WHEN INVESTORS BUY UP THE NEIGHBORHOOD:

Preventing Investor Ownership from Causing Neighborhood Decline

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INTRODUCTION

The foreclosure crisis is a key equity issue of our time. While the housing and mortgage crisis is far-reaching, low-income people and people of color who were disproportionately targeted for subprime mortgages have been hurt first and worst. A recent analysis by researchers at UCLA found that African-Americans and Latinos lost an estimated $200 billion in assets due to foreclosures over the last three years – amounting to the greatest loss of wealth for people of color in modern history.[1]

In addition to the loss of personal wealth, foreclosures are concentrated in low-income communities of color, including many neighborhoods that were just beginning to show new signs of revitalization.[2] Without investment, foreclosed properties deteriorate and weaken the neighborhood housing market.[3] Studies have shown that foreclosed properties decrease nearby home values by an average of $7,200, or between 0.6 and 1.6 percent. The Center for Responsible Lending calculated that in 2009, foreclosures caused 70 million neighboring homes to lose $510 billion in value.[4]

Nearly 45 percent of loans in low-income communities of color were higher-cost subprime loans, compared to 27 percent of all home loans.

— The Joint Center for Housing Studies of Harvard University, America's Rental Housing–The Key to A Balanced National Policy, (based on analysis of 2006 Home Mortgage Disclosure Act data)

Communities are taking a variety of actions to halt further foreclosures, reform the lending practices that led to this disaster, and get neighborhoods hard-hit by the crisis on the path to stability. With support from resources such as the federal Neighborhood Stabilization Program (NSP), states and cities are developing and implementing strategies to stem further neighborhood decline: acquiring and rehabbing homes (sometimes using green building or retrofitting techniques), helping new low- and moderate-income homebuyers purchase these homes, holding properties in land banks for future use, etc.

Yet, even as these neighborhood stabilization strategies begin to take hold, some communities face an additional threat to recuperation: unscrupulous absentee investors. Nationwide, would-be homebuyers and community developers are facing stiff competition from private investors who have seen a business opportunity in the foreclosure crisis and are rapidly buying up foreclosed properties to sell or rent out for a profit. Unlike homebuyers and municipalities, investors can purchase properties for cash and in bulk – sometimes "sight unseen" – buying them up before homebuyers, nonprofits or cities even have a chance to bid. In some communities, efforts to improve the neighborhood are being thwarted by investors who are either mothballing their properties and blighting neighborhoods, or buying severely distressed homes and renting them out to vulnerable tenants with little to no rehabilitation or maintenance of the property. In Oklahoma City, for example, many rental properties in the northwest neighborhoods that were bought up by California-based investors over the past four years are now foreclosed, vacant and blighting the neighborhood. New investors are buying up the properties for as low as $2,000 a unit.[5]

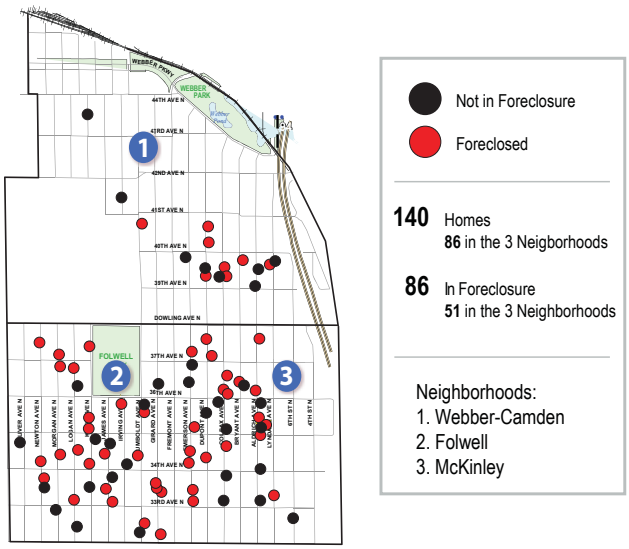
The challenge of predatory investor ownership is often greatest in the low-income communities of color that have already suffered the most from the foreclosure crisis. In the Twin Cities, investors have flocked to the North Minneapolis and East St. Paul neighborhoods. In several recent instances, investors have used unscrupulous and sometimes illegal methods to squeeze whatever profit they can out of these properties, leaving neighbors and tenants to deal with these problem properties. In one infamous case, a pair of suburban investors operating as TJ Waconia undertook a complex real estate investment fraud scheme over three years involving 140 North

Minneapolis properties (a total of 162 properties in the region) and $35 million in mortgages. Most of the homes ended up foreclosed and the others condemned or vacant (see Figure 1, below).

Communities are using a variety of tools to fight back against such predatory investors and get foreclosed properties into the hands of responsible owners. In the TJ Waconia case, the city of Minneapolis, in partnership with residents and community groups, took the investors to court and gained control of the properties. Federal prosecutors followed up with a fraud case in which the two men were sentenced to prison for seven and eight years and ordered to pay $11.7 million in restitution.

Despite some important wins, the threat remains that irresponsible investors will thwart neighborhood stabilization strategies and keep housing markets in a downward spiral of decline. One major concern is that the rapid conversion of owner-occupied homes into rental properties by investors will further concentrate poverty and limit access to opportunity in a region that is already segregated.

Figure 1. *North Minneapolis Properties Involved in the TJ Waconia Investment Fraud Scheme*



Source: City of Minneapolis

In This Report

This report examines the issue of investor purchasing of foreclosed and distressed properties, presents a set of best practices and promising approaches being used in communities to prevent irresponsible investor ownership from leading to neighborhood decline, and makes recommendations about what stakeholders in the Twin Cities can do to address this challenge.

The Twin Cities is an excellent case study for this issue because the region is a forerunner in developing and testing solutions to the foreclosure crisis. Our research focuses on the neighborhoods of North Minneapolis and East St. Paul, which are low-income communities of color in the region that have been hit the hardest by foreclosures, vacant properties and upheaval in the housing market. While this report is grounded in the conditions and strategies of Minneapolis and St. Paul, it contains information and tools that can be used by other communities that are trying to determine how to address this issue.

The report is organized as follows:

- **What is the Problem? Investor Ownership and its Challenges** describes investor ownership business models that present challenges for communities, and explains some of the barriers to addressing investor ownership.

- **Strategies to Prevent Irresponsible Property Investors and Neighborhood Decline** presents a framework for taking action against irresponsible investors, describing 36 strategies that communities can use as well as lessons from unsuccessful efforts.

- **Investor Ownership in the Twin Cities** presents case studies of investor ownership and community strategies underway.

- **Recommendations for the Twin Cities** presents a series of actions for local stakeholders.

- An **Appendix** includes an assessment tool that communities can use to analyze existing strategies in relation to best practices in the field and develop regionally specific plans to address investor ownership.

Methods

The research for this report took place between April and October 2009. It included interviews, secondary research and scans of innovative local policies. To understand the real estate dynamics, property maintenance and foreclosed property recovery systems, and policy supports in the Twin Cities, PolicyLink interviewed 15 community leaders in Minneapolis and St. Paul: representatives from public agencies responsible for foreclosure prevention and recovery and the regulation and maintenance of properties, community organizations and community development groups working on these issues, and a community real estate agent:

- Cecile Bedor, city of Saint Paul Planning and Economic Development
- Tom Deegan, city of Minneapolis Department of Regulatory Services
- Roberta Englund, Folwell Neighborhood Association
- Tom Fulton, Family Housing Fund
- Dawn Garland, East Side Neighborhood Development Company
- Stephanie Gruver, Greater Metropolitan Housing Corporation (formerly)
- Kellie Jones, city of Minneapolis Department of Regulatory Services
- Jill Kiener, Northside Home Fund
- Connie Nompelis, Century 21 Luger Realty
- Rebecca Rom, Twin Cities Community Land Bank
- Cherie Shoquist, city of Minneapolis Community Planning and Economic Development
- Jeff Skrenes, Hawthorne Neighborhood Council
- Dave Snyder, Northside Community Reinvestment Coalition
- Michelle Vojacek, city of Saint Paul Department of Planning and Economic Development
- Darrell Washington, city of Minneapolis Real Estate Development Services

In addition, PolicyLink performed an extensive survey of innovative local and state policies across the country that encourage responsible owners to buy distressed properties and to keep them well maintained. The research was vetted with local stakeholders in the fall of 2009 through a webinar with housing organizations and funders and a conference call with African-American nonprofit and community development leaders, and this report incorporates their feedback and suggestions.

WHAT IS THE PROBLEM? INVESTOR OWNERSHIP AND ITS CHALLENGES

Investor ownership, in and of itself, does not necessarily lead to negative consequences for neighborhoods. Small-scale property investors provide a significant portion of our national stock of rental homes that are affordable to low- and moderate-income families without public subsidies. Investors range from the neighbor who buys another house down the street using the equity from his or her home, to large venture capital firms and hedge funds that buy bundles of hundreds or even thousands of homes scattered in cities across the country.

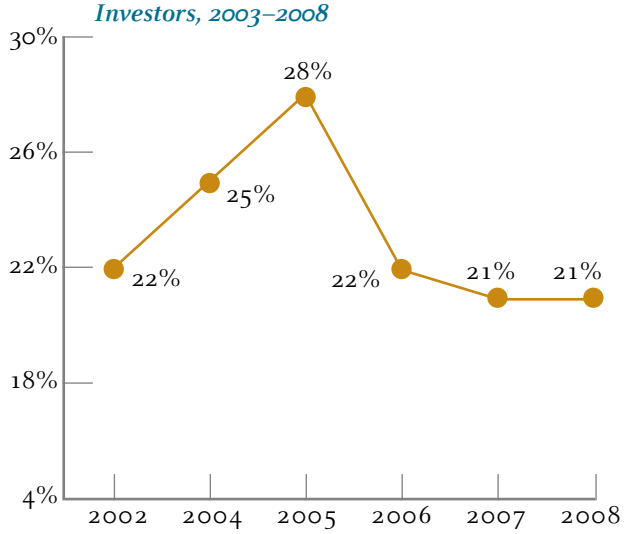
Whether an investor will take good care of their property depends a great deal on their business model – the strategy they adopt to make a profit from the real estate they purchase. Some investors contribute to the health of the neighborhood by providing well-maintained affordable rental and sales housing in neighborhoods with good schools, parks and other key amenities. Others, however, will rent out the property with major code violations and minimal investment just to ensure some cash flow until they can sell.

This section presents trends in investor ownership and common residential distressed property investment business models used in low- and moderate-income neighborhoods. It describes business models that should concern communities and outlines challenges that communities face when they address investor ownership.[6]

National Trends in Investor Ownership

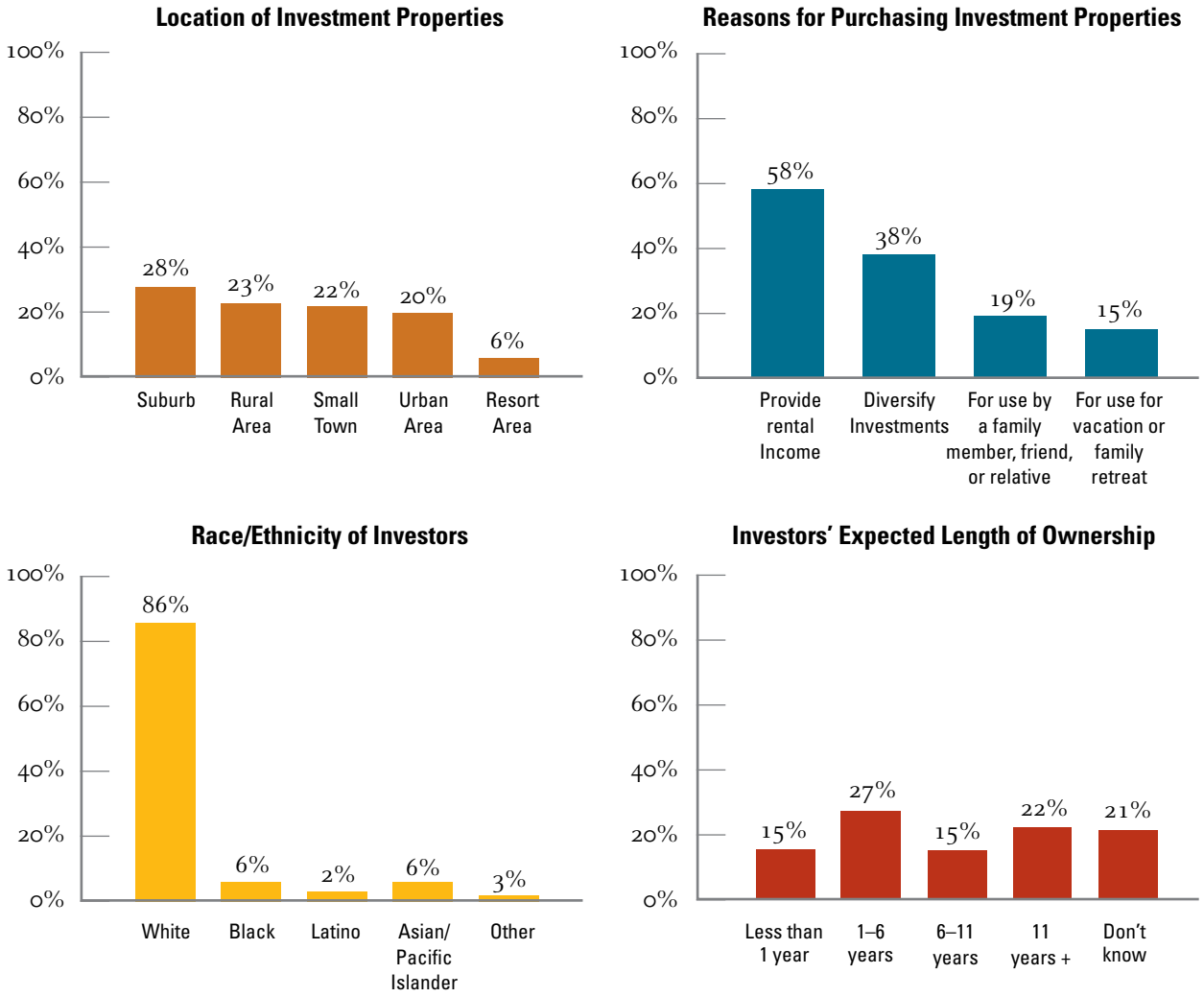
In 2008 (the most recent year for which data is available), investors bought one out of every five homes for sale, which is fairly consistent with trends from the previous five years, other than a spike in 2005 (Figure 2). Of the properties purchased, 16 percent were through the foreclosure process; the vast majority were single-family homes. Investors paid a median price of $108,000: 28 percent less than in 2007. Most investors lived outside of the community in which they purchased a home; the median distance was 19 miles, and 31 percent lived more than 100 miles away. More than half of the investors (58 percent) indicated that they planned to rent out their property.[7] Figure 3 presents more information on investors from a 2009 survey.

Figure 2. ***Share of Residential Homes Purchased by Investors, 2003–2008***



Source: *2009 National Association of Realtors Survey*

Figure 3. *Who are Today's Investors?*
Findings from the 2009 National Association of Realtors Survey



Three types of markets are experiencing a great deal of investor activity:

1) **Weak markets where housing costs are so extremely low that anyone can invest.** For example, in St. Louis and St. Louis County, the percentage of homes selling for $10,000 or less increased 85 percent from 2006 to 2008.[8]

2) **High-growth markets that experienced double-digit appreciation and now have high foreclosure rates and rapidly falling housing prices.** These include the Sun Belt states of California, Florida and Arizona, and cities such as Las Vegas.

3) **Stable high-growth or mixed-growth areas with year-over-year appreciation during the past seven to 10 years.** Atlanta, Minneapolis and St. Paul fall into this category.

Investors obtain properties from various sources: contacting distressed homeowners and offering to buy (once a homeowner receives a notice of default, the foreclosure process is public); bidding at auction; purchasing directly from banks; or locating properties through a real estate agent, multiple listing service (MLS) or foreclosure Web sites.

The context for real estate investment has changed dramatically since the boom years. Previously, investors could purchase properties without investing their own personal wealth. Lax underwriting standards allowed them to buy multiple residential properties with virtually no money down, often using the equity in one home as collateral to buy the next. If an investment property was foreclosed upon, the investor suffered minimal losses and in fact might even profit if they went into default, stopped making mortgage payments, and dragged out the foreclosure process sufficiently to bring in another year of rental income.[9]

Today's investor is buying properties with cash or, where their credit is strong enough, a mortgage or commercial line of credit with "nonrecourse carve-outs," in which banks require that an individual sign an agreement that makes them personally liable in the event the partnership or limited liability company pulls money out of the property or damages the property.[10] While residential distressed sale prices are very low, the need to lay out all or most of the value of the property during the acquisition process means that these investors have skin in the game and have a much greater incentive to ensure that their properties are wealth-generating assets. That said, investors' profit motive and business models may still conflict with the public interest of reviving and sustaining neighborhoods.

Business Models of Investors

For investors, the purchase of a home is a dollars-and-cents decision based largely on potential cash flow from rental income and expectations of future price appreciation. Their choice of business model depends largely on the state of the housing market and their own preferences for long-term or short-term investment. There are at least eight common business models that distressed-property investors are using. These business models are presented below according to whether they are likely to have a positive or negative impact on neighborhoods.

Likely to have a positive impact on neighborhoods:

- **Buy low, renovate and sell higher.** Responsible investors are buying distressed houses, rehabilitating them and then reselling them on the open market to buyers who do not have any appetite for major reclamation projects or the skills to tackle a fixer-upper. A variation on this strategy is for the investors to move their own household into each home they buy for proximity to their temporary worksite and to save on the rent/mortgage payments necessary to maintain two properties. When the property is in marketable condition, they will put it on the market and, upon sale, move to their next property. The advantage for neighborhoods is that the home is never vacant, the investor is motivated to quickly repair the property and the ultimate goal is an owner-occupied house.

  Buying low, rehabilitating the property and reselling it at a reasonable price or as subsidized affordable housing is a major goal for most municipalities' Neighborhood Stabilization Program plans. The challenge is to limit the purchase price and rehabilitation cost sufficiently so that a profit can be made at sale. In some markets, it is easy to outlay more on the property than it will be worth at resale in that market. Investors who successfully take this approach are providing a valuable service that helps to clear distressed-property inventory and restore the homes as neighborhood assets.

- **Buy, hold and lease/rent-to-own to obtain long-term cash flow.** Rent-to-own or lease-purchase options that offer the renter the chance to buy the property over time can be a pathway to homeownership if done responsibly.

- **Buy, hold and rent (and manage responsibly).** Renting out a property makes good economic sense in many markets, particularly where home sale prices are falling but rents remain relatively strong. If the investor/landlord can charge more in rent than they pay in mortgage payments, they can often get a higher rate of return than if they put the money in a bank. If an investor buys a home for $100,000 in cash and rents it

for $1,000 a month, for example, that equates to a 12 percent return before taxes and other expenses are included. Even getting an 8 percent return is better than the 2 percent the investor might get at a bank. Much of the real estate investment around the country is in lower-end homes, which have a ready market of renters and are often priced low enough to be purchased for cash. Rents, although down, are generally holding up better than home prices. The same appreciation seen in home prices did not occur in the rental market, and now many of the families who lost their homes to foreclosure are looking for rentals.

- **Buy low, rent or sell to former owners.** Some investors are making money by buying foreclosed properties and then renting them back to the former owners for less than their mortgage payment. Turning foreclosed property owners into rent-paying tenants keeps a house occupied, and typically means a profit for the investor in five to 10 years. Currently, the U.S. Congress is interested in helping lenders and servicers to use this model to keep families housed.[11] In August 2009, the U.S. House of Representatives passed the Neighborhood Preservation Act, which removes legal impediments blocking federally regulated banks from entering into long-term leases – up to five years – with the former owners of foreclosed houses. It also allows banks to negotiate option-to-purchase agreements permitting former owners to buy back their houses.[12] If the bill becomes law, participation by banks would be voluntary and each bank could decide whether to take on the role as landlord. The aspiration is that it would encourage banks to calculate whether they would do better financially by taking an immediate loss at foreclosure or by collecting rents and then selling the property at a higher price in four or five years.

Likely to have a negative impact on neighborhoods:

- **Buy low, do nothing or make only cosmetic repairs, and sell quickly.** This house-flipping strategy, a short-term speculative holding for quick financial gain, was the dominant business model during the real estate boom. The strategy behind house flipping is to find a rundown house or a property in trouble that can be purchased at a very low value. The investor then makes minor cosmetic repairs, such as a new coat of paint, and markets and sells the property for a profit within six to 12 months, often without bringing the property up to code.[13] Flipped houses are much more likely to be found in low-income neighborhoods and are more likely to be victims of arson and have significant enforcement violations.[14] Flipping is difficult in most markets today, particularly in places where resale prices are still falling, because flipping assumes relatively strong price appreciation. However, in some cities such as Cleveland, investors are buying very-low-cost foreclosed properties (under $10,000) from bank inventories and immediately reselling properties in bulk to buyers online, or flipping them and selling them to individual households.[15]

CONTROLLING DESTINY VENTURES IN CLEVELAND

A study of investor purchasing of distressed properties by Case Western Reserve University found that Destiny Ventures, a national investment company based in Tulsa, Okla., was the leading buyer of real-estate-owned (REO) properties in the city of Cleveland. Their properties had multiple code violations, and the Cleveland Housing Court issued them a $40,000 judgment for their failure to maintain one property. Despite these outstanding violations, Destiny Ventures was able to purchase more than 50 additional bank-owned foreclosed properties from a major Cleveland lender to total 145 REO properties. After being fined in absentia by the court, Destiny stopped doing business in Cleveland.

Sources: Michael Schramm, April Hirsh and Claudia Coulton, Beyond REO: Property Transfers at Extremely Distressed Prices in Cuyahoga County, 2005-2008 (December 2008); Callahan's Cleveland Diary Blog www.callahansclevelanddiary.com

- **Buy, hold and rent (with no investment, repair or management).** Some investors buy distressed properties in need of renovation and repair and do little or nothing to the property before renting it out to anyone who will pay. These investors often are absentee landlords who neither screen tenants nor properly maintain

their homes and respond when there are problems. In the worst-case scenario, investors are perpetrating mortgage or investment fraud behind the scenes, victimizing tenants who end up in homes that are insecure and end up being foreclosed upon, and neighbors who suffer from declines in housing values and neighborhood conditions.

Buying properties at low cost and renting them out as Section 8 was a common investor business model during the boom years. The fair market rents that the U.S. Department of Housing and Urban Development determines owners can charge are based on rental rates throughout the metropolitan region and often exceed market-rate rents in lower-income urban neighborhoods. Relying on the income-generation powers of nationally established rents, lenders were willing to allow owners to finance additional real estate purchases based upon 80 percent of the equity from the initial house.[16] Today, that model continues to be practiced, although perhaps at a smaller scale, as lenders are less likely to allow the equity from one property to support a mortgage on another. Stakeholders in Minneapolis are concerned that this is the business model being used by a number of large-scale investors who are not taking care of their properties and are likely to end up in foreclosure. They believe this is placing tenants at risk, destabilizing neighborhoods by not maintaining homes, and concentrating poverty.

- **Buy, hold and lease/rent-to-own to obtain long-term cash flow.** Lease-to-own options, when offered as a fraudulent scheme to bilk households out of more money, can make the dream of homeownership virtually unobtainable.[17] Econohomes, a national distressed-property investor based in Austin, Texas, exemplifies the dangers. To make a profit, Econohomes leases substandard, code-deficient properties to low-income households who are responsible for lease payments and bringing the home up to code. The company purchases properties from lenders' inventories in cities across the United States at very low prices, and sells the home via a Land Contract and Promissory Note transaction, where the purchaser will own the home only if they make every one of 13 to 14 years of monthly payments. Once the agreement is signed, the buyer has the responsibility to make all repairs and improvements necessary to make the property habitable and insurable within 60 to 90 days. Substantial repairs are usually necessary, such as replacing siding, piping and furnaces, and fixing walls.[18]

- **Mothball the property and resell it months or years later once the market improves.** Some investors will intentionally leave a distressed vacant property abandoned while continuing to pay taxes on the property, in anticipation of higher values and demand for the land when the market shifts, even if the building is fully deteriorated. If the investor's plan is to wait for a windfall years away, the property will continue to have negative impacts on the neighborhood during this waiting period.

Impacts of Investor Ownership

While there is not a strong body of research that examines the impacts of investor ownership on neighborhoods, research does tell us that property owners who are local and live in or near the property tend to maintain it better.[19] Studies also confirm that neighborhoods with high levels of absentee ownership are less stable and more prone to experience crime and deterioration of property.[20] In 2008, 31 percent of investors bought properties that were located more than 100 miles from their primary residence.[21] Absentee owners living a substantial distance from their properties are less likely to regularly check on the condition of their property or stop in to perform basic repairs. While these functions could be performed by a properties management firm, there is no data available on how many owners are willing to take on this expense. Rental income on many single-family properties may be insufficient to pay for professional management staff, leaving the properties with, at best, intermittent care and attention

Challenges of Addressing Investor Ownership

There are several challenges to preventing irresponsible investors who buy properties and let them deteriorate.

Municipalities lack data systems that allow them to track investor ownership and patterns of behavior.

Research shows that whether investors are non-local absentee landlords or not affects in terms of how well they care for a property and respond to tenants' concerns; however, this one factor does not allow us to predict investor behavior. The only dependable way to predict whether an individual or corporate investor will care for a property is to study their past treatment of similar types of investment properties. But few jurisdictions track investor purchases and even fewer track the condition of the properties owned by significant investors over time. In the Twin Cities, a change in the tax exemption for homesteaded properties has made it more difficult to track investor ownership: The amount of the exemption was lowered several years ago, reducing the number of homeowners that register and the accuracy of the homestead designation for understanding patterns of neighborhood change.

Intervening upstream at the point of sale is difficult.

Even with strong data on investor behavior, influencing a private transaction between a distressed-property seller and an investor is difficult (see the text box, "Controlling Destiny Ventures in Cleveland," page 9). Investors seek out multiple opportunities to acquire properties, are able to pay cash (in 2008, 42 percent of investors bought foreclosed homes with cash), and buy in bulk.[22] Sellers prefer a cash sale since it is immediately final and without conditions. Lenders and entities selling an inventory of foreclosed properties favor bulk transactions as well because it allows limited bank staff to negotiate with fewer buyers and move more properties out of bank inventory.[23] "They've got to move 50 or 60 properties in a zip code, and the best way to do that is in bulk," said Doug Robinson, spokesman for NeighborWorks America, a national housing nonprofit group. "The economies of scale of processing 60 to one purchaser outweigh selling them one by one, even if you get a little more money."[24] The motivation of lenders to sell properties quickly and in bulk conflicts with the community's interest in ensuring the properties are transferred to responsible owners who will rehabilitate and maintain them, contributing to neighborhood stability.

Communities are concerned about converting owner-occupied single-family homes into rental properties – yet there is a desperate need for affordable rental properties.

At a time when so many Americans are losing their homes, there is a significant need for new rental alternatives to help current residents stay in the neighborhood and to allow other residents to join the community as well. After a major rise in homeownership through 2005 (when the homeownership rate peaked at 69 percent nationwide), over the past several years there has been a dramatic rise in renters, driven in part by the foreclosure crisis.[25] Some communities have voiced concern that the addition of a significant percentage of rentals will destabilize traditionally owner-occupied neighborhoods through high resident turnover and poor home maintenance.[26] These concerns are not surprising given the national emphasis on homeownership as a route to better neighborhoods and increased asset building for households. But the housing market crisis revealed that traditional homeownership can be a very risky endeavor both for vulnerable households and neighborhoods. Communities will benefit more by keeping residents as renters than by losing population and leaving homes vacant until demand for home purchases once again exceeds supply, at which time homes may have deteriorated significantly or been completely gutted of anything valuable. They can also pursue shared equity homeownership models such as community land trusts, deed-restricted units, and limited equity housing cooperatives that are in between homeownership and rental tenure models, allowing people to have secure housing and build equity and assets without the same level of risk associated with traditional homeownership.[27]

STRATEGIES TO PREVENT IRRESPONSIBLE PROPERTY INVESTORS AND NEIGHBORHOOD DECLINE

There are three key approaches that communities can use to influence who purchases distressed properties and whether they contribute to neighborhood stability. Our national scan of best practices uncovered 36 strategies that fall within these three approaches. The following section describes each of these approaches and the best practice strategies within them, presenting examples of how these strategies are being used in different communities across the country.

Approach 1: Encourage Homeowners or Responsible Investor Owners to Buy, Rehabilitate and Maintain Foreclosed Properties

Most municipalities would prefer that homebuyers purchase foreclosed properties as their primary residence, adding to the population and tax base and providing a vested occupant in the property. But while many are interested in purchasing a foreclosed home, they are also concerned about whether it is a good investment. More than half of U.S. adults are at least somewhat likely to consider purchasing a foreclosed home, yet 85 percent are concerned that there will be hidden costs and that the home may continue to lose value.[28]

Providing incentives for the purchase and rehabilitation of foreclosed properties by homeowners or responsible developers can help them overcome this hump. Several mechanisms can help them do this, including marketing, tax credits, down-payment assistance, low-cost financing and partnerships with community developers. The $8,000 federal tax credit for first-time buyers, for example, resulted in 357,000 home sales between February and September of 2009.[29]

There are seven best practices that can help potential responsible owners acquire and care for distressed properties:

1. **Help qualified homeowners obtain mortgage financing.** Homebuyers with good credit are having trouble obtaining the financing they need to purchase a house. Underwriting standards have become much stricter for all buyers, and particularly for buyers purchasing a foreclosed property sold in "as is" condition. Many lenders do not consider it ready to occupy – a requirement for many mortgage loans. According to a recent California survey, homebuyers who purchase a bank-owned property experienced the most difficulty in obtaining financing.[30] For homebuyers who want to purchase a foreclosed property without ready cash on hand, a program that provides low-interest financing can help them successfully compete with investors and obtain a property. HUD 203(k) FHA loans provide this type of financing for home mortgages and/or repairs, but it is underutilized.

    - ***Woodbury, Minn., is providing financing for new homeowners*** who are buying foreclosed properties as their first homes. The city of Woodbury's foreclosure purchase loan program, which debuted in January 2009, offers low-interest, deferred loans of up to $25,000 to qualified families who earn no more than 115 percent of area median income, with household income capped at $90,000 per household. The purchase price of the affected homes may not exceed $256,500. While this is a pilot program that will be evaluated at year end, the city of Woodbury's experience to date is that the financial incentive was sufficient to nudge some households off the fence into purchasing their first home.[31]

- ***Arizona provides forgivable foreclosed home purchase loans at zero percent interest.*** The Arizona Department of Housing launched a $38 million Your Way Home AZ program to help buyers with a gross income of no more than 120 percent of median income purchase foreclosed homes priced at $346,000 or less as their primary residence. This assistance is in the form of a deferred second mortgage loan for up to 22 percent of the purchase price. It offers zero percent interest and no monthly payment, and will be forgivable after a period of time. The program is available in 13 counties.[32]

- ***On July 21, 2009, California Gov. Arnold Schwarzenegger announced the launch of the Community Stabilization Home Loan Program,*** a $200 million program designed to help first-time homebuyers purchase homes in communities hardest hit by the foreclosure crisis. Under the program, first-time homebuyers are eligible for loans at below market-interest-rates to purchase foreclosed homes in high-foreclosure ZIP codes. Several lenders have agreed to join the program and offer sales prices on bank-owned properties at least 12 percent below estimated value in the high-foreclosure areas. The state Housing Finance Agency estimates that the program will help 800 to 1,000 Californians purchase their first home.[33]

- ***Oakland County, Mich., established the Oakland County Homebuyer Program For Vacant Foreclosed Properties*** in February 2009. Under this NSP-funded program, Oakland County will provide no-interest loans that can be used for down-payment assistance, closing costs and home improvements. To be eligible, a homebuyer's income must be at or below 120 percent of area median income, and they must prequalify for a fixed-rate mortgage loan from a lending institution for 51 percent of the purchase price. Oakland County will finance the remaining 49 percent of the purchase and rehabilitation costs, up to $100,000. The homebuyer only pays on the conventional mortgage obtained from their lender. Payment on the down payment and home improvement loans is deferred until the property changes ownership.[34]

- ***HUD 203(k) FHA loans can cover the purchase and rehabilitation of foreclosed properties.*** The U.S. Department of Housing and Urban Development offers a 203(k) FHA loan that finances both a home's purchase price and the amount needed to complete the repairs and improvements. 203(k) loans are available to borrowers of all income levels and operate in draws. The first draw pays off the lien holder and purchases the home. Subsequent draws are made as the rehabilitation work gets done. The one significant drawback of these loans is that they tend to come with an interest rate one to three percentage points higher than a traditional FHA loan. The FHA 203(k) loan has seen a resurgence in the last year, with the number of processed loans doubling to 11,493.[35] First-time homebuyers who lack sufficient down payments (i.e., less than 20 percent) and are purchasing foreclosed properties accounted for this growth.[36]

2. **Offer a grant or tax credit to encourage homeowners to occupy the properties.** A recent study found that the federal $8,000 tax credit motivated first-time buyers to become homeowners.[37] In addition, by requiring owners to use the property as their primary residence in order to qualify for the credit, the municipality or state can obtain helpful data on the number of investor-owners vs. owner-occupied owners in every census tract.

   - ***Minnesota encourages homeownership through a Homestead Property Tax Reduction Program open to Minnesota residents.*** The homestead classification can reduce the taxes on an owner-occupied residential property by up to $304 per year.[38]

   - ***Georgia offers a three-year tax credit for purchase of a single family-home in 2009.*** On May 11, 2009, Gov. Sonny Perdue signed House Bill 261, which provides a $1,800 tax credit for home purchases. The amount of the credit is the lesser of $1,800 or 1.2 percent of the purchase price. A taxpayer may claim one-third of the credit available in each taxable year, and may carry forward unclaimed amounts.[39]

3. **Partner with nonprofits to transform foreclosed properties into affordable housing.**

   - ***Sarasota, Fla., offers a program to help nonprofits obtain foreclosed properties and rent or sell them at affordable monthly rates as a strategy to revitalize the historically underserved Newtown neighborhood.*** Under the NSP-funded program, nonprofits are given $10,000 for every foreclosed home acquired, fixed, and sold or rented to income-eligible families within the eight census tracts that constitute the Newtown community. The nonprofits select qualified families, obtain property titles, pay insurance and property taxes, and choose contractors who will make the needed repairs. Rents will range from $582 to $810, and home sale prices will not exceed $150,000. The county will loan money to nonprofits at no interest, but the nonprofits are required to repay the money in full if the fixed foreclosed homes for sale are resold.[40] With an additional NSP2 allocation of $23 million, the city of Sarasota and county hope to rehabilitate 100 more units of housing.[41]

4. **Encourage nonprofits to offer lease-purchase agreements (with protections for buyers).** Households who lose their home to foreclosure are unable to immediately buy another home, but they may be able to mend their credit and become homeowners over time as part of a well-run, nonprofit lease-purchase program. The goal of these programs, often called contracts for deed, or lease-purchase, is to give the tenant the chance to purchase a home by making regular payments and sometimes by putting sweat equity into the maintenance of the home. It is important to note that while some of these programs offer safe ways for foreclosed property owners to once again enjoy property ownership and clean up their credit, others may offer the tenant no protections at all. One late payment could mean that the tenant loses their payments to date, as well as their improvements to the house.

   - ***In Minneapolis and St. Paul, the Bridge to Success Contract for Deed Program is an innovative financing and lease-purchase program.*** Under this program, one of two nonprofits buys a property and, while retaining the title, gives possession to a buyer who will pay monthly installment payments. The buyer must make every payment before they obtain the title to the property. This also means that if they miss one installment payment even after paying regularly for years, the nonprofit could legally take full possession of the property. The nonprofits do not plan to take such draconian measures, however, because they want the homeowner to succeed in gaining the title.[42]

   - ***Cleveland Housing Network and area community development corporations started a lease-purchase program in 1981 to help low-income residents become homeowners.*** It is financed through the syndication of Low Income Housing Tax Credits, resulting in a 72 percent equity contribution. In addition, it leverages 28 percent of private and public investment. The program is designed to keep monthly payments as low as possible through reduced first mortgage rates and soft second funds contributed by the city of Cleveland and the state of Ohio. Since 2003, 90 percent of families (132 out of 147 eligible after 15-year rental period) have taken over the title of their formerly leased homes. Homes are rehabilitated under the program and then rented to a lessee who receives home maintenance training and is expected to perform regular maintenance on the home.[43]

5. **Provide financial incentives to private or nonprofit developers with successful track records to acquire and rehabilitate homes for low- and moderate-income homebuyers or renters.**

   - ***Sacramento, Calif., provides incentives to trusted developers to rehabilitate vacant homes and resell them to homeowners.*** A Sacramento Housing and Redevelopment Agency program is offering no-interest loans and a $30,000 fee to developers who buy and rehabilitate vacant homes before selling them to low- or moderate-income families, with a preference for mission-driven developers.

6. **Offer real estate agents and homebuyers information and the opportunity to tour foreclosed properties.**

   - ***Minneapolis evaluates distressed properties, informs real estate agents about homes in move-in condition, and encourages the agents to find buyers to purchase and occupy the homes.*** As part of Minneapolis' Neighborhood Stabilization Program, nonprofit partners visit foreclosed properties and evaluate their condition. When they find homes that are in good condition, they immediately notify real estate agents so they can find interested homebuyers. This alleviates the need for the nonprofits to use limited funding to purchase the property, perform cosmetic changes and arrange a sale to a household themselves.

   - ***The Boston Home Center, a division of Boston's Department of Neighborhood Development, offers potential homebuyers trolley tours of the Boston's foreclosed properties.*** Those who participate in the tour have the opportunity to take a city-sponsored home-buying course. The city of Boston also offers an ongoing series of workshops related to home buying, particularly about purchasing foreclosed property and buying homes that need work.[44]

7. **Provide training or financial assistance to "mom and pop" landlords who are trying to keep their properties in good condition.** Small local investors often purchase distressed properties to fix up and rent out. More than 70 percent of these small investors own only one or two properties and the majority are part-time real estate investors with other jobs.[45] The competence and skill of these small property owners to maintain the property cost-effectively varies greatly.[46] Most have no formal training in real estate property management.

   - ***Portland, Ore., has offered free landlord training for more than 11 years.*** The Bureau of Development Services partners with the Portland Police Bureau and other city offices to provide current, effective information on property management. Topics covered in the eight-hour training session include: property management to prevent crime or loss of investment, best practices in applicant screening, and rental agreements.[47]

   - ***The Community Investment Corporation (CIC), a nonprofit rental property lender in Chicago, offers a property management training program to its borrowers and other landlords for a reasonable price.*** The CIC Web site states that "[t]he most effective neighborhood revitalization strategy is to build the capacity of the many good, hands-on apartment building owners so they can take on more property in need of physical improvement and good management." The CIC also provides a free online property management manual.[48]

Approach 2: Strategically Gain Control of Foreclosed Properties

Community stakeholders – local governments, authorities, community land trusts (CLTs), community development corporations (CDCs), advocates and others – are reclaiming foreclosed properties for community benefit. By stepping into the role of acquiring foreclosed properties and then transferring them to responsible owner-occupier households, municipalities and nonprofits can loosen investors' hold on the market and obtain control over who the ultimate owner of the property will be. A key goal of the Neighborhood Stabilization Program is to help municipalities and states intervene in the private real estate market and move abandoned properties to beneficial ownership.

There are seven strategies that can be used to effectively gain control of foreclosed properties:

1. **Purchase and rehabilitate individual properties and resell them to homeowners.** Municipalities and nonprofits are acquiring properties strategically to jump-start markets and help stabilize low- and moderate-income neighborhoods. Some focus on acquiring corner properties or a single foreclosed property that is harming an entire block, others seek to buy strategically located properties in bulk.

- ***Los Angeles established a nonprofit holding company to swiftly acquire, rehabilitate and sell properties.*** The new entity, Restore Neighborhoods LA, Inc. (RNLA), is more agile and flexible and encounters fewer bureaucratic requirements than a city agency would when acquiring and transferring properties. RNLA acquires bank-owned single-family and small multifamily properties that have extensive rehabilitation needs and are located in the hardest-hit neighborhoods (South Los Angeles and the East Side). It uses a Request for Proposals (RFP) process to hire contractors, and the city of Los Angeles offers soft second mortgages to attract homebuyers.[49] So far, RNLA has purchased 13 single-family and duplex properties, has 10 additional properties in escrow, and has begun construction on four units.[50] In January 2010, the city of Los Angeles received $100 million in NSP2 funds to acquire an additional 265 single family homes and 947 units of multifamily rental properties.[51] RNLA is a partner of the National Community Stabilization Trust (described below).

2. **Ask lenders to provide municipalities and nonprofits with the first option to buy foreclosed properties.** Some lenders have agreed to share foreclosed property availability information with cities before putting the homes up for sale on the open market. This gives cities a chance to purchase key properties in bulk or individually before they are listed on an MLS or made available to investors. While lenders are willing to give municipalities priority in certain circumstances, they must represent the interest of their shareholders and must obtain a reasonable price for these properties.

   - ***The National Community Stabilization Trust's "First Look" program coordinates the transfer of real-estate-owned (REO) properties from financial institutions to local housing organizations, in collaboration with state and local governments.*** The National Community Stabilization Trust (NCST, or "the Trust") is a consortium of national nonprofit housing and community development organizations, including Enterprise Community Partners, the Housing Partnership Network, the Local Initiatives Support Corporation and NeighborWorks America. The NCST has negotiated commitments from a number of financial institutions (Fannie Mae, Wells Fargo & Co., Citigroup Inc., JPMorgan Chase & Co. and Bank of America Corp.) to make their foreclosed properties available at adjusted pricing to communities before they go on the open market. First Look was piloted in the Twin Cities in September 2008. Since then, more than 100 communities in 35 states have signed up with the Trust. The Trust also has a targeted bulk-purchase program to help communities purchase clustered properties. See page 33 for a description of the program locally.

   - ***Bank of America, the nation's biggest mortgage lender and servicer, has agreed to notify cities of Bank of America-owned properties that are available for sale before they are listed on the MLS and give them "real time" access to the bank's REO property lists through a dedicated Web site.*** The bank also will help speed up the acquisition process by allowing communities to buy multiple properties in a single transaction and by designating one employee as the point person for a community.[52]

   - ***In March 2009, Gov. Deval Patrick announced the Massachusetts Foreclosed Properties Initiative to help communities obtain foreclosed properties for affordable housing.*** In July 2009, the Citizen's Housing and Planning Association Inc. (CHAPA), a nonprofit housing agency, began operating a clearinghouse to help 70 nonprofit community developers purchase foreclosed homes and upgrade them for low- and moderate-income families in 39 communities throughout the state. CHAPA is participating in the NCST's First Look program.[53]

   - ***During the summer of 2009, community leaders pressured Freddie Mac and Fannie Mae to end the practice of using online auctions to sell distressed-property mortgages.*** Fannie Mae sought to sell a portfolio of 19 investor-owned distressed buildings located in the Bronx – 10 of which were on the city of New York's list of "worst-maintained" properties – through an online auction site. Sen. Charles Schumer, community members and nonprofit organizations successfully advocated that Fannie Mae

abandon the Web sale and work with the city to find a responsible buyer to repair the properties and keep them affordable to the 520 families who live in them. According to the senator, "Allowing these buildings to be horse-traded on the open market is a sure-fire way to guarantee that another speculator gobbles them up, and either continues to let the buildings rot or kicks the current tenants out on to the street. We simply cannot allow that to happen."[54]

3. **Establish or utilize a land bank to hold and maintain properties until responsible buyers can be identified.** In housing markets where supply exceeds demand, establishing a land bank and storing the properties until market demand increases may be a good strategy. A land bank is often a government-authorized public authority created to efficiently acquire, hold, manage and sometimes develop vacant and abandoned properties. To create a land bank and give it legal authority to operate may require a change in state or local laws.

   - ***In May 2009, Ohio's Cuyahoga County started a land bank to manage 35,000 unoccupied properties in Cleveland and its surrounding inner-ring suburbs.*** While Cleveland had one of the country's first land banks, it was restricted to holding land without structures. The new land bank can hold foreclosed properties with houses intact until responsible buyers for the properties present themselves.[55]

   - ***The Genesee County Land Bank in Michigan, launched in 2002, has helped to rehabilitate blighted neighborhoods in Flint.*** A study by Michigan State University in 2006 found that the county's land bank program raised property values across the county by over $100 million.[56] The land bank did this by acquiring thousands of vacant homes and selling those for which there was a market – 1,600 property sales raised $6.4 million. This profit funded rehabilitation, demolition of houses that did not warrant rehabilitation, creation of affordable housing, and the assembly of sites for major redevelopment projects.

4. **Establish or utilize an existing Community Land Trust (CLT) to ensure homes remain affordable for multiple generations.** A CLT is typically a nonprofit organization that owns real estate as a way to provide benefits to the community. CLTs purchase properties with the intention of permanently owning the land. They lease the homes that sit on the land to eligible homebuyers for a cost far less than buying conventionally. In exchange for affordable, high-quality homes, residents agree to resell their homes to the land trust or to another low- to moderate-income household if they move, taking only a minimal profit. The Housing and Economic Recovery Act of 2008 encourages using NSP funds for long-term affordability.[57]

   - ***In July 2008, the Rhode Island Community Housing Land Trust and two neighborhood CDC partners began to purchase foreclosed properties in the city of Providence in order to place the properties into a CLT organization and permanently preserve the homes' affordability.*** The partners will rehabilitate the properties and then offer buyers a shared equity purchase as part of a land trust. The goal is to ensure that the 10 targeted neighborhoods in which the properties are located remain healthy, mixed-income neighborhoods for decades to come.[58]

5. **Encourage lenders and servicers to donate foreclosed properties that lack sufficient value to be profitable.** More and more lenders are walking away from low-value properties when it becomes clear that they cannot recover their investment. The lenders file foreclosure proceedings but do not complete the process in order to avoid any obligation to maintain their properties.[59] This leaves the properties in limbo with no one responsible for their care – neither the former owner who has left believing their ownership interest has been forcibly ended, nor the lender. In these situations it may be in the government's best interest to take control of these properties at low cost.

   - ***Bank of America is currently working on a pilot program to identify properties in its inventory that are not salvageable and to donate these properties to cities in exchange for having them demolished.*** While this creates expense for cities, it also allows them to deal with a blighted property quickly and efficiently.[60]

6. **Use government power to take blighted and abandoned foreclosed properties via eminent domain.**

   - ***In Baltimore the Code of Public Local Laws allows the use of "quick-take" eminent domain to acquire abandoned properties.*** The city can obtain possession of an abandoned property in 30 days if the court determines that "the public interest requires the City to have immediate possession" and subsequently the court resolves the issue of compensation to the property owner. If a property had municipal liens and other charges in excess of the property's value, the owner may receive no compensation and would instead owe the difference to the city of Baltimore. The city used quick-take eminent domain to acquire more than 6,100 properties. However, a 2007 Maryland Court of Appeals ruling found that the expedited version of eminent domain had been used too broadly by the city of Baltimore in assembling properties that could also have been acquired using the standard eminent domain procedure. According to the opinion, "the City must demonstrate the reason or reasons why it is necessary for it to have immediate possession and immediate title to a particular property via the exercise of a quick-take condemnation."[61]

7. **Once control of foreclosed properties is achieved, evaluate condition of property to determine if demolition and creation of a greenspace or an alternative use makes sense.** Many substandard properties will cost more to rehabilitate than to sell. As a result, demolition and the creation of new uses for some land are options to consider.

   - ***Dayton, Ohio, plans to strategically demolish foreclosed properties.*** In the past, the city of Dayton's policy was to mothball vacant properties, hoping they would be worth restoring and reusing some day. Now, however, the region is overbuilt and demolition makes sense in areas with poor housing stock and high vacancy rates.[62]

   - ***In Cleveland, community leaders have started a six-neighborhood pilot program to identify properties that can be rehabilitated and demolish ones that cannot.*** Cleveland's goal is to find new homeowners for viable properties. The city will demolish nonsalvageable properties to save money on maintenance and reduce the burden on local government.[63]

Approach 3: Hold Property Buyers Accountable for Property Condition

Once the property has been purchased, the goal for most municipalities is to encourage the owner to practice responsible property management. A successful framework of incentives and disincentives regarding property maintenance will increase the presence of responsible owners, reduce government's need to tend to nuisance properties and discourage the presence of irresponsible owners who will allow the property to deteriorate. Most municipalities have laws and regulations in place that spell out the maintenance responsibilities of property owners. Over the last two years, jurisdictions have been added to these laws, significantly increasing the penalties for failure to comply, establishing time frames for buyers and sellers to bring a property into compliance, and adding obligations for owners and those exercising control over vacant and rental properties.

Regulations vary based on the property type and tenure. Below, we divide them into three categories: all residential, vacant residential, and rental.

Regulations that apply to all residential properties.

1. **Pursue vigilant proactive enforcement of the local property maintenance code.** A municipality's property maintenance code is the most common regulatory framework used to ensure properties are kept up to code standards. Having a code in place is important, but just as important is strict enforcement of the code, which requires finding the resources to regularly inspect properties to ensure they are in compliance.[64] Proactive regular inspections of properties, rather than a reactive complaint-driven inspection policy, can be an effective tool to prevent property deterioration and its negative effects.

- ***St. Louis funds monthly inspections of problem properties by charging for each inspection visit and imposing significant fines for noncompliance designed to gain the attention of absentee investors.*** St. Louis' Problem Properties Unit visits 4,000 nuisance properties each month based on citizen complaints, billing the owner $97 for each visit. Where owners such as out-of-town banks or big investment groups are unresponsive to citations, the city of St. Louis fixes the problems and bills the owner. So far, owners have been calling to ask for explanations as to why they were being billed. The head of the Problem Property Unit reports good results to date, even though he feels the city has insufficient leverage with out-of-town investors.[65]

- ***Collier County, Fla., is e-mailing lenders and property owners notices of code violations to ensure quick, inexpensive notice and valuable correspondence exchanges.*** Since the e-mail "Blight Prevention Program" was established in November 2008, Collier code enforcement officials say they saved the county $73,000 in mowing, cleaning and other costs by ensuring violations are fixed rapidly by owners.[66]

- ***Los Angeles performs inspections on all rental properties.*** Los Angeles adopted its Systematic Code Enforcement Program in 1998, calling for rental properties to be inspected regularly (at least every five years), and immediately staffing up with additional housing inspectors. The program was initially funded with a $1 per unit monthly fee, which can be passed on to tenants; this has since been raised to $2.27. To complement inspections, the city created a loan program to help small apartment owners finance repairs. The city of Los Angeles also increased its legal resources dedicated to code enforcement.[67]

- ***Atlanta increased its inspection capacity by recruiting citizen help.*** Atlanta's Neighborhood Deputies Program trains neighborhood residents to inspect the exteriors of buildings and perform follow-up inspections to ensure code violations have been corrected. If the owner does not remedy the problem, a Bureau of Codes inspector is called out to inspect and issue appropriate citations. Each citizen volunteer is given eight hours of training.[68]

2. **Require property owners to register.** Registration and licensing requirements give a municipality the ability to quickly and accurately identify the responsible parties for a property. More than 200 jurisdictions across the United States require an owner to register a vacant property.[69]

   - ***Allentown, Pa., amended their registration law to impose liability on the local agent.*** For years, Allentown required an absentee owner to appoint a duly authorized agent who was responsible for accepting service of process but had no legal exposure for property conditions. Now, the city's Property Rehabilitation Code defines the local agent as identical to the property owner in terms of legal responsibility. This has allowed the city to start taking legal action against agents representing absentee owners of properties with accumulated code violations. The city's magistrates have imposed fines on these agents to compel code violation correction.[70]

   - ***New Haven, Conn., passed an ordinance in 2009 requiring banks and other institutions foreclosing on local properties to register the properties*** with the city by April 21, 2009 (90 days after the ordinance went into effect) or face fines of $250 per day. Absentee landlords have been required to register with the city of New Haven since 2006, but with bank foreclosures skyrocketing to four times what they were in 2005, the city shifted its focus to banks.[71]

   - ***Some jurisdictions are avoiding registration paperwork by requiring that all mortgage loans be registered with the national Mortgage Bankers Association's Mortgage Electronic Registration System (MERS).*** This national database can be used to search for all ownership interests in a mortgage and the relevant lender. MERS does not register cash deals. The MERS registry can be found at www.mersinc.org.

3. **Pass state or local laws that impose fines and criminal penalties for repeat property maintenance code offenders.** States that have been struggling with high rates of abandonment and vacancy for years now have passed laws deeming it a crime to leave a house in a nuisance condition after repeated notice of code violations.

   - ***Pennsylvania made it a misdemeanor to fail to correct repeated property maintenance code violations.*** The 1998 Pennsylvania Housing Code Avoidance Amendment deems it a misdemeanor of the second degree when a person is convicted of four or more violations of the same subsection of the property maintenance code without any reasonable attempt to correct the violation and the violation poses a threat to the public's health, safety or property.[72] The law imposes a fine of up to $5,000 and imprisonment of up to two years. The law states that a person commits a misdemeanor of the first degree when the offense is based on five or more convictions and all conditions above apply. The penalty is a fine of up to $5,000 or imprisonment for up to five years.

4. **Impose an obligation on purchasers of distressed property to rapidly bring their property up to code after purchase.** Make clear to purchasers of homes with substantial code violations that the clock has started and they are under an obligation to quickly fix up their "fixer upper" or they will be fined. The goal is to discourage owners from either buying properties and mothballing them until the market shifts or renting them out in substandard quality in hopes of making a quick profit.

   - ***Pennsylvania requires purchasers of a building with substantial code violations to bring the structure into code compliance within one year of the date of purchase.*** If the owner fails to comply, the owner is personally liable for the cost of maintenance, repair or demolition and a fine of $1,000–$10,000.[73]

5. **Enforce and enhance nuisance-abatement laws.** State law typically gives municipalities the authority to enter a property that is causing harm to public health and to abate or correct the condition creating the nuisance. The cost of doing so can then be imposed on the property in the form of a lien.

   - ***In St. Paul, Minn., Vacant Nuisance Building Procedure allows the city to abate a nuisance property through demolition or other means if the owner does not take action within a specified time after an inspector cites the violation.*** A public hearing will be held prior to action being taken. After the public hearing, the City Council may order demolition, give the owner more time to make repairs, or take other abatement action. Costs of the demolition or other abatement are assessed to the property owner.[74]

   - ***Ohio, New York and New Jersey have made it easier to obtain repayment for repairs performed to cure a nuisance.*** Ohio allows a municipality to add to real estate taxes the cost of repairs to abate a nuisance. New York allows a municipality to sue the owner of the property to obtain costs incurred in demolishing a building. New Jersey gives the municipality the ability to go after the other assets of the owner to cover repair or demolition costs.[75]

6. **Coordinate with prosecutors, municipal attorneys and judges to aggressively enforce relevant state and local codes.** Just because the law is on the books doesn't mean that it is being adequately enforced. Property maintenance code violations are typically not viewed as important enough to warrant a prosecutor's or city attorney's attention. An effective regulatory framework can only be enforced by mobilizing all aspects of the civil and criminal justice system.

   - ***Dallas community prosecutors work with code enforcement officers to enforce city codes and prevent and abate nuisances on private property.*** Their partnership activities include tracking down legally responsible parties, determining whether to file a case in civil or criminal court, and assessing fines and penalties. This focuses aggressive enforcement on blighted properties and other substandard structures that serve as breeding grounds for crime. The partnership has been so effective that Dallas sought and

received grant funding for three full-time code enforcement officers who work exclusively with Dallas' community prosecutors.[76]

- ***St. Louis established a Problem Property Court, dedicated to cases of derelict properties.*** A judge was appointed to achieve restoration or sale of as many of the problem properties as possible. Warrants are served on problem property owners; when necessary, officers arrest the owner in order to ensure their appearance. The goal is for every owner of derelict property within the city to be held accountable for his or her properties.[77]

Regulations that apply to vacant residential properties.

Vacant properties require special attention within a municipality's framework of laws and regulations because of the negative impact they impose on the neighborhood. While municipalities must aggressively monitor vacant properties to ensure there is a clear plan for rehabilitation, occupancy and maintenance, it also must strike a delicate balance when regulating vacant properties to avoid draconian requirements that will cause owners to walk away and permanently abandon the property or make it prohibitively expensive for a homebuyer to purchase a foreclosed property in the jurisdiction.

1. **Require the owner to set and keep a timeline for the rehabilitation and reoccupation of a vacant property.**

   - ***Minneapolis will enter into a restoration agreement with owners of vacant or condemned properties and waive its Vacant Building Registration fee (see below) if the property is brought into code compliance within six months.*** The city requires a code compliance inspection before beginning rehabilitation or selling the property as well as a $2,000 deposit before any building permits are issued. The deposit is forfeited if the owner fails to rehabilitate the property within six months or nine months with an extension. A property found boarded for more than 60 days will be condemned and placed on the city's Chapter 249 list that allows the city to demolish the building as a nuisance.

   - ***Redlands, in San Bernardino County, Calif., requires anyone buying a foreclosed house to meet the city's maintenance standards within a month.*** It sets fines of up to $1,000 per day and/or as much as six months in jail as penalties and also provides a process for notice of violation, a remedy period and an appeals process.[78]

   - ***In San Diego buyers of vacant structures must submit a statement of intent to bring the property into productive use.*** The statement of intent must include: (1) expected period of vacancy; (2) a maintenance plan for the vacancy period; and (3) a plan and timeline for the lawful occupancy, rehabilitation or demolition of the structure. Failure to submit a statement of intent is considered a misdemeanor, and the penalty for failure to abide by the timeline is $250 for every 90 days the structure remains vacant.[79]

2. **Charge vacant property fees to finance municipal tasks associated with vacant properties.**

   - ***St. Louis charges a fee every six months a property remains vacant.*** Owners of a vacant house must pay a $200 surcharge every six months; a bill in the Missouri Senate might raise that to $500. While the anti-vacancy efforts are yielding positive results, it still requires code enforcement officers to physically go out and inspect every house.[80]

   - ***Under the Minneapolis Vacant Building Registration (VBR) Program, owners must register vacant properties and pay a fee of $6,360 per year on each property for as long as it remains vacant.*** To encourage the rehabilitation of buildings, the city allows this fee to be held in abeyance for six months as long as the property owner is rehabilitating the property and meeting other conditions in the Restoration Agreement.[81]

3. **Require vacant property owners to register with the city and obtain an authorized local agent.**

   - ***Chicago requires all owners of vacant buildings to register the building*** with the city within 30 days of the vacancy and amend the filing within 20 days of any change in the registration information. The owner must also provide the name of an authorized agent with an office or residence in the county for receipt of notices of code violations. The city can impose a fine of up to $500 per day for failure to register.[82]

4. **As a condition of sale, require sellers and buyers to guarantee the city that the vacant building will be brought up to code and occupied.**

   - ***St. Paul, Minn., imposes requirements for the sale of registered vacant buildings.*** Owners of vacant properties that are declared a nuisance must make improvements before they can sell the property. Owners of vacant properties that are secured but deemed uninhabitable must submit a code compliance inspection report, an estimate from a licensed building contractor to complete the code compliance repairs, a signed statement by the buyer giving a date or a timeline for the completion of all the code compliance work and proof of financial capability to complete the required work. Real estate agents have claimed that since these rules were passed in 2008, they have complicated the purchase process, made it difficult for homebuyers to afford the vacant properties and fix them up over time, and left many vacant properties owned by banks in limbo because the banks refuse to invest additional dollars to prepare them for sale.[83]

5. **Require vacant property owners to maintain liability insurance.**

   - ***Chicago requires vacant property owners to maintain liability insurance coverage*** of at least $300,000 for residential properties. The liability insurance policy must contain provisions for notice to the Commissioner of Buildings if the policy lapses or is canceled.[84]

6. **Establish or utilize a housing court to hold unresponsive absentee owners accountable.**

   - ***Cleveland Housing Court fines absentee owners who fail to appear.*** Cleveland's lone housing judge, Judge Raymond Pianka, routinely finds absentee owners with vacant and dilapidated housing in contempt of court when they fail to appear in response to a summons, and fines them $1,000 a day until they appear before him.[85]

   - ***In Buffalo, N.Y., lenders, owners and others who have "control" over the premises face sanctions in housing court.*** If those sanctioned ignore summonses for code violations, Buffalo's housing court enters default judgments against them, imposing fines of up to $15,000. A lien is placed on the property for the fine amount; the lien's existence prevents the lender from buying or selling properties in the area or seeking the court's assistance to evict tenants.[86]

7. **Authorize a receiver to rehabilitate or demolish a property when the owner of a dilapidated building is unresponsive.** Receivership offers an effective method to gain control of a property that negatively impacts the surrounding neighborhood. Receivership laws differ, but typically a local government issues a citation to the owner. If the owner fails to bring the property up to code, the local government asks the court to have a receiver appointed, often either the local government itself or a CDC or management firm, to restore the property to code. The receiver restores the property and places a lien on the building to pay for the repairs. Since there must be sufficient equity in the property to pay back the lien at sale, receivership works best in moderate or strong markets.

- ***New Jersey's Abandoned Property Rehabilitation Act expanded receivership powers in 2004.*** If the property owner fails to submit a realistic plan to quickly rehabilitate an abandoned property, the court can appoint an "entity in possession" to expedite rehabilitation. Repairs can be funded through loans or state grants, and the value of any loan becomes a lien on the property. If the owner does not pay to regain possession of the property, the court can order the sale of the property at fair market value with the proceeds going toward the various liens on the property and providing a development fee to the entity in possession; any remaining proceeds go to the owner.

8. Hold lenders responsible for maintaining the property and selling it through a responsible process.

- ***The city of Cleveland prevailed in a case against Wells Fargo Bank for the bank's neglect to maintain and secure bank-owned foreclosed properties and for selling houses at low cost to speculators.*** The Cleveland lawsuit charges that lenders are creating a public nuisance by neglecting foreclosed homes they own, then unloading thousands of them at sale prices of $1,000 or less to speculators. The suit charged that the bank is responsible for causing property values to sharply decline. The lawsuit resulted in a judgment against the bank, which is currently under appeal. It requires the bank to fix up or demolish all of its substandard homes and to post a million-dollar bond, essentially the cost to demolish 100 homes, before it sells deeply discounted houses.

- ***Chula Vista, Calif., implemented an Abandoned Property Registration Program to hold lenders responsible for property maintenance and security.*** Chula Vista requires lenders by ordinance to act on the "abandonment and waste clause" within typical mortgage contracts that gives lenders the authority to enter vacant abandoned property in which they hold a beneficial interest and requires them to secure and maintain the property against vandalism and deterioration. Chula Vista also requires lenders to register the property with the city (and pay a $70 fee), hire a local property management company to maintain it, and post their name and contact number on the property. There are significant fines for noncompliance.[87] The city has issued a total of $1.3 million in fines to date. Recently a group of lenders and businesses have protested this tough stance, arguing that it is driving away new business.[88]

9. Raise vacant-property owners' property tax.

- ***Louisville, Ky., requires owners to pay triple the amount of their normal property tax bill if buildings have been unoccupied for at least one year and are unsanitary, not properly boarded, vermin-infested or unfit for human habitation.*** Several banks and investment companies are appealing their property tax bill stating that they are not the legal owners of the vacant property.[89]

10. Give neighbors the vacant-property owner's contact information so they can communicate directly with each other.

- ***Chicago requires the owner of a vacant property to post a sign with the name, address and telephone number of the current owner (or the agent for the owner) in a conspicuous location on the building.*** This allows the owner to be identified and held accountable by the city and by neighbors harmed by the property.[90]

Regulations that apply to rental properties.

Residential rental property is an important part of any community's housing mix. It provides housing opportunities to younger residents, seniors, households that face foreclosure and workers looking for affordable alternatives. Residential rental property can, however, present a challenge to neighborhoods and local governments if it is not well maintained and managed. Dallas, Texas, and Columbia, S.C., passed new laws in the past year to address the poor condition and neighborhood impact of rental properties owned by absentee landlords.

1. **Establish rental registries or a rental license requirement:** A municipality can more successfully monitor and enforce rental property regulations by requiring landlords to register their property, provide the responsible owner's full name and primary address, and identify a local agent who can accept notice of code violations, subpoenas or summons. Charging a fee to register a rental unit as a rental property or requiring landlords to obtain a license in order to rent a property can help to ensure landlords keep these properties in appropriate condition. A registration is merely signing onto a list; a rental license means that if standards are not maintained, the owner's rental license can be revoked. The leverage of possible license revocation can be an important tool in getting compliance with property maintenance standards and other license requirements, especially by hard-to-reach absentee landlords.[91]

    - ***In Allentown, Pa., the revocation of a rental license associated with one property or unit will trigger the inspection of all other properties*** or units to ensure the entire portfolio of properties meets city code requirements.[92]

    - ***In New Jersey, if a landlord is not duly registered, the owner is unable to use the court system to evict a tenant.***[93]

2. **Adopt a rental-housing inspection ordinance that requires an inspection at the time of sale or change of tenant.** If regular and routine inspections of rental properties are required, the owner and property manager are more likely to maintain the property in better condition.

    - ***Boston requires that property owners get newly rented apartments inspected prior to or within 45 days of rental*** and certified by the Housing Inspection Division. Failure to comply with this requirement is punishable by fines of $300 per month.[94]

    - ***Sacramento, Calif., has initiated a Residential Rental Housing Inspection Pilot Program in "deteriorating neighborhoods."*** Formerly, a citizen complaint was needed to initiate action; under this program, the city's building inspectors conduct door-to-door inspections of property maintenance violations in designated areas. They survey rental properties for interior and exterior code violations and issue corrective notices.

3. **Work with local housing authorities or HUD to ensure Section 8 rental property owners keep their property in good repair.** The local housing authority is responsible for approving and annually inspecting properties that participate in the Section 8 Housing Choice Voucher Program. The housing authority can revoke the owner's participation in the program if they fail to pass housing inspections. HUD can conduct an audit to ensure that housing authorities are meeting mandated housing quality standards, and has recently done so. In 2008, HUD audited the Housing Authority of Baltimore City and found that 57 of 59 housing units they inspected were in a state of disrepair. The agency ordered the Housing Authority to implement adequate procedures and controls to ensure that in the future, program units meet housing quality standards.[95]

    There are two primary tactics that communities can take to improve regulation of Section 8 units, depending

on the willingness of the housing authority to partner to achieve this goal. When the housing authority is a willing partner, communities can work together to rationalize their approaches, develop cooperative inspection mechanisms to meet standards of conformity and build a shared understanding of their purpose. When the housing authority is not a willing partner, communities can get HUD involved to conduct an audit.

- ***In South Carolina, the city of Aiken and the Aiken Housing Authority have formed a partnership to inspect rental properties*** that receive Section 8 money from the U.S. Department of Housing and Urban Development in order to improve housing standards.[96]

- ***In California, the Housing Authority of the City of Long Beach performs a series of inspections on Section 8 properties to ensure that each property meets housing quality standards,*** including initial inspections before a lease can be signed and the participant can move in, annual inspections, reinspections for properties that need corrective actions and special inspections in response to complaints.[97]

4. **Offer tax abatements for property investments in distressed neighborhoods.**

   - ***Cincinnati offers a residential tax abatement for real property improvements.*** The renovation abatement is 100 percent of the property's increased value, up to a market value of $283,250 for a 10-year term. For example, if the owner of a $75,000 home makes $25,000 in improvements, the owner is only responsible for taxes based on the home's value prior to improvements for a period of 10 years.[98]

5. **Charge a sales tax on rents.** Loss of property tax revenue is a key concern for communities facing the transition of neighborhoods from majority owner occupied to majority rental. While this revenue issue does not directly impact the appearance or safety of rental properties, it does impact the resources a community has to enforce the property maintenance code or to perform maintenance where necessary for the viability of the neighborhood. Charging a sales tax on residential rents provides a replacement revenue source.

   - ***Phoenix charges a sales tax on residential rents.*** The city of Phoenix requires owners of residential rental properties to obtain and maintain a privilege (sales) tax license. All amounts paid by the renter to, or on behalf of, the owner are taxable, including utilities, unreturned deposits and pet fees.[99]

6. **Adopt a Smart Rehabilitation Code to bring down costs of renovation.**

   - ***New Jersey, Maryland and New York adopted Smart Rehabilitation Codes to bring down the cost and complexity of rehabilitating older housing.*** The smart code adopted in New Jersey, Maryland and other jurisdictions ensures an older home is safe but does not require it to meet the dimensional or materials requirements of new construction. In New Jersey this spurred a dramatic jump in rehabilitations.

Avoiding Potential Pitfalls: Lessons Learned from Unsuccessful Efforts

No one approach will fulfill the needs of each city or town. Meeting the challenges of investor ownership will require innovation and experimentation. It is important to explore local government's ability to implement any new law or policy and the potential consequences before putting a new law on the books. New legislation or regulations can sometimes add a layer of bureaucracy without having a significant impact on owner behavior or may serve only to encourage investors and homeowners to avoid a community. Below are examples where a city announced a new law and subsequently determined that they did not have the information, resources or legal authority to effectively implement the new policy, or that the law inflicted too much burden on local government for too little gain.

- **A new Miami-Dade County ordinance requiring owners of foreclosed properties to obtain a certificate of use before transfer or sale proved ineffective.** Under the ordinance, before issuing a certificate of use, the county Department of Planning & Zoning must inspect the property and prepare a report that states whether the residence complies with all building and zoning codes and if not, what the cost will be to remedy or repair code violations. An evaluation over the ordinance's first few months showed that it added extra cost and bureaucracy and didn't really help to protect buyers or neighborhoods. In addition, lenders in some situations were unable legally to enter the property to cure violations, but still incurred penalties imposed by the county.[100]

- **New York City passed an absentee landlord supplemental tax but couldn't identify the absentee owners in order to enforce it.** In 2003, the Bloomberg Administration announced a new city property tax 25 percent surcharge on absentee landlords who rent out one- to three-family homes. The goal of the surcharge was to ensure absentee owners did not benefit from lower property taxes designed to encourage homeownership. The city's Finance Department, however, had such trouble figuring out who the city's absentee landlords were that Mayor Michael Bloomberg decided that the tax was too much trouble.

- **Worcester, Mass., passed a rigorous registration law for vacant and abandoned buildings, but absentee owners failed to register.** The law requires an owner to register their building with the City Office of Code Enforcement if they know, or reasonably should know, that their building is becoming vacant. The owner is also required to supply a plan for the building, depending on whether it is to be demolished, remain vacant or restored to appropriate occupancy. The city of Worcester charges $250 to register a single home or up to three units of a multifamily building. An owner must renew the certificate and pay a $125 fee in six months if the building remains vacant. The problem is that owners are not registering, and they can't be found. In addition, sometimes by the time an owner is found, the building has already passed to the next owner. The fees also caused some owners to abandon their buildings.[101] The Boston Globe recently found that the city of Boston has a similar problem, one in four of the 1,566 properties that entered the foreclosure process not registered.[102]

INVESTOR OWNERSHIP IN THE TWIN CITIES

Minneapolis and St. Paul are mixed markets that have had strong appeal for investors due to stable appreciation over the last 10 years and significant numbers of available properties with low price tags compared to their assessed value just last year. Compared to Cleveland, Detroit and other weak market regions, the Twin Cities' stronger housing market has helped the region reduce its inventory of foreclosed properties. But there are also wide variations in the housing market conditions of neighborhoods hardest hit by foreclosures and vacant properties. In North Minneapolis, a marketing campaign and a host of homeownership incentives have successfully increased demand for distressed properties from would-be homebuyers. In 2008, home sales nearly doubled in the community, according to the Minneapolis Area Association of Realtors. But in the Payne/Phalen Lake neighborhood on St. Paul's East Side, which includes the zip code with the second highest foreclosure rate in the state of Minnesota, there are many vacant properties and currently no viable market for homeownership.[103]

Neighborhood groups working in both places, as well as other community leaders, are concerned about the flood of investors who are entering the real estate market and quickly buying up foreclosed and vacant properties. While some investors are contributing to neighborhood stabilization by fixing up homes in disrepair, others are using the business models described in the previous section that put tenants and neighborhoods at risk. The predominant investor business model causing concern among neighbors is investors buying low and renting the property out to tenants with few alternatives, without repairing or even maintaining the home. The following case study describes some of the major incidents that have caused concern and the actions that are being taken to address the issue.

A New Wave of Flippers: The TJ Waconia Scam

Residents and neighborhood groups are often the best monitors of neighborhood change. In December 2005, staff members at the Folwell Neighborhood Association in North Minneapolis spoke to Roberta Englund, the organization's leader, about a phenomenon they were observing in the area. An investor was apparently buying up dozens of single-family homes in the neighborhood and converting them to rental properties, at a fast enough clip to hint of fraud. To understand what exactly was happening, the group began an intensive data collection project, surveying ownership patterns and property conditions in the neighborhood. In early 2006, the Family Housing Fund provided the Northside Home Fund (NHF) with $125,000 to support this investigation. The collaboration examined Truth in the Sale of Housing documents (see description on page 34), repair/improvement permits, rental licenses, mortgage broker and lender licenses, and appraiser licenses.

Through this extensive research and close observation of neighborhood properties, they recognized TJ Waconia's pattern. The investment firm was buying properties in North Minneapolis and selling them quickly at inflated prices ($20,000 to $60,000 more than market value) based on their own comparables to straw buyer investors to whom they fronted the money. The investors were told they would receive $2,500 at closing and additional payments after two years when the firm would repurchase the property. The firm then rented out the properties, but failed to make mortgage payments. The Ponzi-like scheme relied on new purchases of properties, since the rental income on the properties covered only half of the payments owed to investors for their mortgages. Over three years, TJ Waconia purchased 141 properties in North Minneapolis (and another 21 properties across the region). In North Minneapolis, 108 of the homes ended up vacant and 89 were foreclosed upon.[104]

The community group and the NHF tracked the investors' movements so closely that they could actually predict what property they would buy next. For a year and a half, they organized other community groups and residents, pressing for enforcement against these investors who were destabilizing their neighborhood and leaving tenants in precarious situations as these homes headed into foreclosure. Meanwhile, the neighborhood was experiencing

a dramatic rise in foreclosures, and the community began implementing a host of activities – from the neighborhood level to the regional and state level – to prevent additional homeowners from losing their homes, and to deal with properties that were foreclosed and distressed.

Taking a Legal Approach: Sending a Message to Predatory Investors

In early 2008, the city of Minneapolis took specific actions against TJ Waconia. In February, the City Council revoked a rental license for 45 of the properties. In April, the city, the Folwell Neighborhood Association, McKinley Community, Webber-Camden Neighborhood Organization, Family Housing Fund, Greater Metropolitan Housing Corporation (GMHC) and local residents joined in a lawsuit against the investors for violating housing codes and harming renters, homeowners, community groups and the city. The plaintiffs sought to gain control of the properties under the Minnesota Tenant Remedies Act, and to recover monetary damages under the Minnesota Prevention of Consumer Fraud Act. Federal prosecutors also charged the firm with fraud.

The court cases successfully brought the investors to justice. In April 2008, the district court appointed a receiver to manage TJ Waconia's 141 North Minneapolis properties, who assigned the responsibility to the GMHC, a nonprofit with a strong record of rehabbing and managing properties. A year later, the pair of investors were sentenced to federal prison for seven and eight years, and ordered to pay restitutions of $11.7 million. The homes they had bought are now being rehabbed and returned to the market: the first one went into the City of Lakes Community Land Trust and was bought in June 2009 by a 26-year-old first-time homebuyer, Jackline Mukibi, who is originally from Uganda.[105] GMHC staff describe additional homes involved in the scan coming back alive again as well.[106] The case showed that the city, nonprofits, neighborhood groups, and residents could effectively work together to take action on this issue.

Ongoing Challenges With Investors

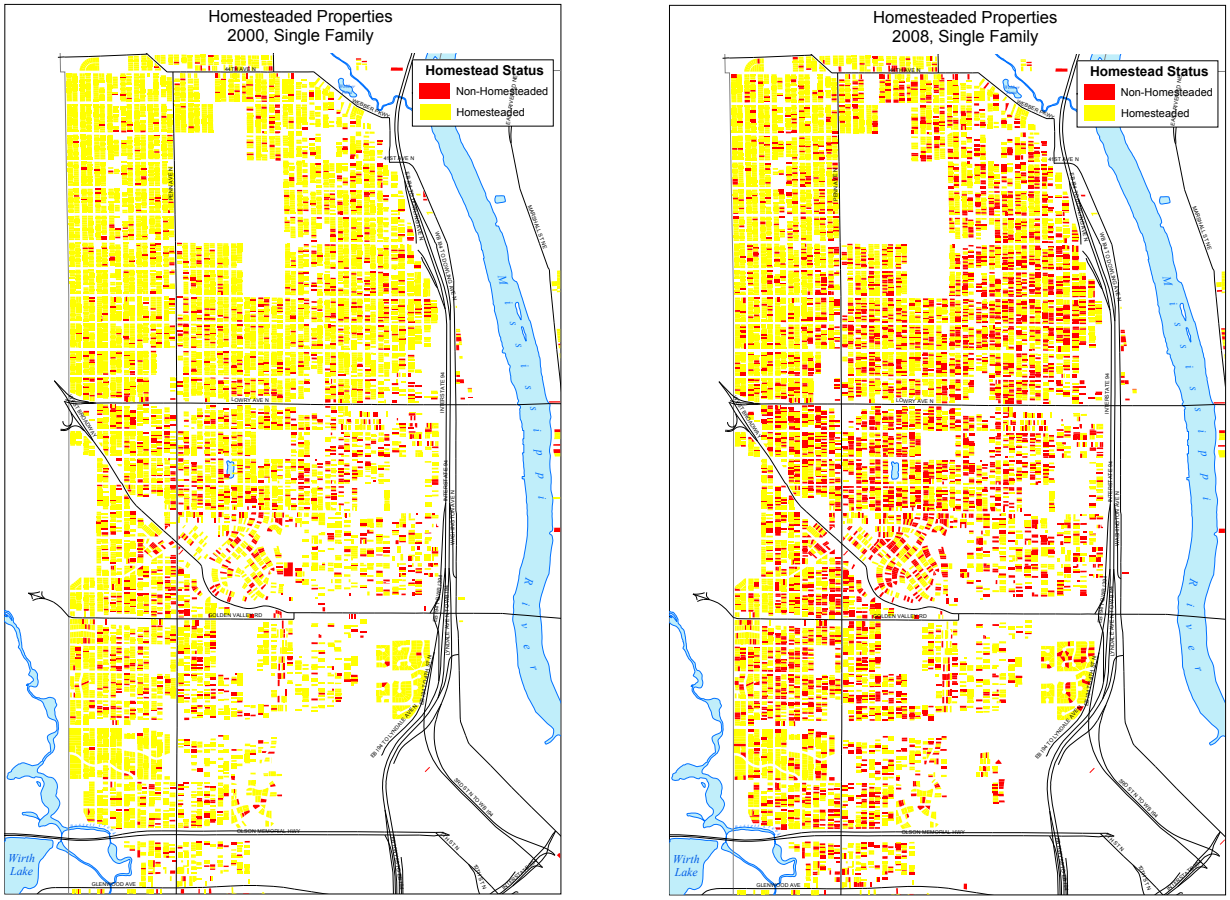
The TJ Waconia case was a landmark, but this was not the only investor who was wreaking havoc on neighborhoods in Minneapolis and St. Paul. According to estimates from staff members of city agencies, approximately 50 to 60 percent of foreclosures in North Minneapolis and the East Side of St. Paul have been on investor-owned properties. Communities believe most of the damage is being done by a few large-scale investors, rather than many "mom and pop" operations.

In Minneapolis, several investors with multiple properties have been targeted as bad actors by community groups, neighbors and the city. In March 2009, the city revoked 17 rental licenses of an investor, Danna D. Investors LLC, that purchased 30 properties in the city, almost all in North Minneapolis, with plans to buy up to 300. Twenty of the investor's properties were in foreclosure.[107] In August, a local blogger on real estate and community issues posted "slumlord maps" of 107 North Minneapolis properties owned by four unscrupulous landlords.[108] There have also been cases where investors are luring new tenants through fake contract-for-deed agreements.

Rapid Conversion of Single-Family Owner-Occupied Homes to Rentals

Minneapolis communities are concerned about the role of these investors in the rapid conversion of single-family owner-occupied homes to rental properties. While the data are not exact (a change in state law lowered the tax burden on single-family rental homes and in 2001 has led to fewer homeowners registering for homestead status), there appears to be a major increase in non-homesteaded properties in North Minneapolis (see Figure 4, page 29). In the Jordan neighborhood, the number of non-homesteaded properties has tripled since 2001, and in the Folwell and McKinley neighborhoods it has doubled. Recognizing the issue, the city began charging a $1,000 fee in March 2008

Figure 4. *Homestead Properties in North Minneapolis, 2000 and 2008*



Source: *City of Minneapolis*

to pay for inspections for converting ownership to rental housing. Despite the fee, conversions have not slowed. There were twice as many conversions as expected in the 10 months following the new fee, a total of 765.[110]

Section 8 Concerns

Communities are also concerned about a business model being used by some landlords: seeking out tenants with Section 8 vouchers to live in single-family homes that are in disrepair and not up to code. Voucher holders are a certain source of rent checks for landlords, and because of the lack of affordable rental homes in the suburbs, voucher holders are often limited in their housing search to distressed urban neighborhoods. A 2008 survey of the acceptance of Section 8 vouchers in the suburbs of Minneapolis found that landlords responsible for more than half of the rental units that qualify for the program refuse to accept voucher holders as tenants. And, the need for more housing assistance is growing: More than 12,000 Minneapolis households applied for Section 8 vouchers in June 2008 while only about 30 new vouchers come online each month. Statewide, the average wait time to receive a voucher is seven years.[113]

Local public housing authorities administer the voucher program and are responsible for inspections to ensure that the units are habitable and maintained. But there are tensions within this responsibility: These inspectors are working with families who might be or become homeless if they do not access housing. The imperative to find them housing may override concerns about the conditions of the properties.

Some community groups are concerned that this new business model will concentrate, or reconcentrate, poverty in neighborhoods that were becoming stronger before the housing crisis. Analysis of data on Section 8 properties in Minneapolis by ward shows a 25 percent increase in Section 8 vouchers in North Minneapolis' 3rd and 4th wards between 2005 and 2009, while the 5th Ward remained stable but still has the highest number of vouchers of any ward.[114]

Investors in St Paul

City officials and community groups in St. Paul are also concerned about investor ownership, but the situation has its own nuances. Large-scale swindlers such as TJ Waconia have not yet surfaced, and so far the investor activity seems to be most intense for neighborhoods near the planned University Avenue light-rail line. City officials are seeing an increase in investor purchasing at sheriff sales, and putting post-it stickers on the doors of homes in the Frogtown neighborhood offering to buy their homes if they are in trouble.[115]

Other neighborhoods not near the transit line, but hit hard by foreclosures and vacancies, such as Payne/Phalen Lake, are also concerned about investors. Staff at the East Side Neighborhood Development Corporation see many transactions occurring, but don't yet have a handle on what is happening. The neighborhood has a diverse housing stock, which is being split: The best of them are cherry-picked by investors, and the worst of them are demolished through the city's Neighborhood Stabilization Program efforts. The group is conducting property research and recently brought on a University of Minnesota graduate student as an intern to investigate the issue.[116]

The city of St. Paul has not taken bad investors to court, but is attempting to use the threat of a lawsuit to hold lenders that own a large portion of the city's vacant properties accountable for their maintenance and repair.[117] In April 2008, the city attorney sent letters to the six institutions holding the most abandoned properties, and they are now negotiating abatement and cooperation agreements with Wells Fargo, U.S. Bank, Deutsche Bank, HSBC and Chase. In early 2009, the city formed a working group with city attorneys in other cities such as Baltimore to form a "National Multi-City Litigation Working Group on Foreclosures" to coordinate and share information about legal strategies to hold lenders accountable.[118]

Implementing Targeted Efforts to Reclaim Foreclosed and Vacant Properties

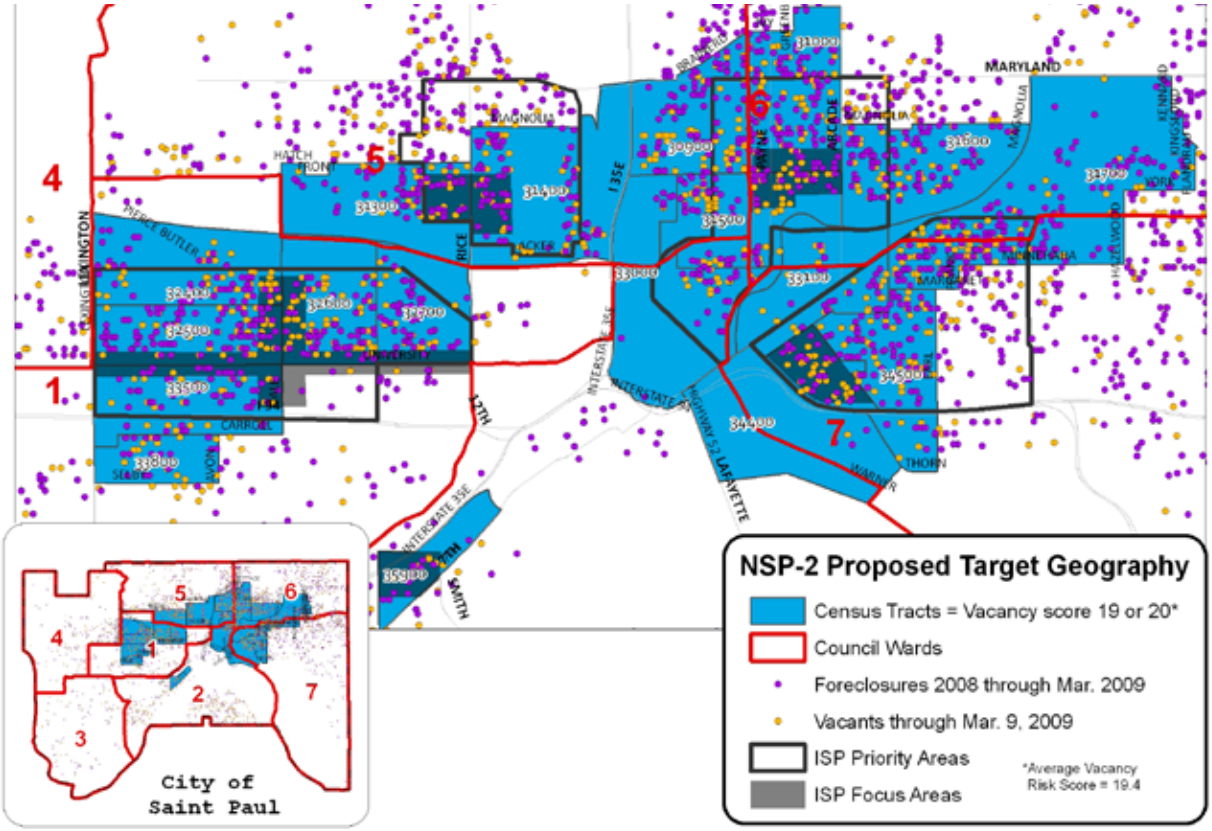
Both Minneapolis and St. Paul are forerunners in developing innovative strategies to deal with the challenges of the foreclosure crisis. Each city has a targeted effort underway to take control of foreclosed and vacant properties using federal Neighborhood Stabilization Program (NSP) funds and additional funding sources.

St. Paul's foreclosed property efforts build upon its targeted neighborhood improvement strategy, Invest St. Paul (ISP), which began in 2006. The effort, funded by $25 million from a half-cent sales tax, targets four neighborhoods (North End, Frogtown, Thomas-Dale, and Dayton's Bluff) for revitalization activities such as organizational support and community outreach, rehabilitation, mortgage financing and incentives, strategic property acquisition, neighborhood commercial corridor revitalization, and some large redevelopment projects (see Figure 5, page 31).

The city is using $8.8 million in NSP funds to bolster the ISP activities that are focused on foreclosed properties, including:

- Acquisition
- Rehabilitation
- Demolition

Figure 5. *Foreclosed and Vacant Properties in St. Paul and Targeted Areas, June 2009*



Source: *City of St. Paul*

- Land banking
- Financial incentives for homebuyers
- Conversion of housing back to single-family units
- A marketing partnership with lenders and real estate agents

As of October 2009, the city had acquired approximately 160 properties and sold nine of them.[119] The city received $18 million in NSP2 funds to acquire and rehab 300 homes, demolish and land-bank 100 properties, and provide incentives for 300 homebuyers to acquire foreclosed and abandoned homes.

Minneapolis also adopted a targeted approach and is partnering with nonprofits to acquire and rehabilitate foreclosed properties in six neighborhood "clusters" highly impacted by foreclosures, with a focus on North Minneapolis (see Figures 6 and 7). Activities include:

- Acquisition and rehabilitation of foreclosed properties in target neighborhoods by nonprofit housing developers to sell or rent to low- and moderate-income residents.

- Down payment and closing cost assistance to homebuyers who purchase foreclosed properties in targeted neighborhoods through the Minneapolis Advantage Program (expected to fund 200 homebuyers).

- Demolition of properties on the Chapter 249 Vacant and Boarded Building list.

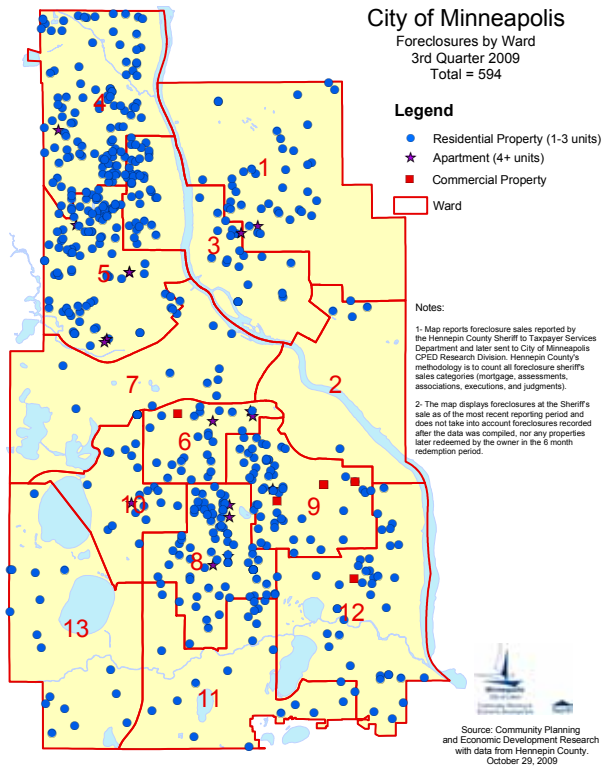
- Land banking of vacant parcels.

Minneapolis received $14 million in NSP1 funds, which are being used to acquire 120 properties, demolish 200 blighted structures and rehabilitate 175 properties. The Minneapolis Advantage Program has helped 130 residents buy foreclosed homes, and the city has acquired 112 homes for rehab and 200 for the land bank. The city is collaborating with Hennepin County and Brooklyn Park to continue these activities using $19.5 million in NSP2 funds and $37.5 in leveraged dollars, expecting to impact an additional 785 properties in targeted areas.

Each city has multiple additional efforts underway to provide homebuyers with incentives to purchase foreclosed properties or gain community control of foreclosed and vacant properties. These include:

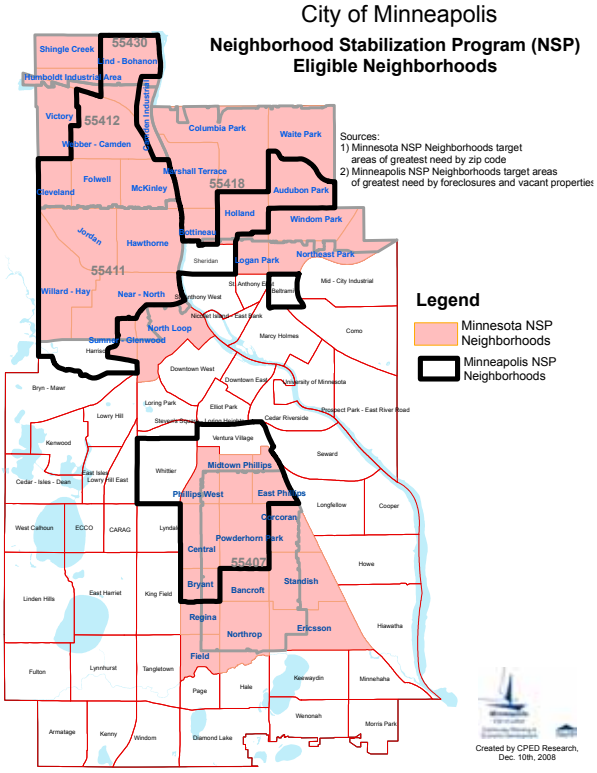
- Neighborhood-based homebuyer incentive programs.
- The Take Credit!! First-time Home Buyer Mortgage Credit Certificate Program, which allows new homeowners to apply 20 percent of their annual mortgage interest to their federal income tax.
- The Bridge to Success Contract for Deed Program, which offers up to $200,000 in 7.5 percent financing. The nonprofits retain title and the buyer makes monthly payments, while gaining access to homeownership education and financial counseling.
- Community land trusts (City of Lakes Community Land Trust in Minneapolis and the Rondo Community Land Trust in St. Paul) that offer homebuyer-initiated programs to provide financial assistance so new members can buy and repair foreclosed homes that are then incorporated into the land trust.

Figure 6. *Foreclosures in Minneapolis by Ward, Third Quarter, 2009*



Source: *City of Minneapolis*

Figure 7. *Minneapolis Neighborhood Stabilization Target Areas, 2009*



Source: *City of Minneapolis*

- The Home Prosperity Fund, a program of the Family Housing Fund that was established in 2008 to provide loans at below market interest rates to community development partners to more effectively respond to the foreclosure crisis by stabilizing communities and promoting successful homeownership opportunities. The Home Prosperity Fund has experienced exceptional growth—building a $25 million loan pool within 18 months through investments by Minnesota Housing, the McKnight Foundation, Wells Fargo, U.S. Bank, TCF Bank, Thrivent Financial for Lutherans, and the Pohlad Family Foundation.

Two Important Innovative Tools: The First Look Program and the Twin Cities Community Land Bank

Because of their proactive and innovative work on foreclosed properties, Minneapolis and St. Paul were chosen as the pilot sites for the National Community Stabilization Trust's "First Look" program, which has since expanded to more than 100 cities nationwide. The program aims to gives communities an edge in the competition for foreclosed properties by providing nonprofit organizations and cities with the chance to view and bid on foreclosed properties before they are marketed to the public. The Trust (NCST) is a partnership between Enterprise Community Partners, Housing Partnership Network, Local Initiatives Support Corporation, the National Urban League, National Council of La Raza and NeighborWorks America. The NCST has signed agreements with many of the leading national financial institutions, including Bank of America, Chase, Citigroup, Fannie Mae, FHA/HUD, Freddie Mac, GMAC and Wells Fargo.

The pilot began in October 2008, with Minneapolis and St. Paul each designating one organization to view First Look properties. In Minneapolis, this was the Greater Metropolitan Housing Corporation (GMHC) and in St. Paul this was Dayton's Bluff Neighborhood Housing Services, Inc. (DBNHS). The pilot was off to a good start: In 2009 GMHC viewed 552 properties, made offers on 123 of them, and purchased 48 homes.

In September 2009, the region gained an important new tool to use in its efforts to acquire, hold and convey foreclosed and vacant properties: the Twin Cities Community Land Bank (the Land Bank). This tool was created quickly to help the region deal with the glut of foreclosed properties and out-of-town investors who were rushing in to buy these homes. Capitalized with $30 million, the mission of the nonprofit subsidiary of the Family Housing Fund is to respond quickly and effectively to the challenges and opportunities of the foreclosure crisis while furthering the economic development and affordable housing goals of communities throughout the region. The Land Bank operates according to eight guiding principles that emphasize community engagement, affordable homeownership, neighborhood revitalization, and business and economic opportunities.

The Land Bank set an ambitious goal to acquire 2,000 residential properties in targeted communities for rehab or development as sustainable homeownership or rental housing. The Land Bank assumed management of the NCST program in Minneapolis and Hennepin County when it began, and is now expanding its management of the program metrowide. Eleven cities are already participating, and 13 additional cities and counties are in the process of becoming official partners. A new online system has been created to provide its partners with access to properties.

The Land Bank is successfully accessing properties through the NCST programs, which have expanded to include occupied rental buildings, buildings with five or more units, and commercial properties. As of Feb. 23, 2010 they have viewed 1397 properties through the NCST programs, made 315 offers on properties, and purchased 236 homes. The Land Bank is using additional acquisition strategies as well, including purchasing on the open market, negotiating bulk purchases from banks, short sales, and sales of "as is" properties to homeowners using HUD's 203(k) purchase and rehabilitation loan program (described on page 13).

The Land Bank is also translating its principles into action: Recipients of its loan pool funding, for example, need to set goals for community employment and women and minority business entrepreneurs' contracting.

Strengthening Code Enforcement and Property Regulations

Both Minneapolis and St. Paul have a strong set of regulatory mechanisms in place to ensure that owners maintain their properties. Both cities have recently strengthened these regulations to deal with the challenge of foreclosed and vacant properties. The key tools in each city include:

Minneapolis

- In 2004, the mayor created a Problem Properties Unit located within the Inspections Division. The unit identifies the city's worst properties and develops an action plan to resolve them. The unit seeks to overcome challenge of silos – bringing all relevant agencies (housing, police, fire, inspection, services if needed) together to take action on problem properties. It also works closely with community groups. The unit tracks and manages the boarded/vacant and condemned housing on the Vacant Building Registration (VBR) List. The unit operates on a cost recovery model through fees it collects on vacant properties. It has grown from six employees to 15 employees.

- The Vacant Building Registration (VBR) Program requires vacant-building owners to register. It charges a fee of $6,360 or more per year on each property that remains vacant. The fees were recently tripled to recover some of the city's costs associated with their maintenance. To encourage the rehabilitation, the city allows this fee to be held in abeyance for six months as long as the property owner is rehabbing the property.

- A property found boarded for more than 60 days will be condemned and placed on the city's Chapter 249 list that allows the city to recommend rehab or demolish the building as a nuisance.

- Under their nuisance-abatement process, the city can declare a property a nuisance and order demolition or rehabilitation.

- The city requires a Rental Property License for every rental dwelling, and charges annual license fees of $65 for the first rental dwelling unit and $19 for each additional unit in the same building. A fee of $250 (plus $20 for each additional unit) is assessed if new owners do not apply for a license. Owners who rent without a license are subject to a fine of $500, and a second offense may be grounds for revoking all licenses held by the owner. When a rental dwelling license is revoked and the same owner seeks reinstatement of their license, the fee is $3,000.

- The city charges a $1,000 fee to pay for inspections when an owner-occupied home is converted to rental property. In May 2009, the City Council passed an ordinance placing a $450 fee for the inspection of a rental property that has a change of ownership in buildings with one to four rental units.

- Truth in Sale of Housing (TISH) Ordinance requires the seller of a single- or two-family dwelling, town house or first-time condo conversion to provide a Truth in Housing Disclosure Report (prepared by a certified evaluator) and a Certificate of Approval to the buyer before a purchase agreement is signed. It also requires that a code inspections certificate is available when the home is offered for sale. When conducting the conversion rental and change of ownership inspections for one- to two-unit buildings, the housing inspector reviews the TISH record to determine if there is a buyer's agreement approval certificate to do the required repairs. If not, the new owner must complete all TISH orders and address other code violations during the inspection process before the rental license is approved. This inspection process has closed a previous loophole.

- The city and the housing authority are in regular discussions about how to align inspections. The Minneapolis Public Housing Association is also holding workshops for landlords that are new to the Section 8 program.

St. Paul

- Strategic code enforcement effort requires a comprehensive initial inspection and follow-up permit inspections.
- Buyers must submit a Vacant Building Registration Form within 30 days of purchase.
- Vacant Nuisance Building Procedure allows the city to abate a nuisance property through demolition or other means if the owner does not take action within a specified time after an inspector cites the violation.
- Charges an annual registration fee of $1,000 for vacant buildings. The fees were between $250 and $500, and the City Council increased the fee to $1,000 in May 2008.
- Vacant Property Ordinance: In 2008, the St. Paul City Council passed an ordinance that requires new buyers – whether investors or owner-occupants – to make improvements to vacant homes. There are separate rules for properties at different levels of distress. For homes that are unoccupied and deemed uninhabitable (category 2, the most common), buyers must submit a plan showing how they will bring the property up to code and pay for the work. For homes that have been declared nuisances (category 3), owners must make improvements before they can sell the property.
- Requires all one- and two-unit non-owner-occupied residences to register for a Certificate of Occupancy and pay a fee of $50 per unit, and renew certification annually.
- Chapter 189 of the St. Paul Legislative Code requires all single-family and duplex homes for sale in the city to have a Truth in Sale of Housing disclosure report prepared and available to prospective buyers.
- The St. Paul Housing Authority conducts an orientation and annual training for Section 8 landlords.

RECOMMENDATIONS FOR THE TWIN CITIES

Our review of best practices confirms that the Twin Cities is a front-runner in developing new strategies and new institutions to stabilize neighborhoods and manage neighborhood change, and that dealing with absentee investors whose business models harm neighborhoods is no exception. Minneapolis and St. Paul both have a strong and evolving set of tools to get properties into the hands of good stewards and use legal and regulatory strategies to promote good property maintenance.

Given the strong set of tools in place – as well as the current economic situation that prohibits cities from spending more on enforcement – it is critical that efforts to deal with irresponsible investors not only leverage these tools and strengthen them to have maximum impact, but also integrate strategies for a coordinated and comprehensive approach. Key principles to guide this effort include:

- Engage community groups and residents in developing and implementing solutions.
- Build the capacity of mission-driven organizations to act entrepreneurially to successfully compete with investors and increase community control over neighborhood change.
- Balance the goal of upgrading rental housing with the goal of increasing the supply of rental housing.
- Engage in an ongoing conversation about the role of homeownership in alleviating poverty and reducing social and economic disparities given the foreclosure crisis and housing market conditions.

Strategies to Consider for a Coordinated Approach

Hold irresponsible investors responsible for property condition.

1. **Strengthen and democratize data systems for monitoring and tracking investors.** Gathering information about investors currently takes a lot of time and effort. Improving the ability of property data systems to describe and analyze ownership patterns would help local stakeholders identify potential problematic investors. This would improve the efficiency and effectiveness of foreclosed property strategies, including the Land Bank and other city and nonprofit acquisition strategies. It is important that residents and neighborhood groups have access to the data and can contribute to this system, since they are often the first to recognize problems and take action to remedy them. Some neighborhood groups in Minneapolis have already provided leads to Regulatory Services about cases of bad investors that should be pursued.

2. **Focus code enforcement activities on large-scale investors.** Key steps include:

   - Analyzing ownership patterns to determine the most appropriate trigger for focused code enforcement, either the number of properties owned by a single investor or their geographic concentration in specific neighborhoods.
   - Establishing the trigger point for inspections.
   - Using the registration and property data system to make it possible to identify investors based on this trigger.

   Minneapolis is currently developing a tiered approach to rental housing inspections that will inspect rentals owned by problem investors annually, and place well-managed properties on a longer inspection cycle.

3. **Continue using the Tenant Remedies Act when appropriate to press investors to maintain their properties and act responsibly.** The landmark TJ Waconia case, in which a predatory investor was sued under the Tenant Remedies Act, proved that this law can be an effective tool for gaining control through receivership of properties owned by irresponsible investors. Minneapolis and St. Paul can use this legal tool as a threat to other investors that the community will not accept such behavior.

4. **Improve the quality of Section 8 rental properties through greater interagency cooperation on initial inspections and ongoing code enforcement between the housing authorities and city regulatory agencies.** Minneapolis and St. Paul local housing authorities ensure homes rented to recipients of Section 8 vouchers are safe, habitable, and up-to-code and that landlords are responsible.

5. **Undertake a performance review of the Truth in Sale of Housing policies in place and assess how to leverage them to encourage responsible property investment.**

Increase capacity to strategically gain control of foreclosed properties.

6. **Use the new Twin Cities Community Land Bank to strategically acquire foreclosed properties – before they are bought by investors.** As a private nonprofit funded in large part with philanthropic dollars, the Land Bank will have greater freedom to aggressively pursue opportunities to purchase foreclosed properties than public entities and nonprofits whose funding streams bind them to specific rules and parameters for property acquisition. This flexibility may allow the Land Bank to more successfully compete with investors who are able to purchase properties quickly and at any point in the foreclosure process. If investors are now purchasing properties at sheriff's sales, as has been observed in St. Paul, the Land Bank could also bid on properties at sheriff's sales. For the Land Bank to successfully promote equitable neighborhood development, it will be important to engage residents and community groups in its governance, ensure public input into the Land Bank's activities, and give community groups priority consideration for acquiring Land Bank properties in their service area.

7. **Expand "First Look" programs that give homebuyers and nonprofits the first chance to purchase foreclosed properties.** The Twin Cities is already participating in the NCST's First Look program, but the national program does not cover all of the lenders holding foreclosed properties in the region. The community should develop agreements with additional lenders to provide homebuyer-occupants and mission-driven organizations with the first chance to view and bid on foreclosed properties. They should also explore policy strategies or additional mechanisms to further institutionalize this exemplary practice.

8. **Consider adopting a policy that requires vacant-property owners to carry liability insurance.**

Incentivize homebuyers and responsible investors to purchase, rehab and maintain properties.

9. **Maintain the existing incentives for homeowners, which seem to be working, and simplify them.**

10. **Require that all landlords receive training, and provide it for free to small "mom and pop" landlords.** Offer small landlords financial products for rehabilitating their properties.

Address the displacement of renters in foreclosed properties.

11. **Develop an acquisition and rehabilitation strategy for foreclosed small multifamily rental properties.** The Twin Cities Community Land Bank and the cities of Minneapolis and St. Paul should target these properties for intervention, either to keep existing tenants in their homes (a strategy that Boston Mayor Thomas Menino has recently announced pursuing) or to develop stable multifamily rental housing. The state Housing Trust Fund and Community Development Block Grant are potential sources of financing.

Promote housing opportunity throughout the region.

12. **Reduce the concentration of Section 8 Housing in low-income, disinvested neighborhoods.** The marketing and recruitment of landlords should focus on increasing new Section 8 homes in communities of opportunity that offer residents good schools, public transit, retail and other infrastructure and supports they need to live healthy and productive lives.

APPENDIX

Assessment Tool for Analyzing Existing and Potential Strategies to Prevent Irresponsible Investor Ownership From Causing Neighborhood Decline

This matrix can help communities inventory their current strategies and assess whether there are additional strategies and best practices they might consider further. The matrix is filled in for the Twin Cities; other regions and localities could use this matrix to assess their own current strategies.

Approach 1: Encourage homeowners and responsible investors to buy, rehabilitate and maintain foreclosed properties

STRATEGY	STATUS IN TWIN CITIES	BEST PRACTICE EXAMPLES: OTHER LOCATIONS
1. Help qualified homeowners obtain mortgage financing.	**Minneapolis:** *Minneapolis Advantage* up to $10,000 (forgivable, interest-free loan) toward closing costs, down payment or repairs for buyers of foreclosed or vacant homes in high-foreclosure areas. *Minneapolis Home Ownership Program* up to $30,000 per home in affordability gap financing deferrable until sale of home. Over a dozen neighborhood-based funds such as *Hawthorne Advantage* (average $5,000), *City of Lakes Community Land Trust (CLCLT) HIP Affordability* grants – $25,000–$65,000 toward purchase and rehab of CLT property, *HIP Rehab Grant* up to $25,000 for rehab. **St. Paul:** *Heroes First-time Home Buyers Loan Program* up to $15,000 (forgivable, interest-free loan) for down payments or mortgage payments for public servants (e.g., firefighters, teachers). *Pohlad Foundation Homebuyer Assistance Program* deferred loans up to $8,000 for down payment and closing cost assistance. *Rondo Community Land Trust Purchase Price Write Down Grant* up to $15,000–$25,000 in grant money. **Both Cities:** *Minnesota Housing Homeownership Assistance Fund (HAF)* up to $5,000 for down payment and closing costs, *HOME Homeowner Entry Loan Program (HOME HELP)* deferred interest-free loan, 70 percent forgivable.	There are many similar programs being implemented across the country but we did not find any innovations not already in place in the Twin Cities. **U.S. Department of Housing and Urban Development** offers a 203(k) FHA loan that finances both a home's purchase price and the amount needed to complete the repairs and improvements.

Approach 1 (CONT.)

STRATEGY	STATUS IN TWIN CITIES	BEST PRACTICE EXAMPLES: OTHER LOCATIONS
2. Offer tax credits to new homeowners.	**State of Minnesota:** *Homestead Property Tax Reduction Program* up to $304 per year. **Both cities:** *Take Credit!! First-time Home Buyer Mortgage Credit Certificate Program* allows new home owners to apply 20 percent of their annual mortgage interest to their federal income tax. **Nationwide:** $8,000 Federal First Time Homebuyer tax credit	**Georgia:** Three-year tax credit for purchase of a single-family home (the value is the lesser of $1,800 or 1.2 percent of the purchase price).
3. Partner with nonprofits to build affordable housing.	**Minneapolis:** Funds GMHC and other nonprofits to acquire, rehab and sell 175 properties under NSP1, goal of 285 under NSP2 (pending). **St. Paul:** Funds Dayton's Bluff CDC to acquire, rehabilitate and sell properties.	**Sarasota, Fla.:** Offers nonprofits $10,000 for every foreclosed home acquired, fixed, and sold or rented to income-eligible families.
4. Provide nonprofit lease-purchase and contract for deed models.	**Both cities:** *Bridge to Success Contract for Deed Program* administered by GMHC and Dayton's Bluff, offers up to $200,000 in 7.5 percent financing. The nonprofits retain title and the buyer makes monthly payments.	**Cleveland:** Cleveland Housing Network has operated a successful lease-purchase program for low-income residents since 1981 that is financed by Low Income Housing Tax Credits. Homes are rehabilitated and then rented to a lessee who receives home maintenance training.
5. Encourage private developer rehabilitation.	**Regional:** The Twin Cities Community Land Bank helps for-profit developers (as well as nonprofits and local governments) purchase REO properties at a discount before they are publicly offered for sale, and offers financing for acquisition and rehab.	**Sacramento, Calif.:** Offers no-interest loans and a $30,000 fee to developers (with an emphasis on those who are mission-driven) who buy and rehabilitate vacant homes before selling to low- or moderate-income families.
6. Provide potential agents and homeowner buyers the opportunity to tour foreclosed properties.	**Minneapolis:** Under NSP, nonprofits evaluate distressed properties and inform real estate agents about homes in move-in condition. **St. Paul:** Has taken potential homebuyers on tours of foreclosed properties in Invest St. Paul neighborhoods.	**Boston:** Boston Home Center, a division of Boston's Department of Neighborhood Development, sponsors trolley tours of foreclosed properties, and workshops on purchasing foreclosed property and buying homes that need work.

Approach 1 (cont.)

STRATEGY	STATUS IN TWIN CITIES	BEST PRACTICE EXAMPLES: OTHER LOCATIONS
7. Provide training or financial assistance to landlords, with a focus on "mom and pop" landlords.	**St. Paul:** In February 2009, passed ordinance requiring rental property owners to attend the Minnesota Crime-Free Multihousing Program.	**Chicago:** The Community Investment Corporation offers low-cost loans, technical assistance, and a property management training program to landlords. Its Troubled Buildings Initiative, a partnership with the city, helped rehab 178 buildings with 3,550 units between 2003 and 2008. **Portland, Ore.:** Eleven-year-old landlord-training program offers a free, eight-hour training on property management, applicant screening and agreements.

Approach 2: Work to strategically gain control of foreclosed properties

STRATEGY	STATUS IN TWIN CITIES	BEST PRACTICE EXAMPLES: OTHER LOCATIONS
1. Purchase and rehabilitate individual properties and resell them to homeowners.	**Minneapolis:** $25 million *Strategic Acquisition Fund* to allow a nonprofit (GMHC) to acquire and rehab foreclosed or vacant properties for homeownership. *Northside Home Fund Strategic Acquisition Fund and Home Prosperity Fund.*	**Los Angeles:** Restore Neighborhoods L.A., a holding company to swiftly acquire, rehabilitate, and sell property. The company will use an RFP process to hire contractors and a soft second mortgage to attract buyers for these homes.
2. Provide municipalities, nonprofits and owner-occupants with the first option to buy foreclosed properties.	**Both Cities:** The Twin Cities was the pilot site for, and continues to participate in, the National Community Stabilization Trust's "First Look" program.	The **National Community Stabilization Trust** is now working in more than 100 communities. **Fannie Mae:** "First Look" program (begun September 2009) bars investors from bidding on its foreclosure homes for the first 15 days that they are on the market and only considers offers from owner-occupants, public entities or their designated partners.
3. Create a land bank to acquire, hold and convey properties.	**Regional:** The Twin Cities Community Land Bank was launched in September 2009 and is capitalized with $30 million to acquire 2,000 properties for its public partners.	**Cuyahoga County, Ohio:** Began a land bank to manage 35,000 unoccupied properties in May 2009. **Genesee County, Mich.:** Genesee County Land Bank, launched in 2002, acquired thousands of vacant homes in Flint, selling those where there was market demand and using the profit to fund rehabilitation or demolition.

Approach 2 (cont.)

STRATEGY	STATUS IN TWIN CITIES	BEST PRACTICE EXAMPLES: OTHER LOCATIONS
4. Create community land trust.	**Minneapolis:** City of Lakes Community Land Trust (CLCLT) **St. Paul:** Rondo Community Land Trust	**Providence, R.I.:** The Rhode Island Community Housing Land Trust and two neighborhood CDC partners are using NSP funds to acquire foreclosed properties for the CLT, to permanently preserve the homes' affordability.
5. Encourage lenders and servicers to donate foreclosed properties.		**Bank of America** pilot program to donate properties in its inventory that are not salvageable in exchange for having them demolished.
6. Use eminent domain.		**Baltimore:** Allows the use of "quick-take" eminent domain to acquire abandoned properties. The city can obtain possession in 30 days if the court determines acquisition and resolves the issue of compensation to the property owner.
7. Determine if demolition and creation of a green space or an alternative use makes sense.	**Both Cities:** Demolition of properties that cannot be rehabilitated at a cost deemed reasonable is a part of the foreclosure recovery strategy. In Minneapolis, the GMHC provides tours of homes prior to demolition to members of a neighborhood group. In St. Paul, properties listed for abatement and potential demolition are identified by local neighborhood District Councils.	**Dayton, Ohio:** Plans to strategically demolish foreclosed properties in areas with poor housing stock and high vacancy rates. **Cleveland:** Six-neighborhood pilot program to identify properties that can be rehabilitated and demolish ones that cannot.

Approach 3: Hold property owners accountable for property condition

STRATEGY	STATUS IN TWIN CITIES	BEST PRACTICE EXAMPLES: OTHER LOCATIONS
Regulations that Apply to All Buildings		
1. Pursue vigilant proactive enforcement of the local property maintenance code.	**Minneapolis:** Problem Properties Unit brings together city agencies to deal with most distressed properties (on the 249 list). **St. Paul:** Strategic code enforcement effort requires a comprehensive initial inspection and follow-up permit inspections.	**St. Louis:** Funds monthly inspections of problem properties by charging $97 for each inspection visit and imposing significant fines for noncompliance. Coll**ier County, Fla.:** E-mails lenders and property owners notices of code violations to ensure quick, inexpensive notice and correspondence.
2. Require property owners to register.		**New Haven, Conn.:** Ordinance passed in 2009 requires banks and other institutions foreclosing on local properties to register the properties or face fines of $250 per day. **Allentown, Pa.:** Amended registration law to impose liability on the local agent. Allows city to start taking legal action against agents representing absentee owners of properties with accumulated violations.
3. Impose fines and criminal penalties for repeat property maintenance code offenders.		**Pennsylvania:** Made it a misdemeanor to fail to correct repeated property maintenance code violations. The law imposes a fine of up to $5,000 and imprisonment of up to two years.
4. Obligate purchasers of distressed property to rapidly bring their property up to code.		**Pennsylvania:** Requires purchasers of a building with substantial code violations to bring the structure into code compliance within one year of the date of purchase.
5. Enforce and enhance nuisance-abatement laws.	**Minneapolis:** Under nuisance-abatement process, city can declare a property a nuisance and order demolition or rehabilitation. **St. Paul:** Vacant Nuisance Building Procedure allows the city to abate a nuisance property through demolition or other means if the owner does not take action within a specified time after an inspector cites the violation. **Minnesota:** Passed a law in 2008 that makes one offense of prostitution, illegal drug activity or unlawful gun possession an offense under Public Nuisance law.	**Ohio:** Allows a municipality to add the cost of repairs to abate a nuisance to real estate taxes. **New York:** Allows a municipality to sue the owner of the property for the demolishing costs. **New Jersey:** Gives the municipality the ability to go after the other assets of the owner to cover repair and/or demolishing costs.

Approach 3 (cont.)

STRATEGY	STATUS IN TWIN CITIES	BEST PRACTICE EXAMPLES: OTHER LOCATIONS
Regulations that Apply to All Buildings (cont.)		
6. Coordinate with prosecutors, municipal attorneys and judges to aggressively enforce relevant state and local codes.	**Minneapolis:** Coordinated legal effort around a specific case of investment fraud (TJ Waconia) under the Tenant Remedies Act that resulted in the 141 homes being turned over to the city, and GMHC is managing them.	**Dallas:** Partnership activities include tracking down legally responsible parties, assessing fines, penalties and aggressive enforcement on blighted properties and other substandard structures. **St. Louis:** Established a Problem Property Court to hold problem property owners accountable and achieve restoration or sale of the properties as soon as possible.
Regulations that Apply to Vacant Buildings		
1. Require owner to set and keep a timeline for the rehabilitation and reoccupation of a vacant property.	**Minneapolis:** The city will enter into a restoration agreement with owners of vacant or condemned properties and waive its vacant buildings registration fee if the property is brought into code compliance within six months. A property found boarded for more than 60 days will be condemned and placed on the city's Chapter 249 list that allows the city to demolish the building as a nuisance. **St. Paul:** Owners of declared vacant nuisance properties must make improvements before they can sell the property.	**Redlands, Calif.:** Anyone buying a foreclosed house must meet the city's maintenance standards within a month. **San Diego:** Buyers of vacant structures must submit a statement of intent to bring the property into productive use. Failure to submit is a misdemeanor; penalty for not abiding by the timeline is $250 for every 90 days it remains vacant.
2. Charge vacant property fees to finance associated municipal tasks.	**Minneapolis:** Requires owners to pay a fee of $6,360 or more per year on each property for as long as it remains vacant, but the fee can be waived if there is a plan for rehabilitation in place. **St. Paul:** $1,000 annual registration fee.	**St. Louis:** Charges a fee every six months a property remains vacant. **Wilmington, Del:** Fee for vacant properties progressively increases: $500 for year 1; $1,000 for year 2; $2,000 for years 3-4; $3,500 for years 5-9; $5,000 for 10 years; and an additional $500 for each year after 10.
3. Require vacant property owners to register with the city and obtain an authorized local agent.	**Minneapolis:** Vacant Building Registration (VBR) Program requires owners to register vacant properties (and pay annual fees, per above). **St. Paul:** Buyers must submit a Vacant Building Registration Form within 30 days of purchase.	**Chicago:** Owners of vacant building must register the building with the city within 30 days of the vacancy.

Approach 3 (cont.)

STRATEGY	STATUS IN TWIN CITIES	BEST PRACTICE EXAMPLES: OTHER LOCATIONS
Regulations that Apply to Vacant Buildings (cont.)		
4. Require buyers to guarantee vacant building will be brought up to code and occupied as a condition of purchase.	**St. Paul:** Buyers must fill out a Vacant Building Registration Form that describes plans for bringing property up to code and paying for the work on it.	**Pennsylvania:** Requires purchasers of a building with substantial code violations to bring the structure into code compliance within one year of the date of purchase.
5. Require vacant property owners to maintain liability insurance.		**Chicago:** Requires vacant property owners to maintain liability insurance coverage of at least $300,000 for residential properties.
6. Establish or use a housing court to hold unresponsive absentee owners accountable.	**Both cities:** The Tenant Remedies Act can be an effective tool for gaining control of properties owned by irresponsible investors through receivership.	**Cleveland:** Housing Court fines absentee owners of vacant and dilapidated housing $1,000 for every day they fail to appear in court. **Buffalo, NY:** Housing Court enters default judgments against those who ignore summons for code violations, imposing fines of up to $15,000, and placing a lien on the property for amount of the fine.
7. Authorize a receiver to rehabilitate or demolish a property.		**New Jersey:** Under an expansion of the Abandoned Property Rehabilitation Act (2004), if the property owner fails to submit a realistic plan to quickly rehabilitate property, the court can appoint an "entity in possession" to expedite rehabilitation.
8. Hold lenders responsible for maintenance and sale to a responsible owner.		**Cleveland:** Prevailed in a lawsuit against Wells Fargo Bank for neglecting to maintain and secure bank-owned foreclosed properties and selling houses at low cost to speculators. **Chula Vista, Calif.:** Abandoned Property Registration Program requires lenders to register the property with the city (and pay a $70 fee), hire a local property management company to maintain it, and post their name and contact number on the property.
9. Raise vacant property owners' property tax.		**Louisville, Ky.:** Requires owners to pay triple the amount of their normal property tax bill if buildings have been unoccupied for at least one year and are unsanitary, not properly boarded, vermin-infested or unfit for human habitation.

Approach 3 (cont.)

STRATEGY	STATUS IN TWIN CITIES	BEST PRACTICE EXAMPLES: OTHER LOCATIONS
10. Make ownership information available to neighbors.		**Chicago:** Requires the owner of a vacant property to post a sign with the name, address and telephone number of the current owner (or the agent for the owner) in a conspicuous location on the building.
Regulations that Apply to Rental Properties		
1. Establish rental registries or a rental license requirement.	**Minneapolis:** Requires a rental license. **St. Paul:** Requires all one- and two-unit non-owner-occupied residences to annually register and renew certification.	**Allentown, Pa.:** Revocation of a rental license associated with one property or unit will trigger the inspection of all other properties or units to ensure the entire portfolio of properties meets city code requirements.
2. Adopt a rental housing inspection ordinance to require inspection at the time of sale or change of tenant.	**Minneapolis:** Charges a $1,000 fee to pay for inspections when an owner-occupied home is converted to rental property. Inspections are scheduled within 60 days of application. Charges a $450 change of ownership fee for buildings with 1-4 rental units and inspections are conducted within 60 days.	**Boston:** Requires that property owners have newly rented apartments inspected prior to or within 45 days of rental and certified by the Housing Inspection Division. **Sacramento, Calif.:** Residential Rental Housing Inspection Pilot Program in "deteriorating neighborhoods." Under this program, the city's building inspectors conduct door-to-door inspections of property maintenance violations in designated areas.
3. Partner with the Housing Authority to ensure Section 8 rental property owners keep their property in good repair.	**Minneapolis:** The city and the housing authority are in discussions about how to align inspections. The Minneapolis Public Housing Association is holding workshops for landlords that are new to the Section 8 program.	**Aiken, S.C.:** City and Aiken Housing Authority have formed a partnership to inspect rental properties that receive Section 8 money from the U.S. Department of Housing and Urban Development in order to improve housing standards. **Long Beach, Calif.:** Housing Authority performs a series of inspections on Section 8 properties to ensure the property meets housing quality standards.
4. Offer tax abatements for property investments in distressed neighborhoods.		**Cincinnati:** Offers a residential tax abatement for real property improvements.
5. Charge a sales tax on rents.		**Phoenix:** Requires owners of residential rental properties to obtain and maintain a privilege (sales) tax license. All amounts paid by the renter to, or on behalf of, the owner are taxable, including utilities, unreturned deposits and pet fees.
6. Adopt a Smart Rehabilitation Code to bring down costs of renovation.		**New Jersey, Maryland and New York:** Adopted Smart Rehabilitation Codes to bring down the cost and complexity of rehabilitating older housing.

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