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Market Value Analysis

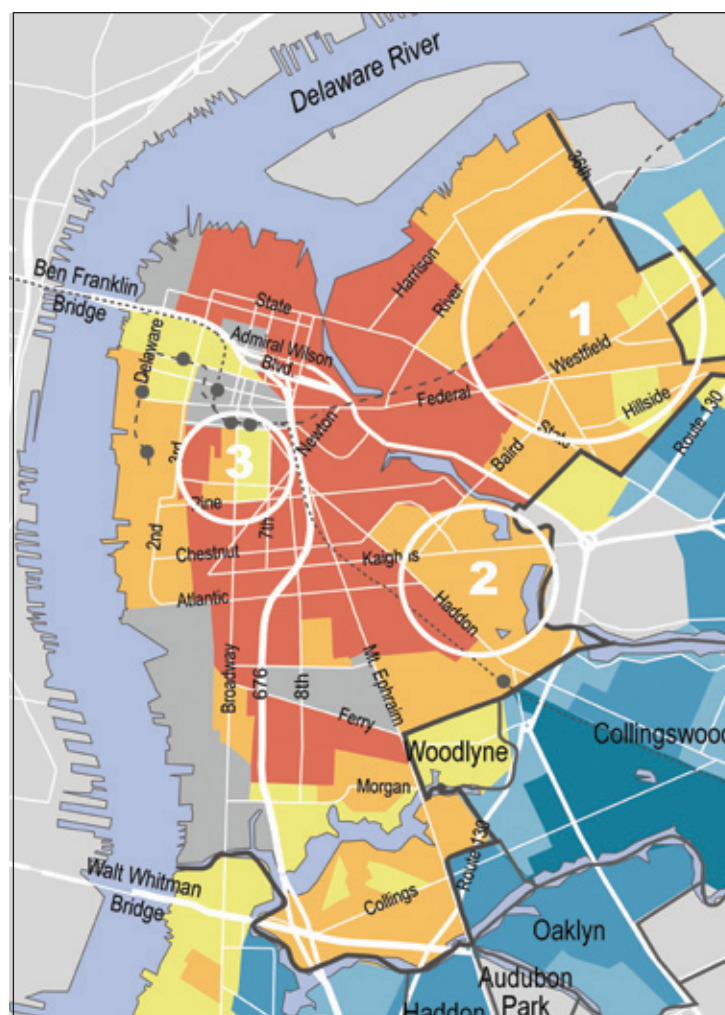
Understanding Where and How to Invest Limited Resources

By Ira Goldstein, Director,
Policy and Information Services,
and C. Sean Closkey,
Executive Vice President,
The Reinvestment Fund

Building 100 affordable homes in the middle of an area of distress and disinvestment may help only the 100 families who receive the homes. But those same 100, built in another location and bundled with other related activities, may help not only those 100 households, but the hundreds of residents around them. The Market Value Analysis (MVA) is an effective instrument to help create that kind of impact. The MVA identifies where and how to invest limited resources that can transform urban real estate markets into revitalized neighborhoods.

Pioneered by The Reinvestment Fund (TRF), a financier of neighborhood and economic revitalization projects, the MVA was first applied to Philadelphia's Neighborhood Transformation Initiative. An MVA has since been created for Camden, N.J.; Baltimore; and other cities in the mid-Atlantic region.

The MVA creates an innovative data-driven framework for restoring market viability and wealth in distressed urban real estate markets. It helps governments, private investors



The Reinvestment Fund's Market Value Analysis for Camden, N.J., recommended three investment target areas abutting stronger markets (yellow and orange).

and philanthropies target and prioritize actions that leverage investment and revitalize neighborhoods.

TRF's approach to urban analysis and investment rests on four assumptions: (1)

public subsidy is scarce and it alone cannot create a market where there is none; (2) public subsidy must leverage or clear the path for private investment, depending upon market circumstances; (3) when working

in distressed markets, public subsidy should be used to build off local nodes of strength, such as significant transportation hubs, parks or other environmental amenities and large institutions such as hospitals, universities or other institutions with a long-term local commitment; and (4) decisions about places must be made based on facts.

There are two steps to the MVA process. The first is a citywide cluster analysis; the second is a targeted project analysis.

Citywide Cluster Analysis

The cluster analysis is a statistical procedure that identifies groupings of areas with similar market characteristics (typically using Census block groups), but at the same time highlights differences across these groupings. After analysis and physical inspection of the areas, the result is displayed on a citywide map and illustrates market areas, which are more analytically refined than traditional neighborhood boundaries. TRF staff spends considerable time in the field with local market experts to ensure that what data sets describe about a place comports with what a knowledgeable observer would see. In Baltimore, for example, staff

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from TRF and the Baltimore City Department of Planning traveled throughout the city with drafts of the MVA map verifying the accuracy by which it characterized local markets. The MVA is instructive not only because it describes the aspects of a place, but also because it emphasizes forces upon a market and the likely direction of change.

The MVA uses data sets that are publicly available and known to be reliable. In addition, although not part of the MVA itself, we collect information about the physical and social features of the neighborhood and its residents, which is useful for project planning.

By identifying the market conditions of an area and adjacent areas, municipalities can better prescribe interventions and incentives that influence the amount and type of investment needed for revitalization. In short, the MVA allows municipalities, philanthropies and private investors to leverage investments and rebuild neighborhoods.

Assuming municipal government has a role in every market in its jurisdiction, the MVA is not only used to define its role and target and prioritize investments, but is also used to allocate resources among individual areas. The Table offers an example of governmental roles across a range of market types.

The initial applications of the MVA were at a large scale (i.e. census tracts and block groups) and were designed to analyze cities and local submarkets. The analysis has since been refined to help target municipal and foundation resources. As our experience with the MVA evolved, we used it to answer the question: "What should we do with this specific property or set of properties?"

Targeted Project Analysis

The targeted project analysis, the second step in the MVA process, answers questions related

to specific property investment and uses. This is done by collecting and analyzing more micro-level data specific to individual properties within a block group and is accomplished with local community-based organizations. By simultaneously analyzing how a place relates to the larger market, the MVA identifies the best investment and property uses in specific locations.

With the micro-level information and analysis complete, the MVA uses traditional planning principles to understand the potential for development and explores the question: What opportunities are there to reorient the growth pattern to move in a direction that connects the local space to the larger market? As such, the MVA process will often call for an investment sequence that:

- physically opens up a market to nearby strength
- supports investment along critical thoroughfares, but does not extend past major physical barriers (i.e., significant intersections, highways)
- prioritizes investments (first in a stronger market, then moving to weaker areas)

The Wachovia Regional Foundation in Philadelphia is one of many partners and clients TRF works with on the MVA process. TRF assists the foundation with evaluating grant applications and providing comments on proposals. TRF also provides direct assistance to its planning and development grantees. Not only does TRF help them build capacity by gathering information about their communities, it also helps embed local plans into the larger market. In the future, baseline information provided by the MVA and the organization's own data gathering exercise will afford grantees and the foundation an opportunity to measure the broad-based impacts of the investment.

Typical data items used in the Market Value Analysis include:

- residential sale prices
- housing tenure
- presence/extent of subsidized housing
- age of housing
- housing vacancy/abandonment
- demolition
- presence of residential properties with building code violations
- mixture of commercial and residential uses
- credit scores/mortgage foreclosures/ratio of prime to subprime mortgage loans originated

The micro-level data collected and used in the targeted project analysis step includes:

- MVA cluster analysis (and all of its components)
- publicly owned properties by address
- area incomes by block groups
- building permit and amount by property address
- social and physical features
- crime data by property address
- age, race, ethnicity and education by block group
- public school performance and catchments
- aerial photography
- housing square footage by property address
- zoning and land use
- building conditions and vacancy by property address

Market Type	Government Investment Strategy
Strong and growing	Serve as a market promoter and facilitate healthy functioning of the private market.
Stable, but low growth	Rapidly respond to signs of physical or economic deterioration; introduce preservation programs. In cities that experience broad price appreciation, affordable housing preservation is important.
Weak and declining	Identify ways to invest in strongest areas of a distressed market. Create conditions for private investment by demolishing failing structures and assembling larger tracts of developable land. Identify people-based investment strategies that support the residents of distressed places not yet ripe for housing investment.

About TRF

TRF identifies the point of impact where capital can deliver its greatest financial and social return. TRF's investments in homes, schools and businesses help reclaim and transform neighborhoods, driving economic growth and improving lives throughout the mid-Atlantic region. Since its inception in

1985, TRF has made \$500 million in community investments.

Its policy and research products help sharpen investment strategies for TRF, as well as other public and private investors. For more information, visit www.trfund.com.