
Attendees

Katie Buitrago, Robin Coffey, Spencer Cowan, Bryan Esenberg, Nancy Firfer, Bridget Gainer, Andy Geer, Becca Goldstein, Adam Gross, Evelyn Guerrero, Michelle Hoereth, Juanita Irizarry, Kevin Jackson, Rachel Johnston, Doug Kenshol, Katie Ludwig, Allison Milld, Gene Moreno, Dory Rand, Guacolda Reyes, Paul Roldan, Russell Rydin, Katie Sabo, Mary Lu Seidel, Mike Simmons, Geoff Smith, Robin Snyderman, Kerry Sullivan, Dominic Tocci, Will Towns, David Young, Stacie Young

Purpose of discussion

In the wake of the foreclosure crisis, communities are still in the process of figuring out ways to return vacant properties to productive use at a large enough scale to stabilize neighborhoods. With the announcement by the Federal Housing Finance Agency (FHFA) that it would be auctioning off a portion of its single-family Real Estate Owned (REO) portfolio as bulk purchases, the option of converting units purchased in bulk sales to rentals has become one possible option. No best practices for such a scattered-site, single-family rental program have emerged yet, however, and there are concerns about the community impacts of a large-scale REO to rental program. Juanita Irizarry of the Chicago Community Trust and Regional HOPI convened this discussion to hear about how a variety of practitioners are addressing REOs in their communities and their experiences with REO to rental initiatives.

Context: REO trends in the Chicago region

Tom Feltner of Woodstock Institute presented information on REO trends in the Chicago six county region. The number of foreclosure auctions increased significantly between 2008 and the third quarter of 2010. The number of auctions decreased in the fourth quarter of 2010 and stayed relatively low through the third quarter of 2011 as foreclosure process times lengthened, and then increased again in the fourth quarter of 2011. Over 93 percent of properties sold at auction become REO. REOs are taking longer to absorb back into the market, particularly in communities of color. Feltner concluded that, as potential homebuyers in communities of color continue to face challenges accessing credit, investors will have a strong presence in the market. He outlined three policy options based on the occupancy status of the homes: programs to keep current homeowners in the homes as renters, perhaps with an option to re-purchase; programs to re-occupy currently vacant homes in habitable condition, perhaps as rental units; and determining the best use of vacant, highly distressed homes. Andy Geer asked why the foreclosure process slowed down so much in 2011. Feltner responded that potential reasons include servicers reviewing their foreclosure filings in the wake of the robo-signing scandal; a desire to avoid responsibility for the maintenance of distressed, low-value homes; inefficient processes within servicers; and the Circuit Court's limited capacity to process foreclosure cases. Adam Gross asked how many REO properties are still REO, and Feltner responded that there is no good data on the current REO inventory. Katie Ludwig noted that many of the properties that the City of Chicago's Neighborhood Stabilization Program (NSP) tries to purchase are not REO and suggested that we focus more broadly on returning all types of distressed, vacant homes back to productive use, not just REOs.

Local approaches to REO to rental

Andy Geer moderated a discussion asking participants: what is your organization working on in regards to single family rentals? What are the barriers to your strategy? What role do you see Regional HOPI playing going forward?

Andy Geer, Enterprise Community Partners—Enterprise is working on demonstration projects for scattered-site single family REO to rental programs in Oakland, Atlanta, and Chicago. Enterprise is trying to figure out how to build the capacity of partner organizations to bring these pilot projects to scale; how, once private investors enter the market, to ensure that communities benefit from REO to rental programs; and, how to ensure that REO to rental programs support local planning priorities. He says RHOPI will be a useful platform for spreading best practices.

Doug Kenshol, Mercy Housing Lakefront/180 Properties—Kenshol presented the 180 Properties model, which is a partnership between Mercy and the Cara Program to train disadvantaged job seekers to maintain vacant homes in foreclosure. 180 Properties maintained 1,200 REOs last year in an area ranging from Gary to Milwaukee and there continues to be growth in demand for their services. Kenshol expects 180 Properties to generate significant business from REO to rental programs in the future, as they were approved as a vendor by Tenant Access Services, an asset manager for investors with high volumes of properties. Kenshol sees potential for 180 Properties to expand into maintenance of rental properties. One challenge Kenshol noted was managing growth, given the demand for their services.

Cook County Commissioner Bridget Gainer—Commissioner Gainer explained her proposal to create a county wide land bank. Commissioner Gainer emphasized that she wanted the land bank to take a holistic approach by coordinating existing tools and resources. Commissioner Gainer explained that a land bank is a legal entity that, through the use of the County's home rule power, can provide important tools to lower the cost of development, facilitate demolition where needed and start to turn REO into the rentals. Commissioner Gainer noted that a countywide land bank designed to address vacant and abandoned buildings regionally can be the thread that connects similar county, state and federal programs together, instead of each level of government layering demolition, rehab, rental or disposition programs on top of each other. She also noted that the land bank could become an important vehicle for creating affordable housing as other sources of funding are threatened. Lake, Will, and DuPage Counties have also expressed interest in creating land banks.

Will Towns, Mercy Portfolio Services—Towns said that Mercy, which administers NSP for the City of Chicago, initially pursued a strategy of marketing NSP homes for sale, but the challenge of finding large numbers of qualified home buyers in communities hit hard by foreclosures, where low credit scores and unemployment are also challenges, has made it difficult, so the City of Chicago/Mercy switched to a strategy of purchasing larger rental buildings. One barrier Towns pointed out is that private equity investors value predictability, and scattered-site single family rental programs are unpredictable as many bulk purchases are made without much due diligence in advance of the purchase and are often not concentrated in one easily manageable area. An entity like a land bank may help mitigate risk for these investors. He observed that there is simply not demand in some neighborhoods, considering the 200,000-person population loss Chicago experienced over the past decade. For neighborhoods targeted by investors, developers should focus on turning the whole community into a desirable one that would attract outsiders.

Guacolda Reyes, The Resurrection Project—Reyes explained that the Resurrection Project (TRP) currently manages a scattered site rental program, largely funded by NSP. In Back of the Yards and Pilsen, TRP is trying to serve existing residents as well as build community assets to turn them into “destination communities,” similar to their model in Pilsen. Reyes noted that TRP had to spend a lot of capital rehabbing homes, many of which were illegally subdivided and not up to code. TRP's goal is to rehab 70 homes, half of which will be rental and half owner-occupied. They also are educating renters to help them buy their homes, though they are not using a rent-to-own product.

Geoff Smith, Institute for Housing Studies at DePaul University—The Institute for Housing Studies (IHS) manages a property clearinghouse that compiles public and private data sets on issues such as property transactions, allowing them to pursue questions on the percentage of sales that were financed with a mortgage or cash purchases, how many were low value or distressed, and so on. Smith says it is important to understand and track investor behavior—it can help communities identify deadbeat investors, for example. A challenge he faces is that investors' names often change, making it difficult to track them over time.

Robin Snyderman, Metropolitan Planning Council—The Metropolitan Planning Council is working with the Metropolitan Mayors Caucus and Regional HOPI to foster interjurisdictional collaboration on vacant property

issues. The three housing collaboratives in south, west, and northwest Cook county went through a process of educating municipalities on the benefits of collaboration, securing their buy-in, and encouraging funders to recognize and reward collaboration. Currently, they are courting private sector investors. Mary Lu Seidel of the Northwest Suburban Housing Collaborative recommended that scattered site rental programs build in incentives to keep rental properties affordable over the long term.

Russell Rydin, Chicago Metropolitan Housing Development Corporation—Chicago Metropolitan Housing Development Corporation is launching a scattered-site rental program of 86 REO properties in the south suburbs that has community support, despite earlier wariness towards rental housing. Some challenges CMHDC is encountering include dealing with the sales requirements of eight different municipalities and the variable quality of the homes in the bulk purchase. The majority of homes currently have tenants, and CMHDC is willing to subsidize homeownership for qualified, interested renters.

Evelyn Guerrero, Hispanic Housing Development Corporation—Hispanic Housing purchased 21 units in targeted blocks in Belmont Cragin with NSP funding for scattered-site rental housing, which they already have infrastructure for managing. HHDC is now acquiring another 20 homes in Chicago Heights with NSP funds. One challenge it faces is absentee investors buying homes and not maintaining or marketing them, making it difficult to stabilize a block. Paul Roldan emphasized that in order for neighborhood stabilization strategies to work, we must invest in the people in these neighborhoods as well.

Becca Goldstein, Neighborhood Housing Services of Chicago— Through the City of Chicago’s Troubled Building Initiative II, NHS serves as the Court-appointed Receiver for distressed 1-4 unit properties when the owner is unwilling or unable to maintain the property. NHS has been able to use this authority to stabilize homes with cloudy title in neighborhoods throughout Chicago. NHS provides scattered site property management on a portion of 1-4 unit properties in its own portfolio and is considering doing so for third parties in targeted geographies, such as those in the City of Chicago’s Micro Market Recovery Program. Through its lending programs, NHS can lend to neighborhood investors with an income up to 120 percent AMI who are interested in purchasing and operating homes as rental. NHS also provides homeownership education and credit counseling to potential homebuyers and is interested in exploring how to best offer these services to households participating in lease-back programs who need assistance with credit repair. Goldstein agreed with Will Towns and Guacolda Reyes that it’s critical to turn targeted neighborhoods into destination neighborhoods where outsiders would want to live.

Kevin Jackson, Chicago Rehab Network—The Chicago Rehab Network provides technical assistance and training for nonprofit developers and CDCs on issues such as rehab, lease-to-own programs, and cooperatives, as well as policy advocacy on issues relevant to CDCs. Jackson said that one question CRN is trying to figure out is why there is a mismatch between supply and affordability in the current market. CRN is developing a business plan for collaborative property management of scattered site rental housing with ten of their member organizations.

Adam Gross, Business and Professional People for the Public Interest—BPI has been focusing on expanding foreclosure prevention activities through the Cook County Mediation Program, promoting the maintenance of vacant properties in foreclosure by mortgagees by urging passage of ordinances in the Chicago City Council and Cook County Board of Commissioners, and advocating for the Cook County Land Bank to return properties to productive use.

Stacie Young, the Preservation Compact—The Preservation Compact focuses on 2-4 unit buildings and targets individuals interested in being owner-occupants, neighborhood investors, and professional investors. Young noted that there are huge underwriting challenges for investors interested in buying small multifamily buildings, since banks aren’t currently counting rental income as income during underwriting.

Next Steps

Participants agreed to broaden the discussion to putting all kinds of vacant and abandoned properties back to productive use, not just REO property, at the fall forum hosted by RHOPI, HOPI, CMAP, and others.