Foreclosures, markets and neighborhood stabilization

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Foreclosures continue to increase

1 of 30 mortgages in the United States is in the foreclosure inventory

Source: Mortgage Bankers Association
More and more REOs are being created
The REO inventory continues to grow

Prime and near-prime REO inventory
Existing home sales have dropped sharply.

Source: National Association of Realtors
Minneapolis has been hit hard

- Sharp drop in house prices
- Sharp decline in number of home sales
- +/- 3,000 foreclosures per year in 2007 and 2008

Source: Trulia.com
...but the pattern is uneven

Minneapolis house sales volume by district

Source: Mplsrealtor.com
Minneapolis median sales price by district

Year
Median sales price ($000)
Calhoun
Central
Nokomis
North
Northeast
Phillips
Powderhorn
Southeast
University

Northside
...and neighborhoods are unevenly affected by foreclosures

SOURCE: City of Minneapolis
Patterns are similar in St. Paul

Median sales price change - 2005 Q1 to 2009 Q1 (Citywide -54%)

Source: St. Paul Area Association of Realtors
St. Paul also has distinct areas with high foreclosure concentrations

Source: City of St. Paul
● Concentrated foreclosures undermine local housing markets

● Weaker housing market conditions foster neighborhood destabilization

● Deterioration in local housing markets can lead to other destabilizing impacts – vacancies, increased crime, reduced resident confidence.
Specific factors causing destabilization include the following:

- Increase in REOs and other supply on market
- Increase in number of foreclosure filings
- Declining house prices
- Potential home buyers less than available supply
- Increase in number of vacant and abandoned properties
<table>
<thead>
<tr>
<th>DESTABILIZING IMPACT</th>
<th>STABILIZING IMPACT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in foreclosure filings</td>
<td>Decrease in foreclosure filings</td>
</tr>
<tr>
<td>Increase in REOs</td>
<td>Decrease in REOs</td>
</tr>
<tr>
<td>Declining house prices</td>
<td>Stable or rising house prices</td>
</tr>
<tr>
<td>Fewer home buyers</td>
<td>More home buyers</td>
</tr>
<tr>
<td>Increase in vacant and abandoned properties</td>
<td>Decrease in vacant and abandoned properties</td>
</tr>
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</table>
**Market conditions fall along a continuum**

<table>
<thead>
<tr>
<th>Market condition</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market correction</td>
<td>Demand increases as prices fall to affordable levels, and supply/demand equilibrium is restored</td>
</tr>
<tr>
<td>Market destabilization</td>
<td>Demand potentially exists, but may need public/nonprofit intervention to trigger effective demand</td>
</tr>
<tr>
<td>Market collapse</td>
<td>Weak demand and large supply creates surplus that cannot be absorbed by market</td>
</tr>
</tbody>
</table>
An example of market collapse

• 1 of 8 properties in East Cleveland were REO properties by late 2007
• Between 2005 and 2007 median house prices dropped from $100,000 to $17,000

Source: Cleveland Plain Dealer
What does this mean for neighborhood stabilization?

- All neighborhood stabilization activities take place within a larger market context
- Understand the market dynamics of the neighborhood – particularly the trajectories of destabilizing/stabilizing factors
- Design strategies and expectations to align with market realities
Focus on both building stability and reducing destabilizing factors

Neighborhood stabilization is not about transactions – transactions are a means to an end, and must be part of a larger strategy.

Be patient
Understanding trajectories

REO Sales have increased dramatically in California
...but that has affected the rest of the market.
## Market-sensitive strategies: acquisition

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<tr>
<td>Acquire properties only when specific property is an impediment to market recovery</td>
<td>Acquire properties to create opportunities for reuse and neighborhood stabilization</td>
<td>Acquire properties to land bank for future redevelopment opportunities</td>
</tr>
</tbody>
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## Market-sensitive strategies: rehab

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<tr>
<td>Rehabilitate properties only when specific properties are impediments to market recovery</td>
<td>Rehabilitate properties to further market recovery and build effective homeownership demand</td>
<td>Highly selective rehabilitation for ownership or rental to stabilize key areas</td>
</tr>
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## Market-sensitive strategies: reuse

<table>
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<th>REUSE OPTIONS</th>
<th>Market correction</th>
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<tbody>
<tr>
<td>Market sale</td>
<td>**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subsidized sale or lease-purchase</td>
<td>*</td>
<td>**</td>
<td></td>
</tr>
<tr>
<td>Subsidized rental</td>
<td>*</td>
<td>**</td>
<td>*</td>
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<tr>
<td>Land banking</td>
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### Market-sensitive strategies: other activities

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| - Foreclosure prevention  
  - Code enforcement  
  - Homebuyer assistance  
  - Market-building activities | - Foreclosure prevention  
  - Code enforcement  
  - Selective demolition  
  - Infill development  
  - Homebuyer assistance  
  - Market-building incentives | - Demolition  
  - Interim uses |
It’s not just about transactions…

- Leverage other activities to promote stabilization and market demand
  - Crime prevention
  - Reduce foreclosures
  - **Mitigate impacts of foreclosures**
  - Strengthen neighborhood quality of life
  - Build stronger neighborhood social fabric
  - Build market demand
Mitigate destabilizing impact of foreclosures

- Keep properties occupied
  - Protect tenants/prevent evictions
  - Encourage servicers to allow owners to remain as tenants

- Keep properties maintained
  - Enforce codes – impose responsibility on lenders/servicers
  - Use nuisance abatement authority