Fighting Blight in the Northeast-Midwest: A Briefing on Vacant and Abandoned Property and the Federal Response

May 24, 2016, 3-4:30pm
2103 Rayburn House Office Building
Fighting Blight in the Northeast-Midwest

• Blight in the Region
• The Federal Response
  – Programs
  – Legislation
• Recommendations
### Highest Vacancy Rates among the 75 Largest Cities, 2010-14

<table>
<thead>
<tr>
<th>Rank</th>
<th>City</th>
<th>Vacancy Rate (%)</th>
<th>Vacant Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Detroit, Michigan</td>
<td>29.4</td>
<td>106,778</td>
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<tr>
<td>2</td>
<td>Cleveland, Ohio</td>
<td>21.1</td>
<td>44,701</td>
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<tr>
<td>3</td>
<td>St. Louis, Missouri</td>
<td>20.2</td>
<td>35,411</td>
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<td>4</td>
<td>Cincinnati, Ohio</td>
<td>18.9</td>
<td>30,580</td>
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<tr>
<td>5</td>
<td>New Orleans, Louisiana</td>
<td>18.5</td>
<td>35,358</td>
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<td>6</td>
<td>Atlanta, Georgia</td>
<td>17.9</td>
<td>40,518</td>
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<td>7</td>
<td>Baltimore, Maryland</td>
<td>17.8</td>
<td>52,907</td>
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<td>8</td>
<td>Buffalo, New York</td>
<td>16.3</td>
<td>21,794</td>
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<td>9</td>
<td>Memphis, Tennessee</td>
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<td>47,098</td>
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<td>10</td>
<td>Newark, New Jersey</td>
<td>15.6</td>
<td>16,965</td>
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<td>11</td>
<td>Toledo, Ohio</td>
<td>14.7</td>
<td>20,295</td>
</tr>
<tr>
<td>12</td>
<td>Kansas City, Missouri</td>
<td>14.1</td>
<td>31,743</td>
</tr>
<tr>
<td>13</td>
<td>Pittsburgh, Pennsylvania</td>
<td>13.9</td>
<td>21,599</td>
</tr>
<tr>
<td>14</td>
<td>Indianapolis (balance), Indiana</td>
<td>13.6</td>
<td>51,792</td>
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<td>15</td>
<td>Jacksonville, Florida</td>
<td>13.4</td>
<td>49,444</td>
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<td>16</td>
<td>Philadelphia, Pennsylvania</td>
<td>12.9</td>
<td>86,559</td>
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<td>Orlando, Florida</td>
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<td>15,575</td>
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<td>Chicago, Illinois</td>
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<td>148,679</td>
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<td>19</td>
<td>Houston, Texas</td>
<td>12.4</td>
<td>113,253</td>
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<tr>
<td>20</td>
<td>Columbus, Ohio</td>
<td>12.1</td>
<td>45,844</td>
</tr>
</tbody>
</table>

Source: American Community Survey, 5-yr est.

Does not include seasonal, recreational, or occasional use properties.
% Increases in # of Nonseasonal Vacancies by State between 2000 and 2010

Figure 1: Percentage Increase in Number of Nonseasonal Vacancies by State between 2000 and 2010

Source: Government Accountability Office, 2011

Note: These data exclude vacant units that the Census identified as for seasonal use or for use by migrant workers.
Federal Programs: The Good News

- housing/community development
- economic development
- brownfields
- green infrastructure
- urban agriculture/forestry
- historic preservation
Source: Eat to Live Englewood
Federal Programs: The (Mostly) Bad News

• The Community Development Block Grant (CDBG) Program

• The HOME Investment Partnerships Program (HOME)

• The Brownfields State and Tribal Response Program

• The Neighborhood Stabilization Program (NSP)

• The Hardest Hit Fund Blight Elimination Program
• CDBG
  – Current funding: $3 billion
  – ↓ 72% since 1975 (inflation-adjusted)
  – Number of entitlement communities ↑

• HOME
  – Current funding: $950 million
  – ↓ 57% since 1992 (inflation-adjusted)

• Brownfields State & Tribal Response
  – Current funding: $48 million
  – ↓ 27% since 2003 (inflation-adjusted)
  – demand ↑
<table>
<thead>
<tr>
<th>Rank</th>
<th>State</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>California</td>
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<tr>
<td>2</td>
<td>Florida</td>
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<td>3</td>
<td>Ohio</td>
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<td>4</td>
<td>Michigan</td>
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<tr>
<td>5</td>
<td>Illinois</td>
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<tr>
<td>6</td>
<td>North Carolina</td>
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<tr>
<td>7</td>
<td>New Jersey</td>
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<tr>
<td>8</td>
<td>Georgia</td>
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<tr>
<td>9</td>
<td>South Carolina</td>
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<tr>
<td>10</td>
<td>Oregon</td>
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<td>11</td>
<td>Tennessee</td>
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<tr>
<td>12</td>
<td>Arizona</td>
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<tr>
<td>13</td>
<td>Indiana</td>
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<tr>
<td>14</td>
<td>Kentucky</td>
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<tr>
<td>15</td>
<td>Nevada</td>
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<tr>
<td>16</td>
<td>Alabama</td>
</tr>
<tr>
<td>17</td>
<td>Mississippi</td>
</tr>
<tr>
<td>18</td>
<td>Rhode Island</td>
</tr>
<tr>
<td>19</td>
<td>Washington DC</td>
</tr>
</tbody>
</table>

**HHF Blight Elimination Program**
- Michigan
- Illinois
- Ohio
- Indiana
- Alabama
- South Carolina
Legislation Introduced in 114th Congress

• Amend, extend, or make permanent tax credits/incentives:
  – New Markets Tax Credit Extension Act (HR 855/ S 591)
  – Brownfields Redevelopment Tax Incentive Reauthorization Act (HR 2002)/ CLEAN UP Act (S 2734)
  – Historic Tax Credit Improvement Act (HR 3846/ S 2655)

• Reauthorize programs or funds:
  – BUILD Act (S 1479)/ Brownfields Reauthorization Act (HR 4463)
  – National Hs. Preservation Amendments Act (HR 2817)
Legislation (cont.)

• Establish new programs:
  – Brownfield Redevelopment and Economic Development Innovative Financing Act (HR 3098)
  – Groundwork USA Trust Act of 2015 (HR 3707)

• Prevents vacancy/abandonment by requiring quicker responses to short sale offers for homes in foreclosure:
  – Vacant Homes Act (HR 3203)

• Allows for a temporary capital gains deferral in exchange for reinvestment:
  – Investing in Opportunity Act of 2016 (HR 5082/S 2868)
Recommendations

• Improve support for existing programs through authorization or appropriation

• Modify existing programs/funds
  – To prioritize blight response
  – To boost local capacity

• Create—or re-establish—dedicated resources
Questions?
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Follow Our Work:
www.nemw.org
The Impact of Blight On Housing Market Recovery
The View From Cuyahoga County, Ohio

Briefing for Congressional Staff

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May 24, 2016
The Foreclosure Crisis Began in Cleveland Well Before Most of the Country

“One Big Funds At Bear Stearns Face Shutdown. As Rescue Plan Falters Amid Subprime Woes, Merrill Asserts Claims”
- Wall Street Journal headline June 12, 2007; one of the first alarm bells of the mortgage crisis.

“What is really behind the mushrooming rate of mortgage foreclosures since 2007?”
- Commentary in the Wall Street Journal by Stan Liebowitz, University of Texas, 7/3/09.

But, in Cuyahoga County: Mortgage foreclosure fueled by subprime lending doubled between 1995 (3,000) and 2000 (6,000), doubled again by 2007 (12,000).
Domino Effect

Foreclosure ➔ Vacant Homes ➔ Blight

Home Sale Prices Down - Property Value Down

Lost Homeowner Equity

Lost Property Tax Revenue for Schools, Police, Fire

Cash-strapped Cities Bear Burden of Nuisance Abatement, Board-up and Demolition
Scale in Cuyahoga County

- Over 80,000 foreclosures 2000 to 2012.
- 42,565 properties sold at Sheriff Sale.
- 38,931 unduplicated properties.
  - Approximately 1/3 experienced “failure”: Vacant, or Condemned, or Demolished, or Tax Delinquent
  - Properties acquired by land banks, CDCs or government entities were 4 times less likely to fail than those acquired by private parties.

Home Vacancy (since 2010)

Vacant 1-3 Family Residential Structures
In Cuyahoga County
1st Quarter 2010 - 1st Quarter 2016

Source: US Postal Data and NEO CANDO at Case Western Reserve University.
72% of the homes requiring demolition are in the City of Cleveland.

Sources: Cleveland survey conducted by Western Reserve Land Conservancy, summer 2015. East Cleveland survey conducted by Western Reserve Land Conservancy, summer 2014. Suburbs: estimate based on 587 Suburban applications for demolition funding (excluding East Cleveland) reported in NEO CANDO as of January 26, 2016.
Rehab or Demolish the 7,200 Most Blighted?

The Question Should Be Viewed Through a Market-Conscious Lens
Median sale prices are lowest in the areas with the greatest vacancy and blight.
Median Price - Arms Length Sales 2000 to 2015
Two Outer Suburbs - Two Inner Suburbs - Two East Side Neighborhoods

Source: NEO CANDO at Case Western Reserve University.
Arms Length Sales = sales on 1-3 family residential property that exclude: 1) transfers at a Shf Sale, 2) $0 transfers and 3) transfers to a bank or Federal agency. 1-3 family includes condominiums.
Median Price - Arms Length Sales 2000 - 2015
Nine Eastside Cleveland Neighborhoods

Source: NEO CANDO at Case Western Reserve University.
Arms Length Sales = sales on 1-3 family residential property that exclude: 1) transfers at a Shf Sale, 2) $0 transfers and 3) transfers to a bank or Federal agency. 1-3 family includes condominiums.
A TALE OF TWO HOUSES

2620 E. 114th – foreclosed by Wells Fargo then sold to an investor who did nothing. Eventually condemned by the City of Cleveland.

2616 E. 114th Street - New home built by Buckeye Area Development Corporation. Sold for $141,000 in 2004. Appraised value in 2014 was $71,900; now $61,100 in 2016.
NSP Funded Rehab and Demolition

Substantial Rehab
1 Vacant Blighted Home
(NSP average 2009-12)

- Soft Costs: $25,000
- Rehab: $140,000
- Acquisition: $15,000

Total: $180,000

Remove 9 Vacant Blighted Homes by Demolition

- Sale Price: $90,000
- Subsidy: $90,000

Total: $90,000
## REO Study Analysis: Test Homes In Six Neighborhood Markets

<table>
<thead>
<tr>
<th>Neighborhood</th>
<th>Address</th>
<th>Gut Rehab</th>
<th>Code Plus</th>
<th>Code Only</th>
</tr>
</thead>
<tbody>
<tr>
<td>Old Brooklyn</td>
<td>4107 W. 48</td>
<td>(29,296)</td>
<td>9,339</td>
<td>31,006</td>
</tr>
<tr>
<td>North Collinwood</td>
<td>15615 Trafalgar</td>
<td>(55,146)</td>
<td>(30,999)</td>
<td>8,875</td>
</tr>
<tr>
<td>Slavic Village</td>
<td>3655 E. 54</td>
<td>(70,504)</td>
<td>(28,871)</td>
<td>3,980</td>
</tr>
<tr>
<td>South Euclid</td>
<td>3866 Salisbury</td>
<td>(61,274)</td>
<td>(24,440)</td>
<td>6,229</td>
</tr>
<tr>
<td>Euclid</td>
<td>19400 Ormiston</td>
<td>(64,909)</td>
<td>(20,177)</td>
<td>(1,464)</td>
</tr>
<tr>
<td>Stockyards</td>
<td>5628 Pacific</td>
<td>(73,239)</td>
<td>(40,517)</td>
<td>(16,740)</td>
</tr>
</tbody>
</table>

Subsidy (red) or Surplus (black)

**Code Only** = Replace mechanicals and finishes only if code not met. E.g. older furnace stays if it works. No sidewall or attic insulation. No Green Standards.
Summary of Findings

**Gut Rehab:** Does not work in any of the neighborhoods we studied, including Old Brooklyn.

**Mod Rehab:** Only worked in the stronger Old Brooklyn neighborhood.

**Code Plus:** Also only worked in the stronger Old Brooklyn neighborhood.

**Code-Only:** Is feasible but offers little sustainability, and does not provide for green standards.

**$10,000 Gap:** On a case-by-case basis, re-engineering Code-Only spec to arrive at a $10K gap does permit significant upgrades.

Market Recovery Calculus

- How many blighted homes? How many with historic significance?
- Is the market strong enough to absorb their renovation without subsidy?
- If not, how much subsidy to renovate them? Per house, and overall?
- What level of rehab? Will cutting corners result in unsustainable homes in five years?
- How much subsidy would be required to remove them by demolition? Per house, and overall?
- If a blended approach is desired: Will the “per house” subsidy for renovation be the same as for demolition? If more, how much more?
- How much subsidy is available?
- If per house subsidy for renovation is higher than demo, how many blighted homes will be left unaddressed?
- Timing consideration: the longer blight is left standing the longer recovery will be delayed.
- The vacants not blighted (7,800 in Cuyahoga) will continue to deteriorate in a non-functioning market.
Closing Comments

• Sufficiency of Available Resources.

• Impact of Department of Justice Settlements With Chase, Citibank and Bank of America
Baltimore City: Blight Elimination Strategies and Needs

Michael Braverman, Deputy Commissioner, Permits & Code Enforcement
Steve Janes, Assistant Commissioner, Strategic Planning and Resources
Baltimore overview

• Baltimore has lost 1/3 of its population since 1950
• Today, we have 17,000 boarded up vacant buildings
• Of these, 13,000 are in distressed markets with little redevelopment potential
Boarded up vacants
We understand the markets, and have developed both innovative interventions to address blight, and the capacity to implement them.
In middle market neighborhoods, we designate Streamlined Code Enforcement areas where:

• Our citation-based code enforcement system spurs response rates to violation notices
• We use receivership when citations don’t get results from vacant property owners

In these areas, we’ve issued more than 2,500 citations, filed more than 900 receiverships, and helped spur more than 1,800 rehabs.
In distressed areas near anchors of strength, we use the Community Development Cluster model to:

- Partner with well-capitalized developers committed to rehabilitating all of the vacants in a designated footprint
- Coordinate city resources across agencies to support this investment

Board-ups have been reduced by 45% in Clusters launched at the start of the program, and new Clusters continue to be added.
Greenmount West
2010
179 Vacant Buildings
Greenmount West
2015
62 Vacant Buildings
Net Change: -117
In distressed areas without redevelopment potential, we:
  • Proactively clean and board
  • Strategically demolish and green
Demolition is essential and capital dollars are needed

• Even with successful interventions, the vast majority of board-ups can’t be absorbed by the market
• The State and City have stepped up, contributing more than $40 million since 2013
• We’ve used that funding strategically to ensure public safety, stabilize communities, leverage investment, and create green space
• But total costs to demolish Baltimore’s board-ups would exceed $500 million
1000 block N. Stricker St., Sandtown
1500 block N. Broadway, Oliver
Federal support for blight reduction

• While federal programs have long been used to undertake demolition, it has typically been done as a byproduct of larger rebuilding efforts

• In the absence of a sustained increase in the number of households moving into a blighted area, blight gets moved around, not eliminated despite large scale interventions

• A response which focuses on blight elimination through clearance and management/maintenance of the resulting open space, and pointedly does not require new construction, can result in blighted areas stabilizing and achieving market equilibrium
Don’t build it and they will come

• Federal programs have put in place provisions that limit the worst excesses of the early housing acts, but also make it difficult for localities to undertake clearance at the scale needed

• Meaningful blight reduction efforts will require sufficient funding and flexibility

• TARP HHF could be a model