Vacancy & Abandonment: Tackling the Problem

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COMMUNITY REINVESTMENT cr report

Throughout the Fourth Federal Reserve District, communities are searching for effective approaches to the growing problem of vacant and abandoned properties.

In some sections of Lima, Ohio, it is easier to find an empty house than one with occupants. One block of Baxter Avenue is typical: Plywood covers the doors and windows of three modest brick houses in a row; across the street, weeds litter a vacant lot.

The homes, said neighbor Michael West, have been empty "forever and a day." West doubts they will ever again hold occupants. The interiors are rotting, he said, and it would "take a millionaire to fix them up. I wonder why they haven't been torn down yet."

The problem is not new in Lima. It dates back at least to the 1980s, when the city's bedrock manufacturers began shuttering factories. As the jobs left, so did the residents. From a population of 53,000 in the 1960s, the city has shrunk to 38,000 today. Simply stated, Lima doesn't need all its houses.

vacancy &

That is all the more true with the current foreclosure crisis, which has exacerbated the abandonment problem. City officials estimate that at least 15 percent of Lima's houses are abandoned, or some 1,900 residential properties out of nearly 13,000. That figure doesn't include hundreds of other empty homes whose owners have made efforts to suppress obvious signs of vacancy—weeds, dumped furniture, and shattered glass—to avoid vandalism and preserve their properties for potential reuse.

"We keep getting more units that are vacant, and that has a multiplying effect," said Amy Sackman Odum, Lima's community development director. "These properties become more difficult to sell and there's a further decline in property value."

The vacancy–abandonment problem is longstanding, complicated, and getting worse. In this report, we take a look at the problem from two perspectives. First, we examine the extent, the actual costs, and the financial impact of vacancy and abandonment on both communities and entire regions. Then we consider policy solutions, with an emphasis on what is most likely to be effective in many of the slower-growing communities of the Fourth Federal Reserve District. What are the relative merits of demolition versus redevelopment, land banking, or vigorous code enforcement?

The scope of the problem

Simply defining vacant and abandoned properties is problematic. At what point does a building become a focus of concern, and in need of seizure, demolition, or rehabilitation? Is six months of vacancy sufficient? A year? After multiple complaints about the property have been logged?

The National Vacant Properties Campaign (NVPC) defines vacant properties as lots and buildings that pose a threat to public safety or that are neglected by their owners financially. (See glossary on page 3.) Many governments lack reliable tracking systems for abandoned properties, the NVPC notes, and few tracking systems keep cumulative records of the associated financial costs, ranging from crime to demolition to nuisance abatement.

Analysts and researchers concur that abandonment contributes to crime and disorder, decreases property values, drains city services and, as one researcher put it, leads to a "spiral of disinvestment." The costs of vacant and abandoned properties are borne by local governments and neighboring property owners. Cities often end up paying more for nuisance abatement and crime and fire prevention, while the vacant properties themselves generate little, if any, tax revenue.

abandonment

A ReBuild Ohio report produced in early 2008 by Community Research Partners, "$60 Million and Counting," documents the extent and cost of vacant and abandoned properties in eight Ohio cities.[1] This study represents one of the few attempts to calculate the costs of vacant and abandoned properties. Researchers tallied 25,000 such properties, which cost cities $15 million to service and drained an additional $49 million in lost property tax revenues. The report's researchers also found that cities that don't regularly count vacant and abandoned properties underestimate their numbers. Actual vacancy rates were two to six times higher than estimates provided by cities that relied on code enforcement data rather than on regular inventories of vacant and abandoned properties.

In addition to hard costs, vacant and abandoned properties impose non-financial costs on neighboring homeowners and communities alike. Increased crime is one. While the link between abandonment and increased crime is difficult to quantify, especially in neighborhoods with rampant vacancies, several studies point to this relationship. One frequently cited study, which assumed that foreclosures would lead to abandonment, looked at foreclosures in Chicago and concluded that higher neighborhood foreclosure rates led to higher violent crime rates. For every one-percentage-point (0.01) increase in the foreclosure rate, the author found a 2.3 percent increase in the number of violent crimes.[2]

"$60 Million and Counting" suggests several underlying causes of the vacancy and abandonment problem, among them job loss. Fully 40 percent of Ohio's 275,814 manufacturing positions that vanished between 1999 and 2005 came from the counties where the report's eight cities are located. Population declines and aging structures also factor into underlying causes: seven of the eight cities surveyed (the exception being Columbus) lost between one-fifth and one-third of their populations from 1970 to 2000, and more than one-third of all housing units were built before World War II.

Impact of foreclosures

In exploring policy approaches, it is important to distinguish between properties abandoned because of longstanding economic and population decline and those abandoned in the recent foreclosure crisis.

Consider the perspective of Judge Ray Pianka of the Cleveland Housing Court, which has jurisdiction over the city's residential and commercial structures. "The docket has changed dramatically," Pianka said. "It used to be trying to nudge people into repairing their homes. Now it's trying to save the home or move it to a beneficial owner." Of the many frustrating developments that Pianka has observed, one stands out as the most common and damaging: Upon receiving a foreclosure notice, the owner tends to immediately vacate the property, exposing it to vandalism, metal-stripping, and general decay. Once that happens, Pianka explains, the financial institution that initiated the foreclosure process sees that its asset has deteriorated to the point where the mortgage is valued higher than the house itself, prompting the financial institution in some instances to give up the foreclosure proceeding and cede title to the owner. However, the title now has a tax lien against it, creating a "toxic title" situation.

GLOSSARY

financial foreclosure
A legal proceeding in which a creditor takes possession of a property by securing a defaulted mortgage loan. Most states require lenders to obtain a judgment before seizing and auctioning off a defaulting property.

tax foreclosure
The process of enforcing a lien against property for nonpayment of property taxes. After tax foreclosure, the taxing authority can have the property sold at auction.

functional abandonment
When property is no longer serving as a residence, indicated by its vacancy, suspension of postal service, utility terminations, and the sealing of doors and windows

physical abandonment
When owners neglect the upkeep of their properties, from failing to comply with nuisance codes to ignoring serious structural problems that make the houses unsafe for continued occupancy

real-estate owned (REO)
The status of a property whose ownership has reverted to the financial institution after an unsuccessful sheriff's auction

Sources: *Barron's Dictionary of Banking Terms;* allbusiness.com; realestateabc.com.

Reliable data on vacancy remain elusive

One might think that reliable data on vacancy and abandonment would be as readily available as figures for unemployment or population. But in fact, nationally comparable numbers are scarce. True, there are several government sources for vacancy rates. The observations are specifically for vacant properties, not necessarily those that are abandoned and officially recognized as such by local governments.

The Census Bureau provides both national homeowner and rental vacancy figures each quarter, and breaks down the numbers by state each year (see figure 1).

Meanwhile, the U.S. Postal Service and the Department of Housing and Urban Development jointly release Postal Service data on vacant addresses. Essentially, those are addresses to which no mail is being delivered and that postal carriers have actually observed as empty.

Researchers at the Local Initiatives Support Corporation (LISC) have looked closely at Postal Service data to learn more about vacancy trends in specific communities (see figure 2). LISC researchers consider the data meaningful when broken down in certain ways. For example, Postal Service data can be used to rank counties by the number of their census tracts within the top quartile for certain residential vacancy rates. By that standard, northeast Ohio's Cuyahoga County ranks third nationwide and Pennsylvania's Allegheny County ranks fourth.

Without consistent and reliable data, it is difficult to know how best to allocate public funding and private investment to address the problem.

"Nationwide, it's hard to get an accurate picture," said Jennifer Leonard, National Vacant Properties Campaign director. "It goes back to how well localities themselves are tracking this information, and that varies greatly. The data that are available nationwide don't tell the whole story. Now more than ever cities, counties, and regions need accurate information about vacant and foreclosed properties in order to make strategic decisions."

The Ohio cities of Springfield, Ironton, and Toledo rely on complaints for tracking vacant properties. Only three out of the eight Ohio cities surveyed conducted comprehensive, citywide inspections. In Cleveland's Mount Pleasant neighborhood, one community development corporation staffer looks for fresh footprints in the snow to tell if someone is occupying a home. Such data collection efforts, while helpful, are difficult to replicate across communities, making meaningful analysis elusive.

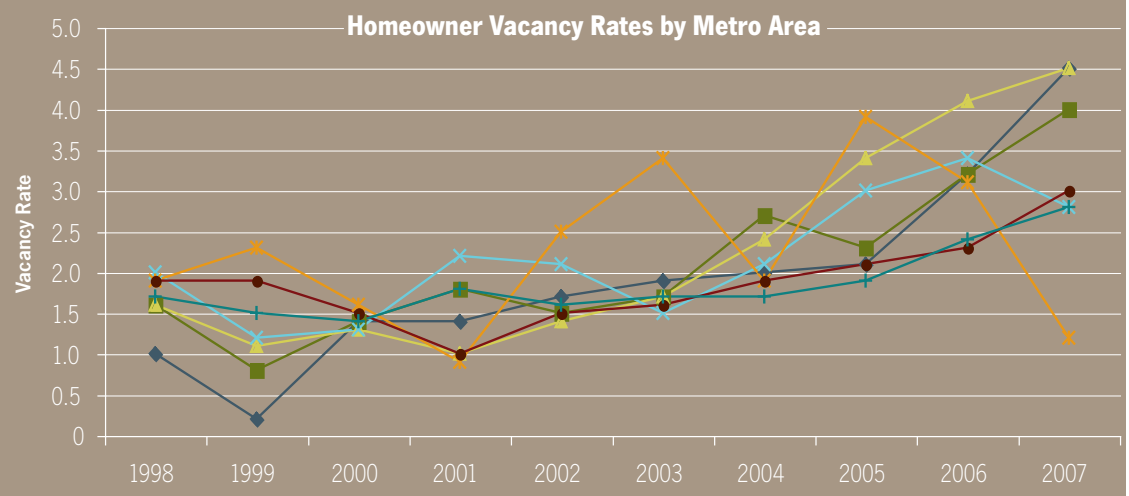

Figure 1.

Source: U.S. Census Bureau

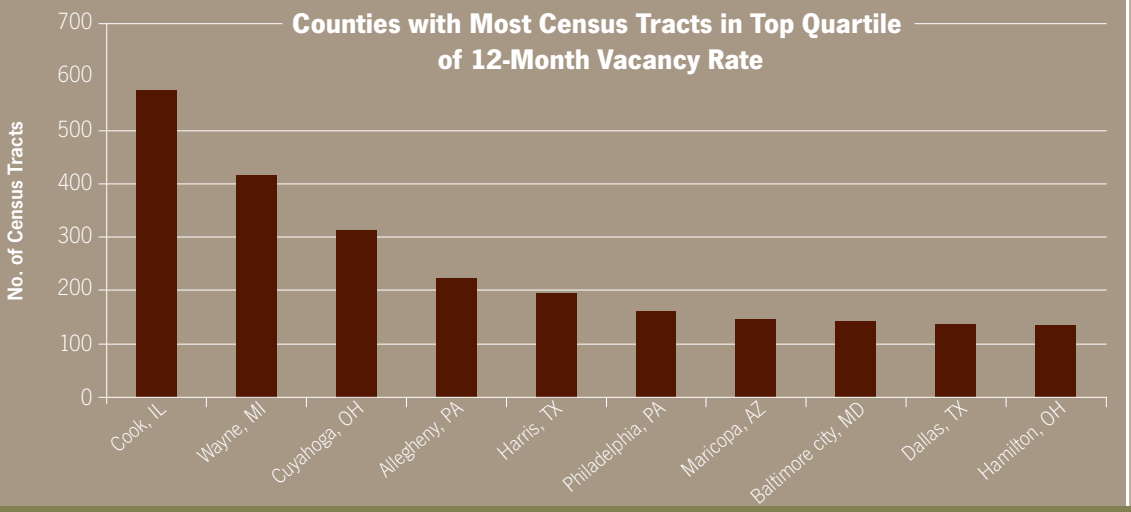

Figure 2.

Source: LISC analysis of U.S. Postal Service/ Housing and Urban Development data

foreclosure

"What we are left with is a defaulting borrower who is unable to pay the amount he owes but is still entitled to the house, and a financial institution with a lien on the property but no way to clear title through a sheriff's sale," he explains. "We're seeing record numbers of properties in this situation." In this way, the foreclosure process often puts properties in legal limbo, making it all the more likely they will remain abandoned.

Although foreclosure is a common cause of abandonment, it is a mistake to assume that all or even most abandoned properties stem from foreclosure. The problem of abandonment, therefore, may not call for repopulation approaches. Instead, it may call for demolition and conversion of former housing stock to green spaces, agricultural land, and other options.

"There's a vacancy problem that is distinct from the foreclosure problem," said Brian Mikelbank, director of the Housing and Research Policy Center at Cleveland State University and a visiting scholar at the Federal Reserve Bank of Cleveland. "We have to be careful not to suggest solutions to the vacancy and abandonment problem that are really solutions to the foreclosure problem."

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Addressing the problem

Sustainability is key to any approach to the problem of vacancy and abandonment. According to Jennifer Leonard, director of the National Vacant Properties Campaign, a comprehensive plan is preferable to one that relies on one or two strategies. "Neighborhood conditions within a city vary, and having a range of tools available ensures that the right intervention is targeted to the right situation," she points out.

Alan Mallach, research director of the National Housing Institute, cites three dimensions to revitalization: the desirability of the housing stock, the quality of life that a neighborhood offers, and the extent to which a neighborhood confers stability, including the sense that a homeowner's investment will be preserved.[3]

Study looks at differing impacts of foreclosed and vacant properties

In an ordinary market, a foreclosed home might not be so likely to be abandoned. Brian Mikelbank, director of the Housing and Research Policy Center at Cleveland State University and a Cleveland Fed visiting scholar, studied the difference between the effects on house sales of vacant and foreclosed properties in Columbus.[4]

What he found was that the "neighborhood effect" of foreclosed properties was not as large as for vacant properties; that is, a foreclosed property doesn't hurt the sale price of a nearby house as much as an abandoned property does.

But because foreclosures at present are more widely distributed than vacant properties in Columbus, their effect has an impact out to 1,000 feet, compared with 500 feet for a vacant property.

Mikelbank is careful to point out that his study was for Columbus only. Other studies have looked at different communities, focusing solely on abandoned properties, with different results. In fact, what's most evident about abandonment impacts is how different they are from one community to another.

In any approach, an effective tracking system is imperative. The authors of "$60 Million and Counting" urge development of a tracking system that includes a regular citywide inventory; a cross-agency database employing common and clear definitions of property status; assignment of costs of city activities to properties; and recurring updates. Equally critical to any effort aimed at addressing vacant and abandoned properties is educating homeowners about their options and promoting financial literacy among borrowers before they take out mortgage loans.

The following tactical suggestions are among the most promising, according to housing researchers interviewed for this article:

Keeping homes occupied

Because of the strong relationship between foreclosure and abandonment, keeping people in homes is an important first step. Some research shows that about half of all homes that end up in "real-estate owned" (or REO) status—that is, having gone through the entire foreclosure process and with title ultimately reverting to the financial institution—are damaged or vandalized. Clearly, this outcome benefits no one—not the financial institution, not the owners, and not the neighborhood. If occupants never left, or if other tenants could be quickly established, this deterioration likely wouldn't occur. Cleveland's Housing Court now sends letters to homeowners who have received foreclosure notices, advising them to remain in their homes.

A complicating factor is that in most states, including Ohio, foreclosure is grounds for eviction of tenants. Some researchers argue that more states should modify this rule so that people can remain in foreclosed houses.

Another approach to remaining in a home is through loan modification, but this is no easy task. As experts at a 2007 Cleveland Fed workshop noted, servicers have to deal with the reality that mortgages have been bundled and resold as myriad securities, meaning any modification of the original agreement represents a possible breach of contract. Also, servicers always get paid something in a foreclosure, a fact that, combined with other challenges to modifying a loan, makes foreclosure a simpler process than a loan modification.

Land banking

A land bank is a legal vehicle that holds and accumulates properties with the ultimate goal of returning them to productive use. With land banks, regional authorities can acquire, demolish, aggregate, and rebuild properties and entire areas. According to Mallach, a land bank can be an effective tool for helping a city strategically readjust its housing stock in order to become more functional as a smaller entity.

While land banking has been helpful to some communities in dealing with their vacant and abandoned properties, this approach has limitations. In the context of addressing widespread vacancy, for instance, a land bank that simply transfers properties to new homeowners may not be effective. A single remodeled home in an otherwise blighted neighborhood is unlikely to promote wider revitalization. The greater likelihood is that the new owners will face the same dismal market as the previous owners, and the revitalized home may also fall into neglect and abandonment.

A land bank program might include significant demolition. Too, there may be "swap" programs, in which foreclosed homes are acquired in more viable neighborhoods and offered to individuals losing their homes in less viable neighborhoods. In shrinking cities, land banks might be useful vehicles for keeping areas free of blight until old housing stock can be transformed into something altogether different—from urban "farms" to recreation space.[5]

Code enforcement

Vigorous code enforcement can be an effective tool for city managers in combating under-maintenance, thus helping to preserve entire neighborhoods. A well-maintained home is itself an incentive to banks to orchestrate a loan workout that keeps the owner in the home, for the simple reason that the property is a more worthwhile asset for the financial institution to keep on its books.

Emphasis on code enforcement, however, has been shown to impose a financial burden on low-income homeowners and a tendency to exacerbate homelessness.[6]

In Cincinnati, code enforcement resources are directed at abandoned properties identified by city government and neighborhood groups. Specifically, the city combines data on foreclosures, vacated buildings, crime, and other indicators of blight to identify the most needy targets. "We'll work in that area for a given period and then hope for a ripple effect," said Ed Cunningham, Cincinnati's division manager for property code enforcement. The city has also adopted a strict building maintenance licensing program, with escalating fees imposed on owners who allow vacant properties to fall into disrepair.

Targeted investments

Adapting cities to smaller populations requires some hard decisions. Youngstown, Ohio, has become known for its "Youngstown 2010" plan, which pours money into certain more promising neighborhoods, while others languish or are turned into green space. Other cities have taken unconventional steps, such as recruiting immigrants into areas with high concentrations of vacant properties, that have yielded some success in rehabilitating entire neighborhoods.

Richmond, Virginia, is the focus of a recent case study on the impact of targeted community investments. In the "Neighborhoods in Bloom" project, the city directed all of its housing rehab funds to a handful of neighborhoods. Six years after the project, the strategy seemed to have worked: Housing prices in these neighborhoods increased 10 percent faster over the five-year project period than the city average.[7]

Lima: the road to recovery

Driving along some blighted blocks of Lima, Amy Sackman Odum is still upbeat. A vacant lot is an opportunity for "commercial infill." A row of boarded-up houses sits on what could be prime park land. And here is New Lima, a once-teetering neighborhood that now is promising.

Vacancy a rural problem, too

The problem of vacancy and abandonment has by no means escaped rural communities. For example, A Rebuild Ohio report noted that Ironton, population 11,000, is having trouble keeping up with its estimated 600 vacant properties, representing 11 percent of its housing stock.

Housing markets in rural areas tend to be even more tepid than in larger weak-market cities. Most small towns never saw a housing bubble, but the foreclosure crisis has impacted them just the same. For that reason, a recovery strategy for these areas cannot center on a rebound in housing prices.

Staffing and funding issues are particularly acute for smaller cities. Ironton's code enforcement program is largely the responsibility of one person, meaning that "only the 'worst of the worst' properties are addressed with any degree of immediacy," according to Rebuild Ohio.

Doug Harsany, with the Ohio Department of Development, noted that vacancy rates place rural Martins Ferry and Port Clinton among the top five cities in Ohio. Another rural area, Ashtabula County, at the edge of northeast Ohio, ranked highest among the state's indicators for where to direct new housing funds.

Asking for stepped-up code enforcement is difficult in rural areas where a single municipal worker may have that responsibility, Harsany said. "There are differences in the details of the approaches you're going to take," he added. "Neighborhood stabilization programs have to be somewhat flexible. What may work in Cleveland may not work in Martins Ferry."

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Old, abandoned houses have been torn out and new ones erected in their place. New Lima is the city's largest tax-credit site, featuring 32 single-family homes available with 15-year lease–purchase agreements. All prospective buyers must undergo pre-mortgage counseling.

It took time and some doing to effect change. Lima didn't even have a property maintenance code until 1982, and it wasn't until 1993 that people were hired to enforce it. Today, the Community Development Department has split the city into four sectors, each with an inspector assigned to inventory properties constantly. No longer does the city rely on complaints to be notified of vacancies.

In the past two years alone, Lima has made significant strides in coordinating its data collection efforts. The city has developed a harmonized effort—involving improved communications between departments ranging from police to code enforcement—to systematically identify vacant properties and keep tabs on them.

Said Odum, "Knowledge is power when dealing with vacant and abandoned properties."

1 Community Research Partners and ReBuild Ohio, "$60 Million and Counting: The Cost of Vacant and Abandoned Properties in Eight Ohio Cities" Research Report, February 2008.

2 Daniel Immergluck and Geoff Smith, "The Impact of Single-Family Mortgage Foreclosures on Neighborhood Crime," The Federal Reserve Bank of Chicago Proceedings, April 2005.

3 Alan Mallach, "Building a Better Urban Future: New Directions for Housing Policies in Weak Market Cities," National Housing Institute Policy Paper, June 2005.

4 Brian Mikelbank, "Spatial Analysis of the Impact of Vacant, Abandoned, and Foreclosed Properties," The Federal Reserve Bank of Cleveland Working Paper, November 2008.

5 For more detailed suggestions on how to organize land bank programs, see Frank Alexander's "Land Bank Authorities: A Guide for the Creation and Operation of Local Land Banks," available at http://www.lisc.org/content/publications/detail/793/, and Alan Mallach's *Bringing Buildings Back: From Abandoned Properties to Community Assets*, available at http://www.nhi.org/policy/BringingBuildingsBack.html.

6 Brendan O'Flaherty, "Abandoned Buildings: A Stochastic Analysis," Journal of Urban Economics 34(1) (1993): 43–74.

7 John Accordino, George Galster, and Peter Tatian, "The Impacts of Targeted Public and Nonprofit Investment on Neighborhood Development," Federal Reserve Bank of Richmond Community Affairs Topical Essay, July 2005.

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