie Ludwig of the Chicago Department of Community Development. If that one house were gone, she notes, "The redevelopment potential might be easier."

Increasing demolition is also creating momentum for new and larger land banks in many

cities and counties. Land banks hold and maintain vacant parcels, keeping nonprofits from incurring huge carrying costs. Countywide land banks, as exemplified by the widely-discussed Genesee County Land Bank headquartered in Flint, Mich., allow regional cost-sharing. The banks take income from interest and penalties on delinquent taxes and from the properties they can sell to support the maintenance of more challenging parcels.

Cleveland's NPI is a strong supporter of Cuyahoga County's new land bank, which unlike the previously existing city land bank, will accept property with standing structures.

The growing number of demolitions is provoking a conversation that many say is long overdue. In cities like Detroit and Cleveland, which have lost roughly half their populations in the last half century, the mismatch of housing supply to population had been a taboo topic. "We have streets, blocks and blocks with three houses. The shrinking city notion . . . wasn't palatable, now it is," says Deborah Younger of Detroit LISC.

It may be politically doable for the first time, but it's depressing, says Marie Kittredge, executive director of the Slavic Village Development Corporation in Cleveland. In her neighborhood, she grew accustomed to "whole streets that were functioning and providing decent safe and sanitary housing," she says. "Now they're boarded and empty, and we just have to live with that until the city's able to raise enough money to tear it down."

The current crisis may force movement on these long-term difficult issues, offering opportunities to transform abandoned blocks into greenspace or locales for urban agriculture, renewable energy generation or reconstructed wetlands. It's an idyllic vision in a moment when resources are so tight, but visionaries imagine neighborhoods in formerly industrial cities dotted with pocket parks, community gardens or perhaps just a field of wildflowers. An American Institute of Architects team recently recommended that Detroit reconfigure itself into urban villages, linked by transit but separated by green space.[3]

Numerous obstacles complicate such dreams. Speculators are buying up properties, making it hard to control sufficient amounts of land. Some HUD funding streams can't be used for demolition. Demolitions are expensive, and the far more environmentally and economically preferable route of deconstruction is even more so, at least at first. Even some of the emptiest areas nearly always have remaining residents who may be reluctant to move. Without significant investment in community participation, any moves in this direction are likely to be taken as reminiscent of the top-down practices of 1960s urban renewal.[4]

Even on a small scale, it's not as easy to tear down a house and reclaim a lot as many people think, notes Cleveland Councilman Brancatelli. Offering lots to neighbors for expanded yards, for example, is a popular practice. But even when the land itself is free or very cheap, the cost of having the boundaries and the deeds redrawn can still reach several thousand dollars, out of reach of many low-income homeowners.

One partnership in Chicago provides an interesting strategy for keeping vacant homes clean and secure—while also creating a few jobs. Mercy Housing Lakefront, an affordable housing developer, and the CARA Program, a job training and placement group, launched Cleanslate Property Services, a business that will create jobs for hard-to-employ individuals working to clean-up, board-up, and maintain vacant homes. Their clients include Bank of America, which has hired Cleanslate to manage some of their properties.

Uncrunching Credit

In many locales, even those willing to buy rehabbed foreclosed homes to live in are having trouble getting loans.

Not all cities are facing conditions so bad that demolition is the best alternative. The markets in some neighborhoods are still strong enough that community development organizations are working to transfer homes to qualified low-income buyers.

But there's a big catch: the credit crunch and the severe tightening of the home loan market is blocking many potential owner-occupants. It's not just a problem for buyers hoping to find a relative bargain as prices recede. It also thwarts the pilot projects from supporting a cohort of new homeowners who could help revitalize troubled neighborhoods. Gay of LA NHS says that her organization can only help roughly half their clients who want to buy homes, because the other half can't get a loan.

Linda Warren of Village Capital Corporation in Cleveland says that she understands that banks don't want to go back to the zero-money-down, no-documentation-required practices that got them into so much trouble. But, she said, they should return to where they were just a few years ago. "Just go back to sound underwriting," she said. "Make loans in our neighborhoods again."

With credit tightening, 70 percent of the pilot programs have seriously considered adding lease-to-purchase arrangements. Fully 50 percent are implementing them.

This is a turnaround in many places, as community developers had often felt lease purchase arrangements, through which a portion of a tenant's rent goes toward buying their home, were not worth the trouble. "Nobody seriously looked at it until maybe the last two years, 18 months," says Chicago's Ludwig. "We haven't executed any [yet], but I think it's going to be a good part of what we do."

Cities are also thinking about lease-purchase strategies not just as a means to boosting the number of people who own homes. "We think it would be great if it could be used to get people into homeownership," says Goldstein of Chicago. "But it could also get neighborhoods occupied and repair some credit scores. We need to not say it was only a success if X percent are homeowners at the end."

In stronger market areas, the pilot projects are looking to work directly with owners in default or foreclosure that need to sell. They steer them to qualified buyers who want to live in the home, rather than to investor buyers. In New York City, Neighborhood Housing Services is developing a nonprofit brokerage that will focus on short sales (where the lender agrees to accept less than the amount owed on the mortgage). LA NHS is also using its existing brokerage to match those who need to sell with appropriate buyers.

All these strategies fall short, however, if a borrower can't get a mortgage. As of early 2009, banks were trying to build up cash reserves rather than lending money out, keeping credit tight.

The difficulty in finding buyers forces CDCs to walk a tightrope. They want to fix up and sell homes in troubled neighborhoods in hopes that families with an investment in their future will anchor revitalization. But, says Richard Pine of Dallas, the problem is that families willing to live in such neighborhoods are typically most credit challenged. So even when CDCs do a thorough rehab, there is no longer a guarantee they'll be able to sell the fixed up home.

"The assumption that you can subsidize a house and make it move is incorrect," said Pine.

While the credit crunch may be a short-term "overcorrection," some observers argue that CDCs need to shift to models that do not rely on the cheap loans that were available prior to this crisis, as those are not likely to return.

Embracing the Power of Data

The lack of solid numbers on defaults, foreclosures and other key indicators is crippling pilot projects' efforts.

CDCs are diving headfirst into a new world in a desperate effort to ward off block-by-block abandonment and decay. As we've seen above, they're developing new tools on the fly, even as they confront new obstacles.

One of the main barriers to broadening their work, the projects say, is a serious lack of accurate and timely data. Housing professionals need to know which homes are in jeopardy, which are in foreclosure, and often, who even owns the abandoned ones. Other pieces of information, such as how much taxes are owed and what code enforcement actions have been taken, are also critical.

Finding out all the above about a given piece of property – let alone a whole block – can take dozens of hours. Some of the most important data, such as up-to-date zip-code level foreclosure numbers, is held exclusively by companies that cater to investors. Few neighborhood or city level groups can afford access to this information.

Jeanne Tracey-McAreavey of the Community Housing Land Trust of Rhode Island said she has struggled to get her hands on information about who even owns properties. Some data is costly, so she ends up trying to piece together the facts from various bits and pieces including notices published in the local newspaper.

Cities themselves often refuse to release crucial data in bulk because they earn money by selling it to data companies. Still other information is only kept in paper form, requiring an immense amount of time and effort to compile and compare.

The lack of complete data on properties and their owners is a huge problem that receives little attention, according to the projects. However, some localities are moving forward, even without federal action.

Detroit's Office of Foreclosure Response and Prevention is working with Social Compact, a nonprofit which uses economic data to encourage investment in inner city areas, to create a neighborhood database that would allow for citywide comparisons. The preliminary results have already caused some change in strategy, as pricing and sales data made it clear that selling foreclosed properties would not work in the majority of the city.

Interest in and use of Cleveland's NEO CANDO (Northeast Ohio Community and Neighborhood Data for Organizing), a free public database on a wide range of social and economic data covering Northeast Ohio, including detailed property and foreclosure information, has also risen dramatically.

Partnering in New Ways, Across Old Boundaries

The level of the crisis and its complexity has forged unprecedented coalitions.

The community development sector has traditionally been very locally focused: on helping one family, one block, one street, one neighborhood. This has been a strength, as it leads to solutions tailored to meet localized needs. Though groups always shared ideas and occasionally collaborated on policy, the cooperation sufficient to take on a national financial crisis certainly never existed.

But with a crisis dominating their neighborhoods and work, people have come together. Today, 90 percent of the pilot sites tell Living Cities they have been involved in at least one new partnership or coalition in response to the crisis. Some are state or regional taskforces focused on planning and advocacy, while others are new, local models of cooperative community development. Some local partnerships are efforts to unite with others to gain the advantage of centralized negotiations: Mercy Portfolio Services in Chicago is negotiating purchases for

The sudden reversal in neighborhoods has pushed community developers to think long-term. "Four years ago, the concern was, 'How do we get this deal done?' Today, it's 'How do we make sure it lasts?'" says one.

the whole city; the statewide Rhode Island Land Trust is playing a similar role in Providence.

"Lenders like dealing with fewer people," says Goldstein. "The CDCs know they'll get a better deal. We'll get economies of scale for contracts — demolition, property management, appraisal."

The foreclosure problem is "so multijurisdictional, so diffuse, so complex in terms of what's needed. The sense of urgency, the sheer scale is overwhelming," says Andriana Abariotes of Twin Cities LISC. Having a place where funders, counselors, developers and state officials can share their pieces of the puzzle — in her case, the Minnesota Foreclosure Partners Council — and do strategic planning has become essential.

Similarly, the existing foreclosure-prevention coalition in Chicago has grown sharply. "The original partnership started five, six years ago," says Goldstein. "I think now it's all hands on deck. There's housing counselors, municipalities, research organizations, advocates. Everybody is there."

The intricacy of the foreclosures crisis demands "a lot of specialized knowledge," adds Olga Stella of the Detroit Economic Growth Corporation. "We found many organizations that had touched the issue, but couldn't dedicate enough staff or resources to tackle it. In our case, it was easier to set up something new, with a very specific mission, to leverage partnerships with those organizations."

These partnerships are overcoming the traditional competition between groups. The needs are so dire, and so beyond any one organization's capacity, that they must share to achieve a response with any hope of matching the scale of the need. That's why LA NHS is banking on its partnership. The organization's rate of working on 360 properties a year – at a time when there are 3,000 to 4,000 foreclosures per month – is clearly insufficient. "We need to train our partners, grow the field, add in Realtors," says Lori Gay of LA NHS. "It's the only way. We have so much loss. We have to make a bigger dent."

The new Center for New York City Neighborhoods, which director Mike Hickey describes as an effort to "herd cats," is monitoring the work of neighborhood-level foreclosure interventions in nearly real time, helping each partner learn quickly from the others.

These partnerships are also driven by the understanding that neighborhood-level work must be done in a context of regionwide trends. Partnerships formed around foreclosures — whether it's a handful of Boston CDCs joining to get bulk discounts, cities and suburbs in Cleveland joining to fight for a countywide land bank, or cross-city partnerships to work with lenders

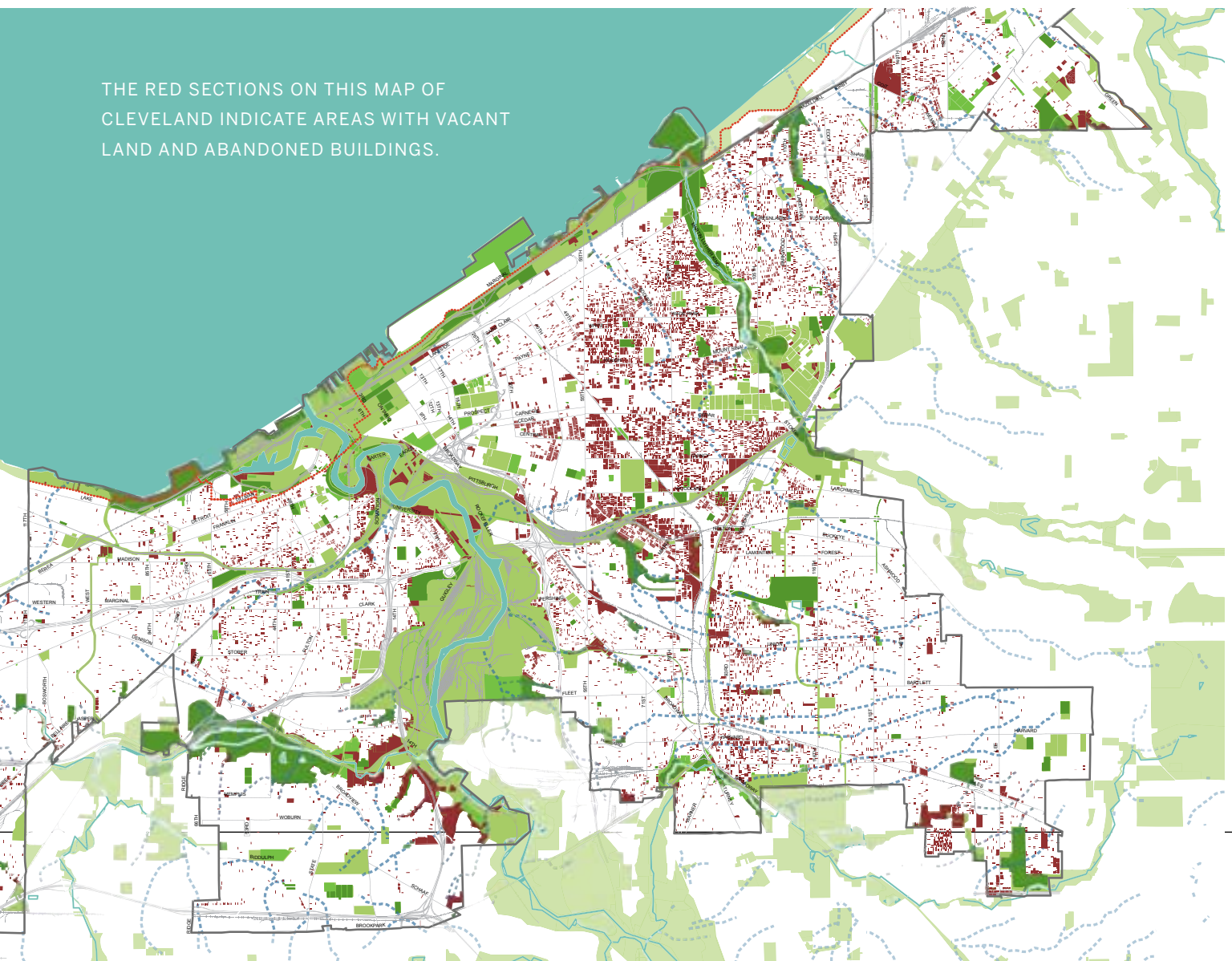
— have the potential to strike a new balance between the crucial ground-level perspective of community-based groups and the regionalization that has been gaining ground since the 1990s.

Blending Sustainability and Scale for the Long-Term

Watching investments made over decades get swept away in months is something no community developer wants to repeat.

The foreclosure crisis has forced community developers to realize just how easily their local efforts can be undermined. This has led them to focus not just on current turnarounds, but on long-term sustainability. Frank Ford of NPI in Cleveland says someone told him years ago, "You inject equity through the front door. The subprime lenders are mining it and extracting it out the back door faster than you are injecting it." But, he says, the field didn't listen. "I don't want to be too harsh, but we didn't truly, as a field, really didn't wake up to this, like everybody else, until it was hitting Wall Street," he says.

Joe Flatley of MHIC adds "Four years ago, the concern was, 'How do we get this deal done?' Today, it's 'How do we make sure it lasts?'" An awareness of fragility has affected CDCs' targeting strategies. In many cases, they have gone from



THE RED SECTIONS ON THIS MAP OF CLEVELAND INDICATE AREAS WITH VACANT LAND AND ABANDONED BUILDINGS.

a house-by-house strategy to a block-by-block strategy, focusing on making a larger impact in strategic locations — often not the worst hit, but the ones where an infusion of assets could help them recover.

Kittredge says that for most of the past 20 years, her organization focused on rehabbing individual homes, without worrying too much about where they were. That's all changed, given the scale of the problem. "Model blocks is really the next wave," she said. "We're going to make this street strong and have it ripple out and then target another street."

"We need to be strategic," says Chicago's Becca Goldstein, listing existing public-private investment, schools, access to employment and proximity to community anchors, (institutions such as universities or hospitals) as things they look for in choosing where to funnel recovery resources. Also, she adds, "If we have a block with 10 foreclosures and can only acquire 2, we're not doing the block."

Stepping up and targeting neighborhoods, focusing on blocks at a time rather than property-by-property, is not just triage either. "It's a systems change, so we can do more," says Goldstein.

In the Twin Cities and other cities, community developers and their partners in the private and public sectors are increasingly turning to the land trust concept as a way to redevelop and yet preserve neighborhoods. The idea is that the trust buys the land a home sits on, while the homeowner buys the house and leases the land. Then, if the homeowner wishes to sell, they can only sell for a modest profit.

"It's a great way to establish perpetual affordability," said Abariotes. "So when you've put a lot of resources into a home, all the public subsidy doesn't walk away with that owner. It stays locked into the unit." Strategies to achieve this, including the land trust model, are called "shared equity" housing models.[6]

Washington D.C.'s CityFirst Homes is creating a version of shared-equity housing that uses a deed restriction, which stipulates that 75 percent of a unit's appreciation stays as subsidy for the next owner. Basically, it's a way of ensuring that homes remain affordable over time, even as they change hands.

Dealing with REO property was not an original part of CityFirst's plan, but as the need grew, the group included foreclosed properties in its housing trust plan as a way of promoting affordable homeownership in D.C.'s costly housing market. It's an example of a group adopting a novel strategy as market conditions dictated, while still reaching their ultimate goals.

A Chance to Build for the Future

As this report has shown, the Living Cities pilot programs are not just throwing money at a

short-term problem, but are creating new models for approaching the issue of foreclosure and abandoned property. The models and strategies that are emerging as cities face down these challenges are needed right now, but they won't be thrown away when the foreclosure crisis ebbs. They can help form the foundation of a more effective urban housing sector even when the waves of foreclosure have subsided.

But, for now, the attention must be on the immediate crisis before whole neighborhoods are lost. And, even with the best efforts of community development organizations, more must be done. Their efforts must be multiplied, which will require investments that can only come from state and federal governments. And, from City Hall to the White House, officials must remove the obstacles which are standing in the way of stabilizing neighborhoods.

In Chapter 4, we turn to specific policy recommendations.

CHAPTER 3: HIGHLIGHTS

With cities struggling to respond to the foreclosure crisis, nonprofit community developers and their allies in the private sector have mounted a response. Living Cities is funding 10 such pilot projects.

The pilot projects are employing innovative tactics, such as becoming landlords, often for the first time. They're also scaling back their rehabs to make their cash go further. Sometimes, they're even backing knocking properties to the ground.

The challenge for the pilot projects is to bring together enough resources to make a dent in a problem that's still growing. To get there, groups are forming new partnerships to broaden the scope of their work.

4 Conclusions and Recommendations

As this report has shown, cities and community developers are forging local solutions to the foreclosure crisis tearing up their neighborhoods. But, for now, these projects have had a modest impact in parts of cities, at best.

That can change, if policymakers and their allies work together to bolster the innovative tactics being developed by these pilot projects. And, perhaps more importantly, if they take modest but essential steps to remove the obstacles blocking further success.

Making major impacts in cities where the crisis is still spreading will require significant investments. But apart from funding, government at all levels, philanthropic institutions, and servicers/lenders/trustees can do many things to foster conditions for success on-the-ground.

What follows is not intended to be a comprehensive set of recommendations to address the sprawling foreclosure crisis. These are, however, a series of steps that the groups fighting to save neighborhoods have identified as key to boosting their work.

Our specific recommendations are aimed at four broad goals:

1. **Minimize the physical deterioration of foreclosed properties.**
   This can be done by keeping housing occupied through and after foreclosure, which will discourage theives and vandals and reduce the chances of disasters like burst pipes and fires, and aggressive code enforcement and nuisance abatement, with the power to assess punitive fines.

2. **Create a streamlined REO transition process.**
   This can be done by through legislative changes to speed foreclosure of abandoned properties, coordination between all the stakeholders, lender commitment to a long-term view, standardized use of value calculations, and aggressive development of land banking capacity

3. **Level the playing field between responsible investors and those who intend only to flip properties.**
   This can be done by increasing requirements and oversight for purchasers of foreclosed property and owners of vacant property, reducing restrictions on federal NSP grantees, and funding the recovery effort to scale.

4. **Facilitate the rapid transition of the community development industry to new models that address rapidly changing conditions.**
   This can be done by supporting capacity building and shifting funding strategies.

Here are our specific recommendations for each of the key groups of policy actors:

Local and State Government

- **States should increase local government powers in code enforcement and nuisance abatement of abandoned property, giving them the ability to assess punitive fines and criminal sanctions beyond taking the property.** With these newfound powers, local government should actively pursue enforcement.[1] Along with improving the condition of properties, this will change the cost/benefit calculations for REO departments and potential investors, improving the chances for responsible purchasers. The definition of abandoned should also be expanded to include buildings with rental occupants that have been functionally abandoned by their owners.
- **Require that foreclosures be completed in a timely fashion once filed (unless a workout or short sale is actively being pursued) and assign the entity bringing foreclosure ownership responsibilities once the process has begun.** This combination will address the problem of properties that have no identifiable owner. In cases where a strategic property has a toxic title and time is of the essence, local governments should also consider spot blight eminent domain to gain control of the property for land banking or delivery to a responsible owner.
- **States should give localities broad powers to create strong land banking programs, and localities should do so.** Land banks can handle surplus properties in a rational fashion, taking them out of the market quickly, maintaining them, and arranging for their responsible reuse for public purposes. Changes to codes and tax foreclosure laws that allow for clear title for reconveyance are crucial to a strong land banking program, as is adequate capitalization.[2]
- **Actively enforce the federal law protecting tenants in foreclosed properties,[3] and consider passing local laws that protect such tenants even further,[4] especially including provisions against utility shut-offs in foreclosed properties.** The Protecting Tenants in Foreclosure Act, passed in May 2009, is "self-executing," meaning no federal agency has responsibility for enforcing it, so it is up to local actors to make sure the rights of those who want to stay when their landlords are foreclosed upon are respected.

Federal Government

- **Fund to scale.** There's no way around it: With job losses mounting and adjustable rates still resetting, the scope of the foreclosure problem is too large for the current level of funding to address. The Neighborhood Stabilization Program has been a welcome injection of funds for cities fighting foreclosure, but the nearly $6 billion that has been allocated so far will likely only have a modest effect, given the scale of the crisis. To prevent the loss of valuable physical, economic, and social assets and ease the transition to different land uses, the federal government will need to commit additional resources.
- **Have FHA and Government Sponsored Enterprises such as Fannie Mae and Freddie Mac take the lead in implementing creative, stabilization-promoting REO tenancy, maintenance, and disposition programs, such as the servicer recommendations listed below.** They should work with

other servicers to share their models and lessons learned as they go.

- **Adjust securitization rules.** Many foreclosed and troubled mortgages are owned by pools of investors. The financial institutions servicing the loans say they're handcuffed by legal "fiduciary responsibilities" to the trustees who actually hold the securitized loans. Reforms of those rules — temporary waivers, perhaps — are needed to free up servicers and lenders to sell or transfer properties quickly and efficiently to CDCs, land banks, public-private partnerships and other responsible owners.

Philanthropic Institutions

- **Fund advocacy efforts to improve federal government response to the crisis.** Only the federal government has the combination of regulatory and financing power to comprehensively address this crisis. The philanthropic community can maximize its own efforts by supporting the efforts of national organizing and intermediary groups that are pushing for more and better federal response.

- **Fund data systems, technology, and capacity building to allow overburdened localities to clear up clogged court systems and make code inspections and enforcement swift and efficient.** One of the places where strategic funding can make a significant and ongoing impact is alleviating local government's inability to hold owners accountable, inspect and enforce, process foreclosures, assess potential property donations, monitor conditions, and revise ordinances and codes. Increasing this capacity will create the conditions for success for those working on neighborhood stabilization through redevelopment.

- **Fund capacity building for community development organizations that are shifting their financing and development models to deal with the present crisis.** As described in chapter three, many community development organizations have had to shift gears in response to new conditions. Those that are doing so strategically and thoughtfully may still need some transitional support as their sources of revenue and development models evolve.

- **Seek out and continue to support models that standardize and streamline the REO transfer process,** such as the National Community Stabilization Trust and NJ's Community Asset Preservation Corporation, lowering transaction and negotiation costs for everyone.

Servicers and Lenders

- **Create a standardized, efficient mechanism for transferring REO properties in bulk.** Some servicers have made headway on this, but the overwhelming volume of buildings is still creating administrative roadblocks for many potential purchasers.

- **Commit to a strategic, long-term approach to REO disposition.** Servicers and lenders need to do as much as possible to sell properties to responsible owners. While this might mean short-term losses — sales to speculators sometimes fetch more — it is likely to have a positive effect on their long-term bottom line. Purchasers

who plan on investing in homes, such as nonprofit developers, will ultimately help local housing markets recover.

- **Develop protocols for encouraging renters in foreclosed properties to remain as tenants of the servicer until there is a purchaser who wishes to move in.** These may include early notice that staying is an option (many tenants will leave once they learn of an impending foreclosure), leases and property management. These steps can benefit the property owner's bottom line, as vacant homes quickly plummet in value. Banks do note that expanding their property management role can be a significant challenge, as current federal laws prevent them from playing that role in many circumstances. Allowing tenants to stay is complex and would require active collaboration between servicers, municipalities and community organizations.

- **Develop protocols to encourage former owners to stay on as long-term renters until they can reclaim the property or there is a purchaser who wishes to move in.** These could include early notice (many owners leave as soon as the first threatening notice arrives), be combined with efforts to arrive at workouts or short sales, and include a modest incentive (such as relocation assistance) to reward proper care of the property. Again, this can benefit the servicer's bottom line too.

- **Work with localities and local nonprofits to develop creative approaches for regular maintenance of vacant properties.** One possibility is that maintenance is no longer the brokers' direct responsibility but rather is contracted out to specialized companies with expertise and economies of scale or to local workforce programs to create jobs/job training. Some banks have also lobbied for more uniform code standards, arguing that inconsistent laws across jurisdictions hinder compliance.

- **Work with local brokers, local community organizations, and the National Community Stabilization Trust to reach agreements on value formulas as a basis for determining pricing for government/nonprofit/NSP purchases.** To be fair to both buyer and seller, these formulas should be frequently updated, highly localized, and forward-looking, so that they incorporate current trends in employment, vacancy, and development.

- **Accept back-up offers while an REO property is under contract.** This lowers the risk for the lender/servicers, while allowing for the sometimes slower process of closing for government and nonprofit purchasers.

- **Make rehab loans.** Offering low-interest and/or deferred financing to NSP grantees, nonprofit developers, and pre-qualified well-vetted homebuyers in order to quicken the pace and volume of REO sales to responsible owners.

Pilot Projects Chart

CITY	LEAD ORGANIZATION/S	PARTNERS/ STRUCTURE	KEY STRATEGIES	ITEMS OF NOTE
STRONG MARKETS				
New York City	Center for New York City Neighborhoods	CNYCN is a recently created independent nonprofit intermediary augmenting and coordinating the city-wide response to the foreclosure crisis. It receives both public and private support.	• Expanding housing counseling and legal services.	Developing a mission driven broker strategy.
Los Angeles	Los Angeles NHS	Facilitates the Center for Foreclosure Solutions, a diverse coalition of nonprofits and businesspeople.	• Rehab and resale. • Grooming buyers to buy and hold. Creating new credit products. • Using existing brokerage to direct sales away from investors.	More clients can afford to buy, but accessing credit is difficult and organization has challenges competing with investors. Rehab levels are scaled back to minimum safety/code standards.
Washington D.C.	CityFirst Homes	For the bulk of this initiative, CFH is financing other developers. But for foreclosure recovery work, they are also acting as the developer.	• Rehab and resale using New Markets Tax Credits, a low-rate 2nd mortgage, and a shared-equity deed-restriction.	One of the first cases where NMTC have been used successfully for housing, achieved by taking equity stakes in developments.
Dallas	Enterprise Homeownership Program	EHOP, a local Enterprise subsidiary, does the rehab and sale work directly itself.	• Rehab for range of disposition options: sale, lease-purchase and investor. • Have chosen "portfolio accounting:" Goal is to make numbers work across multiple properties, but not necessarily on each one.	Sticking to at-risk yet "marketable" neighborhoods rather than hardest hit. Facing challenges negotiating discounts with lenders.

CITY	LEAD ORGANIZATION/S	PARTNERS/ STRUCTURE	KEY STRATEGIES	ITEMS OF NOTE
MIX MARKETS				
Massachusetts (program covers both strong and weak market cities)	Massachusetts Housing Improvement Corporation	The Neighborhood Stabilization Fund grew out of a statewide taskforce. It is housed at MHIC, which is working with local groups in the three pilot cities and around the state.	• Provide acquisition funding with the built-in understanding that the holding period for the properties may be longer than in a standard transaction	The fund has significant state-government support.
Chicago	City government	The city is creating a new entity that will carry out bulk purchases and negotiations. It is also forming a network of neighborhood-level groups that will implement disposition plans.	• Bulk acquisition to lower prices • Bulk management of properties in transition • Strategic disposition plans, including demolition, resale, lease-purchase, and scattered-site rental.	Using experience of previous foreclosure response efforts to take stabilization work to scale. Experimenting with models for making scattered-site/ single-family rentals pencil out.
Twin Cities	Twin Cities LISC	A statewide council has formed to do strategic planning together for foreclosure prevention and recovery, utilizing the Home Prosperity Fund, which finances acquisition and rehab and programs to promote affordable sustainable homeownership.	• Adapting housing inventory to changing demographics, including adding quality rental • Creating a region-wide land bank to hold properties. • Gives favorable financing to nonprofits for acquisition and rehab • New credit products for refinance and purchase.	CDCs already have houses they can't sell; trying to avoid just adding to that inventory. Systems players looking to ways to enhance capacity for implementation to meet the scale of the problem.

CITY	LEAD ORGANIZATION/S	PARTNERS/ STRUCTURE	KEY STRATEGIES	ITEMS OF NOTE
MIX MARKETS (CONTINUED)				
Providence	Community Housing Land Trust of Rhode Island	CHLT is forming a partnership with local CDCs— they coordinate staffing, acquisition assessments and the search for buyers. The CDCs buy properties and carry out rehab.	• Moderate rehab for resale using a permanent-affordability land trust model.	CDCs have had difficulty adjusting rehab expectations down; finding properties that don't need more work has been hard; focusing on tipping point neighborhoods, not hardest hit.
WEAK MARKETS				
Cleveland	Neighborhood Progress Inc.	NPI works with a coalition of neighborhood-level groups.	• Demolition and land-banking • Rehab and resale or 3-year lease-purchase	Working in six neighborhoods they had already been investing in.
Detroit	Detroit LISC and Detroit Neighborhood Forum	DNF has created the Detroit Office for Foreclosure Prevention and Intervention, a temporary, staffed body whose job is coordination and research.	• Sophisticated data tool to target strategies appropriately • Strategic planning • Likely rehabbing for rental and strategic shrinkage.	Because of the level of crisis and absence of coordinated capacity, Detroit leaders felt they needed to start with planning and data gathering to figure out what responses were appropriate or viable.

Methodology

We interviewed the leaders of each pilot project at least two times: First, we conducted open-ended interviews to determine their most significant accomplishments, challenges and obstacles. We then analyzed those responses, identified common themes and conducted a second round of interviews asking a uniform set of questions to generate our survey results.

We also conducted approximately 35 interviews with experts on foreclosure, abandonment and neighborhoods. We spoke to elected officials, academics, financial officials, philanthropic leaders, nonprofit professionals and residents of neighborhoods directly affected by the crisis.

In this paper, we chose to highlight the experiences of Cleveland and New York City. Cleveland is among the hardest hit cities and the patterns happening there are broadly representative of other weak-market cities. The impressive data-gathering work of NEO CANDO (Northeast Ohio Community and Neighborhood Data for Organizing) at Case Western University also provides a clearer pictures of the situation there than in many comparable cities. New York City, on the other hand, provides a good example of how individual neighborhoods in even the strongest markets are experiencing familiar and distressing ripple effects from concentrated foreclosure.

Survey Results

What Pioneering Community Groups Are Doing About the Foreclosure Crisis

Living Cities interviewed the leaders of community groups in 10 cities to determine what they're doing to battle the foreclosure crisis and save their neighborhoods. In an-depth review from the field, we discovered they are:

- Becoming Landlords: 70 percent of the pilot programs — and all those in weak or mixed market cities — are doing more rentals. In some cases, these projects are adding it to their toolbox for the first time, or at least the first time in many years.
- Accepting Less: Two-thirds of the pilot programs have scaled back their rehab levels, in a bid to save as many properties as possible with limited resources. Program leaders say they don't like the idea of developing affordable housing to anything but top standards, but they are making sure at least that homes are safe and that their basic systems work.
- Tearing Houses Down: 70 percent of the program sites, including all of the weak-market cities, report they are including demolition as an option in their neighborhood stabilization work.
- Working Around the Credit Crunch: Seventy percent of the pilot programs are looking to add lease-to-purchase arrangements, through which a portion of a tenant's rent goes towards buying their home, as a response to the credit crunch, which is blocking many willing clients from buying outright. Fully 50 percent have already moved forward with such programs.
- Adding New Partners: 90 percent of the pilot sites have been involved in at least one new partnership or coalition in response to the crisis. Some are state or regional taskforces focused on planning and advocacy, while others are new, local models of cooperative community development.
- Struggling with Price: Every project reports it is wrestling with how to quickly gain control of foreclosed properties at a price that pencils out, a significant puzzle giving shifting markets and challenges working with lenders and servicers.

Credits

This report was written by Miriam Axel-Lute and edited by Matt Pacenza. Tracie McMillan and Titilayo Tinubu contributed additional reporting and Marian Urquilla, Tamir Novotny, John Weiser, Stockton Williams and Aaron Gornstein provided valuable feedback.

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Notes

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