Boosting the odds of success: matching neighborhood conditions and problem property strategies

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September 29 & 30, 2016
What is this workshop about?

- Understanding consumers and markets
- Thinking strategically about problem properties.
- Matching strategic interventions to neighborhood conditions in weak markets
Basic starting questions

- Why are there problem properties?
- What is the purpose of a problem property strategy?
1 Understanding consumers and markets
Where should I rent?

Where should I buy?

Where should I live?

Should I just walk away?

Should I move or fix up?

Where should I invest?
Consumers drive neighborhood markets

EXTERNAL FACTORS

CONSUMER BEHAVIOR (DEMAND)

NEIGHBORHOOD MARKET

NEIGHBORHOOD CONDITIONS (SUPPLY)
It’s about choice

- The sum of consumer choices defines the neighborhood market.
- The strength or weakness of that market defines the neighborhood’s trajectory. It is not the only factor, but it is the most important one.
- Everything that happens to properties in a neighborhood – for good or bad – is affected by the market, and in turn affects the market.
- Successful strategies are those that move the market.
Human beings are risk-averse

Adapted from Kahneman and Tversky
What do buyers look for?

- Remember: people are risk-averse
- People look first for neighborhood stability
- People look second for neighborhood assets.
Stability

- Do people have confidence in the neighborhood and its future?
- Do they feel their investment (financial and psychological) is likely to be safe?
- Problem properties undermine stability
Neighborhoods send signals

Negative ones
Positive ones
Would you buy a house in this neighborhood?

Why not?
Assets

- Assets are features that enhance the value of the buyer’s investment and her quality of life.
- Not all neighborhood features are assets.
- Not all potential assets are real assets.

THIS PARK IS NOT AN ASSET
Different people or submarkets look for different types of neighborhood
Neighborhoods compete with each other

Which house will they buy?
Questions about your neighborhood

- Who is your submarket?
- Which neighborhoods are you competing with?
- How well are you competing?
The bottom line

- Problem properties undermine neighborhood stability, but
- They can be either a symptom or a cause of instability
- Effective problem property strategies reinforce or rebuild neighborhood stability
- Not all problem property strategies do that.
2 Thinking strategically about problem properties
Thinking strategically

- The goal of all problem property strategies is to build demand – to change consumer behavior with respect to the neighborhood.
- Improving problem properties is a means to that end, not an end in itself.
Diagnosing the condition

- Understand the neighborhood’s market condition and trajectory
- Understand what role problem properties play in that trajectory:
  - Are they a cause or a symptom of a neighborhood’s problems?
Looking at two strategies

- **Vacants 2 Value** – motivating owners and creating a pipeline of properties for market-oriented rehabbers.
- **Fox Park** – acquiring and fixing up rental housing in order to create positive climate for potential homebuyers.
Similar strategy: two neighborhoods

OUTCOME AFTER SIX YEARS

Vacant properties in 2010 = 163
Properties rehabilitated = 121
Added vacant properties = 23
Vacant properties in 2016 = 65
Vacant properties down 60%
Median home price in 2015
$203,963
Similar strategy: two neighborhoods

OUTCOME AFTER SIX YEARS

Vacant properties in 2010 = 91
Properties rehabilitated = 161
Added vacant properties = 231
Vacant properties in 2016 = 165
Vacant properties up 81%
Median home price in 2015 $38,240
What made the difference?

How were problem properties affecting the neighborhood?

- In Neighborhood A, problem properties were a problem, blocking market forces from working property.
- In Neighborhood B, problem properties were more a symptom of other problems than the cause of the neighborhood’s problems.
Fox Park

OUTCOMES

- A CDC now owns and manages over 1/3 of neighborhood’s rental inventory
- Number of home owners up by 114 or 46% since 2000
- Median house value up 96% since 2000
Being realistic

- What are the market opportunities you’re trying to unleash?
- What are your legal tools?
- What financial resources are available?
- To what extent can the market support problem property reuse?
- What are the most cost-effective strategies?
- What opportunity costs are associated with these strategies?
3  Matching Strategic Interventions to Neighborhood Conditions in Weak Markets
1. **Why diagnose a market?**

   - To avoid intervening based on a combination of guesses and personal conviction alone
     
     Sandtown-Winchester, DSNI, ANDP

   - To have data that can be converted to actionable knowledge

     Connect the dots in weak markets to answer the central question: how can demand be stimulated to create healthy outcomes?
Diagnosing the Market

2. What is involved in diagnosing a market?
   - Getting the scale of analysis and the diagnostic tools right
   - Distinguishing data points from trends (both are important)
   - Collecting only the data needed to make good decisions
Diagnosing the Market

What data?
- **Administrative**
  - People-based data (who is there)
  - Place-based data (what is there)
- **Market**
  - MLS
- **Field data** (who is behaving in what ways in a neighborhood)
  - Investment/Disinvestment
  - Existing and potential self-management capacity
Diagnosing the Market

3. What problem are you trying to solve?
   - Be very clear up front about your aims and the different implications of different ambitions
     - curing poverty or deconcentrating it?
     - revitalizing weak demand areas versus increasing affordability in short supply areas?
   - Other?
Aiming Our Diagnoses

1. What’s Going On?
2. N>R
3. Opportunity Costs
Aiming Our Diagnoses

1. What’s going on?
   - It’s critical to understand **what’s going on** in terms of stocks and investment behaviors in a neighborhood.

   How can the flow of dollars and the decisions behind them be understood and utilized constructively by those wanting to intervene and revitalize?
Aiming Our Diagnoses

2. N>R

- Weak markets always have more needs (N) and more problems to solve than there are resources (R) to address them; when N>R it is imperative that a system for prioritizing spending be developed.

What should such a prioritization system entail?
Aiming Our Diagnoses

3. Opportunity costs

- A signature characteristic of weak markets is that, since fewer resources are available than are needed, the single greatest challenge when deciding what to prioritize is the **opportunity costs associated with what you don’t do**. Opportunity cost discussions are avoided constantly, yet demand attention.

Why do we community developers avoid talking about opportunity costs and how can we productively do so?
Learning Tools

1. **Stock-Flow-Invest** model of evaluating markets, decisions, and consequences.

2. **Property Conditions Analysis** tool for prioritizing interventions based on comparative ROI and opportunity costs, and for clarifying organizational intentions.

3. **Case Study** analysis at neighborhood level.
1. **Stock-Flow-Invest**

How can the flow of dollars and the decisions behind them be understood and utilized constructively by those wanting to intervene and revitalize?

2. **Property Conditions Analysis**

Opportunity cost discussions are avoided constantly, yet demand attention.

3. **Case Study**

Applying prioritization work and opportunity cost considerations to decision-making so that strategies align with market reality.
Learning Tools

1. Stock-Flow-Invest

How can the flow of dollars and the decisions behind them be understood and utilized constructively by those wanting to intervene and revitalize?
Learning Tools

2. Property Conditions Analysis

Opportunity cost discussions are avoided constantly, yet demand attention.
<table>
<thead>
<tr>
<th>1</th>
<th>Best in class; highest level of occupant care of property</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Pride of occupancy is obvious; standards are strong</td>
</tr>
<tr>
<td>3</td>
<td>Could go either way; is the “norm” for this market’s average; at risk</td>
</tr>
<tr>
<td>4</td>
<td>Significant deferred maintenance; negative equity; little signs of care</td>
</tr>
<tr>
<td>5</td>
<td>Unrecoverable except possibly in high cost markets; frequently abandoned</td>
</tr>
</tbody>
</table>
Where to do what?

You can afford to raise 5 reds to orange, OR 8 oranges to yellow, OR 12 yellows to light green, or 15 light greens to dark green....which do you choose to do and where?
Intervention Principles

The MIDDLE - In measurable trouble AND still recoverable

- Balance deficit removal work w asset-strengthening efforts – “Fixing” on some sites, and encouraging more of what is already working at others
- Locate the Large A and small a assets and protect their flanks at all costs
- Retain first, in order to attract later
- Build/redevelop above market
- Work where gains are visible to existing strong households
- Concentrate the work geographically in a targeted manner
- Use overwhelming force/resources
- Goal is to stimulate demand
Intervention Principles

The BOTTOM - in deep trouble AND NOT recoverable anytime soon without massive resources

- Locate the small assets and protect their flanks
- Build/redevelop above market
- Work where gains are visible
- Concentrate the work geographically in a targeted manner
- Consolidate and hold
- Goal is to stabilize and hold steady
Learning Tools

3. Case Study

Applying prioritization work and opportunity cost considerations to decision-making so that strategies align with market reality.