The Challenge of Sustainable Urbanism in Weak Market Cities

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Cleveland Context

25 Years of Progress Against

- Sprawl
- Outmigration

Achieved

- Competitive Neighborhoods
- New Housing
- Innovative Reuse of Land: orchards, vineyards, urban farming, food production.
Then...A Tsunami of Foreclosure

30,000 Sheriff Sales
↓
16,000 Vacant Homes (1 out of 10)
↓
Home Sale Prices Down 50%
↓
Lost Homeowner Equity
↓
$54 Million Uncollected Property Tax
Demolition As A Community Development Strategy?

- Cleveland has demolished 5,000 structures since 2007.
- It’s estimated that 13,000 will require demolition over the next 5 years.
- Cost = $104 Million @ $8,000 per demo.
Case Study: 1232 Addison Road, Cleveland, Built 1906

<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
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<tbody>
<tr>
<td>9/8/05</td>
<td>Wells Fargo forecloses on $85,000 loan</td>
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<tr>
<td>11/12/08</td>
<td>Wells Fargo acquires at Sheriff Sale</td>
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<tr>
<td>11/6/09</td>
<td>Wells sells to Best Buy Properties for $2,500</td>
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<td>Best Buy posts the property on its website</td>
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<tr>
<td>11/16/09</td>
<td>An individual in Hertfordshire, England buys for $4,150</td>
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<td></td>
<td><a href="http://www.youtube.com/watch?v=t-0PsdLqOeg">Link</a></td>
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Addison Video

- Wells Fargo house, 5/8/09
  http://www.youtube.com/watch?v=Tf0iFTCbpJQ

- PBS NewsHour Segment posted on YouTube
  http://www.youtube.com/watch?v=t-0PsdLqOeg
<table>
<thead>
<tr>
<th></th>
<th>Rehab in 2002</th>
<th>Rehab in 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Acquisition</strong></td>
<td>$25,000</td>
<td>$10,000</td>
</tr>
<tr>
<td><strong>Renovation</strong></td>
<td>$80,000</td>
<td>$100,000</td>
</tr>
<tr>
<td><strong>Soft Costs</strong></td>
<td>$20,000</td>
<td>$25,000</td>
</tr>
<tr>
<td><strong>Total Cost</strong></td>
<td>$125,000</td>
<td>$135,000</td>
</tr>
<tr>
<td><strong>Market Price</strong></td>
<td>$125,000</td>
<td>$80,000</td>
</tr>
<tr>
<td><strong>Subsidy</strong></td>
<td>No subsidy required</td>
<td>$55,000 subsidy required</td>
</tr>
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With 16,000 vacant homes, how do you allocate precious resources for market recovery? Renovate 1 or demolish 8?
Five Major Changes Since the Last City Off The Hill Conference 2002
1. 80 years of post-Depression Banking Regulation Ignored - “Safety and Soundness” Thrown Out The Window.

- Subprime lending
- Securitized pools of risky loans
2. Foreclosure Now Applied Blindly – Regardless of Outcome

- Purpose of Foreclosure: Recover Value
  - 1 house on a street of 40

- Outcome: Value Destroyed
  - 20 houses on a street of 40

- “Dumping” – Example - Wells Fargo to Best Buy

- “Bank Walk-Away”
3. Code Enforcement – Municipal Tool for Maintaining Value for Homeowners

Attitude of Banks owning thousands of abandoned properties

- “This Doesn’t Apply To Us”

- Cities not equipped to deal with the volume
4. Demolition Has Become Mainstream Community Development Activity.
5. Enormous Shift of Cost Burden To The Public

- Cost of Demolition, Nuisance Abatement
- Uncollected Tax on Vacant Property
- Devaluation of Adjacent Occupied Property
- Lost Revenue For Schools, City Services
Recommendations
Return To Safe And Sound Lending

- Community Reinvestment Act (CRA lending)
  - 20 years of successful lending under CRA
Foreclosure – a privilege to use our court system

- If Banks want to use our Court System to empty out homes, that should come with responsibility.
  - Penalties for “Bank walk-away”
  - Enable Judges to Hold Banks in Contempt
  - Require Posting A Bond for demolition cost
Shift the Cost Burden To Foreclosing Banks

• Get tough on Code Enforcement – Move it Upstream to Hold Banks Accountable
• Point of Foreclosure Ordinance
Loan modifications with **principal reduction**.

Case Study Example: What if Wells Fargo had reduced the $85,000 loan to $50,000? Better than recovering only $2,500?
Desperate Times Require Thinking Outside the Box

- The Community Development Field needs to rethink traditional assumptions about rehab standards to bring the cost of renovation down to or below the subsidy required for demolition.

- Example: “Green” rehab standards

- Add $20,000 to $30,000 to cost.
- Can we live without that for the next 5 years?
Think Creatively About Leveraging Existing Financial Tools

Example: Land Banks supported by property tax penalty revenue
Generates $6-8 Million per year in Cleveland
Closing Remarks – Career Opportunities

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