

Foreclosure and Neighborhood Resiliency

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Introduction

Articles about the current foreclosure crisis are daily occurrences. In both real terms and popular belief foreclosure is at its highest level in recent history and is likely to increase. Whether a result of adjustments in interest rates, unqualified buyers using sub-prime financing, investors walking away from properties they cannot manage, or people losing their jobs, the level of foreclosures is overwhelming.

Foreclosure has a well-documented impact on neighborhoods and is particularly problematic for neighborhoods that were either beginning to decline or were just holding their own. But neighborhood decline as a result of foreclosure does not have to be inevitable if attention is paid to strengthening the resiliency of neighborhoods. It is this element of the foreclosure crisis and how to counter its impact on neighborhoods that is the subject of this paper.

While the negative impact foreclosure has on neighborhoods is well recognized, conventional wisdom suggests that counseling individuals and recycling vacant properties back to new homeownership will be sufficient to get neighborhoods back on the right track.

We cannot just counsel or redevelop our way out of this mess. We need an approach that looks broadly at market recovery and addresses directly the vulnerabilities that weakened these neighborhoods before the foreclosure crisis. If we don't take a broader approach, all the good work housing counselors do and all the energies expended in recycling vacant properties will be undermined. The purpose of this paper is to encourage broader thinking about foreclosure remediation and a move toward market recovery.

Foreclosure and Neighborhoods

Foreclosure has a significant negative impact on neighborhoods. Aside from the trauma it causes individual households who lose their homes, it lowers the value and equity base of homeowners in proximity. A Chicago study found that each foreclosure within one-eighth of a mile of a single family home results in a loss of between 0.9 and 1.8 percent of that homes value. (Immergluck and Smith, 2005)

Foreclosure also represents a significant loss to local government. A study recently conducted by the Housing Preservation Foundation found an average loss to local

governments of up to \$20,000 in lost property taxes, unpaid utility taxes, and other fees. (Apgar and Duda, 2005)

The costs of foreclosure as they relate to neighborhoods go even deeper. Foreclosure most often results in vacant, boarded up, and abandoned properties. These properties create a high level of disorder – a disorder that can incubate criminal activity, weaken social connections in the neighborhood, and provide a rationale for further disinvestment. (Immergluck and Smith, 2005)

But even more fundamentally, foreclosure perpetuates a loss of confidence in the neighborhood on the part of neighbors and key stakeholders. Neighbors see homes around them for sale as over-extended households try to get out before it is too late. Or they begin to see vacant houses sprouting up on their blocks, often becoming unkempt eyesores. The neighborhood they once saw as home begins to resemble a place of flight. Moreover, the presence of multiple for sale signs and abandoned houses creates an image of a less than stable neighborhood – driving away the homebuyers neighborhoods need if they are to transition successfully. A self-fulfilling prophecy of decline is reinforced and accelerates over time. The neighborhood suffers weaker home ownership demand, falling prices, and more flight. Restoring confidence in the neighborhood needs to be a key part in any intervention strategy that aims to restore stability to the neighborhood...

A Snapshot versus a Film

Neighborhoods can be viewed in two ways – as a snapshot or as a film. When we look at the neighborhood as a snapshot we see what is before us at the current moment. In the case of a neighborhood with high levels of foreclosure we see households struggling to make payments, some in default, and some walking away from their properties. We see vacant houses. Based on what we recognize in the snapshot we try to correct the immediate problems in front of us and measure success by how many families are counseled, foreclosures avoided, and buildings put back on the market.

But if we look at the neighborhood as a film, we see a longer term narrative. We see small problems that started to push the neighborhood in a downward direction, a direction accelerated by increasing defaults. We see neighbors beginning to withhold investment from their properties and from the common life of the neighborhood as they see conditions around them worsen and they lose confidence. Fixing what we see in the snapshot may not be sufficient to alter the story in the film.

If we want to change the story in the film it is necessary to look at this longer narrative and address the issues of market failure that enabled decline to take root. If we don't do this we will continue to encounter the same problems.

Neighborhood Resiliency

When we intervene in neighborhoods, our ultimate objective is not just to fix buildings or save people from foreclosure. Our ultimate objective should be to increase the resiliency

of neighborhoods – to strengthen the capacity these places have to manage and overcome adversity.

If one did a Google search on the phrase “neighborhood resiliency” a substantial number of articles are referenced about how places survive natural disasters like floods and hurricanes. These may in fact provide useful metaphors and a way of thinking about the current foreclosure problem as it relates to neighborhoods..

One of these articles defines resilience as:

...the capacity of a social entity (e.g., a group or community) to ‘bounce back’ or respond positively to adversity. (Maguire and Hagen, 2007)

Recognizing it is not possible to totally prevent disasters or shield people from their consequences, the authors raise the question of what can be done to minimize disruption and damage by strengthening the resilience of communities.

According to the authors, communities are resilient when they demonstrate three qualities – resistance, recovery, and creativity.

Resistance relates to a community’s efforts to withstand disaster and its consequences. It is understood as the degree of disruption a community can accommodate without the community undergoing long term negative change. In other words how much resistance can a neighborhood put in play before it loses its equilibrium and tips so far it cannot recover? For highly resilient neighborhoods a lot of disruption is needed to move the community to the tipping point. For less resilient communities less disruption is needed.

It would be fair to say that many of the communities being stressed by foreclosure may have had little resiliency to begin with, and the best set of strategies might focus directly on building that resiliency for the future.

Recovery is about the time it takes for a community to “get back on its feet” after a disruption. Again, more resilient communities return more quickly to their pre-disruption state while those with less resiliency take much longer. The challenge here lies in understanding what was missing or not working in the neighborhood before the disaster,, what normalcy actually means, and how the return to normalcy can be made more predictable.

While the authors do not explicitly talk about it directly it is fair to assume a key component in a community’s ability to recover is a shared sense of confidence in the future of the place. Confidence implies a belief that there is some degree of collective capacity to make things better – reinforced in part by people seeing things improve around them improve, if only gradually. It is this element – confidence in the future of the neighborhood that is key to understanding the impact of the foreclosure crisis and can be a seed to its resolution.

The third quality introduced by Maguire and Hagen – creativity – is most challenging. As the authors state, an optimal recovery involves not just returning to the initial state of equilibrium but to a better state. By adapting to new circumstances and learning from the disaster experience, higher levels of functioning and resilience can be attained. Given that health is more than the absence of illness, the challenge here is to build healthy, functioning neighborhoods that perform better than they did before the foreclosure problem began to occur – making them more resilient against any kind of future threat.

Neighborhoods won't be strengthened by just counseling more individuals nor will they be saved by solely rescuing abandoned properties. They can only survive if strategies are deployed that focus more directly on restoring confidence and making neighborhoods more resilient. While helping individuals is important work, efforts by local governments and other community development entities to increase neighborhood resiliency might be one of the smartest and necessary moves in the light of the current crisis.

The Eighty Percent and the Twenty Percent

If we want to attain neighborhood resiliency we need to look at the whole neighborhood and not just the part that is broken.

Let me explain. Neighborhood A is experiencing higher levels of foreclosure. Twenty percent of the households are either in foreclosure or have already lost their homes. The typical policy response to protect the neighborhood is usually increased housing counseling or figuring out how to get control of vacant houses for redevelopment. But if we really want to address the problem it is essential that we address the neighborhood as a whole and not just the part that is broken.

We need to understand that if 20% of the homes are in some state of foreclosure, 80% are not yet in that state. But the decisions that the owners of the 80% make about the neighborhood – to stay or leave, to make repairs or withhold investment, to engage with or withdraw from their neighbors - are critical to the future of that community.

Smart strategy would attempt to influence the decisions of those 80% so that they benefit the future health of the neighborhood. One might hold that we do this by saving people from foreclosure through counseling and that is certainly part of the plan. But saving some of the 20% does not automatically raise the confidence level of the other 80%. We need strategies that aim directly at restoring neighborhood confidence.

We most often ignore that 80% and focus all of our efforts on the 20%, assuming that by solving the problems of the 20% the neighborhood will get better. If the desired outcome is to help people in foreclosure maintain their homes, then counseling is a valid strategy choice. But we cannot assume that this will improve or even maintain neighborhoods. If the outcome is neighborhood stability, a broader set of strategies is required.

Lessons from History

In the mid 1970s there was a significant wave of foreclosures – primarily FHA loan failures on single family homes – in many older neighborhoods in several American cities. While the current foreclosure crisis is different in nature and scope there are some possible lessons about neighborhood resiliency that can be learned from that experience.

During this period there was a substantial amount of unscrupulous lending concentrated often in older, racially changing neighborhoods. Collusion between realtors, mortgage companies, and appraisers resulted in substantial levels of foreclosure and abandonment.

Community action was focused on all of the above players, but especially HUD – the ultimate owner of the foreclosed FHA properties. Communities pushed for legislative remedies, requirements for housing counseling and access to foreclosed properties. Significant victories were won. But the neighborhoods continued to decline.

What happened? While groups were effective at playing the “outside game” – putting pressure on government and mortgage companies to enact certain changes - they were not paying sufficient attention to the “inside game” – working to enhance the neighborhood image, attract solid homebuyers, and strengthen social connections among neighbors. In other words they were addressing the “snapshot” issues but weren’t altering the overall narrative of the film.

Like the human body, neighborhoods have an immune system. As a healthy body can over time repel a virus, neighborhoods with a healthy immune system - even when confronted with negative events - can adjust back to normalcy. The opposite is also true – if the neighborhood’s immune system is weak, initial negative events can take root and multiply, upsetting the equilibrium and sending the neighborhood into a rapid decline.

The inside game is about strengthening that immune system in a neighborhood. – that collection of behaviors, attitudes, perceptions about the future, networks, and relationships that are so important in defining a place. If that immune system is strong the neighborhood can survive problems and adjust. It is resilient. If it is weak the neighborhood can easily fall apart.

What does this have to do with today’s crisis? Simply this – if we want to insure neighborhood resiliency in the face of foreclosure we have to pay attention to strengthening the neighborhood’s immune system – its capacity for resiliency.. We have to work the 80% of the households that are not yet or are not going to be in foreclosure in order to keep the neighborhood in balance.

Building Neighborhood Resiliency

What will it take to make neighborhoods more resilient? What kinds of interventions need to be planned and supported? While all neighborhoods are different and experience

different kinds of foreclosure situations, there are some key principles that provide a framework for intervention. If we want to make neighborhoods more resilient and restore neighborhood confidence we need a set of organizing principles that can inform the work on the ground.

There are five key principles that lead toward market recovery and neighborhood resiliency that need to be part of any neighborhood strategy to remediate foreclosure:

1. Establish a sense of control in the neighborhood.
2. Market the neighborhood to build demand.
3. Promote a positive neighborhood image.
4. Find ways to strengthen social connections.

These are described more in detail below.

1. Establish a sense of control in the neighborhood. Higher rates of foreclosure and abandonment bring a sense of disorder and unpredictability to neighborhoods – a problem that needs to be countered with efforts to communicate greater control. Painting boarded up windows on vacant houses (Chicago, Cleveland) or neighbors cutting weeds and picking up trash on vacant houses (Carroll Park in Philadelphia) aren't meant to solve the abandonment problem. Their value is that they communicate some level of control in a climate vulnerable to disorder.

Communicating to neighbors when a vacant house has been purchased for redevelopment, engaging neighbors in even small improvement and beautification activities, and involving neighbors in using their networks to find possible home buyers are all vehicles to establish a greater sense of control.

2. Market the neighborhood and build demand. So much of the conventional wisdom around neighborhoods is focused on supply – specifically increasing the supply of affordable housing. Not enough attention is focused on building demand – especially in neighborhoods where demand shows signs of weakening. Neighborhoods experiencing even modest rates of foreclosure are usually experiencing weak homebuyer demand. Any strategy that looks to build long term resiliency and market recovery needs to have a significant focus on strengthening that demand.

Marketing neighborhoods is more than advertising houses for sale. It involves a strategic reading of target markets of home buyers related to the housing types in the neighborhood, crafting the right messages about the neighborhood, to attract buyers, and communicating those messages to potential buyers.

We need to recognize that just because there may be a lot of vacant houses being redeveloped there may not be a lot of qualified buyers who want them. Home buyer choices are best when they fulfill buyer wants rather than needs. The challenge is to get people wanting both the homes and the neighborhood.

In neighborhoods that are suffering from a soft market, efforts need to be creative in stimulating the first wave of new buyers. For example in the Belair Edison neighborhood in Baltimore, a place that has historically been impacted by foreclosure, the local community development group organized neighbors to view for sale properties and identify potential purchasers from their social networks. While this approach did not sell every house, it helped get neighbors thinking about attracting potential buyers to their neighborhood.

A second example, while hypothetical, suggests how demand could be built from a local institution, in this case a local school. Assume a local public grammar school has 200 families, and assume 80 of them are currently renting. Assume further that of those 80 approximately 15 are eligible to buy. The intervention might be to deliver home buyer education for school parents, work with realtors to show houses for sale around the school, and target and deliver down payment assistance or other lending incentives to help connect potential home buyers- who have a reason to be close to school - to houses.

From a city policy level, Minneapolis is hoping to stimulate demand in neighborhoods impacted by foreclosure by offering a \$10,000 bonus to new buyers in its 18 neighborhoods most impacted by foreclosure. Here the city sees an opportunity to attract people to neighborhoods that need them and is willing to incent demand to re-establish a market. (Minneapolis Star Tribune 2/25/08)

3. Promote a positive neighborhood image. All neighborhoods have an image, a generalized narrative about whether this is a “good” or “bad” place. Neighborhoods with a lot of foreclosures become known as problem places, undermining any positives the neighborhood might have and reinforcing a negative image.. Foreclosure dominates the discussion about intervention, often obscuring other efforts to strengthen the neighborhood.

Neighborhoods undergoing significant foreclosure issues have to pay attention to their image. Image will not be restored by simply saving a handful of homeowners or turning around a few vacant houses. Attempting to build and maintain a positive neighborhood image is critical to attract the next wave of buyers and retain existing owners.

Yet very little programmatic attention is given to strengthening neighborhood image. The assumption is that if good projects are developed, the neighborhood image will improve. But this is not necessarily true. It is more appropriate to suggest that neighborhood image changes when there is an intentional effort to shape it for the better.

The Fairmont neighborhood in Kalamazoo historically suffered from a negative image, reflected in part by low house prices and a difficulty in attracting owner occupant home buyers. Leaders developed a strategy to build a positive image for their neighborhood and to enhance its position as a good choice for potential homebuyers. A key part of this strategy was a monthly brochure that featured a profile of a family living in Fairmont and why they chose to live there. Distributed widely, particularly among real estate agents,

the brochure had a marked effect on attracting more owner occupant buyers to the neighborhood.

4. Find ways to strengthen social connections. If foreclosure is a virus that threatens a neighborhood's immune system, recognizing how that immune system can be strengthened is a critical component to developing resiliency.

Neighborhoods impacted by the trauma of foreclosure can easily experience the unraveling of social connections among neighbors and the loss of social capital. This makes recovery and a return to a state of equilibrium all that much harder.

Too often community development work in neighborhoods is focused on organizing people around problems like crime or now foreclosure. This only magnifies the problem, creating a definition of the neighborhood situation as troubled and weakening confidence. More attention must be given to bringing people together around positive neighborhood actions – a component even more important when neighborhoods are vulnerable to threats.

The literature around resident perceptions of their own safety suggests that people feel safer when they feel more connected to their neighbors and that people can tolerate higher levels of disorder if they perceive the benefits of living in the neighborhood outweigh the negatives. (Taylor, 1995) Building relationships among neighbors through positive activities can, in this way, create benefits and be an effective tool in building neighborhood resiliency.

There are a host of examples from neighborhoods around the country where neighbors work to improve their block and their neighborhood. Efforts to light houses, clean and landscape vacant lots, carry out garage sales, do paint up/fix up projects, and organize youth activities – may not seem like foreclosure mitigation strategies on the surface but they play a role in building neighborhood resiliency.. By engaging neighbors with each other around positive activities, social connections are made stronger and the ability of the neighborhood to withstand negative change is enhanced.

At the same there are approaches that should be avoided.

1. Don't define the neighborhood by its problems. Increasing rates of foreclosure in a neighborhood have a tendency to create a kind of vortex that sucks all efforts to improve the community into it and defines the neighborhood by its problems. This only serves to weaken resilience, drive away investment choice, and make market recovery harder. It is important to take a longer view - one that focuses on building around strengths in order to return stability to the neighborhood.

2. Don't restrict marketing homes to low and moderate income households. Weak markets won't recover if demand is restricted. Neighborhoods need good homebuyers who want to be there and can afford homeownership. Neighbors need to see people

buying that tell them the neighborhood is getting better. These may be people who earn under 80% of median income or they may not. What's most important in many neighborhoods is getting homeowners with enough economic capacity to maintain their new home.

3. Don't organize people solely around problems. Because foreclosure is such a massive issue there is a tendency to focus all organizing work around it. But this only maximizes its importance and helps define the neighborhood by its problems. A better approach might be to organize around building a stronger, healthier neighborhood, focusing less on problems and more on building around neighborhood strengths.

4. Don't ignore quality rental housing as a positive outcome. While many would prefer that all vacant single family homes be occupied by new home owners, in some cities there may not be enough owners to fill those houses. If this is the case it is important to think about how vacant houses could be reutilized as rental properties and how this could happen in ways that benefit the neighborhood.

Public policy has insufficient understanding about and has paid little attention to the investor in single family rental housing. Such investors – often amateur “armchair” investors - have often played a major role in undermining many neighborhood housing markets, converting many formerly owner occupied homes to rental, and maintaining and managing homes to a standard below what was traditionally acceptable to the neighborhood. At the same time there have been other investors – usually full time in the business of owning and managing properties – that have been real assets to the neighborhood.

Two examples illustrate the extremes of investor types. In Chattanooga I learned of a man who drove a Coca Cola truck full time and yet owned and managed 74 rental houses. – most of them poorly maintained and problems for the neighborhoods in which they were located.. On the other hand, in Chicago I met an investor who earned a handsome income full time owning and managing Section 8 houses. He invested significant amounts in these properties in order to get stable long term tenants and his buildings were a credit to the neighborhood.

If the conversion of vacant houses to rental is going to work it is critical to attract the latter rather than the former kind of investor. Conversion to rental can work if there is attention paid to setting high standards for improvement, particularly exterior, and if there is strong capacity on the part of the investor to attract good tenants and manage properties.

The Key Questions

Right now the foreclosure discussion is dominated by two questions: How can foreclosure counseling efforts be expanded and how can efforts to redevelop vacant properties be brought to scale?

But a focus on market recovery and neighborhood resiliency suggests a set of additional questions:

- How can neighborhoods attract more demand to attract homebuyers?
- How can neighborhoods define a positive image and position its assets to generate more demand and retain households?
- How can existing social networks and local institutions be used to reach out to households vulnerable to foreclosure?
- How can stronger connections among neighbors be developed in ways that make the neighborhood more resilient?
- How can turning around a few vacant houses be leveraged to create broader impact?
- How can neighborhood based revitalization efforts play a larger role in the sales and marketing process and how can they be supported in those efforts?
- How can cities pay more attention to the proactive marketing of neighborhoods?
- How can cities and CDCs identify, recruit, and incent competent investor owners to turn around vacant houses?
- How can neighbors organize to lessen the negative impact of vacant, foreclosed properties?

Conclusion

Once the faintest stirring of hope became possible, the dominion of the plague was ended.
~ Albert Camus, *The Plague*

Neighborhoods experiencing higher rates of foreclosure are in need of hope. All residents – not only those with foreclosure problems – need to feel some level of confidence that their neighborhood will adjust and get better.

This paper has briefly described some of the actions people have taken to make neighborhoods more resilient. But more to the point – the questions above frame a different way of thinking about what is in front of us – to see it more than the challenges faced by individuals falling behind on their mortgages and losing their homes. We need to see clearly that foreclosure is a threat to neighborhood confidence and stability and address directly those neighborhood issues.

Despite the heroic efforts in the battle to restore the position of individual homeowners, if insufficient attention is paid to restoring neighborhood confidence we will lose the war.

The foreclosure crisis is a Moment. We need to transform this Moment from a crisis into an opportunity – building a narrative that can seize the Moment to build stronger and more resilient neighborhoods.

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