



When Investors Buy Up the Neighborhood: Strategies to Prevent Investor Ownership from Causing Neighborhood Decline

Community Meetings, St. Paul and Minneapolis

May 4 and 5, 2010

- **National research and action institute advancing economic and social equity by lifting up what works**
- **PolicyLink Center for Infrastructure Equity: Establish policies and promote practices that build communities of opportunity**



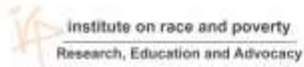
*Equity Must Drive
Transportation Policy*
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- **Concentrated in lower-income communities of color that were disproportionately targeted by subprime lenders**
- **Largest loss of wealth for communities of color in modern history: estimated at \$200 billion**
- **Huge impact on families who are displaced**
- **Destabilizing effect on neighborhoods**

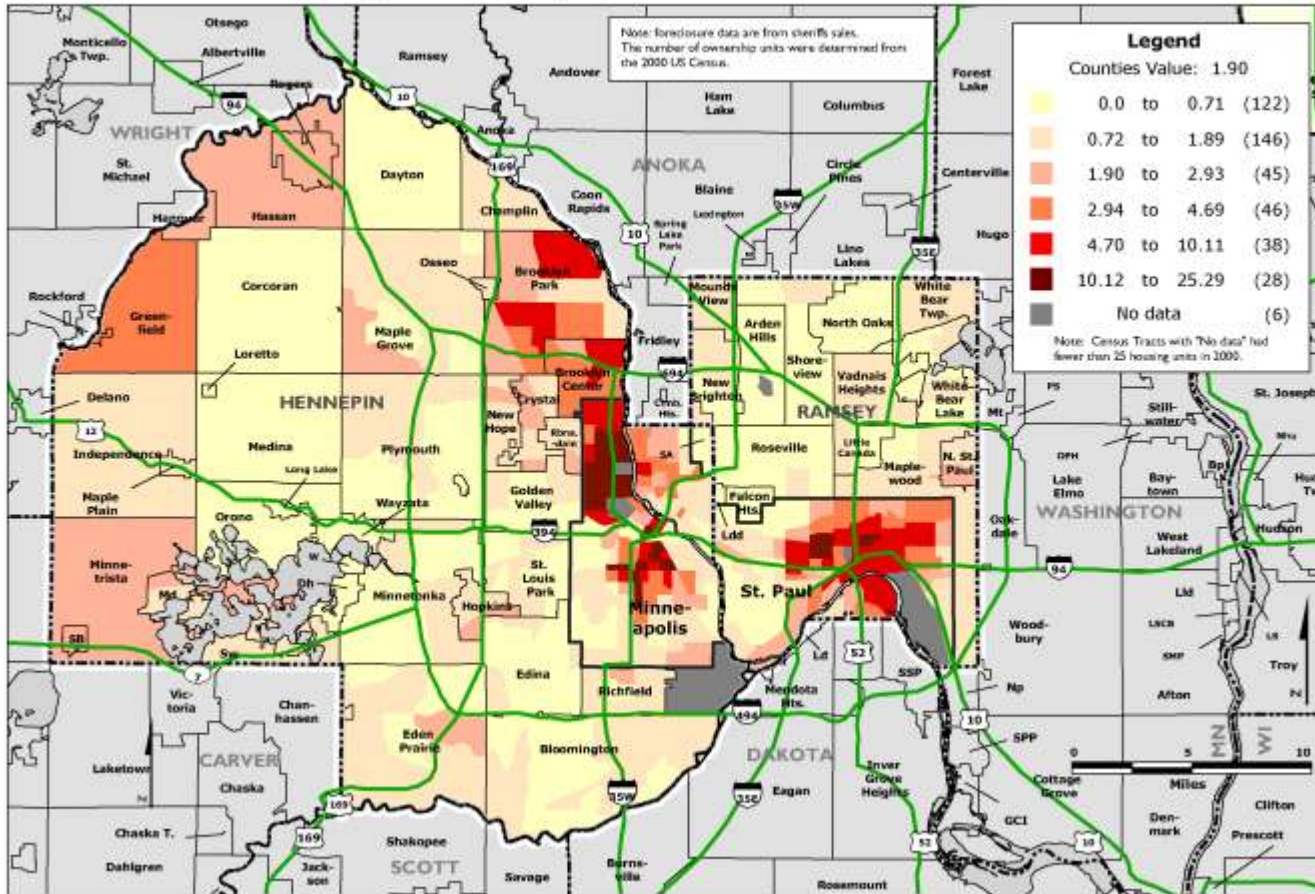
- 1) What are promising strategies to prevent neighborhood decline due to ownership of foreclosed (and other) properties by irresponsible investors?**
- 2) Which strategies and policies are most appropriate for the Twin Cities to pursue?**

- **Site visit and interviews with local stakeholders**
- **Review of relevant literature**
- **Inventory of existing policies and strategies in the Twin Cities**
- **Scan of strategies being used in other locales**
- **Feedback from local leaders on initial findings and recommendations**

Twin Cities Context



**Map 6: HENNEPIN - RAMSEY COUNTIES
Foreclosures Per 100 Owner Housing Units
by Census Tracts, 2007**



Data Source: Housing Link; Hennepin and Ramsey County Sheriff's Departments, U.S. Census Bureau.

Source: Institute on Race and Poverty

Twin Cities Context: Saint Paul

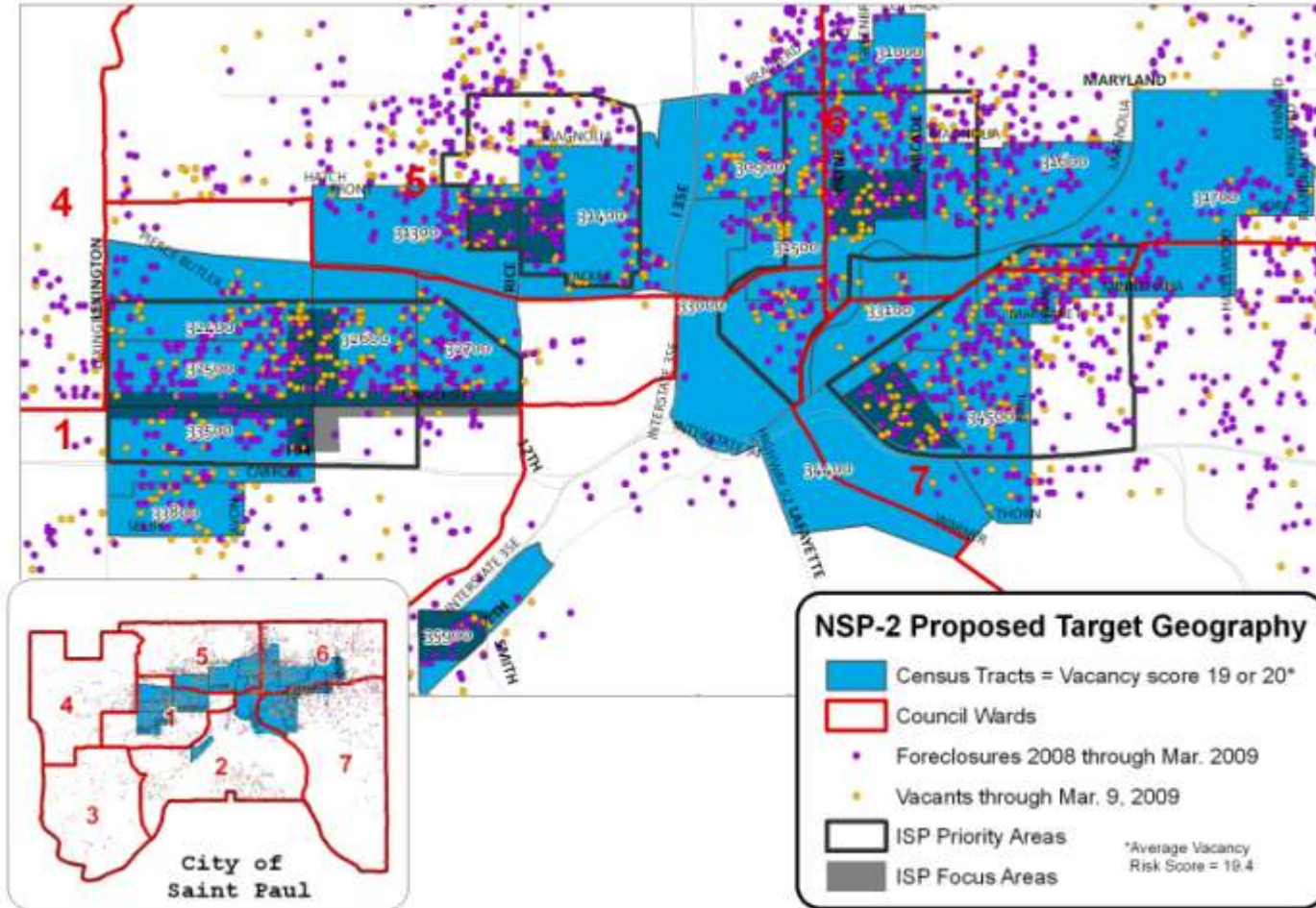
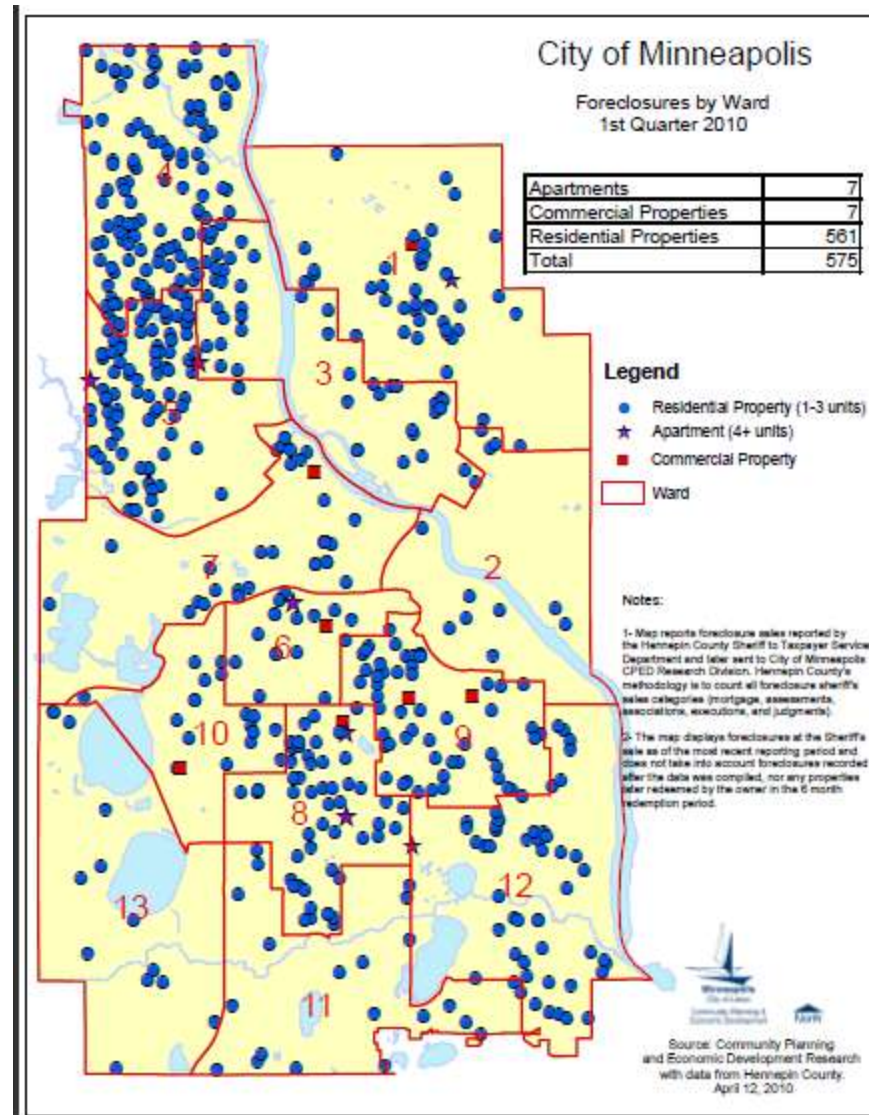


Figure 3: Vacant and Foreclosed Homes in Target Geography

June 15, 2009

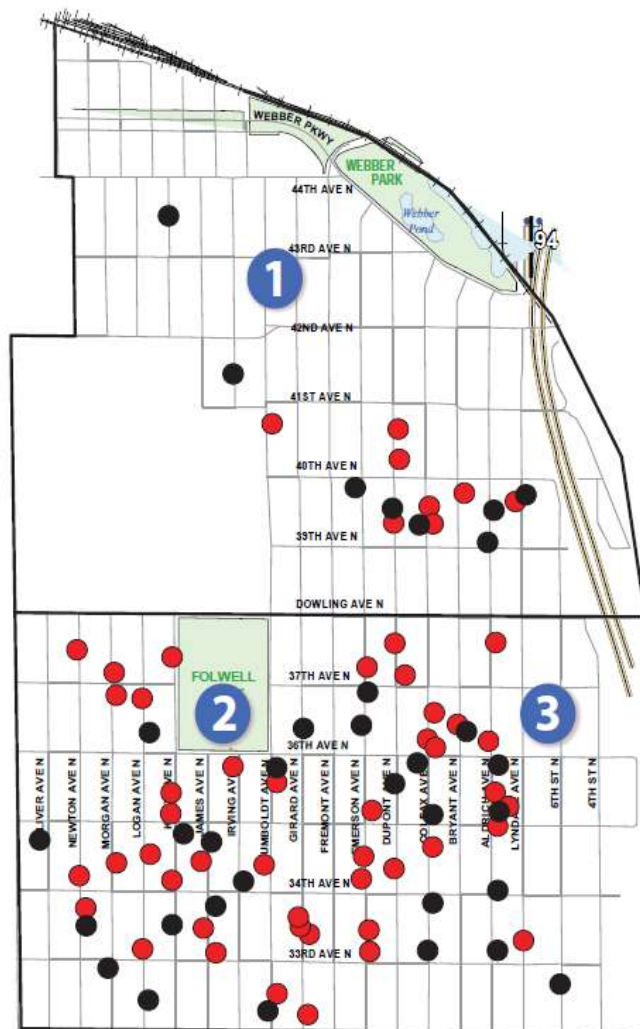
Source: City of St. Paul

Twin Cities Context: Minneapolis



Source:
City of Minneapolis

Recognizing the Issue: TJ Waconia Case, 2005-2008



● Not in Foreclosure

● Foreclosed

140 Homes
86 in the 3 Neighborhoods

86 In Foreclosure
51 in the 3 Neighborhoods

Neighborhoods:
1. Webber-Camden
2. Folwell
3. McKinley

Source: City of Minneapolis

Recognizing the Issue: TJ Waconia Case, 2005-2008

FBI names 2 in latest mortgage fraud case

TJ Waconia of Roseville and its owners have been named in what could be the largest such case in the Twin Cities area.

By **Steve Brandt**, Star Tribune

Last update: November 27, 2007 - 10:10 PM

For the first time
owners of TJ W
mortgage fraud i
represent the big
so far in the Twi

Minneapolis takes charge of T.J. Waconia homes in fraud case

TJ Waconia, sued by Minneapolis, was ordered to turn over 141 properties. The city wants to gain ownership, and may sell or rent them.

By **STEVE BRANDT**, Star Trib

Last update: April 16, 2008 -

A judge Wednesday appoi
manage 141 Minneapolis r
associated with a firm acc
fraud.

The city has to in...

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[Minneapolis crime falls in 2008 \(12/22/08\)](#)
Minneapolis Files Lawsuit to Stop Foreclosure Fraud Scheme in North Minneapolis
City Joins Neighbors and Residents to Stop Fraudulent "Flipping"
April 2, 2008 (MINNEAPOLIS) -- Minneapolis Mayor R.T. Rybak and other city leaders today announced that the City is joining three north Minneapolis neighborhoods in a lawsuit against a fraudulent real estate scheme that has worsened the foreclosure crisis in Minneapolis.

[Home](#) | [Local + Metro](#)

Minneapolis woman gets 3 years in \$2.8 million mortgage fraud

Susan Newell was immediately taken into custody in Hennepin County.

Star Tribune

Last update: April 26, 2010 - 8:13 PM

A 40-year-old Minneapolis woman was jailed immediately on Monday after receiving a three-year sentence for her role in a \$2.8 million Twin Cities mortgage fraud ring.

Susan E. Newell was convicted in January on 12 counts of theft by swindle and one count of racketeering in Hennepin County District Court. A 2008 trial on the same counts ended in a mistrial.

Hennepin County Attorney Mike Freeman, whose office had asked for a 10-year sentence, said Newell should serve more time. "We're a bit disappointed, but we have the ultimate respect for Judge [Thomas]

StarTribune.com



Seven men charged in alleged \$40 million mortgage fraud

The alleged fraud involved 134 properties, 118 of which are now in foreclosure, across several counties, according to the Hennepin County charges.

By **ROCHELLE OLSON**, Star Tribune

Last update: April 16, 2010 - 11:48 PM

Seven Twin Cities men face two racketeering charges each in an alleged \$40 million mortgage fraud scheme that stretched across several counties with a focus on new developments in exurbs.

Facing identical charges are Brandon S. Flavin, 33, of Brooklyn Park; Nathan J.

Attempts to reach the other men and/or their lawyers were not successful.

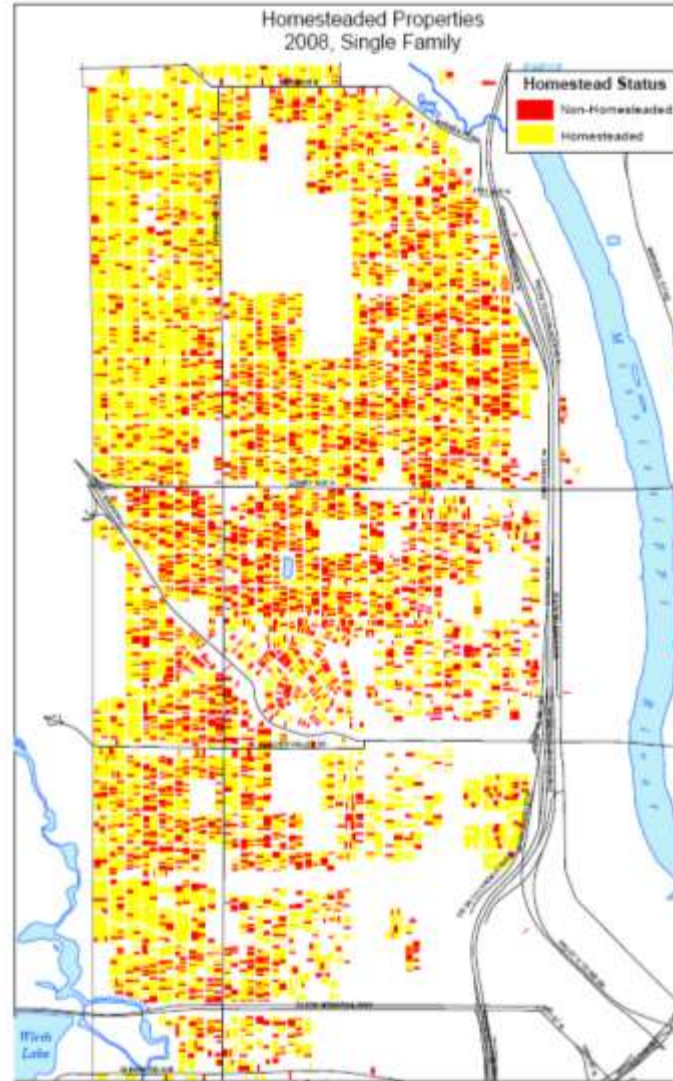
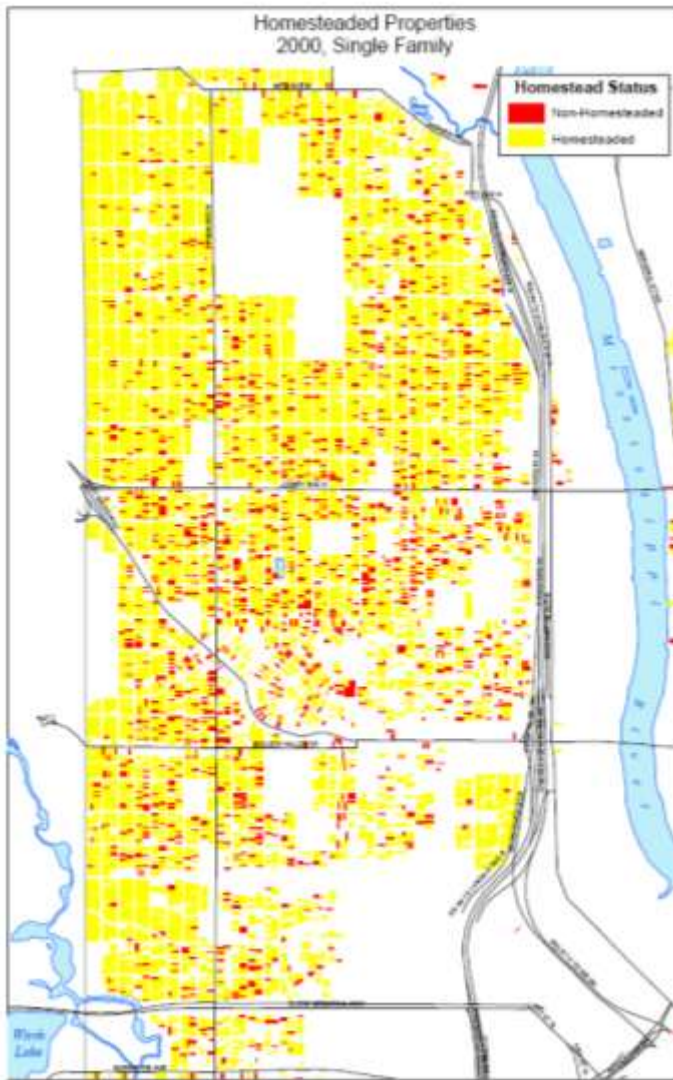
Beginning in December 2005, the seven worked through the National Investment Group Inc., American Wholesale Lending LLC, Innovative Personal Solutions LLC, Investment Property Advisors Inc. and United Management Group. The 15-page complaint against the men details a sprawling scheme initially uncovered by the Minnetonka Police Department.

"The scheme provided a stream of illicit profit, commissions, fees and kickbacks to the defendants," the complaint said. Prosecutors estimated the men received at least \$6 million from their alleged swindles.

Hennepin County Attorney Mike Freeman called it the largest mortgage fraud case so far, involving 134 properties, 118 of which

- **Neighborhood impacts**
 - Lack of property maintenance and declining housing conditions
 - Renters living in properties going back into foreclosure
 - Conversion of owner-occupied single-family homes to rental properties

Change in Homestead Status in North Minneapolis, 2000-2008



Source:
City of Minneapolis

- **Impeding community strategies**
 - Outcompeting nonprofits and homebuyer owners
 - Loss of neighborhood control over community change

- **It depends on the investor's business model**
- **Investment is needed; inhabited properties are better than vacant ones**
- **Research is scant, but tells us:**
 - Nearby owners maintain properties better
 - High absentee ownership is related to less neighborhood stability, more crime, property deterioration

Likely to have a positive impact on neighborhoods

- 1) Buy low, renovate, and sell higher**
- 2) Buy low, hold, and lease-to-own**
- 3) Buy, hold and rent (and manage responsibly)**
- 4) Buy low, rent or sell to former owners**

Likely to have a negative impact on neighborhoods

5) Buy low, do nothing (or cosmetic fixes), sell quickly

6) Buy, hold, and rent (with no investment, repair or management)

7) Buy, hold, and fraudulently operate rent to own scheme

8) Mothball the property and resell later when the market improves

- **Encourage responsible investors that:**
 - Contribute to neighborhood stability
 - Provide quality, code-compliant rental homes; or
 - Sell repaired, quality homes to new homeowners

- **Lack of data systems to track investor ownership and patterns of behavior**
- **Difficult to intervene upstream**
- **Tension: High rental needs and increasing supply of subpar rentals**
- **Cost of code enforcement**

- 1) Encourage homeowners and responsible investors to buy, rehab, and maintain foreclosed properties**
- 2) Strategically gain control of foreclosed properties**
- 3) Hold property owners accountable for property condition**

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

- 1) (& 2) Financial assistance/incentives for homebuyers**
- 3) Financial assistance/incentives for nonprofit developers for affordable ownership/rental**
- 4) Nonprofit lease-purchase models**
- 5) Financial incentives for private developers for affordable homeownership/rental**
- 6) Foreclosed property tours**
- 7) Training or financial assistance to “mom and pop” landlords**

- **Partnership: City, Police, Development Services**
- **Free 8-hour session**
- **Topics: Property management, applicant screening, rental agreements**
- **More than 550 cities and counties have adopted the program**

Landlord Training Program

SPRING 2010 Dates are scheduled!

The Spring Landlord Training classes will be on April 20th and 24th, May 1 a.m. and starts promptly at 8:30 a.m. The class lasts a full 8 hours, with a concluding by 5:00 p.m. Please see the Spring 2010 Class Schedule for loc

Spring 2010 Class Schedule in progress

Date	Location
Tuesday, April 20 (the class is full)	Multnomah University - Travis-Lov 112, 8435 NE Glisan St.
Saturday, April 24	Providence Portland Medical Cente Amphitheatre, 4805 NE Glisan St.
Monday, May 17 (the class is full)	Adventist Medical Center - Amphit
Saturday, May 22	Providence Portland Medical Cente Amphitheatre, 4805 NE Glisan St.

Sign in begins at 8 a.m., with the class promptly starting at full 8 hours with a 1 hour lunch break.

Status in Twin Cities

- **Implementing all of these strategies**
- **Good set of homebuyer incentives (financing and tax credits)**
- **Partnerships with nonprofit housing developers**
- **Landlord training in St. Paul**

Approach 2: Strategically gain control of foreclosed properties

- 1) Nonprofits and municipalities purchase and rehab for sale**
- 2) First Look programs**
- 3) Land Bank**
- 4) Community land trust**
- 5) Property donation from lenders and servicers**
- 6) Use eminent domain**
- 7) Create a green space or alternative use through demolition**

- **Begun 2002**
- **Self-financing: Sale of 1,600 properties raised \$6.4 million**
- **Raised property values more than \$100 million**
- **Activities: Rehab, demolition, affordable housing, site assembly**



Source: MLive.com

Status in Minneapolis/Twin Cities

- **New and strengthened tools**
 - **Neighborhood Stabilization Program activities**
 - **First Look program of National Community Stabilization Trust**
 - **Twin Cities Community Land Bank**

Regulations that Apply to All Buildings

- 1) Proactive enforcement of local property maintenance code**
- 2) Require property owners to register**
- 3) Impose fines and criminal penalties for repeat property maintenance code offenders**
- 4) Obligate purchasers of distressed property to rapidly bring their property up to code**
- 5) Enforce and enhance nuisance abatement laws**
- 6) Coordinate with prosecutors, municipal attorneys, and judges to aggressively enforce relevant state and local codes**

- **Collier County, Florida emails code violation notices**
- **St. Louis does monthly inspections of problem properties, bills absentee owners for repairs made**
- **Atlanta trains residents as inspectors**



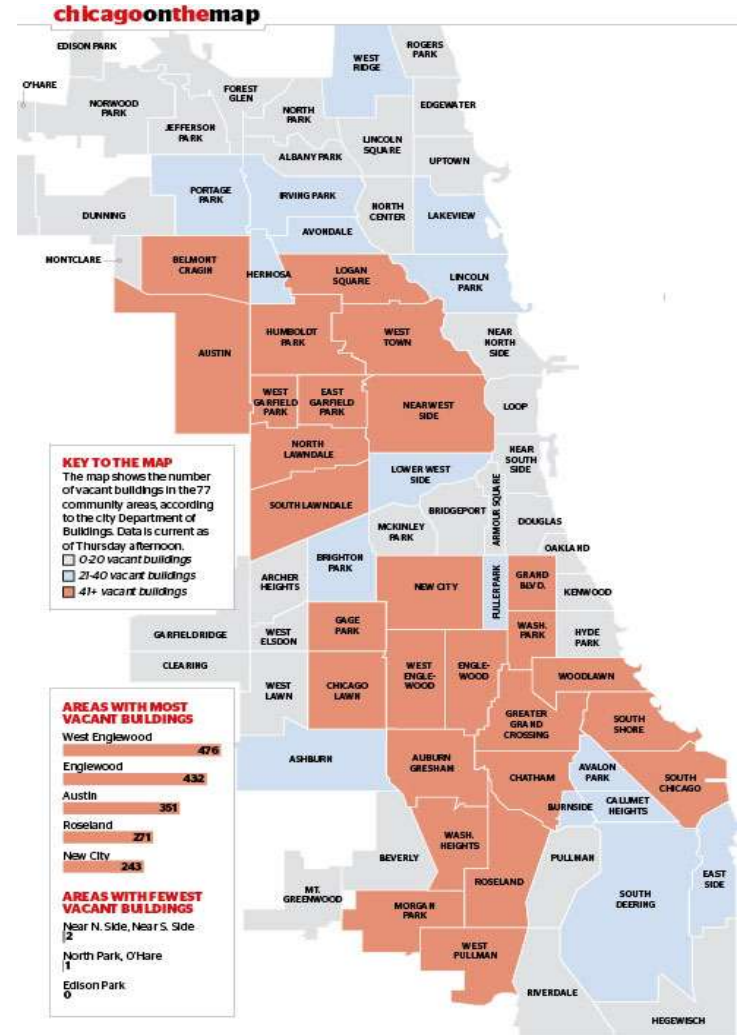
Source: NOLA.com

Regulations that Apply to Vacant Buildings

- 1) Require owners to set a timeline for rehab and reoccupation**
- 2) Charge vacant property fees for associated city tasks**
- 3) Require registration and an authorized local agent**
- 4) Require buyers to guarantee they will occupy the building and meet code requirements**
- 5) Require owners to maintain liability insurance**
- 6) Establish or use a housing court to hold unresponsive absentee owners accountable**
- 7) Authorize a receiver to rehabilitate or demolish a property**
- 8) Hold lenders responsible for maintenance and sale to a responsible owner**
- 9) Raise vacant property owners' property tax**
- 10) Make ownership information available to neighbors**

Chicago's Liability Insurance Requirement

- Requires owners of vacant residential properties to maintain insurance coverage of at least \$300,000



Sources: City of Chicago; ChicagoNow.com

Regulations that Apply to Rental Properties

- 1) Establish rental registry or rental licensing requirement**
- 2) Adopt a rental housing inspection ordinance to require inspection at the time of sale or change of tenant**
- 3) Partner with the Housing Authority to ensure Section 8 rental property owners keep their property in good repair**
- 4) Offer tax abatements for property investments in distressed neighborhoods**
- 5) Charge a sales tax on rents**
- 6) Adopt a Smart Rehabilitation Code to bring down costs of renovation**
- 7) Require landlord training**

- **Revocation of a rental license triggers inspection of all properties to ensure portfolio meets city code requirements**
- **Landlord Hall of Shame**
- **Blighted Property List**
- **Rental Rehabilitation Program**



Status in Twin Cities

- **Strengthened code enforcement and property regulations in Minneapolis:**
 - **Problem Properties Unit**
 - **Vacant Building Registration program (\$6,360 per year)**
 - **Rental conversion fee (\$1,000)**
 - **Rental Property License requirement and fees**
 - **Truth in Sale of Housing (TISH) Ordinance: inspection prior to sale, disclosure reports to buyers, and code compliance for rental properties**
 - **Cooperation between city and housing authority for Section 8 inspections**

Status in Twin Cities

- **Strengthened code enforcement and property regulations in St. Paul:**
 - Strategic code enforcement
 - Vacant Building Nuisance Procedure
 - Vacant building registration, annual registration fee (\$1000), and must describe plans to bring the property up to code
 - Vacant property owners must make improvements prior to sale
 - Tenant Remedies Act – receivership
 - Rental registration and certification requirement (one and two unit non-owner-occupied units)

- **Already a leader - many strong tools**
 - Strong homebuyer incentives
 - First Look program
 - New Twin Cities Community Land Bank
 - Neighborhood Stabilization Program activities
 - Strategic code enforcement
 - Tenant Remedies Act
 - Vacant building fees, registration and restoration requirements
 - Rental licensing requirements
 - Rental conversion fee and coordination on Section 8 inspections (Minneapolis)

Hold irresponsible investors responsible

- 1) Strengthen and democratize data systems
- 2) Focus code enforcement activities on large-scale investors
- 3) Take legal action using the Tenant Remedies Act
- 4) Improve the quality of Section 8 properties through interagency cooperation
- 5) Evaluate Truth in Sale of Housing (TISH) disclosure policies

Increase capacity to strategically gain control of foreclosed properties

- 6) Empower Twin Cities Community Land Bank
- 7) Expand First Look programs
- 8) Consider adopting policy that requires vacant property owners to carry liability insurance

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

- 9) Maintain and simplify existing incentives for homeowners
- 10) Require all landlords to receive training, and provide it for free to “mom and pop” landlords

Address the displacement of renters in foreclosed properties

- 11) Develop an acquisition and rehabilitation strategy for foreclosed small multifamily rentals

Promote housing opportunity throughout the region

- 12) Reduce the concentration of Section 8 housing in low-income, disinvested neighborhoods

For more information:



WHEN INVESTORS BUY UP THE NEIGHBORHOOD:

Preventing Investor Ownership from Causing Neighborhood Decline

By Sarah Treuhart, Kalima Hoss and Karen Black, PolicyLink

April 2010



Available at:

www.policylink.org

www.fhfund.org

www.nwaf.org



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