

Stabilizing Neighborhoods: Issues and Challenges

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What is neighborhood destabilization?

- ▶ Foreclosures undermine local housing markets and increase vacant housing
- ▶ Market deterioration and vacant housing lead to neighborhood destabilization
- ▶ Once destabilizing events begin, they can trigger a chain reaction of destabilizing forces.

Destabilizing events include:

- ▶ Increase in REOs being put on market
- ▶ Not enough home buyers for available supply
- ▶ Declining house prices
- ▶ Increased number of foreclosure filings and foreclosure sales
- ▶ Increased vacant and abandoned properties
- ▶ Increased crime
- ▶ Reduced property maintenance

How does one **stabilize a** neighborhood?

- ▶ Foreclosures and abandoned properties can trigger destabilization – but dealing with those problems alone may not be enough to restore stability.
- ▶ Neighborhood stabilization is about rebuilding confidence and fostering market recovery.
- ▶ Market recovery happens when the effects of stabilizing actions exceed those of destabilizing events.

Stabilizing actions include:

- ▶ Reducing the number of REOs coming onto the market
- ▶ Reducing the number of foreclosure filings
- ▶ Increasing the pool of home buyers
- ▶ Stabilizing house prices
- ▶ Reducing the number of vacant and abandoned properties
- ▶ Reducing crime
- ▶ Improving property maintenance and neighborhood appearance.

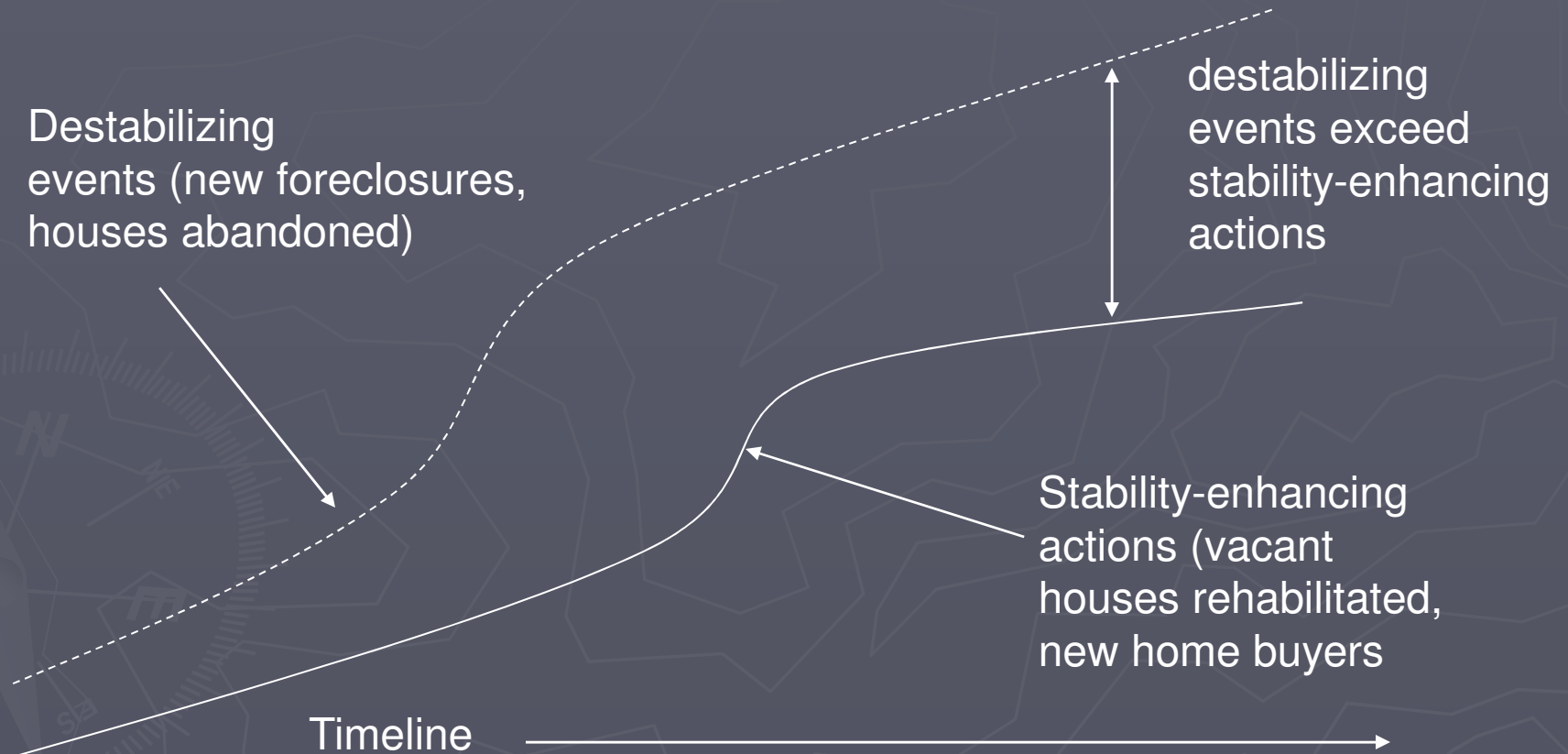
Example 1: Neighborhood stability declines

Destabilizing events (new foreclosures, houses abandoned)

destabilizing events exceed stability-enhancing actions

Stability-enhancing actions (vacant houses rehabilitated, new home buyers)

Timeline



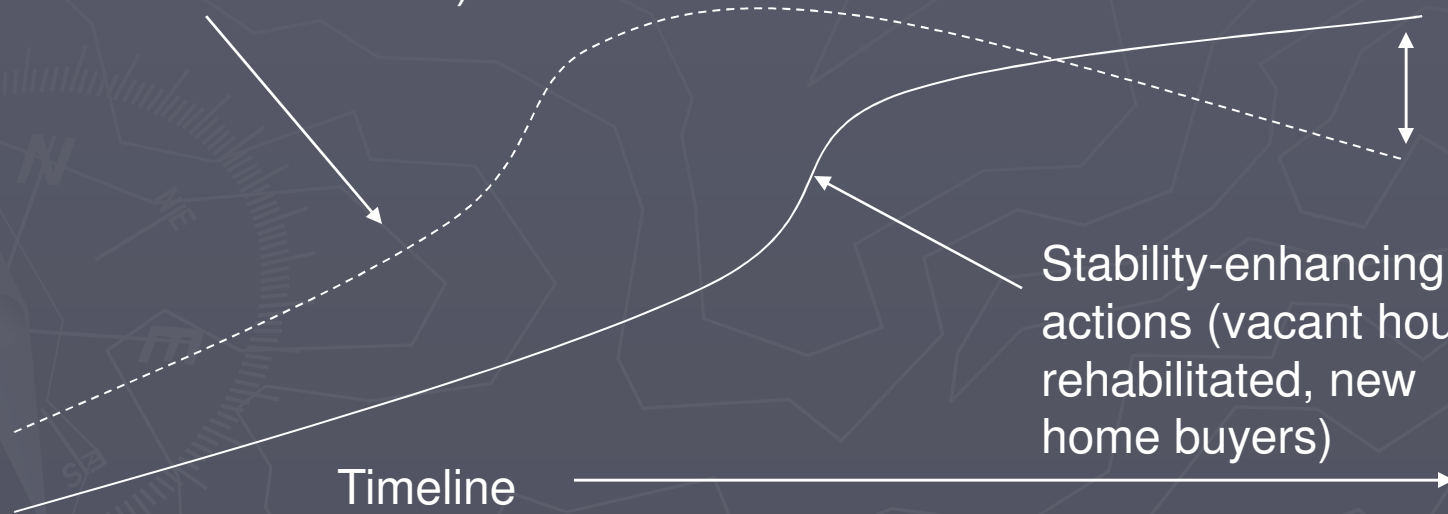
Example 2: Neighborhood stability **increases**

Destabilizing events (new foreclosures, houses abandoned)

Stability-enhancing events exceed destabilizing actions

Stability-enhancing actions (vacant houses rehabilitated, new home buyers)

Timeline



Strategies must be **comprehensive**

- ▶ NSP activities at most will help **slow down** neighborhood destabilization and help lay groundwork for market recovery
- ▶ Other activities may be as or more important toward achieving that goal.

Strategies must be comprehensive

- ▶ Target resources for maximum impact
- ▶ Focus on the forces driving destabilization, not just properties.
- ▶ Assemble enough delivery capacity to carry out plans
- ▶ Bring everyone to the table

What should a neighborhood stabilization strategy include ?

- ▶ Reducing future foreclosures
- ▶ Reducing the link between foreclosures, disinvestment and vacancy
- ▶ Getting vacant properties back to productive use
- ▶ Addressing other forces working to destabilize the neighborhood
- ▶ Restoring confidence and fostering market recovery

It should **leverage** other tools and resources

- ▶ Property acquisition tools
- ▶ Code enforcement and nuisance abatement
- ▶ Public/private sector housing assistance and mortgage financing
- ▶ Legal tools to minimize foreclosure impacts and prevent future foreclosures

It should address stability and quality of life issues

- Crime prevention
- Strengthen neighborhood quality of life
- Rebuild neighborhood social fabric
- Rebuild market demand

Three critical issues - 1

- ▶ Reduce the link between foreclosures, disinvestment and vacancy
- ▶ Design strategies and expectations to align with market realities.
- ▶ Develop a constructive strategy to work with investors

Reducing the link between foreclosures, disinvestment and vacancy

- ▶ Ensure lenders/servicers maintain properties during foreclosure process
- ▶ Conduct aggressive code enforcement and nuisance abatement activities
- ▶ Keep tenants in properties during and after foreclosure
- ▶ Keep owners in properties (as tenants?) during and after foreclosure

Three critical issues - 2

- ▶ Reducing the link between foreclosures, disinvestment and vacancy
- ▶ **Designing strategies and expectations to align with market realities.**
- ▶ Developing constructive strategy to work with investors

Communities have different NSP options

- ▶ Help qualified homebuyers buy REO properties
- ▶ Acquire REO properties, rehab and sell
- ▶ Acquire REO properties for lease-purchase or rental
- ▶ Demolish properties
- ▶ Land bank

It is important to understand community market dynamics

- ▶ Volume and trends in REO properties coming onto market
- ▶ Price trends and affordability level of houses on market
- ▶ Level and type of home purchase activity
- ▶ Size and income levels of potential home buyer pool

Market conditions fall along a continuum

Market correction	Demand increases as prices fall to affordable levels, and supply/demand equilibrium is restored
Market destabilization	Demand potentially exists, but may need public/nonprofit intervention to trigger effective demand
Market collapse	Weak demand and large supply creates surplus that cannot be absorbed by market

Market-sensitive strategies: **acquisition**

Market correction	Market destabilization	Market collapse
Acquire properties only when specific property is an impediment to market recovery	Acquire properties to create opportunities for reuse and neighborhood stabilization	Acquire properties to land bank for future redevelopment opportunities

Market-sensitive strategies: reuse

REUSE OPTIONS	Market correction	Market destabilization	Market collapse
Market sale	**		
Subsidized sale or lease-purchase	*	**	
Subsidized rental	*	**	*
Land banking			**

Other activities should also be market-sensitive

Market correction	Market destabilization	Market collapse
Foreclosure prevention	Foreclosure prevention	
Code enforcement	Code enforcement	
Homebuyer assistance	Homebuyer assistance	
Market-building activities	Market-building incentives	
	Infill development	
	Selective demolition	Demolition
		Interim uses

Evaluate strategy options

- ▶ Number of properties directly affected
- ▶ Impact on surrounding properties
- ▶ Direct subsidy cost per property
- ▶ Delivery cost/capacity requirements
- ▶ Time to implement
- ▶ **Impact on neighborhood confidence and housing market**

Three critical issues - 3

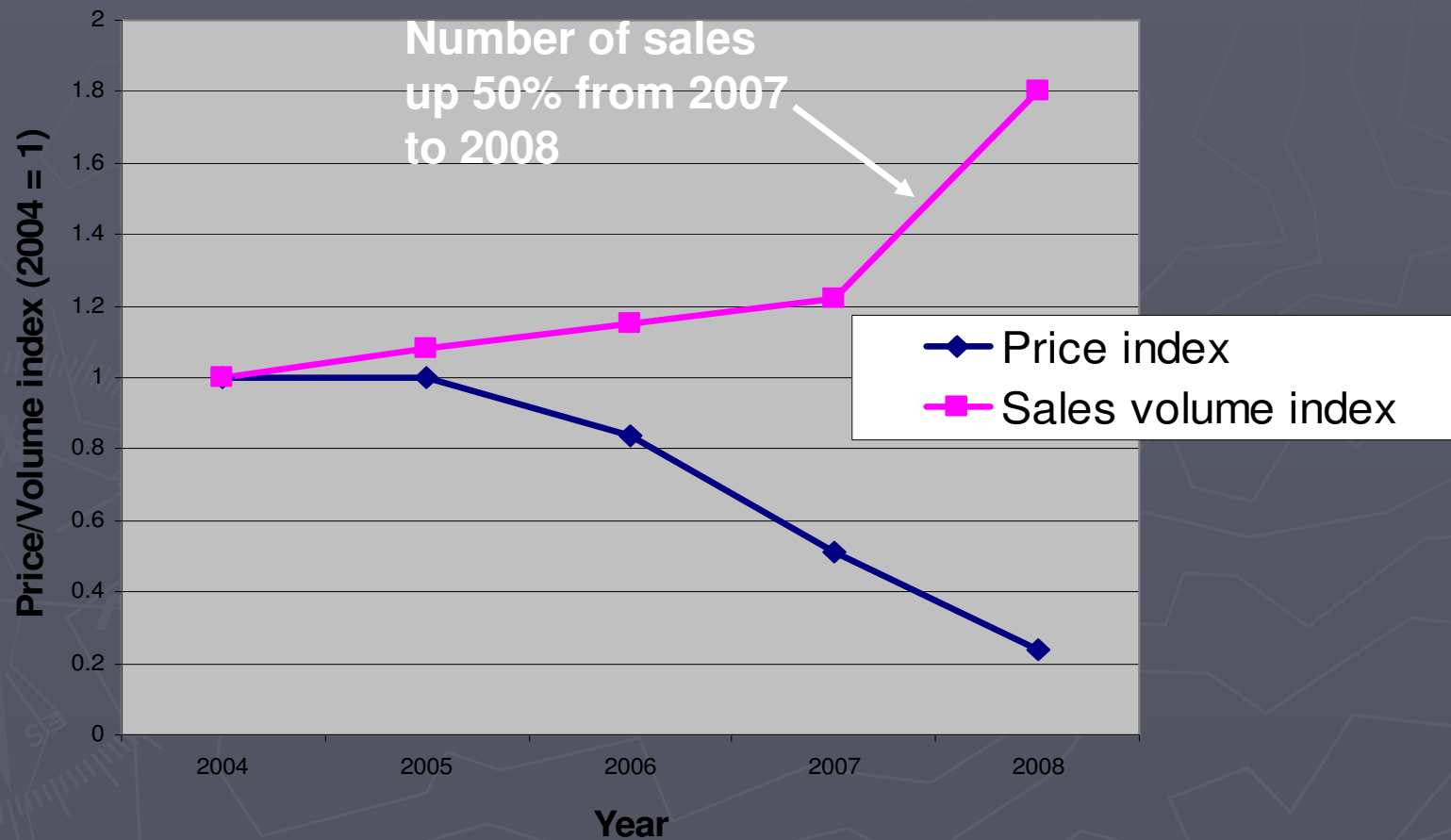
- ▶ Reducing the link between foreclosures, disinvestment and vacancy
- ▶ Designing strategies and expectations to align with market realities.
- ▶ **Developing constructive strategy to work with investors**

Investors and neighborhood stabilization

- ▶ Many areas impacted by foreclosure are seeing an increase in investor purchases
- ▶ There are many different kinds of real estate investors
- ▶ Investor purchases are a market reality – can be positive or negative
- ▶ Communities need to adopt constructive strategies to deal with investors.

Investors move in as prices go down

Prices and Sales Volume in Detroit 2004-2008



Work with investors

- ▶ Make sure properties are in habitable condition after foreclosure sale
- ▶ Establish landlord registration systems
- ▶ Create effective code enforcement systems
- ▶ Motivate landlords through incentives
- ▶ Engage good landlords in community

A final word....

- ▶ Neighborhood stabilization is not about properties. It's about people and the places they live.

The background is a dark blue-grey color with a faint, light-colored topographic map overlay. In the lower-left corner, there is a compass rose with a needle pointing towards the top-left. The map shows various contour lines and some faint text or symbols, including what appears to be a dollar sign (\$) and some letters like 'N' and 'SA'.

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