Center for American Progress

Rehab-to-Rent Can Help Hard-Hit Communities and Our Economy

What to Consider When Converting Vacant Foreclosed Homes into Affordable, Energy Efficient Rentals

Alon Cohen, Jordan Eizenga, John Griffith, Bracken Hendricks, and Adam James January 2012

WWW.AMERICANPROGRESS.ORG

Center for American Progress

Rehab-to-Rent Can Help Hard-Hit Communities and Our Economy

What to Consider When Converting Vacant Foreclosed Homes into Affordable, Energy Efficient Rentals

Alon Cohen, Jordan Eizenga, John Griffith, Bracken Hendricks, and Adam James
January 2012

Contents

Introduction and summary

Half a million houses, many of them vacant and deteriorating, are languishing in a bloated U.S. real estate market, threatening to turn some cities into ghost towns, undermining the stability of working families, and proving to be an anchor on a shaky economy. Many of these vacant homes, nearly a quarter-million, are controlled by the federal government.

If the situation wasn't already bleak enough, there are also more than a million additional American homes saddled with delinquent mortgages that are in the process of foreclosure. Chances are many of these homes will also end up as the property of the federal government. The only way to lower the inventory of decaying homes is to find a use for the ones we have before new ones swell the pool. Without assistance, the current "overhang" of foreclosed homes is expected to take four years to work back into the market.

The good news is the Obama administration and independent federal regulators are formulating plans to sell government-controlled foreclosed properties to investors who would bring them onto the rental market. The aim is to reduce the number of vacant homes which depress housing prices and burden the economy while meeting an increasing demand for rental homes. If made affordable these new rentals can help meet the needs of approximately 20 million American households—about half of all renters—who are "rent impoverished" today, meaning they devote more than a third of their monthly income just to housing.[1] This is a key indicator of pent-up demand for new rental housing.

The Federal Housing Administration, or FHA, and the two mortgage giants Fannie Mae and Freddie Mac—both currently in government conservatorship—collectively own about 230,000 foreclosed homes, mostly from mortgages insured or securitized before the housing bubble burst.[2] Unfortunately, only a small subset of these foreclosed properties are in good enough shape and in strong enough markets to be sold directly to families looking for a place to call home. For the rest, low home prices and weak demand for owner-occupied homes mean that selling hundreds of thousands of them into that market will depress prices for a long time to come.

In this paper we lay out a set of priorities for removing a portion of these properties from the glutted for-sale market by converting them to affordable rental units, a process we call "Rehab-to-Rent" or "R2R."

With home prices slumping and rental demand and rents rising, these government-owned properties could earn a greater return for taxpayers and do more to promote an efficient and resilient housing market if they are taken out of for-sale markets and converted into rental units. Residents of these communities and American taxpayers who are on the hook for homes now owned by Fannie, Freddie, and FHA would be best served if these homes were rehabilitated, potentially retrofitted for energy efficiency, and then rented out at affordable rates.

The Federal Housing Finance Agency, or FHFA, which is responsible for Fannie Mae and Freddie Mac as their regulator and conservator, earlier this year solicited information from companies, community groups, governments, and other stakeholders on how to do this successfully. Our response was one of over 4,000 received, demonstrating a healthy appetite for this program.[3]

When deciding what to do with these properties, we believe FHFA should focus on its congressional mandate to:

- Preserve and conserve the government-controlled assets and property of Fannie and Freddie.
- Ensure Fannie and Freddie support stable and liquid mortgage markets by operating in a financially safe and sound manner even though they are in conservatorship.
- Maximize assistance for homeowners, where warranted, and minimize preventable foreclosures.[4]

We acknowledge a possible tension in this mandate, namely between maximizing short-term return to Fannie Mae and Freddie Mac—likely by selling the foreclosed homes they own to the highest bidder—and stabilizing local housing markets to benefit taxpayers generally by not flooding the housing market with the mass sale of foreclosed single-family homes. But we believe these goals can actually work in tandem if FHFA focuses on maximizing the medium- and long-term returns on these assets, which will in turn stabilize housing markets and neighborhoods hit hardest by the foreclosure crisis.

This paper offers key considerations for any Rehab-to-Rent initiative Fannie, Freddie, and FHA wish to pursue. It expands on the principles laid out in the Center for American Progress's official response to FHFA's request for information, focusing on how R2R could best work in the real world to serve multiple goals. This paper focuses exclusively on how a Rehab-to-Rent program could deal effectively with the continuous flow of so-called "real estate-owned," or "REO" properties—industry parlance for lender-owned foreclosed homes—that are under federal government control. But we believe that its success could pave the way for similar private-sector initiatives to deal with the quarter-million foreclosed homes held by banks and other financial institutions.[5]

This paper is the product of many hours spent with the underlying economic and housing data as well as conversations with stakeholders in both public and private spheres, including institutional investors, community-based nonprofits, rental-property managers, and representatives from federal, state, and local governments. Because many of those with whom we spoke are intimately involved in internal discussions about what to do with government-controlled foreclosed properties, those conversations took place with the understanding that we would not attribute statements to particular groups or individuals.

The results of our research are detailed in the main pages of the report, but briefly here we present a summary of our proposal.

FHA, Fannie, and Freddie: A primer

Since the Great Depression, the federal government has played a key role in maintaining a stable U.S. housing market, promoting liquidity in the mortgage-finance market and access to affordable mortgages in times of economic growth and contraction. The Federal Housing Administration is the largest purely governmental body in the housing market, providing insurance for mortgages issued by private lenders. This includes loans for single-family residential properties, apartments, hospitals, assisted-living facilities, and nursing homes. The agency has two primary missions: promote long-term stability in the American housing market and expand access to affordable housing to underserved segments of the market, such as first-time homebuyers, low-income families, and minority communities. The Federal National Mortgage Association, commonly called Fannie Mae, was created first as part of the federal government in 1938 and later as a government-sponsored, privately owned enterprise to expand the secondary mortgage market through the securitization of mortgage loans. A second housing finance entity with the same basic mission the Federal Home Loan Mortgage Corporation, or Freddie Mac was created as a government sponsored, privately owned enterprise.

Continued on page 4

Continued from page 3

While their structures and business practices have changed drastically over the past 40 years, Fannie Mae and Freddie Mac's central goal is to provide a liquid and stable mortgage market by purchasing residential mortgages, pooling them into mortgage-backed securities, and selling them to investors. They also maintain a portfolio of mortgage-backed securities and other investments, paid for by issuing institutional debt.

After the housing crisis of 2007-08 severely weakened the value of Fannie and Freddie's portfolios and left them both on the brink of bankruptcy, the federal government stepped in to bail them out. Fannie Mae and Freddie Mac have been under government conservatorship, supervised by the Federal Housing Finance Agency, since August 2008.

How R2R would work

This paper is built on two assumptions: First, Fannie Mae, Freddie Mac, and FHA should each determine the best way to dispose of its own REO inventory because each of them brings separate business processes, corporate attitudes, and legal and financial tools to managing their portfolio of foreclosed-upon houses. Combining their inventories of foreclosed properties could have benefits to R2R, but the complexity makes it an unlikely prospect.

Second, Fannie, Freddie, and FHA should use multiple methods to dispose of their stock of foreclosed houses—determining which to sell to individual owner-occupants (referred to as the "retail market" in this paper), which to sell in bulk to investors and community groups, and which to hold as assets and possibly rent out through joint ventures for a period of time.

Regardless of the configuration, any disposition strategy should target the same goals, namely:

- Maximize the long-term return of foreclosed single family homes to taxpayers
- Stabilize local home prices by reducing the glut of foreclosed properties on the market
- Stabilize communities hit hard by the foreclosure crisis
- Expand affordable rental housing in markets with unmet need
- Expand the stock of energy-efficient homes
- Create new jobs and economic activity in depressed areas

With these goals in mind, we've set out benchmarks below by which any R2R strategy should be evaluated. Each benchmark may not apply to every government-controlled foreclosed property, but we believe that each should at least be considered for every community where substantial quantities of them exist. Let's examine these benchmarks more closely.

Benchmark #1: Tailor strategy to the specific needs and market conditions of the community

As FHFA Acting Director Edward DeMarco stated in his testimony before Congress on November 3, 2011, a "single, national program for REO disposition" will not work.[6] FHFA is rightly interested in "proposals tailored to the needs and economic conditions of local communities," such as employment opportunities, industry mix, income-level, and the age and quality of the housing stock.

What is required instead is a set of criteria that will help FHFA identify a few fundamental traits that make R2R possible in a community and then look to bidders to make the case for viability in that community. Considerations include having sufficient numbers of government-controlled REO properties within a specific geographic area, unmet demand for rental housing, and financial incentive to invest in rental properties.

Benchmark #2: Ensure bidders have a track record and viable plans to rehabilitate and rent the units

If R2R is to have a measurable impact on communities or the balance sheets of Fannie, Freddie, and FHA then it will have to achieve substantial scale—at the very least tens of thousands of homes within a couple of years. Based on our discussions with Fannie and Freddie representatives, these institutions have around 60,000 to 90,000 foreclosed properties available for active sale right now; larger potential investors have told us they would purchase 10,000 to 25,000 properties immediately if they could. If even a fraction of this is achieved, tens of thousands of homes across the country will be moving into the hands of new owners to be held out for rent. A failure by any one of these new owners—even a partial failure, such as a big delay in rehabilitating properties—could have a large impact on the community where those homes are located.

While we don't harbor idyllic notions of working within a perfect system, a top priority has to be to qualify buyers and property managers based on proven track records in property rehabilitation and market performance as well as demonstrated potential to provide local benefits through community engagement.[7] Fannie, Freddie, and FHA should consider a bidder's track record in acquiring, rehabbing, and managing scattered-site, single-family homes; primary location of operation; knowledge of the local real estate market; relationships with the community; and, where appropriate, the organization's history of community and economic development.

Benchmark #3: Acquire properties for R2R in communities that will maximize long-term returns to taxpayers and stabilize housing markets

One of the most prominent issues in FHFA's request for information was how to get the properties from the hands of the federal government to those who will responsibly manage them for rent. The primary focus here should be selling to responsible buyers under terms that are most likely to maximize long-term returns. In some instances, that may be an auction to a qualified bidder in order to yield the highest immediate reward. In others, a multiyear joint venture where Fannie, Freddie, or FHA holds the title while the joint venture partner rehabilitates, retrofits, maintains, and rents the properties could yield a greater overall return under certain circumstances.

Regardless of the resulting ownership structure, the process for transferring properties from the federal government for R2R must be carefully designed to avoid cherry picking, to accommodate consortiums of bidders and property managers, and to ensure that neighborhood stabilization remains a key consideration.

Benchmark #4: Expand the affordable rental housing market

At a time of high unemployment and stagnant middle-class wages, affordable housing is critical to our economic recovery. The more low- and moderate-income families spend on housing each month, the less they spend in stores, making businesses leery of investing and hiring new employees. People coming out of their homes due to foreclosure need a place to live, as do workers who need to move to find jobs and will need access to affordable rental housing.

Indeed, the need for affordable rental housing is unprecedented in recent history, therefore any disposition plan should include mechanisms to encourage its provision. One way to do this is by encouraging the participation of local community organizations with experience rehabilitating and managing affordable rental properties. But these nonprofits often lack the capital necessary to be competitive with certain classes of investors such as private equity groups. That is why it is important to provide low-cost seller financing to ensure the participation of mission-driven community groups.

Benchmark #5: Provide incentives to property owners to properly renovate properties and undertake economically justifiable retrofits

Hundreds of thousands of steadily deteriorating foreclosed properties sit vacant today. They will need to be rehabilitated before they can be rented. In some cases, especially when the federal government maintains some financial stake in the property through a joint venture (as we discuss later), this provides an opportunity to reduce the total cost of ownership through economically justifiable, energy-efficient retrofits.

Since individual owners will be rehabilitating many properties simultaneously in a relatively short time period in any Rehab-to-Rent program, they will have an opportunity to go beyond mere rehabilitation and improve home energy-efficiency performance through a deeper retrofit at marginal additional cost. If a new owner of these properties, for example, is already replacing windows or heating systems, energy savings can be achieved for little additional cost by installing higher-quality materials and mechanical systems. There are also social benefits of energy-efficient rental housing: it helps lower our dependence on foreign oil, reduces carbon emissions to help combat climate change, and lowers utility bills for tenants, many of whom are low- and moderate-income families.

Retrofits should be encouraged in any R2R program. Through financing and other methods, the federal government can offer incentives to property owners to conduct proven and cost-effective energy and water saving retrofits that can enhance the long-term value of the property.

Benchmark #6: Ensure sufficient measures are in place to monitor compliance

It is a given that with such an ambitious undertaking involving large numbers of buyers, things will occasionally not work as planned. It is imperative that the government sets up strong monitoring and contingency plans in place not to simply mitigate the risk of failure, but also to effectively respond if investors fail to meet certain compliance requirements. FHFA must monitor those who hold formerly government-owned REO properties out for rent and lay out clear penalties for noncompliance.

Fannie, Freddie, and FHA should restrict a poor-performing investor's ability to acquire more properties, and for the most serious offenders, establish a mechanism for recapturing properties. The federal government should draw on its experience (both good and bad) in previous efforts to transfer properties from government to private entities, such as the Resolution Trust Corporation set up after the savings and loan crisis of the 1980s.

We take a more detailed examination of each benchmark later in this report, but first let's turn to a detailed assessment of today's foreclosed property market to understand more clearly how our Rehab-to-Rent approach can help resolve several festering problems resulting from the housing market crash and subsequently slow and uneven recovery.

The housing market in the wake of the bubble

Much of America's weak housing market can be attributed to the earlier bubble in homebuilding and poorly regulated mortgage finance, leaving behind an imbalance in supply and demand. On the supply side, an overhang of vacant foreclosed homes is causing a glut in the for-sale market, also known as the "retail" market. At the same time, anemic economic growth, high unemployment, tightened credit standards, and demographic changes have curtailed demand for owner-occupied homeownership.[8]

The result is a slumping for-sale market and an overstretched rental market. Home values nationwide are down 30 percent from their peak in 2006, and in many communities it's closer to 50 percent.[9] While the pace of home price declines appears to have slowed, or at least leveled off, this plateau may be temporary. There were about 15 million vacant single-family homes in 2010, an increase of over 40 percent from a decade earlier.[10]

Meanwhile, rental markets are expected to grow by as much as 25 percent over the next three years.[11] Unstable home prices, tight underwriting standards of mortgage lenders, and uncertainty over one's employment prospects have helped push would-be owners to rent.[12] This has helped push up rents in cities across the country to near record highs.

Of course, the conditions will vary dramatically by community and depends on a number of variables. But there are some basic attributes about the foreclosed property market that are common across almost all communities.

"Real estate-owned" 101

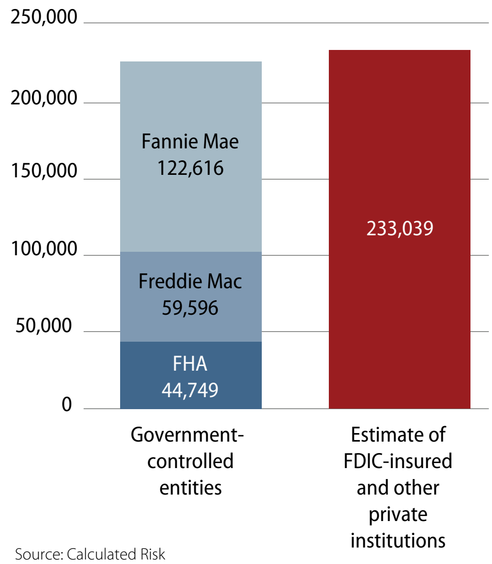
"Real estate-owned" or "REO" refers to a property owned by a lender or guarantor as a result of foreclosure. When a borrower defaults on a mortgage loan, the lender can foreclose on the property and put it back on the for-sale market. Today there are more than 3.3 million homes on the for-sale market, many of which are deteriorating and losing value.[13] About 560,000 of these properties are owned by banks and other financial institutions as a result of foreclosure proceedings.[14]

Not all of these vacant repossessed properties are owned by big banks. The federal government currently owns about 230,000 foreclosed properties, mostly from mortgages insured or securitized by the Federal Housing Administration, Fannie Mae, and Freddie Mac before the housing bubble burst.[15] (see Figure 1)

FIGURE 1

Who owns the REO inventory?

Number of real estate-owned properties by owner, Q3 2011



Source: Calculated Risk

Fannie Mae and Freddie Mac buy mortgages that meet certain government criteria and package them into securities for sale to investors. When a mortgage in those securitized pools enters foreclosure, Fannie and Freddie buy the mortgage back to remove it from the pool, foreclose on the property, and own the home.

In the case of the FHA, which currently serves 56 percent of first-time homebuyers and 60 percent of minority homebuyers, lenders can obtain FHA insurance to protect themselves against default by the borrower. If the borrower stops paying and the lender forecloses, then the lender can a make a claim to FHA for the lost value from the loan. In exchange for the payout on the claim, the lender signs over title of the home to FHA.

Starting in 2007 the stock of foreclosed properties owned by FHA, Fannie Mae, and Freddie Mac increased steadily. In the fourth quarter of 2007, about a year before Fannie and Freddie were placed under government conservatorship because of their losses in the mortgage market, the three entities owned a total of about 75,000 foreclosed properties. By the fourth quarter of 2010 that number had nearly quadrupled to a record high of about 290,000 properties. The current inventory of 230,000 single-family foreclosed homes remains well above pre-crisis levels.

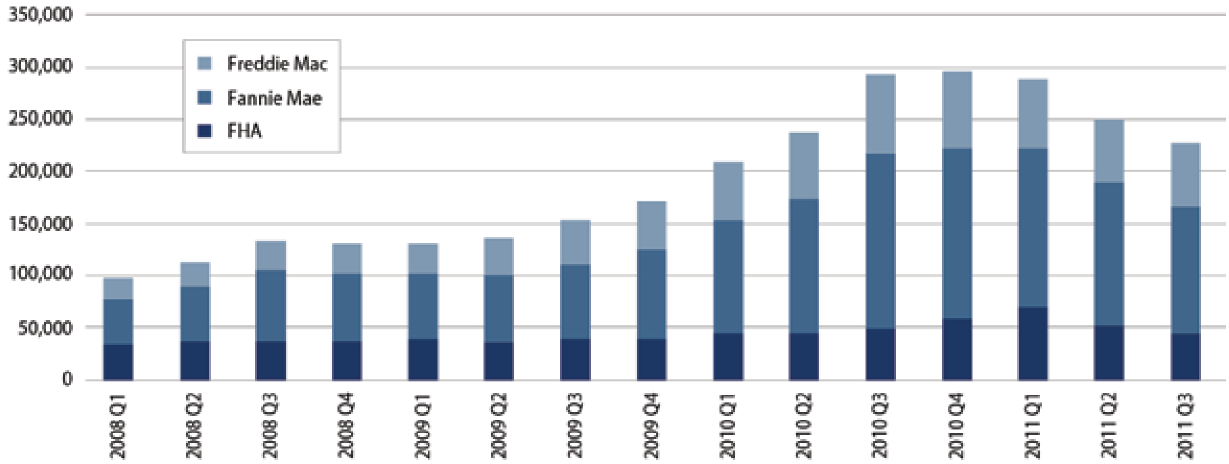
These vacant foreclosed properties are often a drag on local house prices. Foreclosed property sales pulled prices down in 31 of 34 states analyzed by the Brookings Institution in 2010.[16] And an earlier study found that each vacant home in a neighborhood lowers the value other properties within one-eighth-mile radius by roughly 1 percent.[17]

Since the beginning of the financial crisis, lenders and borrowers have tended to pursue a series of mitigation options, including loan modifications, refinancing, and short sales, prior to foreclosure. These efforts, beginning with the federal government's Making Home Affordable program, established in 2009, and extending to myriad evolutions of it both private and public, have had a substantial impact on the housing crisis. The Center for American Progress has written extensively on these programs and believes that such efforts continue to be a vital part of the response to the crisis. Whether rightly or wrongly, those efforts will not succeed every time and, when that happens, foreclosure is the next step. (see Table 2)

FIGURE 2

Quarterly government-controlled REO inventory by owner during the housing crisis

Q1 2008 - Q3 2011



Source: Calculated Risk

The looming "shadow inventory"

In reality, the problem is much bigger than the roughly half a million foreclosed properties on the market today. That stock is simply the current inventory level, a level that is constantly replenishing as homes are sold and more homes enter foreclosure. In fact, in the years it would take to sell those homes, more homes would go through foreclosure and end up as REO properties owned by private lenders and the federal government. So the question before us today is not how to reduce just today's inventory, but how to deal with the millions of homes that will be foreclosed upon in the coming years.

These future foreclosed homes are part of a larger group known as the "shadow inventory." While the shadow inventory has no single definition, it is generally the number of homes with delinquent mortgages of 60 days or more, plus all of the homes that are in some stage of foreclosure, a process that itself can take nearly a year on average to complete.

One in every seven mortgages nationwide is either in foreclosure or at least 30 days behind on payments, according to the Mortgage Bankers Association.[18] That's almost 7 million American families either in or at risk of foreclosure today. As of late 2011 there were approximately 2.2 million properties in the foreclosure pre-sale inventory,[19] and, according to an analysis by Amherst Securities, as many as 4.5 million nonperforming loans. Amherst estimates that 10.4 million additional borrowers will eventually default over the next several years if nothing is done.[20] Given that about half of the current REO stock belongs to Fannie, Freddie, and FHA, one can assume that these institutions will experience a large and continued flow of REO on to their books.

In the long term the shadow inventory creates an "overhang" on the housing market, requiring new and existing home sales to compete with the sale of foreclosed homes. Until these homes and shadow inventory levels reach pre-bubble levels, the housing market will not have truly recovered. That is estimated to take at least four years, according to Standard and Poor's.[21] Perhaps more tellingly, lenders are still foreclosing on more homes than they are selling every month.[22]

The problem with lowering foreclosure inventory is that a massive sell-off would mean selling at depressed prices that, in turn, would likely yield a big loss for taxpayers. At the same time, a weak housing resale market indicates that homeowners will not likely occupy these units anytime soon. To complicate matters further, historic lows in housing prices and slower-than-necessary foreclosure sales demonstrate that demand for single-family REO is not enough to tackle the scale of soon-to-be foreclosed homes.[23]

It's clear the federal government needs to do all it can to remove homes that cannot be sold to owner occupants from the glutted for-sale market and get these nonperforming assets off the books for the highest price possible.

Shifting from homeownership to rentals

In the wake of the foreclosure crisis and subsequent recession, many former homeowners have become renters. According to a June survey from the personal credit rating agency TransUnion, nearly half of property managers nationwide reported an increase in rental applicants moving into apartments from foreclosed properties.[24] Between mid-2010 and mid-2011, an estimated 1.4 million households moved into rental housing, causing a 4 percent rise in the number of renters, according to the U.S. Census Bureau. At the same time, the U.S. homeownership rate has fallen about 1.5 percent over the past year. [25]

With this increase in demand has come an increase in monthly rents. Sixty-four percent of large property managers surveyed by TransUnion said rental prices on their units increased from last year.[26] While rents have increased in many parts of the country over the past year, median household incomes fell by more than 2 percent after adjusting for inflation, making rental housing less affordable.[27] Half of all renters are spending more than a third of their income on housing, the threshold for being "rent impoverished," and a quarter spend more than half.[28]

What is more, analysts project rents to increase further in the coming years: The research firm REIS estimates that rents will rise an average of 3.6 percent in 2011, with rent hikes exceeding 10 percent in high-demand cities such as Washington, D.C. and New York City.[29]

In combination, higher rents and lower income depress consumer confidence, impede potential workers from moving to where jobs are, and reduce household formation as people move in together to reduce housing costs. These factors slow down the recovery as spending, hiring, and housing all remain slow.

In certain communities, there is a clear opportunity to tackle two persistent problems in the housing market: a glut of foreclosed single-family homes and a lack of affordable rental housing. If done carefully and in the right communities, Rehab-to-Rent can make a dent in both, converting vacant foreclosed homes into rehabilitated, energy-efficient, and affordable rental units. We turn to these solutions next.

Many possible approaches to disposing government-controlled foreclosed homes

Some of the government-controlled foreclosed properties may be in good enough shape and in strong enough markets that they can be sold to individuals looking for a place to call home. Freddie Mac sold a record number of foreclosed homes in 2011, 70 percent of which went to individual owner-occupants. Fannie Mae sold 59 percent of its foreclosed homes to owner-occupants that year as well.[30] That is, they sold the home to someone who planned to live in the home, rather than to an investor who planned to convert the unit to a rental or sell it later on.

One reason for the high percentages is that these institutions provide a "first look" to owner-occupants; that is, Fannie and Freddie first offers a home up for sale to an owner-occupant before marketing it to investors.[31] Another is that Fannie and Freddie cap the number of units that any one buyer can acquire, preventing the scale under consideration with R2R.

Under R2R, in certain circumstances, properties should continue to be sold individually to owner-occupants. But a retail-only approach will address neither the scale of our foreclosure problem, nor the great need for affordable rental housing.[32] We strongly urge that those properties not sold retail to owner-occupants, after a reasonable period of time on the market, should be converted to affordable rental properties.

There are many possible ways to accomplish this. Today many homes are also sold piecemeal to local investors who own and rent a handful of properties at a time. But Fannie, Freddie, and FHA cannot depend on these sales alone to clear today's near-record REO inventory because the scale is too small and the effort to manage so many small buyers at a national-level would be overwhelming. There must be other options for converting large quantities of REO into rentals.

The two general models are joint venture and bulk sale. In a joint venture, Fannie, Freddie, and FHA would contribute title to the property. In exchange, a partner or partners would cover the cost of all rehabilitations and retrofit work, find a tenant, and manage the rental property throughout a hold period of, say, five years. The partner retains the rental income, possibly remitting a percentage back to Fannie, Freddie, or FHA.

For their part, Fannie, Freddie, and FHA get an improved asset that can sell at more than the current value at the end of the hold period, along with the ability to closely monitor the property and assert control over it if the partner(s) don't perform as expected. Taxpayers in the community get a tenanted, improved property that doesn't sell for a period of years, thus improving the local property tax base and lowering property turnover, permitting the market to recover.

The drawback under this scenario is that the property may not be truly "off the books" while rented and they may need to invest in the rehabilitation of the property. Bulk sales have the advantage of truly removing the asset from the books.

Here's how bulk sales would work. Where appropriate, Fannie, Freddie, and FHA can solicit bids for carefully selected bundles of foreclosed properties from buyers who commit to renting them for a minimum period, typically five years.[33] Eligible bidders then purchase the properties under an agreement to rehabilitate them up to minimum standards and rent the homes out at affordable rates.

Special financing options should be made available to mission-driven entities, such as nonprofits, with a particular interest in long-term neighborhood stabilization, and the government would provide additional incentives for including energy-efficient retrofits as part of any rehabilitation. The goal is a system that accommodates the many differences between communities hit hard by the housing crisis while creating a single framework to streamline the process and tackle the scale of the foreclosure problem.

Regardless of the specific mechanism used to make it happen, there are several benefits to R2R, including:

- It helps local housing markets by taking foreclosed properties off the market, even if just for a few years. This will help stabilize home prices while the housing markets continue to deal with the overhang of excess inventory. Lowering the supply of for-sale homes should at the very least stem price declines.

- It helps neighborhood stability by repopulating vacant, deteriorating homes. This proposal can help to improve the desirability of the neighborhoods these homes sit in and, by extension, the values of all homes located nearby.

- It expands the availability of affordable rental housing. That's particularly important today, as the number of renter households in the United States is once again on the rise after a long period of stagnation.[34] Affordable housing can help stabilize many of these new living situations, especially young households, by providing a viable alternative to moving in with relatives or doubling-up under one roof.

- Along those lines, R2R can also improve labor mobility, or the ease with which the unemployed can move to find suitable work. Today many unemployed workers simply cannot move because they are tied to an underwater home or are unable to afford rental properties in other areas where job opportunities may exist. While labor immobility may not be a major reason for our weak labor market, it could still be one barrier to our economic recovery.[35]

- It can meaningfully improve the energy efficiency of thousands of homes, lowering the costs of occupying those homes, and reducing our dependence on imported fossil fuels.

- It puts people to work. Rehabilitating, retrofitting, and weatherizing homes will create well-paying jobs that cannot be outsourced, helping a construction industry that was hit hard by the recent recession. And the large pool of rental homes will also require workers to monitor and maintain them. Putting people back to work will be as important as anything else in stabilizing the housing markets and ending the foreclosure crisis.

When R2R is done correctly—with a focus on long-term asset value—it can help FHFA, as the conservator of Fannie and Freddie, and FHA realize their goals to maximize asset values while supporting neighborhood stabilization and the broader economic recovery, as we discuss in more detail below.

That said, buying several homes in an area and renting them out sounds simple, but it is anything but. Managing multiple properties scattered across a neighborhood, or even an entire city, is more difficult and more expensive than managing traditional multifamily rentals. An apartment building has one roof, uniform appliances and so on. Single-family homes each have their own parts and appliances, all of different materials, makes, and ages. They can also be located far apart and have unique rehabilitation requirements after sitting vacant for months or even years.

It's worth noting, however, that this is already being done across the country. Today more than a third of all rental units are single-family homes, and more than half are in buildings with four or fewer units.[36] Waypoint Real Estate Group, for example, buys, rehabilitates, and rents out single- family, residential homes in southern California.[37] And Greenlet Investments in Houston, Texas is already managing scattered-site rental units with much success.[38]

The right buyer must be realistic and already have the necessary experience to take on this challenge, both in asset and property management. That means assessing what properties it wants, developing a solid plan to rehabilitate them to a reasonable quality standard, and having a property-management plan in place for when they are rental-ready. This is the only way to limit failures that will have significant impact on the communities where they might occur.

To be clear, we are not saying that the undertaking is impossible, just that it is not "easy money." The most important thing is to target R2R to the communities, buyers, and property managers that have the best chance of implementing the model successfully. With all this in mind, let's look in more detail at the keys to implementing a successful R2R program.

Benchmarks for an effective rehab to rent strategy

Fannie, Freddie, and FHA will determine the best way to implement R2R, accounting for the quality of the properties, conditions of local housing markets, and local demand for affordable, energy-efficient rental housing. But any disposition strategy should shoot for the same basic goals of meeting local housing needs by:

- Maximizing long-term return to taxpayers
- Stabilizing neighborhoods and home prices in communities hard-hit by the crisis
- Improving the affordability and energy efficiency of the rental housing stock

With those goals in mind, we've developed six benchmarks against which any R2R initiative should be evaluated.

Benchmark #1: Tailor strategy to the specific needs and market conditions of the community

Not every housing market is appropriate for R2R. Some cities don't have large numbers of private- and public-owned REO properties located close to one another.

Other cities have plenty of vacant homes on the market, but attractive home prices and weak demand for rentals make retail sales to owner-occupants the best option.

Given how much there is to learn about R2R, its complexity and its scope, it is likely that Fannie, Freddie, and FHA will want to field test the program in pilot markets. Good pilot markets should have three basic characteristics—high concentration of government-controlled foreclosures; solid demand for rental housing; and strong financial incentives for property owners to rent rather than sell.

To better understand where R2R could work best, we mined relevant data for the 51 metropolitan areas for which we had complete data, focusing on the following metrics: [39]

- **Government-controlled foreclosed homes:** Total count of foreclosed properties on the market owned by FHA, Fannie Mae, and Freddie Mac [40]
- **REO concentration:** Total REO properties (owned by both public and private entities) as a percentage of all mortgage loans [41]
- **Rental demand:** Vacancy rate for rental units (the lower the rate, the higher the demand for rentals) [42]
- **Incentives to rent:** Price-to-rent ratio, which compares a typical home's value to its expected monthly rent (the lower the ratio, the more incentive for property owners to rent rather than sell) [43]

The table in Appendix A on page 33 presents the numbers for each metro area for which complete data were available. Here we present a breakdown of the metro areas assessed with the ones that warrant a closer look for piloting the R2R model. (see Table 1 on following page)

TABLE 1

Choosing the best communities for a rehab-to-rent program

Public and private REO inventories and rental markets for specific communities

	Low REO	Medium REO	High REO
Weak rental market	Austin, TX Baltimore, MD Charlotte, NC Hartford, CT Honolulu, HI Indianapolis, IN Raleigh-Cary, NC Richmond, VA San Antonio, TX San Jose, CA	Dallas, TX Jacksonville, FL Memphis, TN Nashville, TN New Orleans, LA Washington-Arlington, DC	Houston, TX
Medium rental market	Bridgeport-Stamford, CT Oklahoma City, OK Philadelphia, PA San Francisco, CA	Denver, CO Milwaukee, WI San Diego, CA Santa Ana-Anaheim, CA Virginia Beach-Norfolk, VA	Chicago, IL[2] Detroit, MI Kansas City, MO Las Vegas, NV Oakland, CA Orlando, FL Phoenix, AZ Seattle, WA
Strong rental market	Boston-Cambridge, MA New York-White Plains, NY Pittsburgh, PA	Cincinnati, OH Cleveland, OH Columbus, OH Portland, OR Salt Lake City, UT St. Louis, MO	Atlanta, GA Fort Lauderdale, FL Los Angeles, CA Miami, FL Minneapolis-St. Paul, MN Riverside-San Bernardino, CA Sacramento, CA Tampa-St. Petersburg, FL

High-priority communities   Other communities to consider for R2R pilots

Source: Authors' calculations using data from the Federal Housing Finance Agency, CoreLogic, Moody's Analytics, and the U.S. Census Bureau.

What the communities above have in common is this: They are relatively large and they were hit hard by the housing crisis. It is no surprise, for example, to see three California cities listed on the "priority" list. California has one of the highest per-capita foreclosure rates in the nation and has seen one of the largest drops in home prices.

These are certainly not the only communities where R2R can succeed. Rather, they are the most promising test beds based on publicly available data. We do not necessarily advocate that Fannie, Freddie, and FHA slow down any R2R program by running it first in test markets, but we do understand why they might choose to do so. We believe that if R2R works at all, it can work in many more communities than those we've listed.

Benchmark #2: Ensure bidders have a track record and viable plans to rehabilitate and rent the units

In addition to selecting the right communities for R2R, the federal government must make sure they are selling these properties to the right buyer. Fronting enough cash to outbid competitors is not enough. If it were, then the REO disposition process would simply reward inexperienced bidders offering high bids based on overly optimistic forecasts. Those kinds of buyers would probably fail to sustain a business adequately maintaining and renting out properties, which in turn would harm not only the broader community in which the properties are located but also the government's balance sheet since it is likely that Fannie Mae, Freddie Mac, or FHA insure other properties in the areas affected.

The best way to offset the risk to both buyers of these properties and the community at large is to demand proven rental-management experience. Single-family rentals are historically difficult to manage on a large scale. Average operating costs are up to 20 percent higher than traditional multifamily units, according to some experts with whom we have spoken.[44] That's because single-family homes are often spread out and have their own mechanical equipment and amenities to maintain. There is a dearth of capable long-term landlords with experience managing dozens of single-family properties.[45]

We don't mean to limit bidding only to entities with scattered-site rental experience, but instead to require demonstrated experience in property management at scale so that bidders have the real world experience necessary to recognize the costs and resources involved in scattered-site rental.

Knowledge of the local real estate market and relationships with the community are also critical for this program to work. Local real estate markets often differ significantly. Job prospects, population trends, crime levels, and the quality of local school systems—all of which greatly influence home values—can vary dramatically among localities. The quality of housing stock can also vary greatly based on the vacancy period and local weather conditions.

We propose that the federal government screen bidders before bulk sales are approved. Fannie Mae, for example, already vets bulk purchasers as part of its limited foreclosed home disposition program, which involves site visits to other properties that the investors have previously purchased. Fannie Mae also facili-

R2R keys to success

No. 1: Target the right communities

For R2R to have a measurable effect in maximizing value and improving housing markets, it must be done in communities where there is a sufficient number of REO properites and a need for affordable rental housing.

No. 2: Require bidders to have local experience

Bidders must have experience in and local knowledge of neighborhoods, economic conditions, and other variables to succeed. Bidders should either be local or outside investors partnered with experienced local entities that will operate the properties.

In meeting the goal of targeting appropriate execution partners, any proposal for the disposition of REO should screen partners based both on their ability to execute transactions at scale and to appropriately engage community partners in those transactions.

tates meetings between the bulk purchaser and local community representatives to ensure the community supports the bulk sale of homes to the investor.[46]

These are helpful first steps for ensuring the properties are sold to investors in bulk sales or connected to managers in joint ventures with the capacity and expertise to rehabilitate and rent out a large pool of foreclosed homes. We would go one step further and require all bidders to affiliate with a property manager either inside or outside of their own companies with a strong track record in and understanding of the local real estate market.

For any REO rental program to work, property managers must have an intimate familiarity with the specific real estate market, the housing stock, and the likely expenses and returns associated with rehabilitating and managing a portfolio of scattered-site rental properties in that particular community. In large markets in particular, vetting is important because the scale is larger. Conversely, in markets where rental demand might be lower, the federal government must vet bidders closely to ensure that their projections are based on valid market assumptions given the higher opportunity for a failed investment.

In the case of a bulk sale program, community groups have expressed legitimate concern that it will be an invitation to large speculative investors who are not familiar with the community and who have a poor track record as landlords.[47] The federal government should permit outside investors to participate in the bidding in order to widen the pool of participants, but only if experienced local managers—for profit or nonprofit— are involved to ensure local experience and if outside investors agree to take a balanced portfolio. This solution permits each party to do what they do best.

R2R keys to success

No. 3: Auction properties for sale or management in bulk

The only way for the R2R market to function efficiently is for every entity seeking properties to own or manage be a bidder in an auction, no matter the structure of that entity.

Benchmark #3: Acquire properties for R2R that will maximize long-term returns to taxpayers and stabilize housing markets

The FHFA's request for information focused on the ownership structure that could be used for dispositions of government-controlled foreclosed property. Buyers can be purely private, private-public partnerships, or even joint ventures between Fannie, Freddie, or FHA and a private group of asset managers, property managers, investors, and builders.

To grant all of these parties access to the properties in a community probably would require an auction process. Yet because Fannie Mae, Freddie Mac, and FHA all hold significant quantities of foreclosed properties, it is very possible that a single buyer may face three different contractual partners with different governing terms when building a portfolio in a single community. Ideally, when creating an auction, the federal government should combine inventories and auction all properties through a single channel. This would mean the establishment of a separate clearinghouse tasked with auctioning off the combined listing of properties.

Our conversations indicate that, given the complexity of the R2R undertaking within each of Fannie, Freddie, and FHA, there is little appetite for creating a new entity and attempting to share these complex tasks between them. That is understandable in the short term, but the entities should seriously examine this option as R2R gets off the ground.

An REO disposition auction must maximize the value of properties and improve the housing market, which means the auctioneers should ensure broad participation from a variety of organizations.

Given the large number of current and soon-to-be REO properties held by FHA, Fannie Mae, and Freddie Mac, a meaningful disposition program will require the participation of investors with sufficient capital to tackle the scale of the problem. Bidders, therefore, should be required to post some degree of equity capital to demonstrate proof of funds prior to making offers on pools of properties. Of course, less capital will be demanded if the bid is for a contract to manage and not own properties as part of a joint venture with Fannie, Freddie, or FHA whichever is contributing the properties.

The key here is for a bidder to demonstrate access to capital sufficient to carry out its proposal.

The next issue is one of scale. Bidders must be willing to buy or manage a minimum number of properties in a community to justify the overhead of the bulk auction process and to ensure scale of operations. Any auction must permit bidders to identify portfolios small enough that it does not exclude bidders with a smaller capital base. The concern is that if the portfolio requirement is too large, only large investors with access to significant capital would participate. An auction with too few bidders would reduce the leverage of the federal government to

R2R keys to success

No. 4: Set limits, both high and low, for bidders hoping to acquire or manage properties

Too small a portfolio requirement in an auction requires too much overhead to assess and manage many small bidders. Further, bidders may not acquire enough properties to achieve sufficient scale. Too large a portfolio requirement in an auction and you lock out most bidders, leaving the government with less competition between bidders and less competitive pricing environment. Further, any bidder with too large a market share could seriously impact communities or even entire cities in which it operates should it fail to comply with its R2R obligations. Getting the balance right is key.

negotiate price on the properties, resulting in larger discounts than is necessary. In a similar vein putting too many properties in the hands of a few organizations creates a significant risk to a city's housing stock if that owner falters or fails.

The upshot: Any auction process must require bidders to take a minimum number of properties necessary to achieve scale in a single metro area.

In the case of bulk sales, the auction process will almost certainly require expanding current limits on REO sales by Fannie, Freddie, and FHA. Based on current guidelines, investors can only purchase 10 Fannie Mae properties and four Freddie Mac properties. According to mortgage finance expert Lewis Ranieri—the inventor of the mortgage-backed security several decades ago—those limits will have to be raised to at least as high as they were for a short period in the 1990s when investors could purchase up to 25 foreclosed properties held by Fannie and Freddie.[48]

The quality of the properties is also important. Foremost, the auction process cannot let bidders cherry pick properties such that FHA, Fannie Mae, and Freddie Mac are left to manage those in the worst condition or located in the least desirable neighborhoods. This would fly in the face of any profit-maximizing strategy that aims to protect the interests of U.S. taxpayers because the premiums that bidders would offer in any auction in order to cherry pick the assets for sale is unlikely to be sufficient to cover the costs of the properties they leave behind.

There are several ways to prevent cherry picking. Bidders could be allowed to construct portfolios themselves subject to the requirement that each portfolio contain a range of properties. This option could prove difficult, as no two portfolios may be identical, complicating auctioneers' efforts to fairly evaluate and compare bids.

Alternately, bidders could provide the auctioneer with geographic and/or property specifications and agree to take any property within that area. The negative here is, of course, that bidders will worry about getting a disproportionate number of less desirable properties and demand a lower price for the entire portfolio.

A compromise is to permit bidders to provide four pieces of information:

- The geographic area in which they are interested, ranging from a few blocks to the whole of the metro area
- The number of properties sought for ownership or management through a joint venture

- The appetite for taking lower range properties
- The offering price

Based on this, the auctioneer can divvy up available properties most efficiently.

It's important to note a bit of history here. The auction should not be biased against bidders who require a federal subsidy or seller financing, which we discuss later in this paper. Under the Resolution Trust Corporation, the government agency charged with disposing of real estate assets in the wake of the savings and loan crisis in the late 1980s, if two organizations made the same bid for properties, RTC would side against the seller-financed bidder.[49] This had the effect of greatly reducing the participation of nonprofits that tend to have less access to capital and are more in need of seller financing.

Today the result would be to hobble the efforts of mission-driven organizations, such as nonprofits, seeking to purchase or manage these properties to develop affordable rental housing. Preserving their involvement in the R2R process would be crucial for redeveloping neighborhoods.

Benchmark #4: Expand the affordable rental housing market

A central goal of R2R is to ensure that FHFA maximizes shareholder value and to support FHA and FHFA's mandate to promote a stable housing market. Simply clearing the federal government's balance sheets of foreclosed property inventories does not do enough to meet this critical mandate.

That's because approximately 20 million American households—about half of all renters—are "rent impoverished," meaning they devote more than a third of their monthly income just to housing. By comparison, only 38 percent of renters were "rent impoverished" in 2000.[50]

This means that to improve the housing market, R2R must simultaneously provide affordable housing options to young workers who today choose to live at home, to workers who need to move to find work, and to households where one or more members is unemployed or underemployed. While this might sound like wishful thinking, these are in fact the Americans that represent the rising rental demand. If R2R cannot cater to their need for affordable housing, it may not succeed.

To help meet the need for affordable rental housing, R2R must be structured to ensure sufficient participation of nonprofit groups and other mission-oriented groups that focus on affordable housing and have experience implementing it. Since the passage of the Neighborhood Stabilization Program in 2008, a growing number of mission-driven organizations, such as Neighborworks, Enterprise, and the Low-Income Investment Fund have successfully handled the acquisition, rehabilitation, and management of foreclosed homes in their communities.

Yet these groups often have less access to capital than standard private investors, which could impede their ability to buy government-controlled foreclosed properties in bulk.[51] These entities have close community ties, a vested interest in neighborhood stabilization, and often a mission to promote community and economic development, which means they are more likely to keep the rents affordable, invest more to improve the housing stock, and retain a long-term stake in the property.

The economics behind affordable-housing organizations make them attractive bidders or partners in a joint venture. Private investors need to make a certain level of profit to justify their investment, while affordable housing organizations are usually nonprofits with lower required rates of return. As a result, community organizations may be willing to buy or operate properties for less, which benefits Fannie, Freddie, and FHA because properties do not need to be sold at as great of a discount.

What affordable housing organizations often lack, though, is access to the capital necessary to purchase or rehabilitate and retrofit these properties. Fannie, Freddie, and FHA could provide seller financing or other credit enhancements with preferential terms to affordable-housing organizations. This would put mission-driven organizations on a more even footing with for-profit investors that have greater access to credit and capital markets.

But seller-financed deals would be a significant change in the way the three organizations currently dispose of foreclosed properties. Currently FHA provides credit enhancement for traditional single-family home purchases in the form of mortgage insurance, the cost of which is entirely covered by premiums paid by lenders. FHA also guarantees loans for home renovations through its 203(k) insurance program. But it does not directly finance any home purchases or renovations. FHA could insure loans for investors, but this would, in effect, introduce a new bulk FHA loan product in the private market, entailing its own complexities.

R2R keys to success

No. 5: Involve affordable housing organizations

To improve the housing market and stabilize neighborhoods hit hard by the housing crisis, all proposals for the sale of government-controlled foreclosed properties should involve the participation of affordable housing organizations (though not necessarily on every transaction). These groups are invested in and have intimate knowledge of the local community. Yet to ensure their participation, a successful R2R program may require the provision of low-cost seller financing to community organizations with experience in the provision of affordable rental housing.

Similarly, Fannie Mae and Freddie Mac guarantee payment of principal and interest on certain types of home loans by purchasing and securitizing mortgages. The two mortgage-finance giants either keep these mortgages in their own portfolio or bundle them into mortgage-backed securities to be sold on the secondary market to investors.

To enable Fannie, Freddie, and FHA to sell their foreclosed properties through seller-financed loans, policymakers should determine whether their respective charters would allow them to directly make home-purchase loans for REO disposition. If not, then Congress may need to expand the ability of these organizations to provide seller-financing for REO disposition.

The other concern is that local affordable-housing organizations could not grow to a large enough scale to make a meaningful dent in the overhang of foreclosed properties in their communities, both government and privately owned. If these organizations can only take over a few thousand properties—while helpful for improving local rental markets—it would still leave hundreds of thousands of foreclosed homes still on the market. Access to capital could help community groups afford a bigger share of the inventory, but the groups would still need to drastically expand their current resources in order to manage such a large rental portfolio.

In addition, private investors or managers could benefit from the expertise of affordable-housing organizations by partnering with them for the purpose of oversight. The private partner would operate the properties. The affordable-housing organizations would direct the effort and ensure that rentals and later resales are affordable. In return, private investors with sufficient affordable housing participation in their portfolio would gain "affordable" status, with access to special financing and other potential preferences.

Benchmark 5: Provide incentives to property owners to properly renovate properties and undertake economically justifiable retrofits

One of FHFA's stated objectives for efforts to manage the disposition of government-controlled foreclosed properties is to meet "property repair and rehabilitation needs."[52] Today, most of these properties are vacant and in a state of disrepair, ranging from simple dirt to mold to broken appliances to vandalism. With so many homes needing to undergo rehabilitation to ready them for tenants, we have an opportunity to significantly improve our housing stock's quality, affordability, and economic value by also retrofitting properties for energy efficiency.

Retrofits are a promising tool for realizing FHFA's dual mandate of maximizing asset values and promoting a resilient housing market when Fannie, Freddie, and FHA maintain some financial stake in the property through a joint venture. Why? Because retrofits can increase the overall value of the property.[53] So when the joint venture's hold period expires and the federal government sells the property, taxpayers could see a larger return.

Of course, retrofits could also increase the value of properties sold to private investors in bulk sales, but that does not provide a benefit to taxpayers. But there is a broader social benefit of a more energy-efficient rental housing stock. Overall, they help lower our dependence on foreign oil, reduce carbon emissions to help combat climate change, and lower utility bills for tenants, many of whom are low- and moderate-income families.

And while it is not the primary focus for FHFA, energy-efficiency retrofits generate well-paying jobs within the community. Retrofit work is almost exclusively done by local construction workers and manufacturing tradesmen, two industries that were hit especially hard by the economic downturn. To ensure that R2R leads to job creation in the communities hit hardest by the foreclosure crisis, the federal government in any auctions could favor investors or property managers whose workforce is comprised primarily by local employees. And much of this work could help to improve the skill set of workers, teaching new green-building skills for future employment opportunities.

Nearly all vacant foreclosed properties will require some rehabilitation prior to rental, so the choice facing the federal government is not whether to invest in rehabilitation, or require buyers to do so, but how much to invest. In most cases, the extra cost of an energy-efficient upgrade is small compared to the nearest cost-effective equivalent that would otherwise need to be completed.

The question, then, is why aren't all property owners doing retrofits given the economic benefits of doing so? The answer is that many property owners would be footing the capital costs of retrofits while the benefits of those retrofits tend to accrue to tenants through lower energy bills. This creates a split incentive in which tenants would have good reason to want retrofits, while property owners may not.

R2R keys to success

No. 6: An energy-efficient retrofit can make economic sense, particularly in cases where the federal government retains partial ownership of the property

Retrofits can produce energy savings and lower operating costs, while reducing climate impact and lowering U.S. dependence on foreign energy. The federal government should support them as part of an R2R program. This is most relevant when employing joint ventures, where the federal government retains an interest in the rental properties and can benefit directly from the retrofit upon the eventual sale of the property.

In joint ventures, where the federal government maintains a stake in the property, it can step past this and mandate the retrofit, either providing financing or requiring a lower income percentage in return. The solution is less clear in the case of bulk sales of foreclosed properties, where the decision to retrofit lies with a private-property owner.

One possibility is to offer low-cost financing for rehabilitation work that also includes retrofits. In many cases, existing financing tools are already offered by Fannie, Freddie, and FHA and could be extended to encourage economically justifiable retrofits. Fannie Mae's Homepath renovation mortgage program, which helps finance renovations to individual properties, is one example. Currently, loans under the Homepath program are offered to those who purchase a foreclosed property that requires "light to moderate" renovation. The loan is capped at 35 percent of the completed value of the property and cannot exceed $35,000.

FHA's Title 1 Home Improvement Loan Program is another example of a current financing option that could be modified to provide portfolio financing for retrofits. The program provides low-interest loans of up to $25,000 toward home-improvement projects. Another is Fannie and Freddie's Green Refinance Plus Program, which allow owners of affordable multifamily properties to refinance their mortgages at lower rates in order to make energy-efficient upgrades.

To make these programs suitable to a broader portfolio of foreclosed homes offered for sale in an auction, some of which are in great disrepair, the federal government could apply this cap to a portfolio of properties. By extending this low-cost financing to a portfolio of properties, successful bidders could spread the costs of these renovations over the course of their loan payments.

To be sure, all homes are different and not every retrofit works for every home, so an essential part of any retrofit strategy is making cost-effective choices at both the property and porfotlio level. We do not believe that there is a one-size-fits-all approach. We do believe, however, that there are instances in which there is an economic benefit in performing deeper home-performance retrofits on REO properties.

Benchmark 6: Ensure sufficient measures are in place to monitor compliance

Simply laying out the ground rules for a R2R program regarding hold periods, habitability standards, retrofit, and rent will not be enough. With so many buyers, things will inevitably go wrong. The federal government must have strong monitoring and contingency plans in place to mitigate the risks of failure.

Monitoring those who hold this REO out for rent is necessary to ensure compliance with terms of the agreement, from the most basic (Is the property still held for rent?) to the technical (Are local housing code requirements being met?). Monitoring is something that housing agencies around the country already do. Most are stretched and could use additional resources. R2R will further tax them by introducing additional rental units. A successful proposal may require federal funds to help these monitors do their jobs more effectively. The cost should be borne by bidders and, eventually, property owners, in the form of fees associated with the sale or, in the case of joint ventures, the ongoing income stream to the government.

Where R2R is undertaken through bulk sale, we would support penalties for noncompliance, though it is not clear what beyond local code enforcement would be effective without imposing substantial overhead costs at the national and state levels. The one relatively low-cost lever that is available is restricting a poor performing investor's ability to acquire more properties. Most investors we've spoken to intend to grow their portfolio significantly in the medium to long term from the constant flow of government-controlled foreclosed properties in future R2R auctions. Making this impossible for poor performers will limit the damage they can do and serve as a substantial penalty for investors seeking new investment opportunities.

For substantial noncompliance or insolvency by a bidder, the federal government should reserve the right to recapture properties for resale. There will be those who cannot sustain their models and, as a last resort, those properties should revert to government ownership for redisposition at no cost. In a straight sale of these properties, government recapture in the event of the bankruptcy of the purchasers would need to be contractual. Properties sold by the federal government would need a restriction in the deed prohibiting the sale of the properties by the new owners for five years.

We recommend an exception to this contractual remedy in cases in which the property is sold as affordable housing to owner-occupants, as they are most likely to ensure the property is well maintained. But if the property were sold to nonowner occupants that do not meet affordability requirements, then in the case of a bankruptcy by the new owners the sale would be nullified prior to closing and the property would revert to the organizations for rebundling. While this might work, it is, admittedly, a crude instrument. What is more, it only affects the sale of the property.

R2R keys to success

No. 7: When possible, use existing state and local systems to monitor compliance

States and municipalities have housing-code enforcement professionals trained and on staff. Deploying a second workforce to support a federal program makes little sense. But neither does significantly increasing the workload for state and local officials without adequate resourcing, so program participants should pay some sort of fee for this monitoring.

No. 8: Know what to do if R2R fails

If there is no mechanism for dealing with homes that go into R2R and are mismanaged or held by a company that goes bankrupt, the negative consequences for communities could be significant. And with a program this size, failures will happen. Having a contingency plan for how to deal with noncompliance or outright failure and get the homes involved into the hands of a responsible party quickly is key to any R2R program.

Fannie, Freddie, or FHA can exert much greater control and maintain closer oversight if they retain an ownership stake in the properties through a joint venture. The joint venture agreement can include conditions where noncompliance requires that the partner pay a penalty or percentage of earnings. In extreme circumstances, it would permit the federal government to take full title to problem properties within the joint venture without the need to interfere with or nullify other third-party transactions.

Next steps and policy recommendations

FHFA and the Obama administration appear serious about moving forward quickly on a rehab-to-rent program. We believe this is a prudent goal given the dangerous overhang of foreclosed properties in the U.S. housing market amid rising rents. But we also understand why FHFA would want to be deliberate given the scope and complexity of this problem.

Therefore, we urge Fannie Mae, Freddie Mac, and the Federal Housing Administration to identify communities that are ripe for R2R, diligently qualify all bidders, and set up an auction process that grants equal access to both private investors and mission-driven organizations. Most of the components of this program can be implemented right away without congressional action or new government spending, an especially important factor at a time of partisan gridlock in Congress and deep-seated Republican aversion to new spending programs.

No matter what approach the federal government adopts—joint ventures, small-scale sales, or bulk sales—Rehab-to-Rent should focus on a core set of policy goals:

- Maximize the long-term return of foreclosed single-family homes to taxpayers
- Stabilize local home prices by reducing the glut of foreclosed properties on the market
- Stabilize communities hit hard by the foreclosure crisis
- Expand affordable rental housing in markets with unmet need
- Expand the stock of energy-efficient homes
- Create new jobs and economic activity in depressed areas

If done well, this program also will create a more resilient, affordable, and energy-efficient stock of rental housing, protect taxpayers from financial loss, and create well-paying jobs and economic activity in the process.

A former White House official once quipped that you never want to let a serious crisis go to waste.[54] Today we find ourselves in a rare economic moment in which an excess supply of vacant single-family homes can help fill unmet demand for affordable rental housing. The federal government, institutional investors, and mission-driven nonprofits must recognize this opportunity and take simple steps to do what's best for everyday Americans—both as taxpayers and members of our hardest-hit communities.

Metropolitan area data for the selection of possible R2R pilot cities

Metro Area	FHA-owned REO	Fannie Mae-owned REO	Freddie Mac-owned REO	Total government-controlled REO	Percent of total REO government-controlled	Total REO as percent of mortgage loans	Rental vacancy rent 2010	Rent ratio Q2 2011
Atlanta-Sandy Springs-Marietta GA	1,388	3,585	931	5,904	54.89	1.10	13.8	11.79
Austin-Round Rock-San Marcos TX	83	213	49	345	46.62	0.26	11.8	19.89
Baltimore-Towson MD	72	340	70	482	29.52	0.37	11.8	15.70
Boston-Cambridge MA-NH	8	210	38	256	26.69	0.38	6.2	16.57
Bridgeport-Stamford-Norwalk CT	6	47	12	65	18.57	0.26	8.7	17.62
Charlotte-Gastonia-Rock Hill NC-SC	27	103	39	169	38.94	0.39	11.2	27.99
Chicago-Joliet-Naperville IL	412	1,837	584	2,833	33.28	0.68	12.1	13.95
Cincinnati-Middletown OH-KY-IN	151	424	102	677	51.84	0.42	12.0	13.35
Cleveland-Elyria-Mentor OH	81	448	107	636	44.95	0.50	11.3	10.79
Columbus OH	114	325	101	540	52.43	0.38	8.0	14.92
Dallas-Plano-Irving TX	295	565	136	996	42.03	0.37	13.5	15.88
Denver-Aurora-Broomfield CO	170	619	216	1,005	39.23	0.52	8.2	20.84
Detroit-Livonia-Dearborn MI	189	1,058	145	1,392	34.46	1.82	16.4	11.60
Fort Lauderdale-Pompano Beach-Deerfield Beach FL	37	563	125	725	19.13	1.19	10.1	13.34
Hartford-West Hartford-East Hartford CT	27	67	18	112	35.22	0.19	11.6	18.08
Honolulu HI	1	91	19	111	27.68	0.34	7.2	31.79
Houston-Sugar Land-Baytown TX	288	1,138	194	1,620	42.30	0.48	16.2	15.65
Indianapolis-Carmel IN	284	281	77	642	89.04	0.25	14.1	14.54
Jacksonville FL	57	260	79	396	37.15	0.47	13.9	14.46

Kansas City MO-KS	236	648	135	1,019	61.05	0.52	14.0	13.72
Las Vegas-Paradise NV	216	2,416	337	2,969	47.95	1.77	13.8	12.98
Los Angeles-Long Beach-Glendale CA	24	1,670	304	1,998	25.06	0.67	6.7	16.39
Memphis TN-MS-AR	162	325	67	554	69.51	0.44	18.5	16.97
Miami-Miami Beach-Kendall FL	15	529	97	641	13.90	1.29	10.1	13.04
Milwaukee-Waukesha-West Allis WI	42	288	94	424	49.59	0.40	7.6	20.18
Minneapolis-St. Paul-Bloomington MN-WI	153	1,138	386	1,677	28.63	0.94	7.4	11.80
Nashville-Davidson--Murfreesboro--Franklin TN	190	282	78	550	70.51	0.32	8.2	23.31
New Orleans-Metairie-Kenner LA	66	348	75	489	63.84	0.55	15.2	15.46
New York-White Plains-Wayne NY-NJ	11	184	48	243	15.63	0.16	6.6	14.69
Oakland-Fremont-Hayward CA	8	563	146	717	18.34	0.89	6.0	34.33
Oklahoma City OK	56	178	52	286	66.36	0.25	9.6	16.38
Orlando-Kissimmee-Sanford FL	43	583	138	764	24.42	0.84	19.0	12.33
Philadelphia PA	43	348	53	444	28.68	0.28	11.6	14.81
Phoenix-Mesa-Glendale AZ	211	3,584	606	4,401	42.18	1.44	16.3	11.45
Pittsburgh PA	69	163	36	268	40.67	0.27	7.8	11.22
Portland-Vancouver-Hillsboro OR-WA	40	345	162	547	34.93	0.40	4.2	22.99
Raleigh-Cary NC	55	76	38	169	44.13	0.19	11.4	24.27
Richmond VA	83	258	83	424	55.57	0.36	13.5	21.38
Riverside-San Bernardino-Ontario CA	94	2,549	398	3,041	36.21	1.22	12.3	13.46
Sacramento--Arden-Arcade--Roseville CA	35	1,091	228	1,354	34.47	1.01	8.4	14.58
Salt Lake City UT	94	352	93	539	59.82	0.48	6.0	16.16
San Antonio-New Braunfels TX	2	4	1	7	100.00	0.07	14.0	16.97
San Diego-Carlsbad-San Marcos CA	9	557	101	667	23.67	0.60	7.8	21.08
San Francisco-San Mateo-Redwood City CA	1	47	17	65	7.95	0.33	6.0	29.92

San Jose-Sunnyvale-Santa Clara CA	1	96	22	119	9.86	0.44	8.2	28.68
Santa Ana-Anaheim-Irvine CA	7	294	47	348	17.00	0.45	6.7	28.28
Seattle-Bellevue-Everett WA	82	1,002	236	1,320	50.44	0.52	7.4	24.05
St. Louis MO-IL	240	792	192	1,224	60.27	0.45	11.2	12.88
Tampa-St. Petersburg-Clearwater FL	150	554	141	845	26.69	0.68	12.6	12.61
Virginia Beach-Norfolk-Newport News VA-NC	87	325	79	491	44.43	0.41	8.8	17.50
Washington-Arlington-Alexandria DC-VA-MD-WV	54	749	179	982	27.79	0.43	8.8	17.89

Sources: Authors' calculations using data from the Federal Housing Finance Agency, CoreLogic, Moody's Analytics, and the U.S. Census Bureau.

Appendix B

Methodology for selecting possible R2R pilot cities

As mentioned above, the Rehab-to-Rent model will not work everywhere, and policymakers will need to carefully target communities that have the best chance of implementing the model successfully. In very basic terms this requires at least two market characteristics: a large enough supply of government-controlled foreclosed properties and a strong enough rental market to make the investment worthwhile.

We were limited to metropolitan area-level data for the preliminary analysis in this report. Our dataset included two measurements of each metro area's stock of real estate-owned properties—the total number of government-controlled REO properties on the market and the concentration of REO properties as a percentage of all mortgage loans—and two measurements of each metro area's rental market: the area's rental vacancy rate and price-to-rent ratio.

Our primary goal for this analysis was to summarize all of the available data into two simple categories: the size of the REO stock and strength of the rental market. We then cross-tabulated the results for all the metro areas for which we had data. (see Table 1 on page 19)

For ease of analysis, we weighed each contributing factor equally for each category. In other words, the "size of the REO stock" is an even consideration of the number of each metropolitan area's share of government-controlled REO on the market and its local concentration of all REO properties. Similarly, the "strength of the rental market" is an even consideration of the each metropolitan area's relative rental vacancy rate and price-to-rent ratio.

This analysis is not intended to be comprehensive or, for that matter, even all that scientific. Instead it is meant to jumpstart our thinking on where Rehab-to-Rent might work and where it might not. In subsequent analyses we plan to dig deeper into the data, hopefully down to the neighborhood level, to learn more about these properties and better understand which communities are ripe for experimentation with the Rehab-to-Rent model.

About the authors

Alon Cohen is a Consultant for American Progress and also serves as senior vice president and general counsel for a Washington, D.C. startup. In his work with the Center for American Progress, Alon has consulted with congressional and executive staff, as well as other private and public stakeholders on topics including foreclosure prevention, mortgage-servicing fraud, and, most recently Rehab-to-Rent.

Jordan Eizenga is a Policy Analyst with the Economic Policy team at American Progress where he focuses on housing policy, community and economic development, and municipal finance. Prior to joining the Center, Jordan was a Hamilton Fellow in the Department of the Treasury where he worked with community-development financial institutions to expand credit and equity investments in distressed and underserved domestic markets.

John Griffith is a Research Associate with the Economic Policy team at American Progress. His work focuses on housing policy, government efficiency, and budget analysis. Prior to joining CAP, John worked as an analyst with the Social and Economic Policy Division of Abt Associates, where he conducted research on federal homeless assistance, affordable housing, and community development programs.

Bracken Hendricks is a Senior Fellow at American Progress and works at the interface of global warming solutions and economic development. Hendricks served as an advisor to the campaign and transition team of President Barack Obama and has served in the Clinton administration as special assistant to the Office of Vice President Al Gore, with the Department of Commerce's National Oceanic and Atmospheric Administration, and with the President's Council on Sustainable Development.

Adam James is a Special Assistant for Energy Policy at American Progress, where he works on CAP's clean energy and climate advocacy campaign, specifically domestic clean energy financing and international climate policy.

Acknowledgements

This paper benefitted from the input of dozens of industry experts, policymakers, and knowledgeable individuals. We'd like to start by thanking the staff at the Center for American Progress for their assistance throughout the project. We are especially grateful to Sarah Rosen Wartell, David Abromowitz, Michael Barr, David Min, Ed Paisley, Janneke Ratcliffe, Ellen Seidman, and Peter Swire at CAP for their ongoing feedback, guidance, and editorial support.

As mentioned above, much of our research consisted of conversations with stakeholders in both public and private spheres, including institutional investors, community-based nonprofits, rental property managers, and representatives from federal, state, and local governments. Many of those with whom we spoke are intimately involved in internal discussions about what to do with REO properties, so we cannot thank them individually for their invaluable feedback. But they know who they are and we thank them.

Endnotes

1 FHFA, "FHFA, Treasury, HUD Seek Input on Disposition of Real Estate Owner Properties," Press Release, August 10, 2011, available at: http://www.fhfa.gov/webfiles/22367/FHFARFIReleaseFinal.pdf

2 Calculated Risk, "Fannie, Freddie and FHA REO Inventory Declines in Q3," Calculated Risk Blog, November 8, 2011, available at http://www.calculatedriskblog.com/2011/11/fannie-freddie-and-fha-reo-inventory.html. This puts the total REO at the three entities at the end of Q3 at 226,961. That is down from 249,501 at the end of Q2.

3 The Center for American Progress's official response to FHFA's Request for Information is available at Sarah Wartell and others, "Renting Our Way Out of the Foreclosesure Gut" Glut," Center for American Progress, September 20, 2011, available at http://www.americanprogress.org/issues/2011/09/rent_rehab.html.

4 Federal Housing Financing Agency, "FHFA 2011 Performance and Accountability Report" (2011), available at http://www.fhfa.gov/webfiles/22756/FHFAPAR_2011.pdf

5 Calculated Risk, "Fannie, Freddie and FHA REO Inventory Declines in Q3."

6 Statement of Edward J. DeMarco, Acting Director Federal Housing Finance Agency Before the U.S. House of Representatives Subcommittee on Capital Markets, Insurance, And Government Sponsored Enterprises, November 3, 2011, available at http://www.fhfa.gov/webfiles/22744/DeMarcoTestimony1132011.pdf, p. 3.

7 A note on terms: In real estate, an "asset manager" is responsible for maintaining a vacant property and getting it ready for sale or rent. A "property manager" is responsible for maintaining an occupied home, responding to tenant requests and so on. The two share some skills, but are generally handled by different companies.

8 Laurie S. Goodman, "New Ideas to Address the Glut of Foreclosed Properties," Testimony before the Subcommittee on Housing, Transportation and Community Development of the Senate Committee on Banking, Housing and Urban Affairs. September 10, 2011, available at http://www.housingwire.com/wp-content/uploads/2011/09/Laurie-Goodman-Testimony-09202011.pdf.

9 S&P Indices,"The Fourth Quarter Starts with Broad-based Declines in Home Prices According to the S&P/Case-Shiller Home Price Indices," Press release, December 27, 2011, available at http://www.standardandpoors.com/indices/articles/en/us/?articleType=PDF&assetID=1245326665741.

10 "Housing Characteristics: 2010," available at http://www.census.gov/prod/cen2010/briefs/c2010br-07.pdf.

11 Christine Ricciardi, "John Burns says top rental markets about to 'explode,'" Housing Wire, June 7, 2011, available at http://www.housingwire.com/2011/06/07/john-burns-says-top-rental-markets-about-to-explode.

12 And still others to stay home or move in together. A second effect of the housing downturn has been a slowdown in "household creation" the number of new households created when, say, a commuter college student moves out of his or her parents' home. The return of the economy should increase household creation again, creating greater need for affordable rentals. In the catch-22 of these scenarios, more affordable housing should make that economic upturn easier by enabling household creation.

13 Lawrence Yun, "Lowest Inventory in Six Years," Economists' Outlook Blog, November 21, 2011, available at http://economistsoutlook.blogs.realtor.org/2011/11/21/lowest-inventory-in-six-years/ (citing an existing home inventory of 3.3 million). National Association of Home Builders, "New Home Sales Rise 5.7 Percent in September," October 26, 2011, available at http://www.nahb.org/news_details.aspx?sectionID=122&newsID=13807 (citing inventory of new homes at 163,000).

14 Ibid.

15 The 230,000 number excludes non-FHA government REO (VA, USDA, etc.), credit unions, finance companies, non-FDIC-insured banks and thrifts, and a few other lender categories. REO owned by FHA and the GSEs make up 90% or more of the government REO total, according to economist Tom Lawler. See "Q2 REO Inventory Estimate," Calculated Risk Blog, August, 8, 2011, available at http://www.calculatedriskblog.com/2011/08/q2-reo-inventory-estimate.html.

16 Alan Mallach, "REO Properties, Housing Markets and the Shadow Inventory," in Federal Reserve Bank of Boston, Federal Reserve Bank of Cleveland and the Federal Reserve Board, "REO and Vacant Properties: Strategies for Neighborhood Stabilization" (2010), available at http://www.federalreserve.gov/newsevents/conferences/reo_20100901.pdf.

17 Dan Immergluck and Geoff Smith, "There Goes the Neighborhood: The Effect of Single Family Mortgage Foreclosures on Property Values," (Chicago: Woodstock Institute, June 2005), available at http://www.nw.org/network/neighborworksprogs/foreclosuresolutions/reports/documents/TGTN_Report.pdf.

18 Nick Timiraos, "Mortgage Picture Brightens, for Now," Wall Street Journal, August 27, 2010, available at http://online.wsj.com/article/SB10001424052748703959704575453532991332448.html?mod=WSJ_hpp_MIDDLETopStories.

19 Lender Processing Services, "LPS 'First Look' Mortgage Report: July Month-End Data Shows an Increase in the Delinquency Rate and Decline in Foreclosure Inventories," August 16, 2011, available at http://www.lpsvcs.com/LPSCorporateInformation/NewsRoom/Pages/20110816.aspx.

20 Laurie S. Goodman, "New Ideas to Address the Glut of Foreclosed Properties."

21 Kerri Panchuk, "S&P: 45 months to clear shadow inventory," Housing Wire, November 23, 2011, available at http://www.housingwire.com/2011/11/23/sp-45-months-to-clear-shadow-inventory.

22 Ibid.

23 It's worth noting that Fannie Mae and Freddie Mac and private banks have seen a strong increase in REO sales in recent months, and some analysts expect those sales are expected to continue in 2013. Freddie Mac sold a record number of real estate owned properties in 2011, at an average of 94 percent of the appraised market value, according to the organization's senior vice president of single-family servicing and real estate owned properties. (For more, see Jacob Gaffney, "Freddie Mac Sells Record-Number REO at 94% of Market Value," Housing Wire, November 14, 2011, available at http://www.housingwire.com/2011/11/14/freddie-mac-sells-record-number-reo-at-94-of-market-value.) Meanwhile, total REO sales could reach 1.48 million properties, according to estimates from Bank of America Merrill Lynch analysts, a 10 percent increase from projected amount in 2012. (For more, see Jon Prior, "REO Sales May Not Peak Until 2013," Housing Wire, October 17, 2011, available at http://www.housingwire.com/2011/10/17/reo-sales-may-not-peak-until-2013) But this pace is not expected to keep up with the expected pace of REO creation.

24 Christine Ricciardi, "More consumers forced to rent due to foreclosure: TransUnion," Housing Wire, June 24, 2011, available at http://www.housingwire.com/2011/06/24/more-consumers-forced-to-rent-due-to-foreclosure-transunion.

25 "October 2011 U.S. Economic and Housing Market Outlook," Freddie Mac, October 17, 2011, available at: http://freddiemac.mediaroom.com/index.php?s=12329&item=70575. The obvious question is, "How can you have a 4 percent increase in rentals but only a 1.5 percent decline in homeownership? Shouldn't they mirror each other because people have to live somewhere?" The answer likely lies in the nuances of the two data definitions.

26 Christine Ricciardi, "More consumers forced to rent due to foreclosure: TransUnion," housing Wire, June 24, 2011.

27 Julie Schmit and Barbara Hansen, "Rising rents make housing less affordable," USA Today, September 22, 2011, available at http://www.usatoday.com/money/economy/housing/story/2011-09-22/housing-affordability/50499656/1.

28 FHFA, "FHFA, Treasury, HUD Seek Input on Disposition of Real Estate Owner Properties," Press Release, August 10, 2011, available at: http://www.fhfa.gov/webfiles/22367/FHFARFIReleaseFinal.pdf.

29 Rick Newman, "10 Cities Where Rents are Spiking," US News and World Report, May 11, 2011, available at http://money.usnews.com/money/blogs/flowchart/2011/05/11/10-cities-where-rents-are-spiking.

30 Gaffney, "Freddie Mac sells record numberof REO at 94% of market value."

31 Justin T. Hilley, "REO investors squeezing out owner-occupants," Housing Wire, December 2, 2011, available at http://www.housingwire.com/2011/12/02/reo-investors-squeezing-out-owneroccupants.

32 For one example of this point, see: Jon Prior, "Freddie could take more than a decade to unload REO inventory," Housing Wire, November 3, 2011, available at http://www.housingwire.com/2011/11/03/freddie-could-take-more-than-a-decade-to-unload-reo-inventory.

33 We understand that some of these entities may prefer to sell properties to owner-occupants at retail value. Simply put, the sheer number of REO properties and their condition makes this impossible. Even if investors wished to buy properties one by one at a "retail" auction, their modus operandi to this point has been to buy low, perform cosmetic repairs, and flip the properties quickly at a modest profit. This does not improve the housing stock or promote neighborhood stability as properties remain vacant while in the hands of investors and require significant investment when finally purchased by a potential occupant.

We do not discourage entities reserving the top slice of properties—those requiring little rehabilitation located in communities where retail sale is viable within months. All other properties should be eligible for bulk sale.

34 Joint Center for Housing Studies of Harvard University, "America's Rental Housing: Meeting Challenges, Building on Opportunities",(2011), available at http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/americasrentalhousing-2011.pdf.

35 Colleen Donovan and Calvin Schnure, "Locked in the House: Do Underwater Mortgages Reduce Labor Market Mobility," Working Paper, May 31, 2011.

Donovan and Schnure note that underwater mortgages have weakened labor mobility, but that it has not contributed to a higher unemployment rate. This suggests that increasing affordable rental housing will help labor mobility for a small number of people at the margins, but may not reduce the unemployment rate.

36 Joint Center for Housing Studies of Harvard University, "America's Rental Housing: Meeting Challenges, Building on Opportunities."

37 Andrew S. Ross, "Oakland's Waypoint cashes in on empty homes," San Francisco Chronicle, January 12, 2012, available at http://www.sfgate.com/cgi-bin/article.cgi?f=/c/a/2012/01/12/BU631MNI53.DTL.

38 For more, see Greenlet Investments, available at http://www.greenletinv.com/index.php.

39 Because real estate markets vary so much within a city—let alone a metro area—we recommend performing this analysis at a much more refined scale, even down to the Census tract. This analysis is meant to give a "bird's eye view" of how R2R would work in local markets across the country, based on publically available data.

40 Data provided as part of FHFA's Request for Information on REO Asset Disposition, available at Request for Information: REO Asset Disposition, available at http://www.fhfa.gov/Default.aspx?Page=360.

41 Data provided to the authors by CoreLogic.

42 Data from the U.S. Census Bureau available at U.S. Census Bureau, Housing Vacancies and Ownership, available at http://www.census.gov/hhes/www/housing/hvs/rates/index.html.

43 Data provided to the authors by Moody's Analytics.

44 For more, see comments from Tom Eggleston, CEO of Real Property Management, here: From REO to Rental: A Remedy for the Housing Market?, available at http://www.americanprogress.org/events/2011/09/renting.html.

45 Danilo Pelletiere, "Embracing Renting to Accelerate Neighborhood," in "Vacant Properties: Strategies for Neighborhood Stabilization" (2010), available at http://www.federalreserve.gov/newsevents/conferences/reo_20100901.pdf.

46 Jay N. Ryan Jr., "REO Disposition and Neighborhood Stabilization: A Servicer's View," in "Vacant Properties: Strategies for Neighborhood Stabilization" (2010), available at http://www.federalreserve.gov/newsevents/conferences/reo_20100901.pdf.

47 Sarah Treuhaft, Kalima Rose, and Karen Black, "When Investors Buy up the NeIghborhood: Preventing Investor Ownership from Causing Neighborhood Decline" (St. Paul: Northwest Foundation, 2010), available at http://www.nwaf.org/FileCabinet/DocumentCatalogFiles/Other/PolicyLink%20When%20Investors.pdf.

48 Louis Ranieri, Speech at the American Mortgage Conference, Raleigh, North Carolina, September 19, 2011.

49 Andrew Jakabovics, "An Untapped Source of Green Rental Homes," Center for American Progress, Februrary 23, 2010, available at http://www.americanprogress.org/issues/2010/02/untapped_source_homes.html.

50 Joint Center for Housing Studies of Harvard University, "America's Rental Housing: Meeting Challenges, Building on Opportunities."

51 For example, Community Development Financial Institutions often struggle to obtain long-maturity financing because they tend to lend to low-income, distressed communities. For more, see: Jordan Eizenga and James Hairston, "Getting the Ball Rolling on the CFDI Bond Guarantee Program," Center for American Progress, October 12, 2011, available at http://www.americanprogress.org/issues/2011/10/cdfi_bond_guarantee.html.

52 For more, see: Federal Housing Finance Administration, "Request for Information: Entreprise/FHA REO Asset Disposition" (2011), available at http://www.fhfa.gov/webfiles/22366/RFIFinal081011.pdf.

53 Evan Mills, "Amplifying Real Estate Value through Energy and Water Management: From ESCO to 'Energy Services Partner',"in Proceedings of the 2004 ACEEE Summer Study on Energy Efficiency in Buildings,(2004), available at http://evanmills.lbl.gov/pubs/pdf/energy_services_partners.pdf.

54 "Rahm Emanuel: You Never Want A Serious Crisis to Go to Waste," available at http://www.youtube.com/watch?v=1yeA_kHHLow&noredirect=1.

The Center for American Progress is a nonpartisan research and educational institute dedicated to promoting a strong, just, and free America that ensures opportunity for all. We believe that Americans are bound together by a common commitment to these values and we aspire to ensure that our national policies reflect these values. We work to find progressive and pragmatic solutions to significant domestic and international problems and develop policy proposals that foster a government that is "of the people, by the people, and for the people."

Center for American Progress

1333 H STREET, NW, 10TH FLOOR, WASHINGTON, DC 20005 • TEL: 202-682-1611 • FAX: 202-682-1867 • WWW.AMERICANPROGRESS.ORG