Frogtown's foreclosure story: rentals

Posted: 1:45 pm Tue, November 9, 2010
By Scott Carlson

Scott Carlson

As Finance & Commerce's residential real estate reporter, I closely follow Minnesota's foreclosure activity.

The latest buzz is that foreclosures remain close to record levels with the bulk of filings now caused by to single-family homeowners either taking big pay cuts or losing their jobs.

That's why I found it so illuminating this week to learn that some of the Twin Cities neighborhoods hardest hit by foreclosures are ones with a heavy concentration of rental housing, which includes multifamily buildings and single-family homes.

Take St. Paul's Frogtown neighborhood, which stretches for three miles on the north side of University Avenue from the state Capitol area west to Lexington Parkway.

As of the 2000 U.S. Census, Frogtown had 5,000 housing units, with 55 percent of them rental and 45 percent owner-occupied. Altogether, 12 percent (or about 550 units) of Frogtown's stock was public housing units, according to the Greater Frogtown Community Development Corp.

Another sobering fact: Frogtown has about a 10 percent rental vacancy rate, which represents some 500 units.

Given those statistics, the reality is that many foreclosures in Frogtown have and will continue to involve rental properties, according to housing industry officials who spoke about "Revitalizing Housing in Urban Neighborhoods: The Frogtown Experience" at a housing policy convention Monday in St. Paul.

The Frogtown panel discussion was one of 17 breakout sessions at the "Homes for All 2010″ daylong assembly.

"Some of the most pressing housing issues have been raised by housing foreclosures" held by owner-occupiers, said Barbara McCormick, director of housing and development at Project for Pride in Living. The Minneapolis-based nonprofit agency assists lower-income people in the Twin Cities area achieve greater self-sufficiency through housing, employment training, education and support services.

But McCormick says there also has been a quiet but steady undercurrent of foreclosures involving rental properties that "may have a more devastating impact on neighborhoods."

In Frogtown, more than half of the foreclosures involve rental properties that are either multifamily or single-family housing, McCormick said. For tenants in buildings that go into foreclosure, the news often arrives with very little notice, she said.

Jill Henricksen, executive director of the Greater Frogtown Community Development Corp., said plenty of rental owners and landlords are having financial problems. "There are a whole lot of unscrupulous landlords, and they aren't doing right by the tenants," she said.

Meanwhile, the ripple effect of foreclosures is abandoned buildings that are breeding grounds for vandalism and other crime, McCormick said. That, in turn, leads to depressed property values and a tougher time finding the money to fix up the abandoned properties.

"Generally, the housing stock in Frogtown is really devastated," Henricksen said.

Henricksen told Finance & Commerce, "In Frogtown in 2009 there were 112 foreclosures, and through September of this year there have been another 100, according to data we received from Housing Link."

Against this scenario, PPL has been teaming with the Greater Frogtown CDC and other organizations to undertake rehabilitation of rental housing and to initiate new construction, said Matt Soucek, PPL senior project manager.

But it's not a cheap proposition, Soucek said, noting it typically costs $140,000 per unit to buy and rehab small foreclosed urban rentals. A downside: Those construction costs often exceed the market value of the property, he said.

Even so, PPL and the Greater Frogtown CDC are working together on acquiring and rehabbing 16 units in the St. Paul neighborhood at a total cost of $2.1 million. That includes one fourplex and six duplexes. Funds for the project include the federal Neighborhood Stabilization program and the Minnesota Housing Finance Agency.

"We are in the final stages of working to close on funding," Soucek said.