



# CRA AT FORTY

## Urban Acupuncture: A Solution for Vacant and Abandoned Properties

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A version of this article first appeared in Louisville's *Courier-Journal* on May 16, 2017 and has been included here with the author's and newspaper's permission.

Throughout the United States and all of its great cities, if you drive through certain neighborhoods, you can't help but notice the huge number of decaying, vacant and abandoned properties. In my hometown of Louisville, Kentucky, there are nine neighborhoods "West of 9<sup>th</sup> Street" that fall into this category.

We need to come together as fellow Americans nationally, and locally as neighbors, and remedy this blight, because the decay can't be missed and should no longer be ignored. While certain publications like the *Courier-Journal* of Kentucky, whose writer Joe Gerth addressed the problem in a recent column "Scourge of vacant homes killing West Louisville,"<sup>1</sup> are addressing the issue, the reality is many of these neighborhoods are not visited by the more affluent and politically-connected citizens who could help make a change.

As the nation talks about aging infrastructure and needed investment, vacant and abandoned properties should be part of that discussion. Spending \$10 billion on highways and bridges is one thing and spending that same amount in \$100,000 investments in 100,000 places is another that would also have huge impact. The issue of vacant and abandoned properties is one of Louisville's greatest challenges - and I believe one of the great opportunities for all American cities. My team has been working in one of the nine neighborhoods "West of 9<sup>th</sup> Street" - the historic Portland neighborhood - for the last four years focused on exactly this issue of "vacant, abandoned properties" (VAPs).

Using "urban acupuncture," we try to acquire the worst vacant house on each block and renovate it. This takes away the negative ripple effect of a VAP and replaces it with a much-needed affordable housing opportunity. For most folks, the common question is whether to buy the "worst house on the best block or the best house on the worse

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<sup>1</sup> Joseph Gerth, "Scourge of vacant homes killing western Louisville," *USA Today*, March 25, 2017, available at <https://www.usatoday.com/story/news/local/joseph-gerth/2017/03/25/scourge-vacant-homes-killing-western-louisville-joseph-gerth/99535416/>

block,” so we buy the worst house on the worst block. I hope my insights can help policymakers, bankers, developers and nonprofit service providers brainstorm some potential out-of-the-box market-based solutions.

The discriminatory practice of redlining has been against the law for decades, and in 1977 the Community Reinvestment Act was passed to address redlining and encourage banks to lend in economically-challenged areas. Some local banks do more than just check the box when it comes to their CRA compliance; however, the vast majority of America’s challenged neighborhoods are still dealing with the real-world consequences of the legacy of redlining.

In Louisville, most of the crumbling structures (VAPs) can be acquired for under \$10,000. That is the cash cost, and does not take into account the time often spent tracking down who legally owns the property as well as dealing with city, state and third party lien-holders. Our redevelopment company’s average renovation cost is \$70,000, and our total cash investment averages \$80,000 per house. The market distortion which then leads to what is today effectively an “economic (not overtly racial) redlining” occurs when we finish one of these lovely historic houses, but both the banks and the Jefferson County Property Valuation Administrator say the house is “worth” about \$28,000 based on “area comparisons” included in required appraisals. It is virtually impossible to get any mortgage, construction loan or even home improvement loan on these houses since the amount required to renovate is so much more than what the finished “value” will be.

The reason for this disparity is simple and makes sense at first blush – banks rely on appraisals that use “area comparisons” when they decide how much to lend. Decades of disinvestment, coupled with white flight, the move to the suburbs after the interstate highways were built and the city’s documented history of redlining<sup>2</sup> have made it difficult, if not impossible, for certain groups to build equity through their homes over the last three generations. Subsequent vicious cycles of crime, under-employment and drug abuse have led to one in four area properties being VAP in distressed neighborhoods, so the continual \$10,000 “sales comps” preclude any other type of market-based valuation. It is an “apples to oranges” comparison, since the perfectly nice houses in these areas are being lumped in with VAPs, and the comparisons are inherently unfair.

This all gives us an opportunity to discuss how we could help the banks in our area unite for the greater good. If every bank in the nation would publicly commit to attaining an outstanding on their Community Reinvestment Act (CRA) Report, we could better finance housing for more of our neighbors in need. If banks would innovate and be flexible in their methodology to appraise rehabilitated VAPs, they could support a much different result.

There are 30,000 families on the affordable housing wait list in Jefferson County, where the city of Louisville is located. Affordable housing for a family of four in our area is about \$730 per month. We charge \$650 a month to rent one of our rehabilitated houses. An appraisal based on this monthly rent (or “cap-rate” for industry professionals) would suggest our newly renovated house should be worth over \$90,000.

There are close to 8,000 VAPs in Louisville; about 5,800 of those are vacant structures. Using our average figure of \$80,000 per residence, our community needs a total of \$640 million to renovate every single blighted property. There is a number that each city in America could come up with based on that formula.

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<sup>2</sup> Eric Bosco, “Map of the Month: Redlining Louisville: The History of Race, Class, and Real Estate,” Data-Smart City Solutions, June 15, 2017, available at <http://datasmart.ash.harvard.edu/news/article/map-of-the-month-redlining-louisville-1062>

The benefits to historically marginalized communities, local families and every American city, including Louisville, would be massive. When a property is left to deteriorate, cities spend about \$10,000 for each demolition plus the ongoing yearly maintenance of empty lots. In Louisville alone, that equals \$80 million in taxpayer benefit if we actually took care of each vacant property.

Studies show that more jobs are created renovating existing structures than building new ones, because more money goes into labor and less into materials. Another value in renovation is the re-building of the cultural identity of an area (many of these challenged neighborhoods are historic) and curing the blight. Renovating is a greater benefit to an area than new construction on an empty lot, since the empty lots don't have as negative a ripple effect as a VAP. In a conversation with a local police officer recently, he shared that police officers are more concerned about being shot answering calls in empty buildings than on empty lots. The negative impact on young children walking past VAP's on the way to and from school contributes to the sense that their neighborhoods - and, by extensions, themselves - have been forgotten. Since fixing up empty buildings displaces no one, this solution doesn't exacerbate gentrification. There could be a moratorium on property tax increases for long-term anchor homeowners to protect their interests.

Based on the 2007 National Association of Home Builders or the 2009 Housing Alliance of Pennsylvania studies, each 100 units of affordable housing - totaling about \$10 million of expenditure - creates about 150 jobs in the first year and 40 recurring jobs<sup>3</sup>. Expanding on that, 8,000 units in Louisville would create 12,000 jobs in year one and 3,200 permanent jobs.

An added bonus in Louisville is that the Water Company and Metropolitan Sewer District are publicly owned, and the infrastructure for those city utilities already exists in the challenged areas. Because we as taxpayers have already invested millions of dollars to provide water and sewage services to VAPs, having customers living on restored properties would generate significant revenue. While having citizen-owned utilities may be unique to Louisville and certain other cities, the areas where VAPs are prevalent in all cities are already on the grid in terms of these services.

If we take away the cancerous VAPs and replace them with newly renovated affordable houses, entire neighborhoods will be uplifted. The market will reflect that with a significant increase in property values throughout American cities, not to mention the increase in retail that will come with more "rooftops."

While there are obviously huge economic benefits from more people with homes, imagine the future earnings and benefits that would accrue from safely and securely housing today the many children in America who each year experience some form of homelessness. In Louisville alone, there are 8,000 children in Jefferson County Public Schools who do.

How can we as a nation figure out a way to stimulate the investment needed for affordable housing in our communities? In Louisville, we are pitching a super tax increment financing district (TIF) covering all of the area "West of 9<sup>th</sup>" and challenging the banks to have the private sector fund a \$640 million Community Impact

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<sup>3</sup> "Financing Affordable Rental Development: Jobs Created by New Construction and Rehabilitation," February 25, 2011, available at <http://www.floridahousing.org/FH-ImageWebDocs/UniversalApps/2011/ImportantAnnouncements/012-FinancingAffordableRentalDevelopment/Jobs%20from%20Rental%20Development%20with%20Table%202%2015%202011%20PUBLIC%20DRAFT.pdf>

Bond. Our back-of-the-envelope economic impact study based on our returns for investors suggests a healthy return (higher than municipal bonds presently) for the private sector if such a bond could be institutionalized. Our challenge to the country is to brainstorm a way to find the political will, the private sector capital or a potential for a public-private partnership and the social conscience to house our neighbors, create thousands of good jobs, reduce our crime and homicide rates and rebuild our cities.

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## ABOUT THE AUTHOR

**GILL HOLLAND** lives with his wife and three children in Louisville, where he is a community builder and real estate developer working in the NuLu and historic Portland neighborhoods. He also produces movies, books and music.

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## ABOUT THE BOOK

This article first appeared in **CRA at 40: Views on the Present and Future of Community Reinvestment**, published by findCRA in November 2017. The book was created in celebration of the 40<sup>th</sup> anniversary of the Community Reinvestment Act. It tells the stories of community development, from the perspective of those working in our communities who bring their knowledge and passion to bear every day in confronting the most critical problems facing communities in need. The book is about real-world experiences told in plain language by those who live them to provide a lens for readers to see CRA at work, ideas for its future and most importantly, what it means in people's lives. To access the full text or order copies of the book, please visit [www.findCRA.com/CRAat40](http://www.findCRA.com/CRAat40).