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ADVANCING OPPORTUNITY THROUGH AFFORDABLE HOUSING

Supporting Neighborhoods Left Behind

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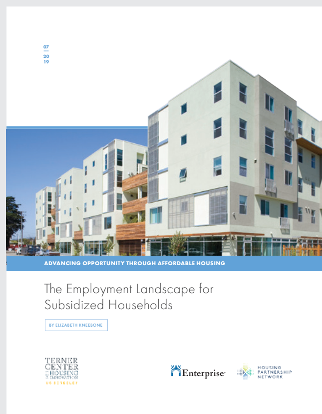
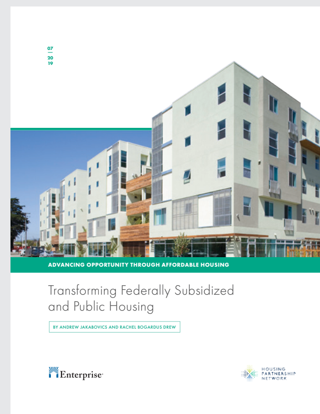
SERIES SUMMARY

Enterprise Community Partners and Housing Partnership Network are working together to launch a series of white papers Advancing Opportunity Through Affordable Housing. With contributions from the Terner Center for Housing Innovation at the University of California at Berkeley, the series focuses on accelerating promising ideas to address longstanding community development challenges in the current environment.





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About Housing Partnership Network

Housing Partnership Network (HPN) is a business collaborative of 100 high-performing nonprofits that are leading innovative and scaled partnerships to build and sustain affordable housing and improve communities across the country in all 50 states. HPN's mission-driven members have developed and financed more than 1 million affordable homes. HPN designs and operates social enterprises for the housing and community development sector that accelerate the innovation, performance and impact of our members. These include a property and casualty insurance company that insures their apartments at rates that reflect their superior performance, a wholesale purchasing company that helps them competitively purchase the products they need to build and renovate housing, a social-purpose Real Estate Investment Trust that provides market financing for workforce housing, and a web-based homeownership education platform that has served more than 500,000 consumers.

HPN itself is a social enterprise that uses private-sector business practices to help our members achieve the mission of building more affordable housing in thriving communities. The policy recommendations in this paper are informed and guided by HPN members' innovation and successful practice working in neighborhoods struggling with blight and disinvestment, their deep knowledge of the challenges and obstacles they face, and their insights into policy and business changes that would help them deliver greater results and impact with limited but important public resources.

Executive Summary

Soaring rents in cities like Washington, D.C., and Los Angeles have drawn attention to the urgent need to increase our supply of affordable housing. Yet there is another housing challenge that also demands attention: the pockets of blight and disinvestment that have persisted in urban and rural areas after the Great Recession. "Neighborhoods left behind" are places that have not benefitted from the economic growth that is unevenly distributed across the country.

Vacant properties are the most visible symptom in neighborhoods left behind. According to data from the U.S. Census, the number of vacant properties in 2016 was 5.8 million, up from 3.7 million in 2005. These vacancies are clustered in cities that have lost population and jobs. In cities with strong real estate markets, vacant properties are quickly purchased. This doesn't happen in neighborhoods left behind, and vacancies lead to a downward spiral of spreading blight.

It doesn't have to be this way. With the right mix of policies, communities can spur reinvestment in their neighborhoods and stop the deterioration. Our recommendations to improve housing markets in distressed communities fall in four categories:

1. **Enact a tax incentive for homeownership in distressed neighborhoods**

   Ironically, while weaker markets often have large stocks of single-family homes that are affordable to aspiring homeowners or landlords, accessing credit to acquire these homes can be difficult. One key problem is that in neighborhoods with vacancy and blight, it costs more to build or rehabilitate a home or commercial property than the building can be sold for. This so-called "valuation gap" is a big barrier to the return to a functioning real estate market. In most cases, financial institutions cannot lend more than a property is worth and thus in neighborhoods with depressed markets, there are few loans made to buy or renovate property.

   There are different ways to use financial incentives to address the valuation gap to jumpstart mortgage lending. A diverse coalition is supporting the Neighborhood Homes Investment Act (NHIA) to address this problem.[1] The NHIA would attract private capital to help revitalize poor and blighted neighborhoods by filling the valuation gap associated with building and rehabilitating owner-occupied homes in neighborhoods where the cost of construction or renovation exceeds the market value of the homes. The states would administer this program, which would mobilize private capital by giving a tax credit for investors to fill the valuation gap.

2. Improve access to mortgage debt for sustainable homeownership

In addition to the valuation gap, there are issues with accessing debt financing for real estate transactions in weak markets. Currently, Fannie Mae, Freddie Mac and the Federal Housing Administration (FHA) all offer financing products that allow individual homebuyers to borrow more than the value of their home for the purpose of rehabilitation. However, mission-driven developers – who are needed to carry out larger-scale neighborhood projects – face barriers in accessing these products.

It would be especially useful for the FHA to make such a product widely available because FHA mortgages are assumable. An assumable mortgage can be "assumed" by a homebuyer after a nonprofit developer initially secured financing for the home purchase and renovation and supervised the construction work. This creates a less costly and simpler mortgage process for a low-to-moderate-income and/or first-time homebuyer. The Department of Housing and Urban Development (HUD) should approve a pilot demonstration of FHA financing for high-performing nonprofits to scale up single-family home rehabilitation in distressed neighborhoods to demonstrate what mission-oriented developers can do to stabilize neighborhoods and help build assets for families.

3. Encourage nonprofits to enter the single-family rental market

Another solution to the surplus of distressed homes in weak markets is to convert them – at least until the homeownership market strengthens – into scattered-site rental opportunities. Too often, homes are acquired by speculative investors (often from outside the U.S.) seeking to flip them for short-term profit or rent them without bringing the properties up to code. This type of investor behavior can lead to a further cycle of decline and disinvestment.

The federal government should encourage Fannie Mae, Freddie Mac and their financial partners to develop capital products to be deployed by mission-focused nonprofit developers interested in pursuing and managing this asset class. Fannie Mae and Freddie Mac have enormous experience in underwriting products aimed at creating affordable rental housing, as well as a long-standing system for sharing risk with private-sector partners.

4. Assist localities with demolition

The scale of population loss in some legacy cities is so large that a certain amount of demolition of vacant, obsolete properties is a critical first step so that the more viable neighborhoods and structures can be repurposed. With such large numbers of vacant buildings concentrated in cities that have struggled with population loss for decades, it seems unreasonable to expect local governments to solve this problem entirely on their own.

Just as the federal government shares the cost of building roads, bridges, sewers, airports and other infrastructure with localities, it is time for federal assistance to communities that need assistance with demolishing obsolete structures. During the foreclosure crisis, there was some federal assistance to states that was used for demolition of obsolete properties, but most of those funds have been depleted. Federal legislation that funds demolition should include allowable uses for the funds, such as establishing and operating land banks. Any significant legislation to address U.S. infrastructure needs should include assistance for cities that need to demolish obsolete buildings.

Conclusion

It is time for the federal government to assist localities and nonprofits that are fighting blight and abandonment to create communities of opportunity. With the right mix of incentives for neighborhood reinvestment; debt products for sustainable homeownership; competent, mission-driven landlords to manage rental housing; and demolition of obsolete properties, neighborhoods left behind can thrive again.

Supporting Neighborhoods Left Behind

Overview

The shortage of affordable housing in booming cities that have recovered from the Great Recession is an urgent and well-documented problem. Soaring rents and house prices in cities like Seattle and Boston cause or accelerate a host of pressing social ills – from homelessness and income inequality to traffic congestion and environmental pollution as workers have to live far from their jobs. Yet there is another housing challenge that also demands attention: the pockets of blight and disinvestment that have persisted in urban and rural areas after the Great Recession.

The policies that create affordable housing in economically stronger geographies do not solve the problems facing struggling neighborhoods. Low home prices are not as beneficial as it might seem to residents of booming cities struggling with housing affordability. When it costs more to renovate a home than the house can be sold for, the housing market starts to suffer from disinvestment. In most cases, mortgage lenders will not make loans for more than the appraised value of a home. This is a recipe for blight and eventually abandonment. "Neighborhoods left behind" are places that have not benefitted from the economic growth that is unevenly distributed across the country.

Vacant properties are the most visible symptom in neighborhoods left behind. The number of vacant properties skyrocketed during the Great Recession as the number of unoccupied dwellings nationally rose to a high of 12 million vacant properties. The number has declined since then, but it is still far higher than it was prior to 2005. According to data from the U.S. Census, the number of vacant properties in 2016 was 5.8 million, up from 3.7 million in 2005.2

For a brief period of time after the financial crisis of 2008, the federal government pitched in to help distressed communities through the Neighborhood Stabilization Program (NSP), which provided subsidies for reclaiming blighted properties. However, now that most housing markets have recovered, this program has ended, and policymakers have largely turned their focus to the important but very different problem of coastal cities struggling with soaring rents and widespread gentrification.

THE PROBLEM

Lack of investment in communities triggers a downward spiral that leads to blight. The disappearance of jobs leads to population loss, which in turn triggers declining municipal tax collections, leaving municipalities unable to maintain essential services such as quality schools, public safety, garbage removal and firefighting. Neighborhoods then experience further population loss as families flee unsafe and unstable communities; however, when population declines, the built environment does not shrink.

Cities are left with businesses and homes that have no current use, and in accordance with the economics of real estate markets, property values decline. The infrastructure built to support a larger population and economy becomes too large and expensive to be supported by the smaller municipal revenue stream from a reduced population.

Falling home prices then become part of a downward spiral that is difficult to reverse. When it costs more to renovate an old house than the house can be sold for, potential homeowners often cannot get mortgages from banks. The real estate market doesn't self-correct when conventional mortgage lending becomes difficult because home appraisals don't support it. Vacancy and abandonment then follow because there is no capital investment in the housing stock. Author and scholar Alan Mallach points out, "Vacancy and abandonment are not only urban problems. Rural areas and small towns have a vacancy rate nearly double that of metropolitan areas; rural vacancy problems are particularly severe in many parts of Appalachia, the rural South, and the Great Plains states."[3]

A report by the Metropolitan Policy Program at the Brookings Institution estimates that one- eighth of the U.S. population and economy is located in places with subpar performance on economic and social indicators. They identified 70 communities located in 20 different states, ranging from Cleveland and Baltimore to Roanoke, Virginia, and Birmingham, Alabama, as "older industrial cities" that have lagged behind the rest of the American economy.[4]

In other cases, otherwise economically healthy cities have neighborhoods with persistent pockets of weakness caused by a history of racial segregation and low real estate prices. For example, Atlanta as a whole has recovered from the Great Recession, yet there are neighborhoods on the south side of Atlanta and the surrounding suburbs with vacancy rates that are considerably higher than the city overall.5 The drop in home prices here leads to homeowners being "underwater" on their mortgages, meaning they owe more on their mortgages than the homes can be sold for. This traps some residents in place, while others simply walk away from their mortgages. Similarly, Chicago has weak markets struggling with blight, vacancy and abandonment immediately alongside other gentrifying neighborhoods with soaring rents and home prices. In 2017, more than 135,000 Chicago homes were underwater, more than the total in New York and Los Angeles combined.6

RECOMMENDATIONS FOR NEIGHBORHOODS LEFT BEHIND

HPN recommends that the federal government recommit to working in partnership with state and local governments and high-performing nonprofits in a concerted and systemic effort to address population loss, blight and abandonment to create neighborhoods that provide opportunity for their residents. Local leaders are experimenting and learning what works, but the federal government can help support and accelerate these efforts.

Of course, many issues beyond housing, such as jobs, schools, health and crime, have an equally large impact on the future of neighborhoods and cities. Fixing the housing market alone will not stabilize or revitalize a community. However, improving housing stability and affordability is not only a good place to begin but it is a foundational strategy that is essential for achieving success and impact in these related and interconnected areas. While these broader issues are beyond the scope of this paper, the multidimensional needs of distressed neighborhoods underscore why it is critical for policymakers to work across issue silos when addressing community needs.

It is critical for local governments, as well the private sector and community-based organizations, to partner with high-capacity nonprofits in disinvested neighborhoods. Mission-driven nonprofits like HPN's members combine business acumen with deep commitment to working with residents to improve communities.

Entrepreneurial and partnership-oriented housing developers that work well with the education and health care sectors are an important part of the solution for neighborhoods left behind.

Neighborhoods struggling with disinvestment need this combination of skills that the scaled nonprofits in HPN's network bring to communities and partners. In fact, these organizations are a necessary and essential component of the community development system that enables the effective deployment and absorption of investment capital in distressed markets. Research done by Robin Hacke and David Wood for the Kresge and MacArthur Foundations[7] documents the critical role played by high-capacity nonprofit developers and Community Development Financial Institutions (CDFIs) in designing and implementing reinvestment strategies that can achieve transformative impact.

Unfortunately, many of the places that need this type of highly productive and collaborative nonprofit with the capacity to build partnerships and deploy capital often lack this infrastructure and resource. HPN's experience in building and incubating these organizations in cities such as New Orleans and Detroit has demonstrated in practice their catalytic role in spurring and accelerating revitalization when they become a key component and player in a dynamic community development system.

Spotlight on Nonprofits Catalyzing Revitalization

Gulf Coast Housing Partnership & Develop Detroit

In 2005, surveying the devastation that Hurricanes Katrina and Rita created in New Orleans and the Gulf Coast, HPN and its members decided that the region needed an entrepreneurial nonprofit that could serve as a catalytic and high-capacity partner to help government, the private sector and community organizations rebuild homes and neighborhoods devastated by the storms, and the years of neglect that had preceded them. Working with philanthropy and local civic and business leadership, HPN created and designed the Gulf Coast Housing Partnership under the direction of now GCHP President Kathy Laborde. GCHP reflected and built upon the best practices and business models of the most successful affordable housing and community revitalization organizations around the country. GCHP utilizes a partnership approach that combines a deep commitment to social mission and community accountability with strong business expertise and enterprise level capitalization. In its first 10 years, GCHP has worked with more than 45 partners to create or rebuild over 2,500 units of affordable housing, develop or finance more than 405,000 square feet of commercial space and community facilities, and spearhead the revitalization of distressed neighborhoods such as Central City in New Orleans and Mid City in Baton Rouge.

A decade later, HPN used the Gulf Coast Housing Partnership model to launch Develop Detroit in 2015. As the city of Detroit emerged from bankruptcy in 2014, the new municipal and civic leadership needed a high-performing nonprofit developer that could be a key partner with the city, community and private sector to promote housing and reinvestment in Detroit's neighborhoods. Under the leadership of Detroit native Sonya Mays, H PN has worked with philanthropy, government and local leaders to sponsor and capitalize Develop Detroit. Utilizing the same social enterprise model and partnership orientation that made GCHP successful, Develop Detroit has already sponsored with its partners key projects in strategically important neighborhoods totaling more than 900 apartments and homes that provide affordable homeownership, address blight, and build or preserve mixed-income housing for seniors and families.

In both cities, HPN helped address systemic gaps in the delivery system by creating high- capacity nonprofits that utilize a social enterprise and partnership model to revitalize communities and homes. They were able to help cities access and leverage key resources, including New Markets Tax Credits (NMTCs) and the Capital Magnet Fund that are essential tools for revitalizing distressed markets. Their experience demonstrates the critical role these organizations play in rebuilding communities, and why the policy and funding framework advocated in this paper are vitally needed to help them scale and accelerate their impact.

This federal framework should then be supported by local policies such as the creation and funding of land banks, appropriate foreclosure laws, strong code enforcement, better tax lien foreclosure policies and zoning that supports adaptive reuse of properties. Current federal policies that support economic development (such as the NMTC) or substantial housing rehabilitation combined with school improvements (such as the Choice Neighborhoods program) complement the housing and community development agenda outlined below. Some innovative housing developers have used NMTCs to rehabilitate severely distressed single-family homes, but this resource is too limited to solve the problem of neighborhoods left behind. The recently enacted Opportunity Zones investment incentive may provide another tool to assist with the comeback of distressed neighborhoods.

HPN's federal policy recommendations for communities left behind are guided by the following overall principles:

- There are people who wish to stay in distressed neighborhoods, even when given the opportunity to move to a less distressed community.
- Investments in housing are most effective when made before a "tipping point" where the block or neighborhood has suffered too much disinvestment to recover.
- Policies that keep wealth in a community – through homeownership or responsible local landlords owning rental properties – can do double duty in supporting communities.
- Community-based partnerships that include the private sector, state and local government, neighborhood leaders and social enterprises are most likely to be effective in improving conditions in distressed neighborhoods.
- High-capacity nonprofits can drive successful strategies to bring back neighborhoods left behind.

Increase access to capital for homeownership in neighborhoods with weak markets

Ironically, while weaker markets often have large stocks of single-family homes that are affordable to aspiring homeowners or landlords, accessing credit to acquire the homes can be difficult. One key problem is that in neighborhoods with vacancy and blight, it costs more to build or rehabilitate a home or commercial property than the building can be sold for. This so-called "valuation gap" is a big barrier to the return to a functioning real estate market. In most cases, financial institutions cannot lend more than a property is worth and thus in neighborhoods with depressed markets, there are few loans made to buy or renovate property.

As leaders from CHN Housing Partners (formerly the Cleveland Housing Network) in Ohio and HAP Housing (now known as Wayfinders,) in Springfield, Massachusetts, have pointed out:

> "Cleveland and Springfield are weak market cities, where the costs of renovation or new construction exceed the value of the homes. When rents do not cover the cost of operating an apartment building properly, an owner cannot justify further investment. When owners are unable to justify investment in their properties, homes and apartment buildings deteriorate. Similarly, when sales prices are lower than total development costs, building a new home or substantially renovating an existing structure even if the site is donated is infeasible. The financial imbalance can lead to a downward spiral of neighborhood disinvestment."[8]

There are different ways to use financial incentives to address the valuation gap to jumpstart mortgage lending. HPN and Enterprise Community Partners are both members of a diverse coalition that supports the Neighborhood Homes Investment Act (NHIA) to address this problem.9 Tax incentives can be very effective inducements for directing private-sector capital to support public needs, as demonstrated by the success of the Low-Income Housing Tax Credit (LIHTC) and NMTC. These tax incentives, however, are oversubscribed and not designed to solve the problems of the single-family market in distressed communities.

The NHIA would attract private capital to help revitalize poor and blighted neighborhoods by filling the valuation gap associated with building and rehabilitating owner-occupied homes in neighborhoods where the cost of construction or renovation exceeds the market value of the homes. It would support the construction and rehabilitation of homes sold to eligible buyers, as well as the substantial rehabilitation of homes by existing homeowners. The states would administer this program, which would mobilize private capital by giving a tax credit for investors to fill the valuation gap.

In addition to the NHIA, there are other creative ways to spur mortgage lending in neighborhoods left behind. In Baltimore, Healthy Neighborhoods Inc. manages a lending pool that finances home improvements that exceed appraised value in targeted neighborhoods. Healthy Neighborhoods' lending strategy is complemented by neighborhood marketing efforts that build on the assets and strengths of the targeted communities. The ultimate goal of this work is to counter the disinvestment that has inundated Baltimore with a strategy that helps homeowners build equity and wealth. In Detroit, a collaborative of banks, nonprofits and philanthropy organized Detroit Home Mortgage, which augments conventional mortgage loans with second mortgages that cover the valuation gap to pay for renovations. These approaches demonstrate the need for a larger- scale solution like the NHIA that fills the valuation gap and arrests the downward spiral of disinvestment.

Access to mortgage debt

In addition to the need to address the valuation gap, there are issues with accessing debt financing for real estate transactions in weak markets. Currently, Fannie Mae, Freddie Mac and the FHA all offer financing products that allow individual homebuyers to borrow more than the value of their home for the purpose of rehabilitation. However, while it is critical for homebuyers to have access to renovation/rehab financing, individual homeowners struggle with the burden of working with a contractor to renovate distressed properties. Especially in more distressed neighborhoods where there are many first-time homebuyers and hard-working families with little extra time or resources for managing contractors and where the rehab needs are often considerable, the more efficient and effective path is for an intermediary to renovate the home prior to sale to an owner-occupant.

High-performing nonprofits like those profiled in this paper are an important part of the execution capacity needed to carry out neighborhood revitalization work at a larger scale.

Fannie Mae, Freddie Mac and the FHA, therefore, should create a similar financing product aimed at high capacity nonprofits that acquire and rehabilitate homes as part of a coordinated community development plan. It is useful that Fannie Mae and Freddie Mac will both now be able to obtain credit under their statutory Duty to Serve requirements for creating a product of this nature, but this is only a first step. The challenge is to create robust financing products in the primary and secondary markets and the delivery system to use them.

At the FHA, such a product could be particularly valuable because FHA mortgages are assumable. An assumable mortgage can be "assumed" by a homebuyer after a nonprofit developer initially secured this financing for the home purchase and renovation and supervised the construction work. This creates a less costly and simpler mortgage process for a low- to moderate-income and/or first-time homebuyer.

There are two different FHA mortgage insurance products that could make a difference in neighborhoods left behind. The FHA's 203(b) program of mortgage insurance for the purchase of single-family homes that meet FHA property standards works for homes that don't have extensive repair needs; the 203(k) program finances properties that need significant amounts of repair. On the surface, the FHA 203(b) and 203(k) programs appear to be good tools for nonprofits to use to address inner-city revitalization; however, the limitations placed on nonprofits within the FHA programs impede nonprofits from using the HUD programs at scale.

HUD should approve a pilot demonstration of FHA financing for high-performing nonprofits to scale up single-family home rehabilitation in distressed neighborhoods to demonstrate what mission-oriented developers can do to stabilize neighborhoods and help build assets for families.

The bank regulatory agencies should also look at how to improve the regulations implementing the Community Reinvestment Act (CRA) to give banks incentives to invest in neighborhoods left behind. CRA requires banks to "help meet the credit needs of the entire community." Banks with a vigorous program of outreach and lending in areas with low property values should receive CRA credit for this lending, which is less profitable than other lines of business. Declining communities often lose their bank branches, and

this same downward spiral that afflicts real estate markets also makes it difficult for banks to get CRA credit for their work in legacy cities. For example, national banks that wanted to make loans or investments in Detroit did not get CRA credit for their investments if they did not have an "assessment area" in Detroit.[10] Additionally, wholesale and internet banks that don't have retail branches should have stronger incentives to invest in community development in neighborhoods left behind.

A broader issue that impacts the volume of loan originations in communities with low real estate values is the fee structure for lending. Lending fees are based on a percentage of the real estate purchase price; therefore, it is less profitable for a lender to originate smaller mortgages. It might be the same amount of work to sell and finance a house that costs $20,000 as one that costs $500,000, but the compensation to the realtors and bankers involved is very different.

The Urban Institute has mapped the sale of homes that cost less than $70,000 across the country. According to the Urban Institute's data, in 2015, there were 450,000 sales of homes that cost less than $70,000 in the 300 counties in the U.S. with the highest percentage of low-value home sales, but only one in five of the homes had a mortgage. By contrast, in the same counties, 79 percent of the homes that cost between $70,000 and $150,000 had a mortgage.

It is reasonable to assume that the lack of mortgage lending for lower value homes has a negative impact on the residents and neighborhoods. As the Urban Institute points out, "Because few first-time homebuyers can pay cash, the predominance of cash sales means these low-cost homes are not helping families start up the homeownership ladder. Moreover, cash buyers are often investors who rent out rather than move into the properties, which can affect civic engagement in the affected communities."[11]

Support the entry of regional scaled social enterprises into the single-family rental market

Another solution to the surplus of distressed homes in weak markets is to convert them – at least until the homeownership market strengthens – into scattered-site rental opportunities. One-to-four family homes comprise the majority of rental housing in America. Yet we have no scaled models for mission-focused developers to acquire, rehabilitate and manage these properties in a responsible manner that revitalizes neighborhoods and gives residents stable housing opportunities. Too often, the homes are acquired by speculative investors (often from outside the U.S.) seeking to flip them for short-term profit or rent them without bringing the properties up to code. This type of investor behavior can lead to a further cycle of decline and disinvestment.

Most high-capacity nonprofit developers in the United States shy away from this stock because of the lack of capital, subsidies and economies of scale, but this is changing. The U.S. does have regional nonprofits with the capacity to engage in single-family rental programs, and several of the more experienced programs have an interest in obtaining capital that would enable them collectively to scale this work to something in the range of 5,000 to 10,000 properties per year.

To support this strategy, reasonably priced capital is needed for acquisition and renovation of single-family homes that will be used as rental properties.

The federal government should encourage Fannie Mae, Freddie Mac and their financial partners to develop capital products to be deployed by mission-focused, scaled developers interested in pursuing and managing this asset class. Fannie Mae and Freddie Mac have enormous experience in underwriting products aimed at creating affordable rental housing, as well as a long-standing system for sharing risk with private-sector partners. Additionally, many of the nonprofits that would potentially be able to create and scale a single-family rental operation have existing relationships with Fannie Mae or Freddie Mac through traditional multifamily projects.

Demolition to help depopulated cities address blight

Relative to other countries, the U.S. has always been a mobile society, where families sometimes relocate thousands of miles in search of economic opportunity. The list of the 10 largest cities in the U.S. tells this story of dramatic population shifts.

In 1950, the largest cities were (in order of size) New York, Chicago, Philadelphia, Los Angeles, Detroit, Baltimore, Cleveland, St. Louis, Washington and Boston. In 2010, the list was distinctly different: New York, Los Angeles, Chicago, Houston, Philadelphia, Phoenix, San Antonio, San Diego, Dallas and San Jose.[14]

The need for demolition is often grounded in population loss. Today, some cities are home to many fewer people than they were originally built to accommodate. A few examples illustrate the need for a more robust response:

- Detroit had 1.8 million people in 1950, while the 2010 census calculated the population of Detroit at just above 700,000.
- Cleveland's population peaked in 1950 at 915,000; today Cleveland has less than 400,000 residents.
- St. Louis had more than 856,000 people in 1950; yet in 2010, the population was only 319,000.

These population shifts have hit smaller cities even harder. For example, Youngstown, Ohio, has shrunk from 170,000 at its peak population to 66,000 residents today.

Local policy response to population loss

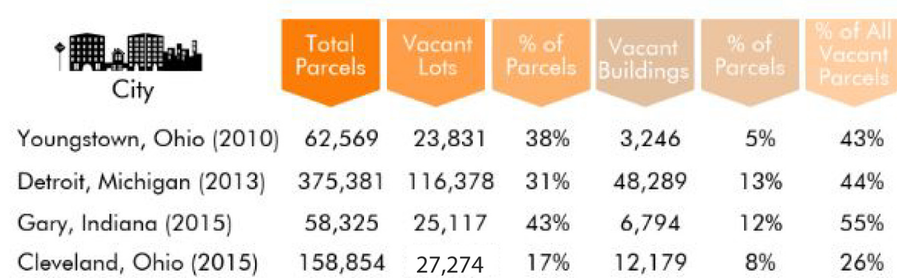
For decades, local and state governments have been experimenting with what works to address a complex and difficult problem. After a first wave of economic development projects failed to replace jobs lost to deindustrialization in these cities, local leaders began thinking about creative ways to adapt to more permanent population loss. Many cities now recognize that they will not return to their one-time peak populations. What these promising local initiatives do is position the city for a smaller population and revitalize what remains by building on assets.

The idea that cities can use land differently to adapt to a new reality is embodied in efforts that local governments are making to reuse buildings and land in creative new ways. Land banks are a good example of a helpful local or state response to the problem of abandoned and vacant property. Land banks are governmental entities created by state law that convert vacant, abandoned and foreclosed properties into productive use by acquiring title to distressed properties, clearing the title and transferring the properties to new owners to meet local needs and priorities.[15]

The Cuyahoga County Land Reutilization Corporation (CCLRC) in Cleveland demonstrates the potential of this model.16 CCLRC can accept, demolish and transfer vacant properties to responsible developers. The ability to hold properties in portfolio and centralize the property-disposition process gives CCLRC the ability to deal with blight and get homes quickly onto the market, if possible, or demolish them if not. CCLRC has a dedicated stream of funding from the accumulation of penalties and interest on collected delinquent real estate taxes and assessments, plus funding from grants, the sale of acquired properties to qualified renovators and donations from banks.17 CCLRC has helped Cleveland stabilize its market, and it complements Cleveland's other efforts to revive the city.

Federal assistance for localities

The scale of population loss in some legacy cities is so large that a certain amount of demolition of vacant, obsolete properties is a critical first step so that the more viable neighborhoods and structures can be repurposed. With such large numbers of vacant buildings concentrated in cities that have struggled with population loss for decades, it seems unreasonable to expect local governments to solve this problem entirely on their own. In The Empty House Next Door, Alan Mallach includes the chart below that shows the extent of vacant lots and vacant buildings in some especially hard-hit cities.[18]



City	Total Parcels	Vacant Lots	% of Parcels	Vacant Buildings	% of Parcels	% of All Vacant Parcels
Youngstown, Ohio (2010)	62,569	23,831	38%	3,246	5%	43%
Detroit, Michigan (2013)	375,381	116,378	31%	48,289	13%	44%
Gary, Indiana (2015)	58,325	25,117	43%	6,794	12%	55%
Cleveland, Ohio (2015)	158,854	27,274	17%	12,179	8%	26%

Federal assistance for demolition should be available for localities that have local plans to "right-size" their city and that have taken steps like creating land banks to create an orderly property disposition process.

In developing a program to help these localities, any federal government assistance should consider the following questions:

- Does the city have an overall plan to concentrate resources in viable neighborhoods and align its infrastructure with the current population?
- Has there been significant community engagement and community support for the strategy?
- Is the demolition plan supported by local foreclosure and tax lien strategies designed to get properties back into productive use?
- Is there a land bank or other municipal structure that can hold properties for reuse?
- Is there a local plan with community support for the reuse of the land, such as for economic development; parks, urban gardens or other green space; or part of a storm water mitigation strategy?
- Is there local capacity to carry out the plan in an efficient and impactful manner?

Just as the federal government shares the cost of building roads, bridges, sewers, airports and other infrastructure with localities, it is time for federal assistance to communities that need assistance with demolishing obsolete structures.

During the foreclosure crisis, there was some federal assistance to states used for demolition of obsolete properties, but those funds have mostly been used up. Federal legislation that funds demolition should include allowable uses such as establishing and operating land banks. There was legislation introduced in the 115th Congress by Reps. Tim Ryan (D-Ohio) and David McKinley (R-West Virginia) that would authorize the secretary of HUD to make grants to states to eliminate blight by taking down abandoned homes, clearing vacant lots and assisting in the revitalization of distressed neighborhoods.19 Any significant legislation to address U.S. infrastructure needs should include assistance for cities that need to demolish obsolete buildings.

Conclusion

It is time for a thoughtful federal policy response to help cities and neighborhoods that face declining populations and growing neighborhood blight but still have significant numbers of resident committed to staying in place and building a better future. If given the right tools, high-capacity nonprofits are the right partners for local governments to improve disinvested neighborhoods.

The federal government should help create the right policies for neighborhoods left behind, including a solution for the valuation gap, access to lending for homeownership, mission-driven ownership of rental housing, and funding for demolition. All cities have the opportunity to become viable communities once more if we make cost-effective federal investments in neighborhoods left behind.

HPN Member Case Study – Addressing the Valuation Gap

Indianapolis Neighborhood Housing Partnership

For 30 years, the Indianapolis Neighborhood Housing Partnership (INHP) has been the leading homeownership resource in Marion County, Indiana, dedicated to supporting neighborhoods and serving homeowners and homebuyers with low and moderate incomes. INHP's comprehensive homeowner and homebuyer services are designed to create and support homeowners who can sustain their investment in their homes – ultimately helping to strengthen and encourage the growth of vibrant Indianapolis neighborhoods. Since its inception, nearly 34,000 individuals have completed an INHP program. In partnership with the community, the organization has financed over $380 million in mortgages for low- and moderate-income families. INHP is a good example of an organization that would be an effective user of the NHIA.

Indianapolis has a significant volume of distressed, vacant and abandoned residential properties that are pulling down surrounding home values, resulting in decreased tax revenues and disinvestment. This is the classic dilemma facing neighborhoods left behind. Banks are reluctant to make mortgages that exceed appraised values, and homeowners fear buying a home that will lose value.

INHP has created an innovative new product called the Home Value Guaranty (HVG) that encourages buyers to purchase a home in five neighborhoods in Indianapolis by guaranteeing their home will increase in value. Homebuyers may purchase a vacant or abandoned home, or a new or rehabbed affordable home. Then, INHP will finance the purchase. If the home's value does not increase 5 percent above the total acquisition-rehab cost within seven years, INHP will reduce the homeowner's mortgage by the shortfall.

This innovative program eliminates the need for the limited subsidy available to fill the appraisal gap and aims to stabilize the neighborhood market. HVG will serve as a catalyst to activate private-market investment, improve the local economy and remediate neighborhood blight.

HPN Member Case Studies – stabilizing neighborhoods with targeted home renovations

Housing Partnership, Inc. (HPI) of Louisville, Kentucky

A nonprofit real estate development organization, Housing Partnership, Inc. (HPI) of Louisville, Kentucky, creates affordable housing opportunities to encourage family stability and support, and to empower its community. Founded in 1990, HPI has leveraged over $1 billion into affordable housing in the Louisville region and served thousands of families with services ranging from housing counseling to homeownership assistance, to developing and managing affordable homeownership and rental housing. HPI is a vertically integrated housing developer that owns both a housing management subsidiary and a construction firm. This enables HPI to be its own general contractor on its homeownership and rental projects in order to experience economies of scale.

HPI's housing development strategy also has enabled the organization to address the growing number of vacant and abandoned homes in Louisville's West End. For decades the nine neighborhoods that comprise West Louisville have suffered from the legacy of enforced segregation, housing discrimination, disinvestment, and misguided federal housing policy that left behind a cycle of concentrated poverty and property abandonment. As a result, many parts of West Louisville have experienced high concentrations of rental properties and low percentages of homeownership. Residents from have also struggled to access mainstream traditional capital to purchase homes. To address these conditions, HPI launched its "West of Ninth" housing strategy to purchase, renovate and sell homes to owner-occupants.

HPI uses a data-driven approach to identify which homes to buy, and its holistic strategy includes securing permanent financing on homes that prospective homebuyers can assume upon sale. This eliminates the inherent challenges of individuals seeking home loans on their own. HPI has used FHA financing for some homes in 2017, and is also working with local lenders to develop assumable loan products similar to the FHA Nonprofit Mortgagor program. Currently, five local financial institutions are creating loan products for HPI that can achieve this desired result.

In Louisville, some families are paying more in rent than they would on mortgage payments. By helping to convert long-term renters into homeowners, HPI will be able to save families $300-$400 per month and provide them with high quality, energy efficient homes. However, in order to effectuate change, an initiative like this needs to be done at scale. HPI is in the process of acquiring several hundred single- family homes into its current portfolio and beginning the work of rebuilding neighborhoods through strategic conversions to homeownership.

Atlanta Neighborhood Development Partnership (ANDP)

A 25-year-old nonprofit affordable housing organization, the Atlanta Neighborhood Development Partnership, Inc. (ANDP) develops and preserves affordable single-family homes and rental housing in Atlanta and its surrounding counties. ANDP also provides financing for the preservation and new construction of affordable homes and apartments.

In early 2008, ANDP's Board of Directors voted unanimously to focus ANDP's work on metro Atlanta's devastating foreclosure crisis. The organization has remained focused on the continued and alarming rates of negative equity, which are centered in predominately African-American neighborhoods south of Interstate Highway 20. ANDP has acquired and rehabilitated over 450 previously foreclosed single-family properties, transforming them into high-quality, stable homes, making ANDP one of nation's most impactful nonprofits doing this work. As NSP funds and real-estate owned property donations have dwindled in recent years, ANDP has sustained this work by expanding its capital sources and launching innovative partnerships with private developers to renovate homes without relying on government subsidies.

In addition to expanding homeownership options, ANDP's home sales have a secondary effect of building market comparisons and restoring home values in underwater neighborhoods. Research conducted by ANDP in conjunction with graduate students at the Georgia Institute of Technology and the Douglas County and DeKalb County Tax Assessors Offices reveal that these investments in foreclosure-impacted neighborhoods resulted in a significant increase in overall neighborhood values.

In Douglas County, ANDP's investment of $2.3 million to rehabilitate 53 scattered-site single-family homes resold to owner occupants resulted in an increase of $14.6 million in value for surrounding properties, a multiplying impact of more than six to one.[12] In DeKalb County, which has been more heavily hit by foreclosures, the multiplying increase was 15 to one.[13]

ANDP's theory of change is that when values rise, underwater homeowners are able to move beyond negative equity toward rebuilding family wealth, while generating higher property taxes to fund schools and other local services. Over time, this upward spiral can reverse the impact of redlining and disinvestment. ANDP has received two Capital Magnet Fund awards which will be used to capitalize a revolving Affordable Housing Fund to continue its work in recovering underwater neighborhoods. To date, ANDP has renovated over 500 single-family homes in metro Atlanta.

HPN Member Case Study – the pathway from rental housing to homeownership

CHN Housing Partners

A highly seasoned nonprofit affordable housing developer and housing service provider, CHN Housing Partners (formerly Cleveland Housing Network) works with its partners to solve major housing challenges for low-income people and underserved communities in Ohio and neighboring states. Over its history, CHN Housing Partners has developed over 6,000 affordable homes and each year serves over 30,000 families through a wide array of housing services.

CHN Housing Partners is nationally known for its Lease Purchase Program, a 15-year pathway to homeownership for low-income families. This innovative program uses LIHTC investments to rehabilitate homes that are rented to qualifying low-income families for 15 years. This provides stable high-quality rental housing in neighborhoods of single-family homes with CHN as a responsive, mission-driven landlord. Families living in this rental housing have the opportunity to become homeowners at the end of the 15-year tax credit compliance period after extensive financial counseling and coaching from CHN that helps them become successful homeowners.

To date, CHN has developed 2,189 homes with this program, and 1,135 families have taken title to their homes. CHN maintains an 80 percent transition rate in helping families move from rental housing to homeownership, and the organization has a 99 percent success rate among families who become homeowners. The sustainability of the model is directly correlated to CHN's "equivalency principal" that predicts low-income families will succeed as homeowners when the costs of owning are less than or equal to the costs of renting.

CHN's Lease Purchase Program has helped to stabilize neighborhoods in Cleveland that have suffered from absentee landlords and their poorly maintained rental housing. In addition, the Lease Purchase Program has helped families that otherwise would not have been able to become homeowners build assets and wealth. Because LIHTC is not constrained by low property values in Cleveland, the program is able to create a pathway to opportunity and housing stability for families.

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[16]The Cuyahoga Land Reutilization Corporation was based on the Genessee County, Michigan, land bank that was created to deal with vacant property in Flint, Michigan.

[17] For more information, see Curry, Monter Durban and Page, page 27. Not all land banks have the dedicated funding stream that CCLRC has.

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