Foreclosure signs are popping up in communities all over the country. When banks don’t take care of foreclosed properties, cities and neighbors—like Bill Graham in Modesto, California (right)—are stepping up, mowing lawns and keeping an eye out for criminal activity in vacant houses.

Pass through neighborhoods in the cities of California’s extensive Central Valley and it’s easy to identify the “distressed” properties. They are the ones with the two-foot-tall weeds, the dead shrubs, and the abandoned remains of newspapers and new phone books. There may be plywood over a window or two. A backyard gate swings in the breeze, and a dusty “for sale” or “for rent” sign is cocked at an odd angle by the driveway.

From Bakersfield to Merced, from Modesto to the suburbs of Sacramento, the hous-
governments try to cope with the housing crisis.

By Paul Shigley

Changes in foreclosures by state, 2007 Q4 to 2008 Q1

The good news? In 10 states, foreclosures were down in the first quarter of this year. The bad news is they're way up almost everywhere else. Twenty-three states saw an increase of more than 25 percent.

The housing foreclosure crisis has struck hard in the interior of the Golden State. In some cities, five to seven percent of home owners are delinquent in making mortgage payments, as the interest rate on adjustable rate mortgages has jumped, balloon payments have come due, and real estate values have plunged. Repossessed properties make up the majority of home purchases in some markets. Real estate agents lead bus and even limousine tours of foreclosed properties, which appear to be concentrated in some of the newest suburban neighborhoods.
One House at a Time

While driving through downtown Flint, Michigan, Genesee County treasurer Dan Kildee points at a large stone office building. "That's a building I'm eyeing for redevelopment," he says excitedly. Farther down the street sits a former hotel that Kildee already has in inventory. It's now part of the Genesee County Land Bank and ready to be turned into apartments for the University of Michigan, Flint. Nearby, in the Carriagetown neighborhood, are blocks of boarded-up houses, overgrown vacant lots, and a few shiny new duplexes. The land bank owns it all.

Flint's blighted neighborhoods show how devastating foreclosures can be. People who have lived in Flint for decades can identify the first house on their block that went into foreclosure, says Kildee. "They'll tell you how their cute neighborhood became something ugly and scary." It's something that Kildee, who grew up in Flint, knows all too well.

Now the land bank is working to change the city's story by turning depressed blocks into beautiful neighborhoods one house at a time.

Thirty-five years of foreclosures

Flint's foreclosure problem started in the 1970s, when the automobile industry started to decline. For years, Flint's foreclosed houses were bought at auction by absentee owners who let the buildings fall into disrepair while they collected the interest on the former owners' unpaid property taxes. That changed in 1999 with Public Act 123, which shortened the time that could elapse before Michigan's local governments took ownership of properties with unpaid taxes. The gap shrunk from seven years to two and a half years.

Then, in 2001, Public Act 256 allowed county treasurers to set up land banks as government authorities that can raise money through bonds and buy property. Now, the Genesee County Land Bank collects properties that have gone through tax foreclosure (more than 90 percent of the properties are in Flint), demolishes them, and sells the land for profit. Alternatively, the land bank fixes up the buildings, rents them out or sells them, and collects half the property taxes for five years. The land bank doesn't make a lot of money from property sales, but there's a constant stream of inventory. Each year, 900 homes go through foreclosure, and by this March, foreclosures were already running ahead of pace for the year.

With all those foreclosures comes a lot of blight. So far, the land bank has demolished more than 800 buildings and created community gardens, expanded backyards, or provided opportunities for new construction, all while raising property values. Owning so much abandoned property isn't always good for public relations, however. Flint's mayor has called the land bank "the biggest slumlord in Flint," and residents complain about abandoned properties and overgrown yards.

"People have high expectations for the land bank," says its lead planner, Christina Kelly. "There is definitely some expectation that we'll solve all the problems associated with this land and that we'll do it immediately."

Reality check

Flint's land bank serves another purpose. The city's last master plan was written in 1965, before the community started sliding into disrepair. That plan projected a population increase of 70,000—from 180,000 to 250,000—but instead the population has shrunk to 120,000 and Flint's downtown and neighborhoods are struggling with abandonment.

Kildee thinks there's no current master plan in Flint because local leaders don't want to come to grips with reality. "It's hard for a mayor to say that they're going to be a smaller city," says Kildee, "even if growth is not a practical outcome."

As the owner of 3,447 properties, the land bank has become the community's de facto master planner. Growth isn't necessarily the goal. "Even if a property can be redeveloped and fits a plan but doesn't fit in with the future, we can decide not to develop it and make [that lot into] green land instead," says Kildee.

When the land bank acquires properties, it has a once-in-a-lifetime opportunity to affect supply and demand. When demand is
decreasing, says Kildee, the obvious option is to reduce supply.

A current scheme is to redesign the near-downtown neighborhoods between Kettering University and the University of Michigan, Flint. After that, the land bank expects to tackle the riverfront, currently an industrial waste site. Kildee looks at this stretch of gray riverfront and sees the potential for a park with walkways, benches, and miles of green grass. But it's a slow process.

"This work we do isn't a magic solution for urban blight," says Kildee. "It's one year, one house, one lot at a time."

Reaching out

Ever since the housing market collapsed, Kildee has received calls from nearby Saginaw and from communities as far away as Baltimore and San Diego. "Cities that thought they were bulletproof," says Kildee, now want to set up land banks of their own. He is happy to share his experience. "We know what it's like," he says. "Other communities are dealing with this for the first time."

As cities start grappling with foreclosures, says Kelly, "it's amazing how many communities don't put much thought into what they could do with abandoned properties."

"We're trying to change the [community] mindset," says Jeff Burdick, a community planner in Flint. All those abandoned lots and houses are "your property," he says. "They're your asset."

Samantha Cleaver

Cleaver is a freelance writer in Rochester Hills, Michigan.

As recently as 2006, houses in those same neighborhoods were appreciating at 10 percent or more annually. Since then, prices have dropped by as much as 40 percent. Developers have taken to auctioning units, and real estate vultures have descended.

"These markets were very subject to flippers. People were coming in from the Bay Area and other places because prices were rising so fast," says Carol Whiteside, former mayor of Modesto and founder of the Great Valley Center, a regional research and planning organization. "The other part of it is that this is an area without a lot of wealth and high incomes."

That means new homes were purchased by people who commute long distances to jobs in coastal urban areas. Those individuals were already operating at very tight margins, so any adversity could make their financial situation untenable.

"Most of the foreclosures are in the new places, not in the established neighborhoods," says Whiteside, who has worked in numerous capacities over the years to rein in these sprawling new subdivisions. "That's where people were doing all of the crazy financing—and the flipping."

When the State and Consumer Services Agency the city of Modesto, and the Modesto Bee newspaper hosted a foreclosure prevention workshop this spring, organizers closed the doors after 950 people got into the event.

"The response was overwhelming," recalls Barbara Kauss, acting deputy director of Modesto's Parks, Recreation and Neighborhoods Department. "We turned away hundreds. People were lined up around the block. It was nonstop."

"The first wave of foreclosures, we are told, was investors," says Kauss. "Now we are seeing our friends and our neighbors affected."

Some 25 percent of the nation's subprime loans were made in California, which means the state's Central Valley is not alone in seeing the effects of the housing downturn. Foreclosures are also widespread in the Riverside-San Bernardino area east of Los Angeles—and in much of Florida, in Rust Belt cities with teetering economies, and in certain East Coast suburbs, according to RealtyTrac, company based in Irvine, California, that markets foreclosed properties. Few places are immune.

Where to start?

"We're open to suggestion," says Brent Sinclair, AICP, Modesto's director of community and economic development. About all planners can do is react to the consequences of the foreclosure mess, he says.
The city is gearing up for code enforcement action," Sinclair says. "It's not epidemic, but we have properties that are abandoned and there are going to be more of those. You don't want vacant buildings to become a problem for the rest of the neighborhood."

That is the big concern: When abandoned properties start to accumulate—even as few as two or three on one block—a neighborhood can start to slide downhill. The abandoned houses attract vandals and vagrants. Property values drop. Lenders become hesitant. Soon, other home owners find themselves owing more on mortgages than properties are worth and are unable to sell, leading to more foreclosures.

"Once you have foreclosures and abandonment, all the broken window problems move in," says Neal Richman, director of the Center for Neighborhood Knowledge in UCLA's Department of Urban Planning. "The planning department needs to have a monitoring system."

During California's last housing downturn, in the 1990s, Richman helped to set up just such a system in Los Angeles. The system accounted for factors such as tax delinquencies, utility turnoffs, and code enforcement calls—all signs of distressed properties that may be headed for, or already in, foreclosure. When signs of distress mount in a neighborhood, city officials know where they need to focus their efforts, Richman explains.

However, the planning department may not be well equipped to act, Richman says. That's because almost every solution to housing foreclosure, including implementation of a monitoring system, requires money. Planning departments don't have money to spend, especially in these days of shrinking municipal budgets. At the local government level, housing and redevelopment agencies are in a better position to respond. And a number of cities are using local, state, and federal resources to take the initiative.

City strategies
In Syracuse, New York, the city has acquired abandoned homes and sold them for as little as $1 to nonprofit organizations and companies that agree to refurbish or replace the units. In Buffalo, city prosecutors have cracked down on lenders whose vacant properties have become code enforcement and crime problems.

The city of Jacksonville, Florida, has established a $250,000 pilot program to prevent foreclosures. Under the program, which is administered by the nonprofit Family Foundations organization, the city provides home owners with a forgivable, five-year loan of up to $5,000. To qualify, home owners must show that they will be able to stay current with their mortgage payments after receiving the assistance, and must attend credit counseling and financial literacy classes.

"We take a more global view of preserving housing," says Wight Greger, Jacksonville's director of housing and neighborhoods. "The foreclosure crisis hit Florida and Jacksonville pretty hard. We felt that if we were losing housing faster than we were creating it, then we need to reconsider what we do."

In both Florida and California, state lawmakers are considering bills that would authorize local governments to get more involved in the foreclosure situation. A Florida bill would allow cities to spend state housing trust fund money to buy foreclosed properties. A bill in California would permit local redevelopment agencies to buy out subprime mortgages and to acquire foreclosed properties. The redevelopment agencies could then place affordable housing restrictions on the units.

"We're trying to ensure that cities have as many tools as possible," says Desinda Carper, senior legislative advocate for the Florida League of Cities.

A number of cities are starting to set up land banks or housing banks, sometimes using funding provided by the federal Department of Housing and Urban Development. The city acquires abandoned or distressed properties, and then either renovates the unit for rent or sale, or demolishes the unit and builds new.

In San Diego, the city is working with the San Diego Reinvestment Task Force to acquire foreclosed properties. Priority is given to properties that cost less than $400,000, have been on the market for at least three months, and are located in low- to moderate-income neighborhoods, says Jim Bliesner, the task force reinvestment director.

Research overseen by the task force determined that "communities that were predominately ethnic and low-income experienced higher levels of both subprime loans and foreclosures," according to a task force report. The research also found that the foreclosure cycle would last through 2009.

The task force, a unique, quasi-public entity that has been around since the 1970s, counts 11 banks among its members. That gives the task force leverage to negotiate the purchase of multiple properties for less than market rate. But it will take a larger entity, such as the state government, to truly buy properties in bulk, Bliesner says.

"It's like a snowball going downhill," says Bliesner, who notes that hundreds of people have attended task force mortgage workout sessions that connect struggling home owners with lenders. "It's the most depressing thing I've seen in 30 years."

Lasting damage?
Whether the foreclosure situation will leave a permanent mark on cities is unknown. In places that already have relatively weak local economies, such as California's Central Valley, Buffalo, and Cleveland, the foreclosure crisis could be harder to overcome. In places like San Diego, which has a relatively strong and diverse local economy, the housing market may bounce back much quicker.

Its broad economic conditions—not city planning and housing policies—that will be the determining factor, says Modesto's Carol Whiteside, who served in California Gov. Pete Wilson's cabinet. "I don't think that the cities are going to be able to do much to ameliorate the situation," she adds. "Cities have to just hold on."

"Everybody's looking at the local governments," adds Desinda Carper of the Florida League of Cities. "It's not in the hands of the local governments. It's in the hands of the banking community."

Resources


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REVITALIZING AMERICA'S CITIES AND TOWNS