

Maximizing the Impact of Federal NSP Investments through the Strategic Use of Local Market Data

by Ira Goldstein
The Reinvestment Fund

Through two federal responses to the deepest economic recession since the Great Depression—the Housing and Economic Recovery Act of 2008 (HERA) and the American Recovery and Reinvestment Act of 2009 (ARRA)—Congress directed some \$6 billion toward efforts aimed at stabilizing neighborhoods through the acquisition, rehabilitation, financing, demolition, and land banking of properties that are blighting communities around the country.¹ The Neighborhood Stabilization Program is the vehicle through which those funds were distributed; the U.S. Department of Housing and Urban Development (HUD) is the federal agency charged with distributing the funds and monitoring their use.

Under the HERA, HUD distributed \$3.92 billion formulaically, using Community Development Block Grant guidelines;² this first infusion of funds is referred to as the Neighborhood Stabilization Program 1 (NSP1). Under the ARRA, Congress allocated an additional \$1.93 billion, which was competitively awarded by HUD. This second allocation of funds through the Neighborhood Stabilization Program is known as NSP2. Communities around the country quickly realized that these allocations to neighborhood stabilization, though large in number, still could not make a significant dent in the blight that is challenging community stability.

It is our contention that, in order to maximize the impact of NSP investments, the funds needed to be invested locally with guidance from the best available market data. By

themselves, NSP funds could not redevelop an area; they could, however, support stabilization if invested strategically.

HUD's Distribution of NSP Funds

In the HERA, Congress required HUD to create a funding formula that would recognize and quantify the notion of “greatest need.” By statute, HUD’s formula for greatest need was to include the number and percentage of home foreclosures, subprime mortgages, and homes with default and delinquency status. On their face, these are entirely appropriate indicia upon which to build a funding formula. However, those familiar with the issue knew immediately that this formula was virtually impossible; no reliable or universally available data on either delinquency or foreclosure exist. Moreover, although these might have been the appropriate indicators, they likely did not represent the complete set necessary to pinpoint the problem. Lastly, Congress did not contemplate—and HUD did not incorporate—indicators of a local market’s strengths, challenges, or assets. Nevertheless, Congress’s objective was good: that HUD should make *data-based decisions* in allocating these funds.

In an almost unprecedented fashion, HUD created indices based on a variety of data that, albeit imperfect, generally pointed to the areas of greatest need. HUD’s solution fit well into Voltaire’s maxim, “The perfect is the enemy of the good.” Under NSP1, HUD created an index with scores ranging from one to 10, with higher scores representing greater need. Under NSP2, the scores were slightly more refined; they were based on better data and ranged from one

Table 1
NSP Allocations and Properties These Funds Could “Touch”

	NSP1 allocation*	NSP1 allocation less 10% admin cost	Median sale price 2008**	80% median sale price 2008	Median sale price 2009 (Q2) **	80% median sale price 2009	Number of properties touched (2008 prices)	Number of properties touched (2009 prices)	USPS vacancies 2009 (Q2) ***	Estimated percent touched by NSP1 funds (2009)
Phoenix	\$39,478,096	\$35,530,286	\$150,660	\$120,528	\$85,500	\$68,400	295	519	36,809	1.1%
Sacramento	\$18,605,460	\$16,744,914	\$190,500	\$152,400	\$164,000	\$131,200	110	128	6,214	1.9%
Miami	\$12,063,702	\$10,857,332	\$209,000	\$167,200	\$140,000	\$112,000	65	97	7,227	1.1%
Atlanta	\$12,316,082	\$11,084,474	\$119,000	\$95,200	\$87,000	\$69,600	116	159	15,263	0.9%
Chicago	\$55,238,017	\$49,714,215	\$230,000	\$184,000	\$185,000	\$148,000	270	336	43,563	0.7%
Boston	\$4,230,191	\$3,807,172	\$327,000	\$261,600	\$315,481	\$252,385	15	15	N/A	N/A
Baltimore	\$4,112,239	\$3,701,015	\$230,000	\$184,000	\$215,000	\$172,000	20	22	21,942	0.1%
Detroit	\$47,137,690	\$42,423,921	\$31,875	\$25,500	\$20,500	\$16,400	1664	2587	59,692	3.6%
Las Vegas	\$14,775,270	\$13,297,743	\$175,000	\$140,000	\$106,000	\$84,800	95	157	13,163	1.0%
Cleveland	\$16,143,120	\$14,528,808	\$26,667	\$21,334	\$25,000	\$20,000	681	726	22,084	3.2%
Philadelphia	\$16,832,873	\$15,149,585	\$120,000	\$96,000	\$105,000	\$84,000	158	180	23,745	0.7%

*Source: <http://www.hud.gov/offices/cpd/communitydevelopment/programs/neighborhoodspg/nsp1.cfm>

**Source: Policymap.com

***Source: USPS city-level vacancy estimates from Policymap.com

to 20, with higher scores representing greater need, risk, or both. HUD’s guidance to the public was that, to comply with Congress’s mandate, NSP funds must be targeted to areas with higher scores.

Generous Allocation, Giant Shortfall

Even the generous amount of money available under NSP1 was insufficient to overcome the blighting influences across all areas within a locale with high scores. In fact, NSP1 funds were insufficient to address the blighting influences *in even a single impacted area* within some locales. Table 1 illustrates some examples of recipients of NSP1 funds from around the United States. For each, we present the recipient city’s NSP1 allocation (less an allowable 10 percent administrative cost), the median sale price of homes there, the figure that is

80 percent of that median sale price, and an estimated number of homes that could be acquired (or “touched,” in the language of the legislation) by NSP1 funds, given those median prices.³ In none of the cities in table 1 would NSP1 touch more than 3–4 percent of the vacant residential properties as identified by Postal Service data.

Additional sources corroborate this finding. Under the best-case scenario, for example, the City of Detroit could use its NSP1 allocation to touch fewer than 2,600 properties. However, the Detroit Vacant Property Campaign estimates that there are some 78,000 vacant addresses throughout the city. The City of Boston estimates it had 187 residential distressed properties as of 2008,⁴ yet its NSP1 allocation would accommodate touching fewer

than 20. In Philadelphia, approximately 22,000 residential properties have stood vacant for more than 12 months; NSP1 allocations could touch fewer than 200, and NSP2 allocations are projected to touch fewer than 1,000 more.⁵ In light of this, we contend that a community's neighborhood stabilization program can succeed *only* if it selects reasonably small areas wherein NSP funds, either alone or in tandem with other public or private funds, address a significant portion of the blighting influences in those areas. We use data descriptive of the City of Philadelphia to explore this contention.

Using Data to Pinpoint the Problem

Grantees and aspiring grantees employed HUD-supplied and other data in a variety of ways to help target their activities under NSP1 and NSP2.⁶ The Local Initiatives Support Corporation (LISC), for example, created some customized measures for identifying areas of greatest need and made those data publicly available at the ZIP code level.⁷ Several communities around the country that received NSP1 dollars used a variety of administrative and secondary data to target acquisition of properties.⁸

Figure 1
Philadelphia MVA, 2008

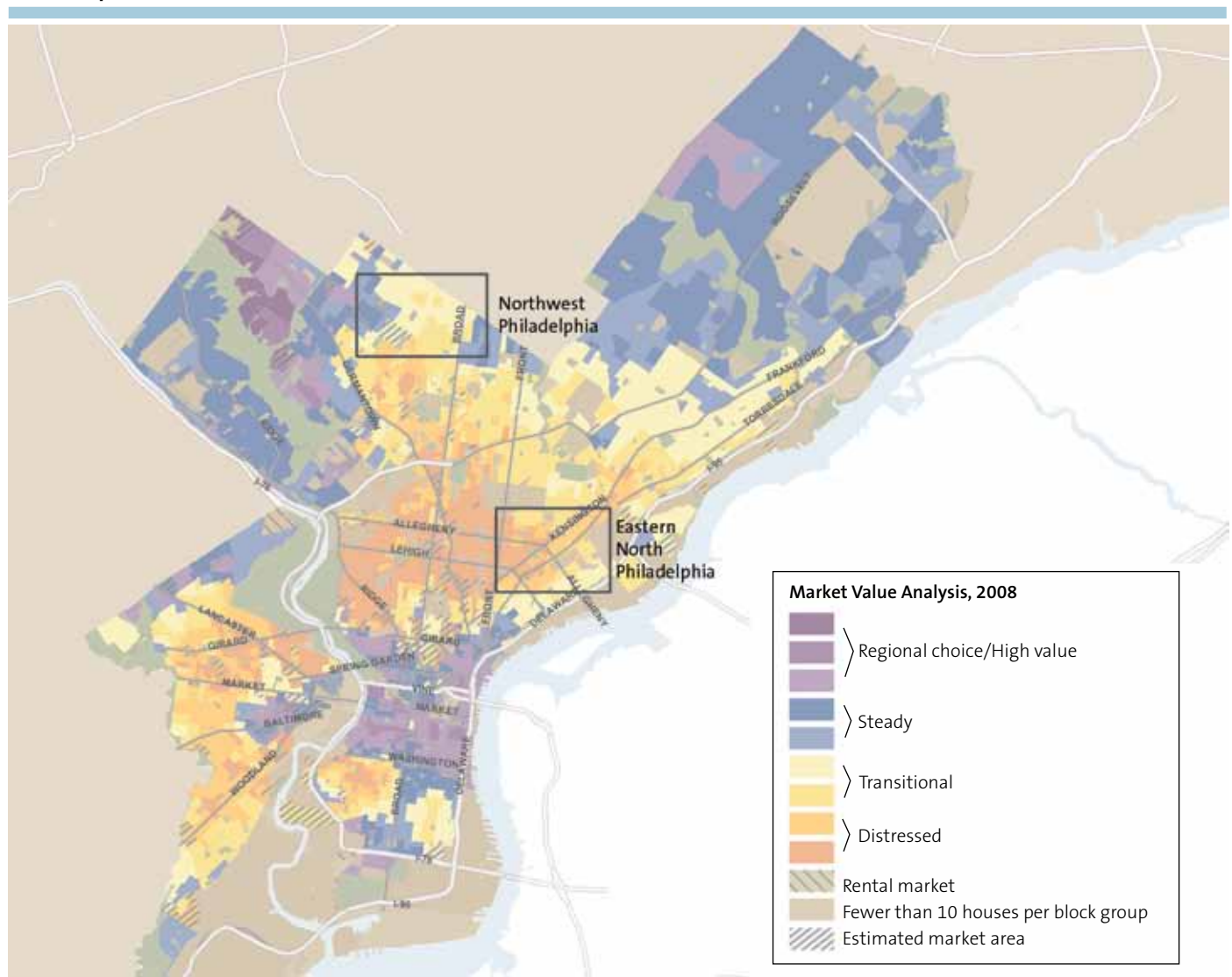


Table 2
Market Characteristics of Philadelphia MVA Categories

Market Value Analysis 2007–2008		Median sales price 2006–2007	Coefficient of variance of sales price 2006–2007	Vacancy factor	Foreclosures as a percent of sales 2006–2007	Percent owner occupied 2007	Percent commercial or stores with dwellings	Percent of residential properties tax abated or built 2000–2008	Percent of rental units that are PHA owned	Housing units per acre
Regional choice/ High value	Median	\$960,450	0.47	0.4	12.5	90.3	4.4	3.4	0.0	0.8
	Mean	\$928,670	0.45	0.5	37.5	74.4	5.4	4.0	0.0	4.3
	Median	\$550,000	0.54	0.3	4.4	29.9	6.1	4.5	0.0	18.9
	Mean	\$576,436	0.51	0.6	8.3	34.1	6.9	15.5	0.4	20.7
	Median	\$351,250	0.38	0.6	7.7	49.8	4.3	3.7	0.0	13.5
	Mean	\$360,387	0.41	1.1	17.2	48.5	7.5	11.5	0.7	17.5
Steady	Median	\$220,000	0.28	0.6	14.6	64.0	3.2	0.7	0.0	8.4
	Mean	\$224,727	0.31	1.1	18.9	61.3	6.1	3.9	0.6	10.5
	Median	\$171,000	0.28	0.6	29.1	62.5	2.9	0.0	0.0	9.5
	Mean	\$179,421	0.32	1.2	39.2	60.4	5.3	1.3	0.5	10.9
Transitional	Median	\$124,000	0.29	1.2	27.4	76.9	2.8	0.0	0.0	12.6
	Mean	\$125,974	0.32	1.9	36.0	71.0	4.4	1.0	0.8	12.6
	Median	\$80,000	0.41	4.3	39.2	68.5	3.4	0.0	0.0	12.7
	Mean	\$82,226	0.45	5.0	46.0	63.9	5.3	1.1	2.7	12.5
Distressed	Median	\$49,925	0.55	9.5	45.5	63.6	4.0	0.0	0.9	13.1
	Mean	\$50,325	0.56	9.8	52.1	61.0	5.6	0.3	3.2	12.9
	Median	\$28,875	0.75	13.8	27.1	55.6	4.0	0.0	3.8	12.1
	Mean	\$27,153	0.81	13.7	32.7	52.9	5.6	0.4	10.8	12.5
City total	Median	\$105,900	0.42	2.9	27.5	62.3	3.7	0.0	0.0	11.2
	Mean	\$137,701	0.47	5.3	35.5	58.6	6.3	2.3	3.0	12.2

Sources: The City of Philadelphia’s Board of Revision of Taxes, Department of Revenue, and Prothonotary; the United States Postal Service; the Philadelphia Housing Authority; and Claritas, Inc.

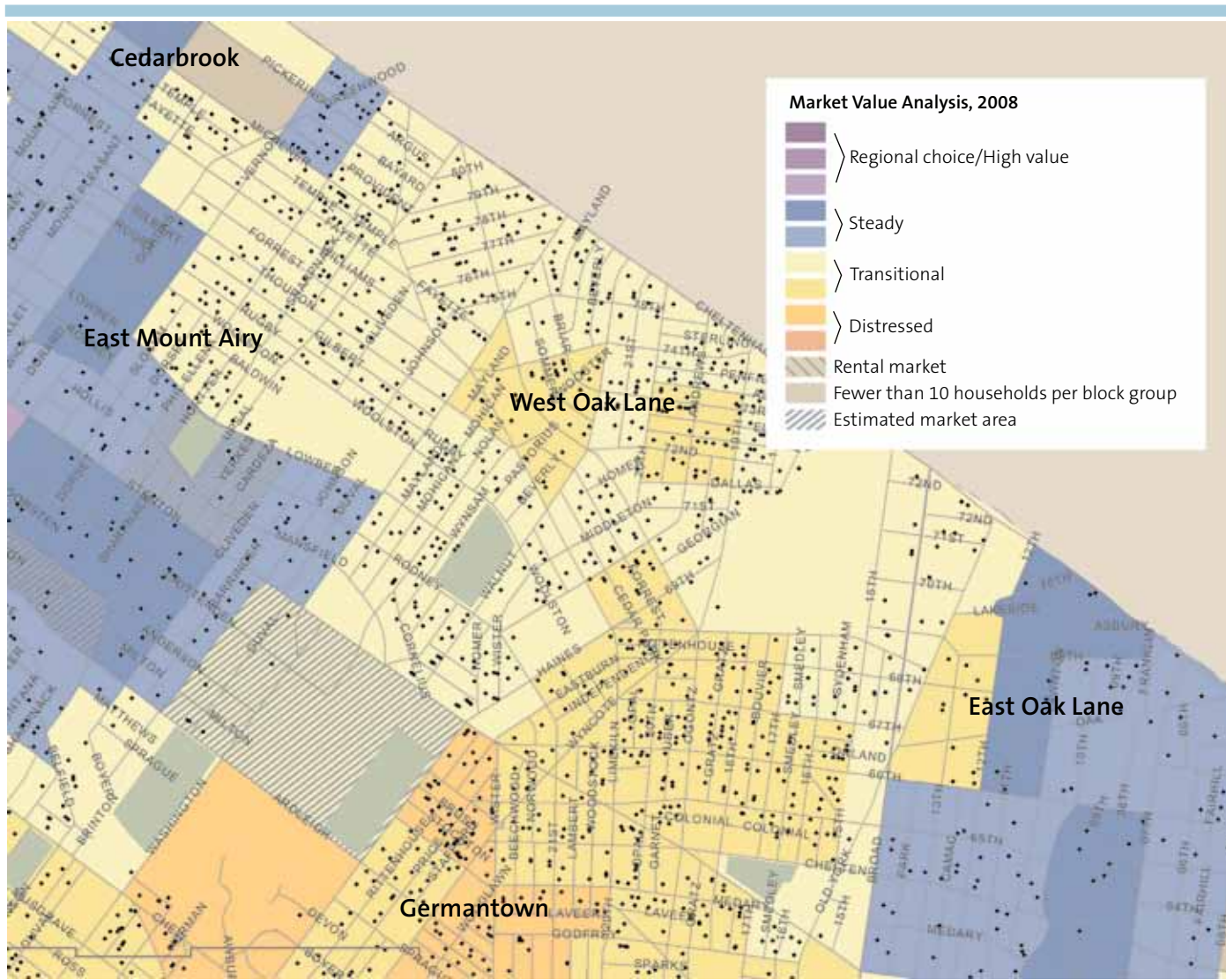
Some used our tool to help direct their NSP activities. The Reinvestment Fund has worked with a number of cities and states to prepare a Market Value Analysis (MVA),⁹ an objective, data-based tool used to characterize the underlying dynamics of a locale's real estate markets. The MVA is designed to help public officials make informed decisions about the design and nature of reinvestment activities as well as the size and type of investments necessary to influence that market positively. It is based on a set of indicators, some of which are typically found among a locale's administrative records; other

indicators may need to be purchased or licensed from third-party data providers.¹⁰

Preparation of Philadelphia's MVA involved attaching the following indicators, drawn from a variety of public and administrative sources, to each of the approximately 1,800 census-block groups in the city:¹¹

- median sale price of homes sold in Philadelphia in 2006 and 2007
- number of sales as a percent of housing units (that is, the velocity of transactions)
- housing units per acre

Figure 2
Northwest Philadelphia MVA with Foreclosure Filings



Note: Foreclosure filings 2005–07 and Q1 2008

- mortgage foreclosure filings in 2006 and 2007 as a percent of sales in 2006 and 2007
- percent of properties that are commercial
- percent of properties that are real-estate-tax abated or built after 2000 (reflective of new construction)
- percent of properties that are owner occupied
- residential vacancy factor.¹²

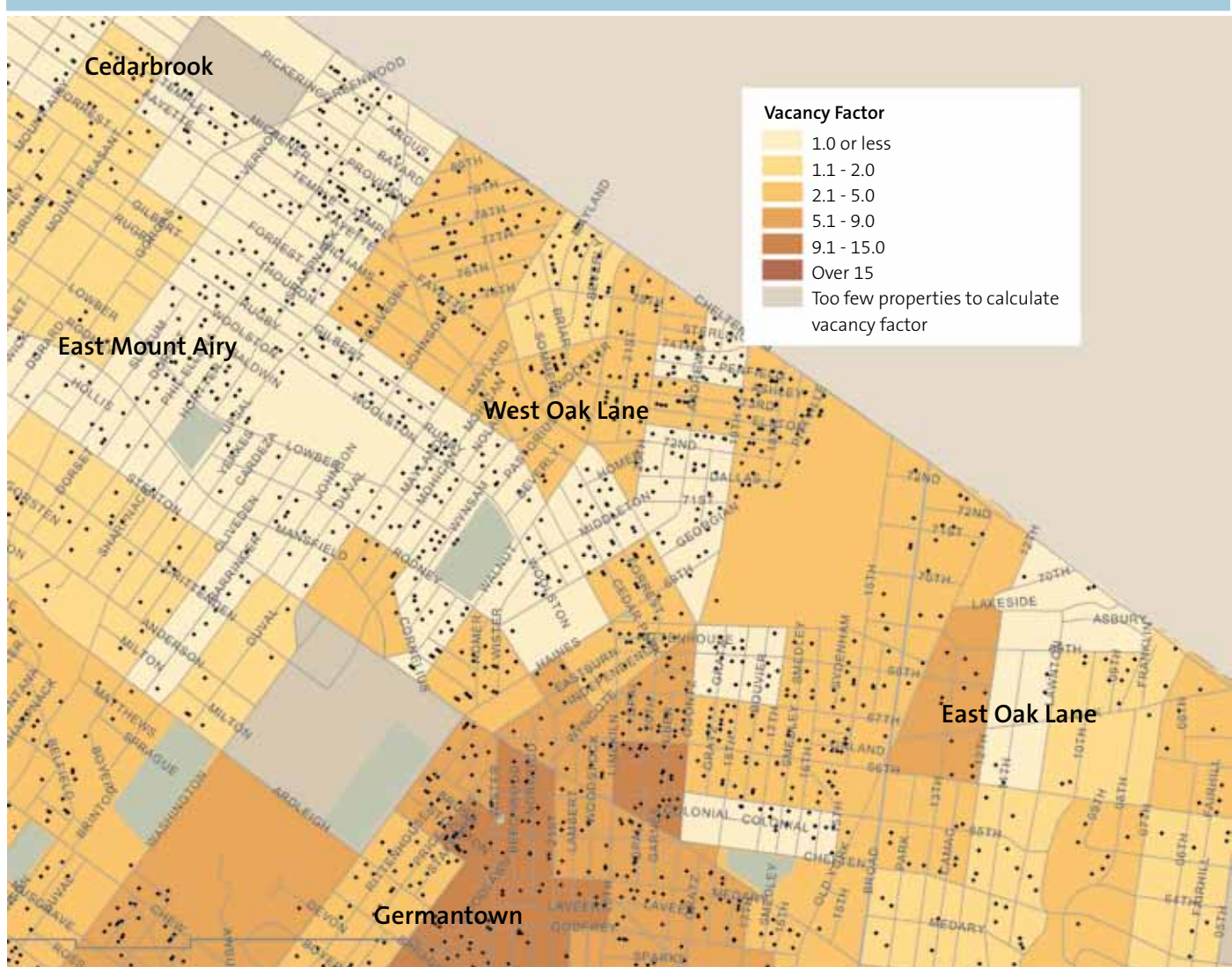
can usually be reliably aggregated for mapping and statistical analysis.

Creating a Market Value Analysis

Each of these indicators is mapped and systematically examined for accuracy. Next, the data are analyzed using a statistical cluster analysis that identifies homogeneous groupings of block groups. Upon completion of the analysis, the clusters are mapped; the resulting map forms the basis of our initial visual inspection of the city. Inspections are designed to identify consistency in the statistical-cluster identification

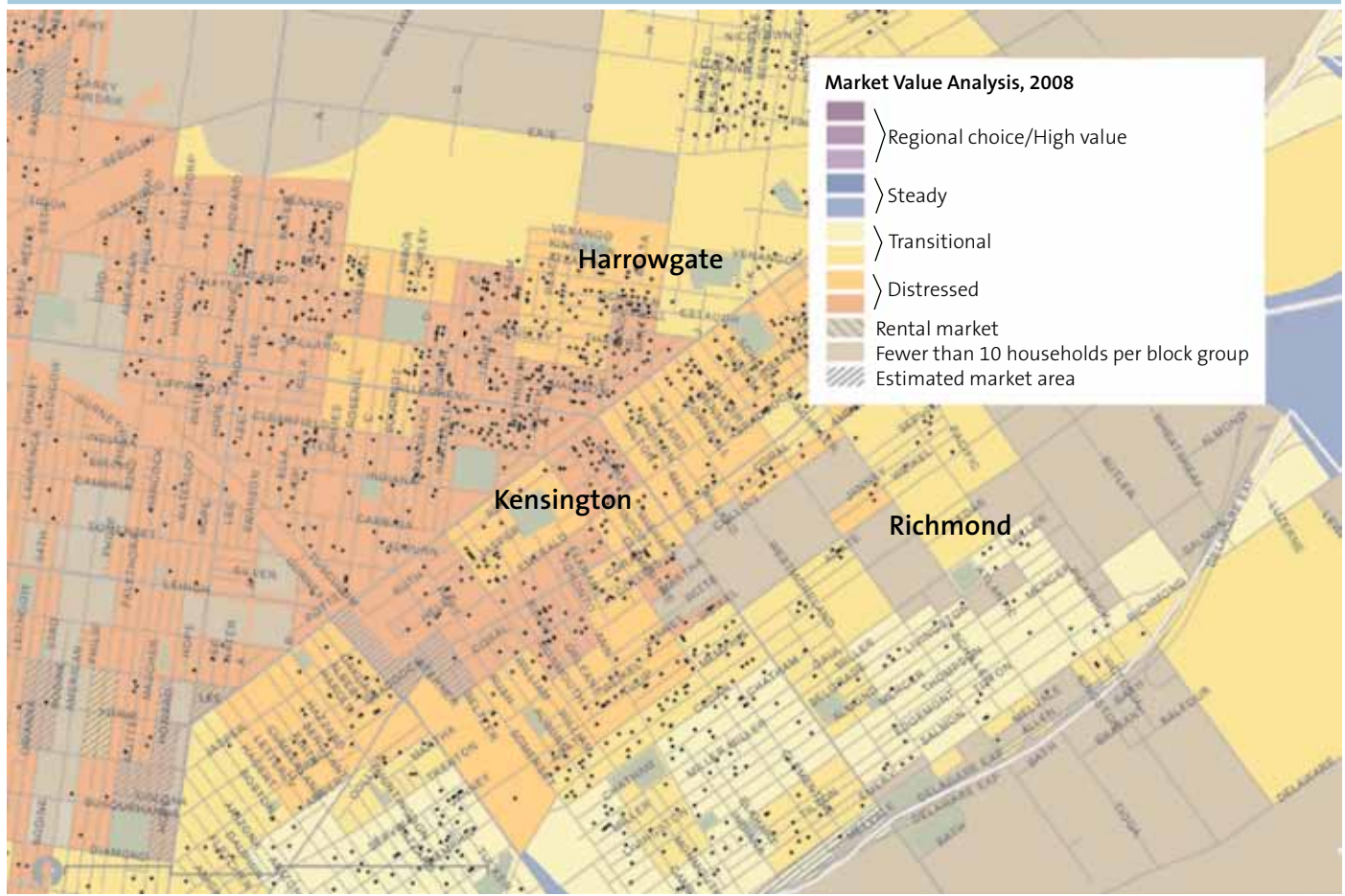
The census-block group is used for two reasons. First, it is sufficiently small that it captures the mosaic that exists in most communities across the country. Second, it is large enough that data

Figure 3
Northwest Philadelphia Vacancy Estimate with Foreclosure Filings



Note: Foreclosure filings 2005–07 and Q1 2008

Figure 4
 Eastern North Philadelphia MVA with Foreclosure Filings



Note: Foreclosure filings 2005–07 and Q1 2008

as well as differences across cluster types. Any required modeling adjustments are then made to the MVA, after which the clusters are re-mapped, re-examined, and reviewed by local subject matter experts to ensure that the statistical results are consistent with the observed built environment (see figure 1).

Table 2 shows the constellation of characteristics for each of the market types in Philadelphia’s MVA. The analytic power comes not only in the proper identification of what each individual block group manifests, but also in how adjacent block groups are characterized. Thus, a highly distressed block group surrounded by other highly distressed block groups represents a large expanse of market distress without adjacent stronger markets upon which to build.

Conversely, a highly distressed block group that has transitional or steady block groups near it may be able to draw on those positive local market forces to help effect change.

What Does the MVA Tell Us?

In general, the data clearly suggest that highly distressed areas—especially those that are contiguous to other highly distressed areas—are probably not places in which NSP funds will be sufficient to address the existing problem of vacant and abandoned properties. Within the City of Philadelphia, many of the highly distressed areas could, by themselves, consume the entirety of the City’s NSP1 allocation without addressing the majority of that single area’s problem. Moreover, experts report that highly distressed communities often are plagued by

Figure 5
 Eastern North Philadelphia Vacancy Estimate with Foreclosure Filings



Note: Foreclosure filings 2005–07 and Q1 2008

other issues (for example, violent crime, extreme poverty, and racial turnover) in addition to having high numbers of abandoned and foreclosed properties that contribute to the area’s widespread blight.¹³

Figure 2 focuses on a community in the northwest section of Philadelphia; its neighborhoods are known locally as East and West Oak Lane, East Mount Airy, Germantown, and Cedarbrook. In MVA terms, this community is characterized by a preponderance of “transitional” markets. Table 2 displays the characteristics of these markets, including

modest home prices, relatively low levels of vacancy, modest foreclosure levels, high owner occupancy, little new construction, limited assisted-rental housing, and modest density. Economically, residents of these neighborhoods have modest incomes, commensurate with the home prices; racially, these neighborhoods are almost exclusively African-American. Figure 2 also displays foreclosure filings (each filing between 2005 and the first quarter of 2008 is represented with a black dot). A review of HUD’s NSP1 scores shows this area to be largely undifferentiated in the highest ranges of foreclosure risk. The NSP2 scores provide

a more accurate depiction, with scores in the modest range. Surrounding the “transitional” markets are some steady markets—among them East Oak Lane, Cedarbrook, and East Mount Airy—that provide local housing market strength upon which to build.

Figure 3 shows the same geographic area as figure 2, shaded according to our estimated vacancy factor. The neighborhoods, except for Germantown at the southernmost tip of the larger area, manifest low to medium levels of vacancy. This is consistent with the MVA’s categorization of these areas as typically transitional.

Figure 4 shows an area of the city known as Eastern North Philadelphia. Communities shown in figure 4 include Kensington, Harrowgate, and Richmond. Note the vast expanse of severely distressed markets, with some neighboring distressed markets. According to table 2, areas in this category reflect the lowest levels of Philadelphia’s home-price range, elevated vacancies, typical Philadelphia home-ownership rates, and high levels of subsidy attached to the rental market. Economically, these are poor areas. Racially, the population in this area is largely African-American in the western portion, transitioning eastward to Hispanic and then ethnic non-Hispanic white at the far eastern sections. Note also the abundance of foreclosures. HUD’s NSP1 and NSP2 scores reveal this area to be consistently in the highest ranges of risk.

Lastly, figure 5 shows the housing vacancy factor we estimated for Eastern North Philadelphia. This section of the city manifests acutely high levels of vacancy that rival any in Philadelphia.

Where Do Data Suggest NSP Dollars Could Be Most Impactful?

The answers to this question fall along a few dimensions. First, a comparison of Northwest Philadelphia neighborhoods (figures 2 and 3) to those in Eastern North Philadelphia (figures 4 and 5) reveals similar numbers of foreclosures. However, a comparison of the vacancy levels in the two areas reveals that in Eastern North Philadelphia and the surrounding communities

(figure 5), vacancies are so high that even if NSP funds could touch the majority of the foreclosures, vacancy and abandonment would remain at high levels. Moreover, the number of vacant and foreclosed properties that would remain after depletion of NSP funds would be so great that the ultimate goal of the program—market stabilization—would be thwarted.

On the other hand, in Northwest Philadelphia (figure 3), vacancy levels are sufficiently low that if vacant and foreclosed properties were abated through strategic deployment of NSP funds, the majority of the area’s adverse market forces would be removed, allowing these communities to flourish and achieve stability. The Philadelphia MVA reveals a healthy market in the northwest section but a severely troubled market in Eastern North Philadelphia. In short, NSP funds will make the most impact when invested in areas where objective and systematic data show the housing market is functioning reasonably well. That logic suggests that deployment of NSP funds would have a greater impact in Northwest Philadelphia than in the neighborhoods of Eastern North Philadelphia.

Consideration of the target market and its surrounding area is critical to the success of NSP investment. A “deep dive” with limited NSP funds into vast areas of multi-dimensional market distress cannot be successful and will not serve the intended purpose of neighborhood stabilization. By design of HUD and Congress, NSP funds must leverage other funding sources; in actuality, NSP dollars must be invested to take advantage of other nearby market strengths. Targeting places where the problem is manageable and the surrounding markets have strength is critical to success. Therefore, although work in severely distressed markets is vitally important to the future of our cities, NSP is not the correct vehicle to address large-scale blight in a property market that is not otherwise functioning well.

As Alan Mallach, a senior fellow at the Brookings Institution, aptly put it in a presentation to a convening of the National Vacant Properties Campaign in 2008, “Neighborhood

By design, NSP funds must leverage other funding sources; in actuality, NSP dollars must be invested to take advantage of other nearby market strengths.

destabilization is a function of market deterioration or failure. Neighborhood stabilization is a function of restoring a functioning, vital market. **NSP funds should be directed toward restoring well-functioning housing markets**” [emphasis added].¹⁴

Conclusion

Many have called for the use of objective data to make decisions about where and how to deploy NSP funds. The MVA is one way of capturing a comprehensive set of market data about specific places and their surrounds. It is a tool that helps to identify where there is existing market strength upon which to build. And if replicated after a given period of time, it is a tool that is capable of showing change in relation to NSP investments.

Some say that being data-based and strategic must take a back seat to the realities of the REO market, and that NSP’s programmatic requirements favor the quickness of a community’s obligating NSP funds over the strategic investment of those funds.¹⁵ That argument is a formula for coming to the end of the NSP funding cycle only to find that, while some properties may have been addressed with these funds, communities have not been stabilized. While it is undoubtedly true that REO departments are more interested in selling properties for which they cannot otherwise find buyers to NSP recipients, municipalities—especially if they can avail themselves of the economies of scale afforded by, for example, the National Community Stabilization Trust—must use objective data and strategically deploy those funds to the places where they can make the greatest difference.

NSP is an infusion of capital to communities that may not occur again—at least at the levels in HERA and ARRA. NSP’s success is dependent upon ongoing data collection and the ability to make mid-course corrections, based on the analysis of those data, as the process unfolds. Fundamentally, its success relies on strategic investments in areas where the funds are commensurate in magnitude to the dimensions of the problem. Although an “equitable”

distribution of funds across high-NSP-score areas has some appeal of practical and political ease, there is no community-based upside to sprinkling these funds in small doses across a city.

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Endnotes

- ¹ HERA and ARRA are multifaceted acts of Congress that allocated funds and created programs and agencies designed to assist homeowners having difficulty paying their mortgages. In addition to NSP1, HERA included GSE reform and FHA modernization. ARRA was more broad-based than HERA in its attention to various components of the American economy (such as infrastructure investments, communication technology, research, education, and healthcare), in addition to the housing sector.
- ² More on CDBG guidelines can be found at <http://www.hud.gov/offices/cpd/communitydevelopment/programs/>.
- ³ This simple example assumes that acquisition is the primary activity funded with NSP1 funds. The example further assumes that no post-acquisition repairs/upgrades are required. These costs, to the extent that they exist, will further reduce the number/percent of homes NSP1 could address.
- ⁴ Statistics obtained from www.cityofboston.gov/dnd/PDFs/Distressed_Buildings_Report.pdf.
- ⁵ USPS data obtained from www.policymap.com; Philadelphia’s NSP2 application may be found at www.phila.gov/ohcd/nsp/Philadelphia%20NSP2%20application%20final.pdf.
- ⁶ See www.huduser.org/nspgis/nspdatadesc.html for a description of the HUD vacancy and foreclosure risk scores.
- ⁷ See www.foreclosure-response.org/maps_and_data/lisc_data.html for a description of the LISC risk scores.
- ⁸ See, for example, http://static.baltimorehousing.org/pdf/nsp_amendedapplication.pdf (Baltimore, Md.) or www.state.nj.us/dca/divisions/dhcr/offices/docs/nsp/nspactionplanfinal.pdf (New Jersey). Also see Amanda Sheldon, Phillip Bush, Aaron Kearsley, and Anne Gass, “The Challenge of Foreclosed Properties: An Analysis of State and Local Plans to Use the Neighborhood Stabilization Program” (Columbia, Md.: Enterprise Community Partners, Inc., 2009) at www.enterprisecommunity.org/resources/publications_catalog/pdfs/nsp_2009.pdf.