# Challenges in Reusing Vacant, Abandoned,

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**U-SNAP-BAC, a CDC working on the east side of Detroit, built this single-family housing on vacant land, most of it purchased from the city.**

*Margaret Dewar and Kris Wernstedt*

Nonprofit and community-based developers can play important roles in reusing vacant, abandoned, and contaminated properties to help revitalize cities. These developers include community development corporations (CDCs), nonprofit housing corporations, organizations that house populations with special needs (such as senior citizens, homeless people, and others in transition), faith-based developers often operating from churches, and national organizations such as Habitat for Humanity.

By "vacant" we refer to both empty lots and unoccupied structures, while "abandoned" means that the owner has walked away from the property and no longer spends resources on maintenance. Abandoned property often becomes publicly owned due to the owner's failure to pay property taxes. "Contaminated" property includes land and buildings with known or suspected pollution or other hazards from previous uses.

Why are nontraditional developers so important in reusing vacant, abandoned, and contaminated properties? These sites are often located in low-income areas of cities that have lost population and jobs, and where the long-term decline in demand for housing and for commercial and industrial property has led to abandonment. Nonprofit and community-based developers are usually the only developers interested in investing in real estate projects in areas with chronically weak demand. Many of them have a strong commitment to a place and remain dedicated to transforming that place over a long period of time. Unlike private developers, they are not looking around the city or region for the best location or real estate project that will realize the highest return.

A second reason for the key role of nonprofit and community-based developers is that their missions often focus on improving neighborhood

# and Contaminated Urban Properties

quality of life. In their construction projects, such developers aim to reuse property to benefit residents and local businesses. They also can help to empower local constituents to act as partners in guiding investment in their communities.

Furthermore, reuse of troubled properties, especially if concentrated in areas with potential for market viability, can create neighborhoods that will attract future private investment. These developers can undertake bellwether projects that demonstrate the potential for profit where risk-averse private developers do not see that possibility.

Finally, nonprofit and community-based developers can facilitate the reuse of property by private developers. They can assist with land assembly for new uses, and help access subsidies for reuse of property—still an essential ingredient in many redevelopment projects in struggling markets—for which private for-profit entities may be in eligible (Heberle and Wernstedt 2006). They can also reduce the costs of development by doing the needed background research on property ownership and environmental status (Dewar and Deitrick 2004).

Our research examines factors that help and hinder nonprofit developers in carrying out this work. What are the advantages and disadvantages that nonprofit and community-based developers face compared with other kinds of developers in reusing such property, and why are they more successful in some cities than in others? What conditions in different cities or neighborhoods affect the success or failure of these developers in reusing properties, even when market demand is similar?

## Advantages and Disadvantages of Nonprofit Developers

The legal, socio-political, and environmental landscapes that nonprofit developers face in reusing vacant, abandoned, and contaminated properties are identical in many respects to those faced by for-profit developers. As with any real estate project, uncertainties may exist in development timelines due to complications in land acquisition, fluctuating construction costs, the ease of accessing entitlements, opposition from neighborhood residents, weak market demand, and competition from other developers, among other factors. In the case of previously used properties, environmental investigations, demolition of existing structures, interaction with environmental regulatory authorities, and cleanup may introduce further complications (Wernstedt and Hersh 2006). However, because for-profit and nonprofit developers have different structures and missions, these challenges can pose different opportunities and barriers.

Many nonprofit developers engaged in reusing vacant, abandoned, and contaminated properties also function as community-based organizations with a broad array of social service responsibilities beyond housing development. These commonly include support for families and individuals to improve their economic situation through skills training, interventions with chemical dependencies, youth work, and day care provision.

What are some of the barriers faced by nonprofit developers in this context? Our studies of nonprofit developers in such diverse cities as Denver, Indianapolis, and Portland (Oregon) indicate that even large community-based organizations with


**The Detroit Catholic Pastoral Alliance built infill housing on vacant lots purchased from the city with financing from numerous sources.**

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**The Detroit Shoreway CDC, based in Cleveland, built townhouses using property purchased from the city's land bank.**

dozens of full-time employees typically have only a handful of staff with real estate experience, so they can take on just one or two development projects at a time.

Yet, vacant, abandoned, and contaminated properties often present significant and unusual challenges—including clouded titles and uncertain demolition expenses—that demand considerably more staff time and specialized expertise than small organizations can provide. Even when a project can work financially, the developer fees that nonprofit developers may rely on to serve their larger organizational mission could be cut substantially.

Moreover, if a redevelopment project entails contamination, anticipated cleanup costs of 2 or 3 percent of total development costs may be enough to make a project fail. And if costs exceed expectations because of unanticipated environmental cleanup problems, insurance to limit these overruns is not available for projects whose cleanup costs are less than one to two million dollars (Wernstedt, Meyer, and Yount 2003).

The mixed-use redevelopment model common in many projects that reuse vacant, abandoned, and contaminated properties also may pose a barrier to nonprofit developers. The pressure to undertake such redevelopment is due in part to the increased household and business demand in some areas for mixed residential and retail use. It also reflects the location of many of these distressed properties in areas that already host mixed residential, commercial, and light industrial areas. Nonprofit developers familiar with doing mixed-use development do not face particular obstacles in this context, but most of the nonprofit developers we interviewed in Denver, Indianapolis, and Portland—the bulk of whom indicated that they specialized in housing—have had difficulty adjusting to the new environment. Moreover, lenders and insurers with whom they typically worked on housing projects were reluctant to support these developers' entry into what for them was the unfamiliar territory of mixed-use ventures.

In addition, the reuse of distressed properties can complicate timing, a key factor in any development project. Such property may require a lengthy process to clear titles, emerge from tax sales, conduct environmental assessments, and/or interact with environmental regulators, yet most nonprofit developers are thinly capitalized and lack access to funds for predevelopment costs. Unusual delays can mean that material costs rise substantially or construction gets pushed back to winter months, necessitating more expensive site preparation such as gravel pads for staging heavy equipment. Delays also can jeopardize public funding if funding application windows are tight, and necessitate staff layoffs if developer fees are late.

Legislative and regulatory changes at the federal and state levels, particularly with respect to contaminated properties, have reduced some of the uncertainty of undertaking redevelopment on sites with environmental problems, and have made timing more predictable. Nonetheless, these uncertainties have not disappeared entirely. One experienced community-based organization in Portland, which has developed more than 1,000 units of low- and moderate-income rental housing over the last quarter century, conducted an environmental assessment after acquiring an attractive site from the county, only to find during actual site preparation that it would have to pull and dispose of eight underground storage tanks.

Notwithstanding these apparent barriers, nonprofit developers have some obvious advantages over for-profit developers at these properties. They typically have a longer-term, place-based presence in the neighborhood than private developers. As such, they may attract less opposition from residents to a redevelopment effort that changes the character of the property and neighborhood.

As noted earlier, nonprofit developers also may qualify for public subsidies for redevelopment of contaminated properties, and they may have preferential access to properties that have gone through tax sales and emerged without a buyer. The government offices that receive such properties may sell them at very low prices at auctions where community-based organizations may bid. After the tax foreclosure process closes without a sale, the government owner may offer the property at very low prices to community-based organizations while providing clean titles, often for a nominal fee of several hundred dollars at most.

Finally, one of the chief opportunities that vacant, abandoned, and contaminated properties provide to nonprofit developers is in robust markets where they have a vital role to play in the provision of affordable housing. In such markets, competition with better capitalized for-profit developers for prime properties is usually unrealistic. But distressed properties in strong markets can yield a competitive advantage for nonprofit developers, especially if they are accustomed to reusing sites that present many problems. In the words of one CDC director we interviewed, nonprofit developers are already "primed" to take on the challenge.

## Characteristics of a City's Community Development System

Nonprofit developers operating anywhere would likely articulate similar issues that help or hinder them in reusing vacant, abandoned, and contaminated property. However, even nonprofit and community-based developers who face the same kinds of market conditions and project difficulties reuse much more land in some cities than in others. This suggests the importance of local institutional, social, and political conditions that have little to do with financial viability or the complexity of specific projects.

Detroit and Cleveland offer a way to examine this issue because their market conditions are nearly the same, but nonprofit developers in Cleveland have reused much more land than those in Detroit (Dewar 2008). What has enabled Cleveland nonprofit developers to do so well?

In both cities demand for land is weak, and for-profit developers have little if any interest in developing neighborhoods that have experienced abandonment. Both cities had lost about half of their populations by 2000, and well over half of their employment in retail and in manufacturing by the mid-1990s. One-quarter of each city's population lived in poverty in 1999, when many nonprofit developers in both cities were trying to reuse property. Recent census data show the poverty rate in the mid- to late 2000s at around 30 percent in Cleveland and 32 percent in Detroit.

However, nonprofit developers in Cleveland purchased and used much more abandoned city-owned land than did nonprofit developers in Detroit—3,393 properties versus 2,756. The difference of almost 650 properties amounted to about three times more parcels in relation to population and total properties in each city (table 1). More than 22 percent of the abandoned, tax-reverted properties purchased by nonprofit developers in Detroit remained unused so long after purchase that planned projects had certainly fallen through. Only about 5 percent of the properties purchased by Cleveland nonprofit developers remained unused after four years or more.

Close to 30 percent of the nonprofit and community-based developers who had purchased abandoned property in Detroit had reused *none* of it, while none of the nonprofit developers in Cleveland failed to use at least some of abandoned property they had purchased. At the other extreme, 80 percent of the nonprofit developers in Cleveland had reused nearly all the property they had purchased, while only about one-third of the nonprofit developers in Detroit had done so.

**TABLE 1**
**Reuse of Tax-Reverted, Publicly Owned Properties by Nonprofit Developers**

| | Detroit (1983–May 2006) | Cleveland (1988–May 2005) |
|---|---|---|
| Number of city-owned properties purchased for development | 2,756 | 3,393 |
| Per 10,000 parcels of city property | 71 | 208 |
| Per 10,000 city residents | 29 | 71 |
| | | |
| Percent of these properties remaining unused | 29.2 | 27.3 |
| | | |
| Percent of properties purchased before 2004 remaining unused | 22.5 | 4.6 |

Source: Dewar (2008, table 2).

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**Community Partners for Affordable Housing combined a federal brownfields grant and low-income housing tax credits to help finance a mixed-use development incorporating senior housing, a community center, and office space on a formerly vacant site in Portland, Oregon.**

A random sample of 30 nonprofit and community-based developers in each city showed that these developers had reused similar shares of vacant properties (more than 80 percent of the properties reused in both cities), but abandoned property made up a larger share of the properties reused in Detroit. Contaminated sites made up a small proportion of the properties reused in both cities (table 2). One CDC in Cleveland reused a very large property that was not vacant, abandoned, or contaminated, thus affecting the percents of areas more than the percents of properties in that column.

Why do the nonprofit and community-based developers in the two cities have such different records of reusing vacant, abandoned, and contaminated properties under the same market conditions? The answers lie in the different character of the two cities' community development systems—the political, social, institutional conditions under which community development work proceeded.

Strong support from political leadership makes reuse of land more likely. In Cleveland, successive mayors have made production of new housing a major priority, and they worked with banks and foundations to provide subsidies. When city council members supported nonprofit organizations' projects, these were more likely to be implemented. The commitment of mayors and the city council meant that considerable amounts of Community Development Block Grants funding went to nonprofit developers, and cooperation from city offices facilitated the reuse of these properties. Attention of city officials to this issue led to streamlined procedures, especially with respect to the handling and sale of city-owned property in Cleveland, where the land bank had reliable information about the property in its inventory and sold land with clear title for low prices (Dewar 2006).

The character of intermediaries also differed between Detroit and Cleveland. Both cities benefited from the assistance of local offices of national intermediaries and the work of trade associations of nonprofit developers. However, in Cleveland locally created intermediaries took a very strong role in encouraging the reuse of vacant, abandoned, and contaminated land, and in implementing large-scale affordable housing development projects. Foundation and corporate leaders established Neighborhood Progress, Inc. (NPI) as an intermediary in 1989 to increase investment in CDCs and to increase the scale and pace of physical development in troubled neighborhoods.

In 1981 leaders of several community-based organizations founded the Cleveland Housing Network (CHN) to stabilize neighborhoods by saving housing, creating affordable homeownership opportunities, and promoting neighborhood-controlled development. CHN produced about $60 million per year of affordable housing development, thus advancing the neighborhood development plans of local CDCs. In Detroit no institutions like NPI or CHN existed (Yin 1998).

**TABLE 2**
**Percent of Property and Area Types Reused by Sampled Nonprofit Developers**

| Property Type | Detroit | Cleveland |
|---|---|---|
| Vacant properties | 84.8 | 83.1 |
| Vacant area | 83.6 | 65.9 |
| Abandoned properties | 75.9 | 57.5 |
| Abandoned area | 75.4 | 40.2 |
| Contaminated properties | 3.7 | 0.6 |
| Contaminated area | 6.4 | 5.6 |
| Other properties | 6.4 | 8.9 |
| Other area | 6.2 | 22.9 |

Note: N = 30 per city. Percents of properties and areas sum to more than 100 because numerous properties are classified in more than one type.

Sources: Dewar (2008, table 4); Cleveland data from Slavic Village CDC; Detroit data from *http://www.deq.state.mi.us/part201ss/*

Finally, working relationships among officials and community leaders differed considerably between the two cities. Cleveland's working relationships were cooperative; Detroit's were marked by distrust and conflict (Bockmeyer 2000). The differences seemed to be the legacy of the relationships between nonprofit developers and mayoral administrations from the early years of the nonprofit, community-based development movement in the 1980s. In Cleveland, leaders in community development moved among jobs in CDCs, foundations, intermediaries, and city departments. In Detroit, such movement was rare, so misunderstandings about the constraints and opportunities facing individuals in varied positions were more common.

## Conclusion

What does this research say about the promise of nonprofit and community-based developers in reusing vacant, abandoned, and contaminated property?

On the one hand, the more difficult nature of distressed properties may overwhelm the capacity of such developers. The need for specialized expertise to address contamination costs, uncertain financing, longer project timelines, and pressure for mixed-use redevelopment can militate against nonprofit developers' success in undertaking these kinds of redevelopment projects. On the other hand, the ubiquitous presence of distressed properties in many neighborhoods where nonprofit developers work suggests that such developers must be key players if the properties are to be reused at all.

Policy and budgetary changes to support activity by these actors could significantly enhance the reuse of distressed properties. For example, the reform of state property tax law to move vacant, abandoned, and contaminated property more efficiently and fairly into tax foreclosure and subsequent sale to nonprofit developers would substantially increase the number of properties that could be reused. Some legal experts have argued that stricter enforcement of environmental laws might force more properties into the market in distressed communities where community-based organizations have a presence.

In addition, funding for local, nonprofit technical entities to support community-based developers in taking on the unusual challenges of such properties would extend the in-house capacity of these developers to redevelop distressed properties. Public creation and subsidization of insurance pools for community-based organizations undertaking projects on contaminated properties also would limit organizations' financial exposure. Revising federal programs to extend liability protection to nonprofit developers and make them directly eligible for federal support for redeveloping contaminated land could help reduce the financial burden and uncertainty of such redevelopment.

However, handling specific issues in nonprofit developers' efforts to reuse such properties is not enough. The character of institutions, political settings, and social relationships is critical in determining whether nonprofit developers are effective in reusing vacant, abandoned, and contaminated properties in their communities.


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