BLOCK-BASED NEIGHBORHOOD STABILIZATION:

East Side Neighborhood Development Company’s Strategy for Promoting Stabilization through a Market-Based, Data-Driven Approach

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INTRODUCTION

This Center for Urban and Regional Affairs (CURA) research project was commissioned by the East Side Neighborhood Development Company (ESNDC) Housing Committee, a group of East Side residents committed to promoting and sustaining the livability of their neighborhood by advocating for quality and affordable housing options, to provide an analysis of market conditions that would support a block-based neighborhood stabilization strategy along the Payne Avenue commercial corridor of the Payne-Phalen neighborhood on Saint Paul’s East Side, an area that has been especially hard hit by the recent and ongoing foreclosure crisis.

Between January of 2005 and December of 2009, 112 of the 385 residential properties within ESNDC’s focus area, or 29 percent of the parcels, received a lis pendens notification, a legal notice from a bank that a property owner is at least thirty days late on their mortgage payment and in danger of foreclosure. Further, since 1995, 54 of the homes in this focus area have been demolished. Keenly aware that these troubling trends are strong predictors of market instability, the ESNDC Housing Committee became interested in intervening on behalf of their community to promote market recovery and neighborhood stabilization.

Organized by ESNDC Community Engagement Coordinator Dawn Garland and Sustainable Development Coordinator Sam Hanson, the Housing Committee has been able to complete an impressive amount of work mitigating the affects of property vacancy in their community through a number of outreach efforts in the past two years.

The list of projects carried out by this Task Force includes:

- Identifying a focus area to concentrate their efforts (similar to tipping point or clustering strategies highlighted as community development best practices) of roughly five by six blocks;
- Conducting an outreach campaign to survey households in the focus area to offer early support to individuals with unsustainable loans;
- Creating a vacant property priority matrix to evaluate vacant properties and make recommendations to the City Council for rehabilitation or demolition; and
- Partnering with Habitat for Humanity to prioritize home rehabilitations, resulting in being chosen as a 2010 Jimmy and Rosalynn Carter Work Project.

The ESNDC Housing Committee’s commitment to stop the flood of foreclosures and to prevent residential and commercial vacancy has culminated into an innovative strategy to create a
The ESNDNC Housing Committee strives to create a regenerative and resilient neighborhood that is culturally thriving, energy and resource efficient, and economically sustainable. Starting with four blocks, the Housing Committee is benchmarking the existing conditions of its residential inventory, investigating community connection opportunities, implementing greening strategies, and improving the public realm. Through the ESNDNC Housing Committee, East Side residents are working to preserve and revitalize their neighborhood’s unique dynamic--- one block at a time.

In This Report

The research for this report was conducted in two phases. In the initial phase, research was conducted in ESNDNC’s preliminary focus area, an area made up of twenty blocks between the Payne Avenue and Arcade Street commercial corridors, to create a baseline for understanding and contextualizing the specific impacts of the foreclosure crisis in the Payne-Phalen community. The results of this baseline analysis are presented in the first section of this report.

The baseline analysis, as well as other work conducted by ESNDNC, led the organization to the development of a block-based revitalization strategy. This strategy called for a second phase of research to be conducted on the best practice and theoretical underpinnings of block-based initiatives, which is presented in the second section of this report.

Lastly, the ESNDNC block strategy has precipitated a need for ongoing resources to be successful. One of the most important needs for this project is current and accurate data to assist in the appraisal, acquisition, greening, and rehabilitation of structures and streetscapes. The use of data sources is documented in the final section of this report.

The report is organized as follows:

- **Section I: What is the Problem?** In this section, a parcel-specific analysis was conducted in the area around the blocks targeted for ESNDNC’s block-based revitalization in order to better understand the market conditions at the micro-level.

- **Section II: Using a Block Strategy to Promote Neighborhood Stabilization.** In this section, the theoretical underpinnings of a block-based strategy are examined and measures of market confidence are analyzed.
Section III: Ongoing Needs to Support a Block-Based Initiative. In this section, the ongoing data needs of the East Side Neighborhood Development Company are examined.

Methodology

The research for this report took place between September 2009 and May 2010. It included interviews, primary and secondary research, and reviews of best practices from across the country. The methodological framework of the project aligns closely with that of Participatory Action Research (PAR), a practice that has been described as “involving all relevant parties in actively examining together current action (which they experience as problematic) in order to change and improve it.” Both ESNDC and advocates of Participatory Action Research have found that university-driven research conducted in communities, especially relatively poor ones, is less likely to succeed unless community members are entitled to full partnership in conducting research and unless research leads to action that supports the further empowerment of the community.

Thus, ESNDC and residents involved in the Housing Committee expected data analysis to be a community effort. This was accomplished by providing each task force participant with copies of the raw data that was collected, as well as maps that emphasized a particular theme found within the data.

From this process, necessary action steps were identified and further research questions were derived. Thus, the research process was cyclical in that questions were identified, data were gathered and analyzed by the community, leading to new questions and action steps for the community to pursue.
SECTION I: What is the Problem?

Payne-Phalen has a long history as a vibrant working class neighborhood on Saint Paul’s East Side. More recently, the community has become an important immigrant enclave, attracting Latino and East African families and businesses. Further, the neighborhood has a number of attractive public assets, including parks and open space (Lake Phalen, Bruce Vento Trail, and Heritage Park), community institutions (Metro State University, City Academy High School, John A. Johnson Elementary School, and a newly constructed YMCA), excellent transit connections, and proximity to downtown Saint Paul and its employment opportunities. However, the neighborhood has also been disproportionately impacted by the mortgage foreclosure crisis, with the second largest number of foreclosed homes in Minnesota within its borders and the highest number of vacant properties in the City of Saint Paul. These foreclosures and property vacancies have caused rapid deterioration in the neighborhood’s housing stock and have weakened market confidence in potential homebuyers and renters, necessitating a market intervention to stabilize the neighborhood’s housing market.

Neighborhood Background

During the first half of the twentieth century, Payne-Phalen was the site of numerous industrial plants for high-profile companies including Whirlpool, Hamm’s Brewery, Seeger Refrigerators, and 3M. These businesses employed thousands of local residents; however,
economic shifts caused the majority of these plants to close by the end of the 1970s, leaving many Payne-Phalen residents few options for well-paid, blue collar employment opportunities. In the years since, Payne-Phalen has experienced natural revitalization through the influx of new immigrant populations, many of whom began new business enterprises that filled empty storefronts on Payne and Arcade Avenues.  

Payne-Phalen, which grew faster than the city as a whole in the 1990s, is experiencing rapid demographic change. From 1990 to 2000, the White population decreased from 82 percent to 49 percent of neighborhood residents and the Asian population grew from 7 percent to 24 percent. Both the Black and Latino populations increased from 5 percent to 11 percent. The American Indian population decreased from 2 percent to 1 percent. In the 2002-2003 school year, 76 percent of public school students were students of color. According to the 2000 Census, 21 percent of neighborhood residents were born outside of the United States and 35 percent of residents in Payne-Phalen speak a language other than English at home.

Payne-Phalen residents, at the aggregate level, tend to be less economically well-off than the average Saint Paul resident. The median household income in Payne-Phalen in 1999 was approximately $3,000 less than the city’s median income ($35,475 versus $38,774). Moreover, 32 percent of households had an annual income below $25,000. During the 2002-2003 school year, 78 percent of public school students qualified for free or reduced price lunches, compared to 65 percent of public school students city-wide.

Out of 10,380 housing units in the Payne-Phalen neighborhood in the year 2000, 58 percent
were owner-occupied (6,050 properties) and 42 percent were rented (4,330 properties), similar to the city as a whole (55 percent and 45 percent, respectively). According to the 2000 U.S. Census, 17 percent of homeowners and 42 percent of renters paid 30 percent or more of their income for housing in 1999, also similar to city-wide percentages (19 and 39 percent, respectively); this indicates that many residents are paying more than what is considered affordable for housing (30 percent or less of household income). Further, City records reveal that about 3 percent of the home improvement investments in Saint Paul are in Payne-Phalen, although it has 9 percent of the city’s occupied housing units.

Focus Area Background

As mentioned previously, the ESNDC Housing Committee initially chose to focus its attention on a twenty block subsection of the Payne-Phalen neighborhood, bound by Edgerton Avenue on the west, Lawson Avenue on the north, Arcade Street on the east, and Phalen Avenue on the south in order to create a baseline of data to begin their work. The Committee’s focus area later expanded to include a second focus area in Ward 5 bound by Lawson Avenue to the north from Arkwright Street to Edgerton Street and bound by Whitall Street to the south (shown in Figure 2). From this focus area, the four blocks for ESNDC’s block-based revitalization strategy were chosen, with positive spillovers anticipated for the focus area and neighborhood as a whole.

The initial focus area, referred to as the Payne-Phalen focus area, contains many important community assets including two commercial corridors (Payne Avenue and Arcade Street), John A. Johnson Elementary School, Cleveland Jr. High School, City Academy High School, and a newly constructed YMCA (See figure 2 on the previous page). The area has an active small business association that hosts many community events, including an annual street festival called Payne Avenue Business Association (PABA Fest).

As depicted in the map in Figure 3, the area contains a relatively large number of rented residential parcels, as compared to the city of Saint Paul as a whole. Two hundred and seven
out of three hundred and eighty-seven, or 53 percent, of the parcels are non-homesteaded. This percentage is nearly double that of the Saint Paul rental rate of 27 percent. Further, the focus area contains a number of high density units, including a high-rise apartment complex with 219 units of public housing.

The focus area of this project has received special attention from the City of Saint Paul due to the extremely large number of home foreclosures in the area. Two programs in particular have made funds available to the area to address its stabilization needs: the city program called Invest Saint Paul (ISP) and the national Neighborhood Stabilization Program (NSP).

The Invest Saint Paul initiative was instated by St. Paul Mayor Chris Coleman in August of 2007. The program has allocated $25 million in bonds to be used in four key neighborhoods across the city, including Payne-Phalen. The funds allocated to this program can be used to improve the neighborhoods’ housing stock through rehabilitation, address affordability issues, or to demolish blighted properties.

Through the Housing and Economic Recovery (HERA) Act of 2008, the Neighborhood Stabilization Program was initiated. NSP has similar goals to Invest Saint Paul, including the provision of “healthy, affordable and quality housing, improving housing stock above minimum standards by addressing lead, mold, radon, energy efficiency, and ‘curb appeal’ elements to provide long term marketability.” This program also funds the demolition of deteriorated and blighted housing that “has negative effects on the community.” Two of the seven zip codes that have been identified as greatest need areas are represented in the focus area: 55103 and 55106. $4.3 million was allocated to the program from the U.S. Department of Housing and Urban Development (HUD) and an additional $4.5 million was allocated to Minnesota Housing for dispersion.

The NSP funding divides the City into three distinct market areas, placing the focus area in the category of “market collapse.” The category notes that there is extensive vacancy, foreclosures, and abandonment, as well as a value decline of over 15 percent. The treatment activities for market collapse include property acquisition, rehabilitation, and demolition, site control, deconvert housing back to single family use, and land banking. Thus, these activities represent the strongest possibilities for funded stabilization efforts by residents and local community development corporations.
What Happened?

Although home foreclosures were not the only destabilizing force that impacted the Payne-Phalen focus area during the study period, the rapid increase in foreclosures due to the 2008 credit crisis, as well as their correlation with heightened home vacancy rates, makes them a prominent part of the analysis of what caused market destabilization in the ESNDC focus area during the study period of 2005 to 2010. As depicted in Appendix I, no Saint Paul neighborhood escaped the tide of foreclosures; however, Ward 6, which corresponds with the area known as East Saint Paul and includes the Payne-Phalen neighborhood (Appendix II), experienced over 1600 foreclosures within this time period, making it the ward with the highest number of foreclosures in the city. Further, the concentration of foreclosures in the zip code which encompasses the focus area of this analysis was the second highest in the state.

To better understand the trends behind the high number of home foreclosures in the study area, homes that received foreclosure notices after 2005 were analyzed in the first section of this report. Out of the three hundred and eighty-five residential parcels in the focus area, one hundred and twelve, or 29 percent, received foreclosure notices (See Figure 4). Of the one hundred and twelve properties who received foreclosure notices, eighty-three were non-homesteaded rental units. This represents 74 percent of all properties that received foreclosure notices. A 2008 paper by the Joint Center for Housing Studies reports that,

Figure 4: Parcels that Received Foreclosure Notices, 2005—2009
nationally, 20 percent of foreclosures have been rental (from 2004 to 2008). Thus, the focus area has had nearly quadruple the rate of rental foreclosure notices as compared to the nation as a whole.

Further, many analysts are now recognizing the importance of counting not only the number of parcels that receive foreclosure notices, but also the number of individual units that are foreclosed, as the original counts will underreport foreclosure densities in areas with a greater than average number of multi-family homes. In the focus area, one hundred and sixty-seven units out of five hundred and fourteen units are multi-family, bringing the percent of foreclosed homes up to 32 percent.

During the study period, foreclosure sales were highest in the focus area in 2007 and 2008. Although it appears that the focus area is on the backside of this trend, some analysts are predicting more foreclosures in the second and third quarter of 2010 caused by rising job scarcity.

Mortgage Riders

Parcels were also analyzed in regards to the kinds of mortgage products that were applied to them. As has been widely reported throughout the national foreclosure crisis, exotic mortgage products were used more liberally during this decade than ever before. According to a Center for Urban and Regional Affairs (CURA) study conducted by Professor Jeffrey Crump in 2007, spatial analysis indicates that subprime loans in Hennepin and Ramsey Counties are concentrated in African American and Latino communities. Although this report does not provide an academically rigorous analysis of mortgage riders, as this indicator was one of many being analyzed, the high prevalence of expensive mortgage riders seem to confirm Crumps’ hypothesis within the focus area of this project.

The most prevalent mortgage rider applied to mortgages that went through foreclosure in the focus area was the Adjustable Rate Mortgage rider (referred to as an ARM). Adjustable rate riders change the monthly mortgage payment of a borrower at a certain period in the life of the mortgage, although the terms of this change vary widely. On the whole, almost every adjustable rate mortgage will make mortgage payments more expensive for the borrower. Eighty-eight out of the one hundred and twelve parcels, or 79 percent, that foreclosed had at least one Adjustable Rate Mortgage (properties can have more than one ARM if there are multiple mortgages taken out on the property (see Appendix III). According to a 2001 U.S. Census report, seven in ten mortgaged rental properties had adjustable mortgage riders. Thus,
the focus area experienced a slightly higher prevalence of adjustable rate mortgages.

The second most prevalent mortgage rider in the focus area was the Prepay Mortgage Rider. Prepay riders typically penalize a lender who pays back their mortgage faster than the predefined payment period. Although prepayment penalties are now illegal in Minnesota, the statutes that prohibit them do not extend to banks charted outside of the state. Thirty-five out of one hundred and twelve, or 31 percent, of the properties had prepay riders.

Lastly, eleven out of one hundred and twelve, or 10 percent, of foreclosed properties had balloon payment riders. Balloon riders typically allow mortgagees to pay small monthly payments with a large lump sum at the end of the loan period. Although balloon riders are not usually considered exotic products, and are often used in larger multi-family housing projects, the large lump sum payment due at the end of the loan period is considered risky since the mortgagee typically does not have the equity to pay the amount due and instead chooses to sell the property or refinance the debt. However, the credit crisis of 2008 made both of these options far more difficult. Thus, a property with a sub-prime loan that also includes a balloon payment rider is 46 percent more likely to enter foreclosure than a property without such terms.

Lastly, the number of days from the loan origination to the first foreclosure notice was analyzed (see Appendix IV). As displayed in Figure 5, nearly 90 percent of the properties received their first foreclosure notice within three years of originating their initial mortgage. It is important to note that properties do not receive foreclosure notices until they are more than one month, and typically two months, behind on their scheduled mortgage payments. Thus, the time horizons for when each of these properties defaulted on their mortgages would be even shorter.

Conclusions

The analysis provided in this section is intended to examine the reason why the ESNDC focus area was more susceptible to high rates of foreclosure than other Saint Paul neighborhoods. The results suggest that non-homesteaded properties, that is, properties owned by landlords to be rented out, were the likeliest to experience foreclosure. The majority of the properties
that went through foreclosure had expensive mortgage products attached to their loans. Further, the data suggest that the properties that foreclosed were owned by new property owners in unsustainable mortgages that defaulted. Thus, the data supports the hypothesis that over speculation in the focus area’s rental housing was a predominant causal factor in the destabilization of the focus area during in the study period of 2005 to 2009.

**Who owns what?**

The second research question studied in this section concerned the current participants in the focus area’s housing market. An understanding of current market participants can assist the ESND Housing Committee in tailoring their stabilization strategy: if the majority of the Real Estate Owned (REO) homes in the focus area were being purchased by private investors, the Housing Committee would need to apply different incentives for maintaining healthy properties than if the majority of the properties were being purchased by individual homeowners.

The 2010 Property Class Descriptors provide a broad picture of market participants in the study area. As displayed in Appendix V, a full third of the market is made up of non-homesteaded properties, indicating a strong presence of investment properties. Thirty percent of the properties are categorized as homesteaded, indicating an important share of individual homeowners in the market. Just fewer than 20 percent of properties are classified as commercial properties, suggesting a strong presence of small business owners in the area. Lastly, the 36 exempt parcels represent non-taxed schools, affordable housing, and vacant lots that were the sites of demolished homes. Taken as a whole, it is clear that the focus area has a strong mix of owner-occupied homes, rental properties, and small businesses, making it an ideal candidate for mixed-use neighborhood development strategies of stabilization.

The current owners of previously foreclosed

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**Table: Investors who own foreclosed properties**

<table>
<thead>
<tr>
<th>Investor Group</th>
<th>Property Purchase Price</th>
<th>State of Origin</th>
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<tr>
<td>American Residential Equities LLC</td>
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homes was an especially important piece of this analysis, as the types of new owners are the best predictors of changes in the ownership mix in the focus area. Of the one hundred and twelve foreclosed parcels in the focus area, nineteen were owned by banks in December of 2009. Nine were owned by the City of Saint Paul’s Housing and Redevelopment Authority or Fannie Mae, nineteen were owned by new owner occupants, and thirty one were owned by investment companies. Thus, nearly 30 percent of foreclosed homes were purchased by investment companies, listed in Figure 6. Again, the large presence of investors in the focus area will likely change the neighborhood stabilization strategy chosen by the ESNDC task force, as some investors are prone to live outside of the focus area and have less interest in overall neighborhood health. However, it is important to note the properties purchased by investors lost only 17 percent of their value after foreclosure as compared to a total average loss in home value of 27 percent for all Real Estate Owned properties in the study area.

Conclusions

The analysis of current market players reveal that there is a diverse mix of homeowners, landlords and property investors, and small business owners in the focus area. This mix should be leveraged by the ESNDC Housing Task Force in its stabilization strategy. Further, the concentration of property investors should be an area of considerable focus for the Task Force. Further, the role that investors can play in raising property values in the focus area can be leveraged in the market intervention strategy chosen by the Task Force.

Figure 7: Percent Change in Home Values After Foreclosure
Physical Infrastructure

The last area of interest to the task force was a better understanding of the condition of the area’s physical infrastructure in order to anticipate future land uses, as well as to plan for interim and long-term market recovery strategies. Indicators of investment in physical infrastructure, as well as perception of the physical infrastructure included the percent change in home values after foreclosure, current value of previously foreclosed homes, building permit values in all parcels, and locations of vacant and demolished buildings. This section of the research was also supplemented by a visual survey of the physical infrastructure supplied by a LISC-affiliated researcher, whose results are discussed in Section III of this report.

As noted previously, home values for previously foreclosed properties experienced negative growth in 2009, sinking 27 percent from their previous loan amount. Although all blocks in the focus area experienced loss in home values, it is interesting to note that the blocks immediately surrounding Cleveland Middle School seemed to do the best job of retaining their pre-foreclosure values. These findings correlate to the nominal current values of previously foreclosed homes depicted in Figure 7. Again, the spatial trend suggests the highest nominal values of homes ring Cleveland Middle School.

Conclusions

The analysis in this section examined the question of why the focus area was more susceptible to high rates of foreclosure than other Saint Paul neighborhoods so that the most appropriate revitalization tool could be chosen to reverse the trend. The results suggest that non-homesteaded properties, that is, properties owned by landlords to be rented out, were the likeliest to experience foreclosure. The majority of the properties that went through foreclosure had expensive mortgage products attached to their loans. Further, the data suggest that the properties that foreclosed were owned by new property owners in unsustainable mortgages that defaulted. Thus, it seems reasonable to hypothesize that over speculation in the focus area’s rental housing was a predominant causal factor in the destabilization of the focus area during the study period.

The analysis of current market players reveal that there is a diverse mix of homeowners, landlords and property investors, and small business owners in the focus area. This mix should be leveraged by the ESNDC Housing Task Force in its stabilization strategy. Moreover, the concentration of property investors should be an area of considerable focus for the Task Force. Further, the role that investors can play in raising property values in the focus area can be leveraged in the market intervention strategy chosen by the Task Force.

May 2010
KEY FINDINGS FROM FOCUS AREA PARCEL ANALYSIS

• Non-homesteaded properties were 5 times more likely to go through foreclosure than homesteaded.

• Nearly all of the properties that went through foreclosure had multiple, expensive mortgage riders.

• Properties that foreclosed were typically owned by new property owners in unsustainable mortgages that defaulted.

• Thus, over-speculation in the focus area’s rental housing was a predominant causal factor in the destabilization of the focus area during in the study period of 2005 to 2009.

• Current market players: homeowners, landlords, renters, and property investors, and small business owners.
SECTION II: USING A BLOCK STRATEGY TO PROMOTE NEIGHBORHOOD STABILIZATION

Introduction

After the initial baseline analysis of ESNDC’s focus area, as well as other ongoing efforts undertaken by the organization, the ESNDC Housing Committee was able to come to consensus that a thoughtful intervention was critical to the stabilization of the neighborhood’s housing market. It is for this reason that East Side Neighborhood Development Company has developed a strategy to restore confidence in the housing market in this neighborhood through a block-based revitalization initiative.

Many federal and state resources have become available to support neighborhoods combating foreclosure and vacancy. Neighborhood Stabilization Program (NSP) funds that were made available in 2008 through the HERA Act (discussed in Section I of this report) provide needed resources for neighborhoods; however, care must be taken to assure that these funds are utilized in ways that encourage revitalization. Traditional interventions that are based on averages and broad brush approaches can frequently fail, driving markets further into decline. What are needed instead, according to neighborhood consultants Charles Buki and Elizabeth Humphrey Schilling in a January 2010 article, are “surgically precise interventions based on real data about [a neighborhood’s] exact stage of decline and the true source of [its] weakness.”

Market Confidence

Since the housing market collapse of 2008, a new lexicon of recovery has been developed, including terms such as “weak markets,” “landbanking,” and “market intervention.” Unlike previous iterations of economic development praxis, these terms emphasize the central importance of the marketplace in revitalizing neighborhoods burdened with high rates of foreclosures and abandonment. Indeed, neighborhood advocates are more than ever attuned to the importance of understanding market dynamics, rather than simply building more housing, in order to stabilize communities.

According to Buki and Schilling, the single most important indicator of market strength within
a given neighborhood is the confidence that current and potential residents have in the future value of their property investments. Property owners assess the value of their investments based on numerous signals they receive, including the going sale prices of homes on their block, the property conditions of other homes in their neighborhoods, and the upkeep of public assets, among many other indicators. If residents lack confidence in their housing market, they are more likely to move out of the neighborhood, delay maintenance on their property, or in the most extreme cases, abandon their property altogether.

Buki and Schilling argue that neighborhoods tend to decline in three distinguishable phases, as outlined in Figure 8. In the first stage, the indicators of decline include population loss and falling home prices, leading to the most resourceful residents moving out of the neighborhood. In the second stage, the neighborhood’s decline has likely come to the attention of city planners and other interested parties. Indicators of further decline include delayed maintenance of homes and increased retail vacancy, leading to a need for increased taxes to care for neglected assets, or a reduction in services to the neighborhood. In the final stage, indicators of neighborhood collapse include rampant property abandonment and

![Figure 8: Stages of Neighborhood Decline](image_url)

<table>
<thead>
<tr>
<th>Stage of Decline</th>
<th>Indicators</th>
<th>What it Says</th>
</tr>
</thead>
</table>
| First            | 1. Population Loss  
2. Falling Home Prices  
3. Limited/Falling Levels of Permitting Activity | 4. People who can leave, do  
5. Demand is falling  
6. Willingness to take risks is falling |
| Second           | 1. Reduced Levels of Home Investment and Improvement  
2. Higher Compensatory Mil Rates  
3. Retail Vacancy | 4. Conclusion is being drawn by many that it makes no sense to invest time, energy, money  
5. Municipalities have a Hobson’s Choice: increase taxes or reduce services; each will push away some share of the market |
| Third            | 1. Noticeable Impacts of Extensive  
2. Deferred Maintenance  
3. Vacancy Begets Abandonment  
4. Retail is Substantially Degraded | 5. It is no longer possible to recover this market in the minds of many  
6. Real estate become a mere host for toxic marriages between retrograde landlords and failed families |
severe retail degradation, leading to a housing market dominated by retrograde landlords and out-of-town investors.

The Need for Timely, Accurate Data

Understanding the stages of market decline in a neighborhood allows for the most appropriate market stabilization response. Thus, it is critical that city staff and community development corporations have access to parcel-specific and timely data to support their stabilization efforts. Further, the need for accurate and timely data is necessary as markets are not static entities; based on constant shifts in consumer confidence levels, neighborhoods can rise and fall within the stages of decline. Therefore, neighborhood advocates must continually compete to retain their strong households. Moreover, markets are extremely location sensitive. A well-functioning block with high levels of consumer confidence may remain unscathed by vacancy or abandonment while nearby blocks with lower confidence levels may be rapidly declining. Thus, it is imperative that timely, accurate data be available to city staff and other housing advocates so that strategic decisions can be made for investments that build market confidence.

Measuring Confidence

One technique used to benchmark confidence in the East Side housing market was to measure the amount of property reinvestment that has occurred during a specified study period. This analysis was of special interest in Saint Paul after the passage of a city ordinance, colloquially known as the Bostrom Ordinance, named after Saint Paul Council Member Dan Bostrom, that requires vacant buildings that qualify as Category III (vacant buildings with the worst structural and code compliance issues and that are in danger of being demolished). In the following analysis, property reinvestment was used as a proxy to measure market confidence in Ward 6, in which the Payne-Phalen neighborhood is located, as compared to other communities within Saint Paul.
Methodology

To complete this analysis, the City of Saint Paul provided over 10,000 building permit records that were pulled between September 2001 and March 2010. Building permits are required for all architectural revisions to residences, garages, and decks that do not constitute normal maintenance and when the cost of labor and material exceeds $500. The categories of permits pulled included Duplex Express, Single Family Express, Single Family Repairs, Multifamily Repairs, Duplex Repairs, Mixed Use Repairs, Multifamily remodels, and Mixed Use Remodels. Express Permits can be pulled by contractors for basement drainage systems, chimney repairs, gutters, roof repair, tile repair, re-siding, soffit/fascia, trim, tuck pointing, and window replacement.

The first step of the analysis involved creating historic baselines for the average number of permits pulled and their value per year and in an average month by St. Paul Ward. These baselines could then be compared with average and cumulative numbers of permits pulled after the ordinance was enacted in order to measure changes in the number or value of permits pulled. Three different methods were utilized to create these baselines:

1. **Grand Average**: A grand average, or average of the average of monthly permits pulled across a 10 year study period, was created. Using a grand average can help smooth out outliers caused by years with very high or very low average valuations.

2. **Linear Regression**: A linear regression, or a statistical model used to project the correlation between the X and Y variables assuming a linear relationship, of the average permit valuation was created. Using a linear regression can help predict the 2010 valuation based on what has happened in past years.

3. **Quadratic Regression**: A quadratic regression, or a statistical model used to project the correlation between the X and Y variables assuming a quadratic relationship, of the average permit valuation was created. Using a quadratic regression can also help predict a future average valuation based on what happened in past years. It is also useful if it is believed that the trend will change directions (go from increasing to decreasing or vice versa), a situation that the linear model cannot predict.

These baseline techniques were applied to numerous variables, including the average permit valuations per St. Paul ward by year, the average permit valuation per St. Paul ward by month, the average valuations per permit type by ward, the number of permits pulled per year by ward, and the average number of permits pulled per month by ward. The results were then used to determine if the number and value of permits pulled in Ward 6 increased or decreased after the Bostrom Ordinance was enacted in September of 2009.
Discussion of Results

The results for the analyses described above can be viewed in Figure 9 and Figure 10 of this report, as well as in Appendices VI through VIII. On the whole, the average value of permits in all Saint Paul wards, and specifically in Ward 6, increased significantly after the implementation of the Bostrom Ordinance in September of 2009. In all wards, the average value of a permit pulled rose 29 percent, from $76,378 to $98,116. The rise was even more dramatic in Ward 6 where the average valuation increased 124 percent, from $96,497 to $216,364. In all Saint Paul wards, the post-ordinance linear projection anticipated a higher average value of $112,971 while the quadratic projection anticipated a lower average value of $43,698. In Ward 6 alone, the post-ordinance valuation outperformed both its linear and quadratic projections.

The average number of permits pulled per month was also analyzed in this report, revealing that both all wards in Saint Paul and Ward 6 alone had more permits pulled on average each month after the ordinance was enacted than before. In all wards, the average number of permits per month rose from 12.5 to 15, although both the linear and quadratic projections anticipated higher results. When considering exogenous factors, this could suggest that the Bostrom Ordinance contributed to more permits being pulled, despite a down economy, even though the trend prior to the downturn would have been for more permits to be pulled. Similarly, Ward 6 had on average 9 permits pulled per month after the ordinance passed, up from an average of 8. However, this increase did not reach the linear and quadratic projections of 14 and 11.5 permits, respectively.

As home construction and rehabilitation tends to be a seasonal activity, it was also important to analyze monthly trends in the data. Unfortunately, given the recent passage of the Bostrom Ordinance, data for average permit valuation for the months of April through August is not yet available for analysis.

<table>
<thead>
<tr>
<th></th>
<th>Pre-Ordinance</th>
<th>Post-Ordinance</th>
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<tbody>
<tr>
<td></td>
<td>All Wards</td>
<td>Ward 6</td>
</tr>
<tr>
<td>Average Value of Permits</td>
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<td>$96,497</td>
</tr>
<tr>
<td>Linear Projection for Value of Permits</td>
<td>$112,971</td>
<td>$75,379</td>
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<td>Quadratic Projection for Value of Permits</td>
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<td>Average Count of Permits</td>
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<tr>
<td>Linear Projection of Count of Permits</td>
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<tr>
<td>Quadratic Projection of Count of Permits</td>
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<td>11.5</td>
</tr>
</tbody>
</table>

May 2010
As displayed in Figure 10, February, March, and April have typically garnered the highest average value for permits pulled in Saint Paul. These months are also above average in Ward 6 alone, along with August and September. Of note when examining the permits pulled on a monthly basis is that the pre-ordinance average permit values were higher in nearly all months than the post-ordinance average permit values, with two exceptions in both all wards and Ward 6 alone. For all wards, the post-ordinance average permit values were higher than their pre-ordinance monthly counterparts in February and September (again, there data are not available yet for April through August of 2010). Similarly, Ward 6 posts higher post-ordinance average values in only February and May. These lower valuations can be contributed to numerous factors, including a down economy, time needed to fully instate the Bostrom Ordinance, and incomplete building permit records. However, it is important to look more closely at the data for further endogenous explanations.

Comparing the projects with the highest permit valuations in all wards besides Ward 6 in Saint Paul with the projects with the highest valuations within Ward 6 reveals interesting insights. As displayed in Figure 11, the majority of the projects are privately owned multifamily units, mixed use projects, or single family homes, with the exception of one public housing project in Ward 5. This portfolio differs drastically from that of Ward 6, in which the highest valuations were derived from remodels or repairs of public housing apartments, or for homes that were to be demolished, as displayed in Figure 12.
Conclusions

Definitive conclusions cannot be derived from this analysis, as numerous important exogenous factors, including the economic downturn, the influence of federal stimulus funds, and other local public policy decisions, undoubtedly impacted the decisions of landlords and homeowners during the study period. However, some general patterns did develop that can help neighborhood supporters better understand the consumer confidence levels in the Ward 6 housing market. First, the analysis reveals that both the average value and number of permits pulled after the Bostrom Ordinance, in both all wards of Saint Paul as well as in Ward 6 alone, was instated increased significantly during the study period. However, the source of these increases differed between the city of Saint Paul as a whole, and Ward 6 alone. In Saint Paul wards outside of Ward 6, the data reveal that owners of mixed-use projects, multifamily complexes, and single family homes were pulling the majority of the permits. This suggests
that individual businesses and individuals had enough market confidence to invest their private funds into their homes and projects, which will likely cause organic market strength and neighborhood stabilization within those communities. In Ward 6, however, the highest value projects were either publicly funded or private demolitions. This suggests that private homeowners and business owners do not have the same market confidence and that organic market regeneration is unlikely.

The results of this analysis suggest that private homeowners and business owners do not have high levels of market confidence in the Ward 6 housing market and that organic market regeneration is unlikely.

As the best practice literature suggests, in an environment of limited public resources, it is strategically important to allow functioning markets to thrive without intervention while focusing resources in areas that will not regenerate organically. Further, within areas of market decline or collapse, it is critical to intervene in ways that will build confidence and encourage investment in order to nurture the creation of a functioning market and reconstruct feedback loops that will spur ongoing market health.

The block-based stabilization strategy being implemented by ESNDC recognizes the current market stress within Ward 6 and builds on block-specific market conditions that build market confidence while making efficient use of available funds. In alignment with current best practices, the ESNDC block stabilization strategy accomplishes the following:

- Through ongoing and intensive engagement with motivated homeowners and landlords on selected blocks, the block-strategy builds market confidence that mobilizes communities to see the benefits of investing their properties, thereby producing spillover market confidence in adjacent blocks, and the neighborhood as a whole.

- Through the alignment of public and philanthropic activities aimed at particular geographically defined area, ESNDC can be more efficient and strategic in its use of funds.

- Through the implementation of environmentally friendly rehabilitation and rebuilding practices, the blocks gain public visibility that can be converted into market confidence that will attract new homeowners and sound investments to the neighborhood.
SECTION III: ONGOING NEEDS TO SUPPORT A BLOCK-BASED INITIATIVE

As outlined in the first two sections of this report, Saint Paul’s East Side, and more specifically the ESNDC focus area within the greater East Side, has been disproportionately impacted by the collapse of the national housing market and is showing signs of a slower recovery than the city as a whole. For this reason, the ESNDC Housing Committee has taken the initiative to create and implement a block-based neighborhood stabilization program for four blocks near its core commercial corridor, Payne Avenue. Along with dedicated funds and ongoing leadership support, the success of the block strategy will require ongoing monitoring of housing and quality of life related indicators in order to correctly assess market confidence and the overall health of the housing market.

As the strength of the private housing market takes a more prominent role in the work of community development corporations (CDCs), it has become increasingly important for these organizations to have accurate gauges of the health of micro-level markets in the communities they serve. Access to critical indicators can build a neighborhood’s capacity to identify problem properties, locate blocks that are prone to vacancy and abandonment, build neighborhood capacity to address issues internally without relying on city resources, and coordinating response deliveries. Further, in the case of the ESNDC block strategy, access to accurate, timely data can provide critical feedback as to how well the strategy is working, where positive spillovers are occurring, and when the project is stable enough to divert resources to other needs.

The patterns and effects of problem properties not only vary substantially across metropolitan areas, but across neighborhoods within metropolitan areas, and across blocks within those neighborhoods. Thus, these case studies provide support to the notion that accurate, specific, and timely data is necessary to implement a neighborhood stabilization strategy, such as ESNDC’s block-based approach. Further, each case study highlights distinct uses of its datasets, revealing the multifaceted uses of these systems and the flexibility that provide to their users to meet the changing needs of their clients.
Metro Chicago Information Center (MCIC)

Founded in 1990 by members of the Commercial Club of Chicago, MCIC is an independent non-profit research and consulting group that has partnered with the City of Chicago, as well as area community development corporations in providing relevant and timely data to support community-based projects. In one such project, conducted in partnership with the Greater Southwest Development Corporation (GSDC), datasets were strategically linked to assist the CDC in monitoring real estate trends in order to prevent housing abandonment and foreclosure.

MCIC partnered with the City of Chicago and GSDC to link the CDCs client database from their housing counseling service to city and county foreclosure records. By cross referencing these dataset, the CDC was able to investigate the characteristics of foreclosure outcomes in order to improve their counseling services and re-position staff to critical need areas of the city, given the specific neighborhood market conditions. Both parties were also able to systematize data collection approaches so that data sharing could be handled more easily in the future.

This program uses seven indicators in order to determine problem properties:

- Code violations
- Housing court cases
- Water arrears
- Current property tax delinquencies – annual sale
- Severe property tax delinquencies – scavenger sale
- Fire records
- Real estate sales, buyer and assessment information

Atlanta’s Neighborhood Nexus

Atlanta’s Neighborhood Nexus is a collaboration made up of the Atlanta Regional Commission, Emory University, as well as other housing and neighborhood advocates, and coordinates with the regional planning and intergovernmental coordinating agency for ten central counties in the greater Atlanta region. In 2008, the organization completed a metro-wide analysis of foreclosure trends in order to apply collaborative
efforts to meet the needs of Atlanta residents and stabilize neighborhoods at risk of high foreclosure rates.

Not only was the initiative able to analyze subprime loan trend in order to anticipate neighborhood stabilization needs, but was also able to leverage the partnership to create a systematic description of actors and roles related to foreclosure response to ensure efficient use of public resource, develop trusting relationships with neighborhood groups, and use their data to create compelling funding proposals.

This unique collaboration joined neighborhood input collected by CDCs and other neighborhood-based groups with parcel-specific data collected at the city and county levels to create a highly thorough and attractive data set.

Critical city and county datasets that were utilized in this collaboration include:
- Property tax delinquency
- Building code violations
- Health code violations
- Fire records
- Environmental information

**Minneapolis Property Early Warning System (PEWS)**

Perhaps one of the most comprehensive and technologically advanced examples of data collaboration around neighborhood stabilization initiatives is the Minneapolis Property Early Warning System. Developed in 2001 by the Center for Urban and Regional Affairs and the City of Minneapolis with critical participation by the Lyndale Neighborhood Association, the system provides a web-enabled data sharing tool with select neighborhood organizations. After its initial success, the program was not regularly updated until Minneapolis created a Five Point Strategy for a Healthy Housing Market in 2007 that called for an upgrade to the Early Warning System. $133,000 was committed to the initial upgrade of the system, as well as a $13,000 tail for annually-required maintenance.

Figure 14: Example of Online Data Visualization of PEWS
The PEWS system brings together data from the City of Minneapolis and Hennepin County to create a standard set of indicators to predict the location of problem properties within the city, build neighborhood organization capacity, and to coordinate response delivery among its partners. Since 2007, the system has been expanded to include new data streams, including police calls for service and utility billing arrears, to improve accuracy of prediction capacity, analyze city resources and expenditures, and upgrade its mapping functionality.

PEWS utilizes 27 data elements within its system including
- Assessor assigned building condition code
- Count of dirty collection point clean-ups
- Real estate property tax late notice sent
- Delinquent real estate property tax
- Property pending forfeiture
- Count of special assessments for housing
- Housing inspection highest unit building score
- Count of home sales
- Homestead status and taxpayer residency
- Lis pendens issued
- Open letter of intent to condemn
- Open VBR
- Open illegal occupancy
- Open condemned flag
- Open PPU flag
- Count of housing inspections
- Count of nuisance police calls for service
- Count of request to assist other agencies police calls
- Count of theft related police calls for service
- Count of violent or drug police calls
- Count of exterior housing violations
- Count of nuisance housing violations
- Count of interior/miscellaneous housing violations
- Count of administrative fees applied to a rental license
- Count of utility billing final notices sent
- Count of water turn-offs

Data Needs to Support ESNDC’s Block Revitalization Initiative

Similar to the case studies presented above, ESNDC is committed to harnessing the power of reliable, current, and relevant data to support its work in revitalizing a community that has been profoundly destabilized by the foreclosure crisis and the economic downturn of the past two years.
ESNDC’s Focus Area and Four Initial Block Projects

Figure 15: ESNDC Block Project Sample Data

Exterior Property Survey Results for Target

Property Needs Survey Results for Target

Legend:
- Very Good
- Good
- Poor
- Very Poor

Reconstruction Required
Major Repairs Needed
Minor Repairs Needed
No Repairs Needed
In preparing for its data needs in the implantation of its block initiative, ESNDC has strategically collected parcel-specific data for a number of important indicators. First, by utilizing the property look up system at the Ramsey County Recorder’s Office, ESNDC has property ownership records going back to 1995 for all parcels that have been destabilized by foreclosure in its focus area. Second, Sustainable Development Coordinator Sam Hanson has initiated energy inspections for all homes within the targeted blocks in order to have environmental baselines. Further, through a partnership with LISC’s Bill Johnston, all properties within the targeted blocks have undergone a rigorous external condition survey, with a sample of the data displayed in figure 15. Last, ESNDC is currently upgrading their data management capacity through Geographic Information System (GIS) software installation. Armed with these powerful data tools, ESDNC will be able to monitor the subtle market fluctuations within their target area and respond with the most appropriate market intervention.

ESNDC also recognizes the important role that other datasets will play to supplement the data collected in house. In order to ensure the success of its block initiative, ESNDC will also need access to current tax information, code enforcement citations, crime statistics, and utility service information, among other indicators, as recommended by Brookings Fellow Alan Mallach (see figure 16) in his 2008 report, *Managing Neighborhood Change*. By partnering with the City of Saint Paul, these datasets could be leveraged to supplement ESNDC’s dataset and ensure the successful stabilization of the Payne-Phalen corridor.

![Figure 16: Indicators Needed to Manage Neighborhood Change](image-url)
ESNDC is committed to the revitalization of the Payne-Phalen corridor through the initiative of a block strategy, beginning with four targeted blocks that have shown the potential to serve as tipping points that can catalyze positive spillovers in surrounding blocks.

ESNDC will accomplish this goal by organizing current residents around the block initiative to implement greening strategies, property rehabilitation and construction, and improve streetscapes.

ESNDC invites the City of Saint Paul to share in the success of this innovative initiative by partnering with the organization in meeting its need for timely, relevant, and consistent data.

Through strong resident leadership leveraged by partnerships with neighborhood housing advocates and city staff, the East Side of Saint Paul will continue to be a regenerative and resilient neighborhood that is culturally thriving, energy and resource efficient, and economically sustainable.
Appendix I

FORECLOSURES

- 894 Foreclosures from January 1, 2006 to June 30, 2006
- 2,224 Foreclosures in 2006
- 1,833 Foreclosures in 2007

Yards
Appendix III

Mortgage Riders for Properties Receiving Foreclosure Notices
* For three most common mortgage riders

Legend
- Adjustable Rate Mortgages
- Treas
- Delinquent Riders
- Foreclosure Notice

Map created by CURA researchers in January 2010 from Ramsey County data.
Appendix VI

Average Permit Valuations Per St. Paul Ward by Year

Values listed on chart are the average permit valuations across all wards.

Average Permit Valuations per St. Paul Ward by Month
2001 - 2009
### Average Valuations Per Permit Type by Ward
#### 2001—2009

<table>
<thead>
<tr>
<th>Type of Permit</th>
<th>Ward 1</th>
<th>Ward 2</th>
<th>Ward 3</th>
<th>Ward 4</th>
<th>Ward 5</th>
<th>Ward 6</th>
<th>Ward 7</th>
<th>Average</th>
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<tbody>
<tr>
<td>Duplex Express</td>
<td>10,526</td>
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<td>16,780</td>
<td>7,950</td>
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<td>8,448</td>
<td>8,083</td>
<td>3,655</td>
<td>14,433</td>
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<td>MF Remodels</td>
<td>96,224</td>
<td>165,067</td>
<td>10,105</td>
<td>249,590</td>
<td>167,185</td>
<td>246,544</td>
<td>34,567</td>
<td>138,469</td>
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### Number of Permits Pulled Per Year by Ward

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<td>74</td>
<td>158</td>
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### Average Valuations Per Ward by Month 9/09—3/10 (Post-Ordinance)

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<th>Ward 3</th>
<th>Ward 4</th>
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### Average Number of Permits Pulled Per Month by Ward 9/09—3/10 (Post-Ordinance)

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<th>Ward 4</th>
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<th>Ward 6</th>
<th>Ward 7</th>
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WORKS CITED

1. Original research derived from Ramsey County Recorder Records.


5. Original research derived from 2000 U.S. Census data


7. Original research derived from 2000 U.S. Census data


