

# FOLLOWING NEW YORK'S FORECLOSURE FRENZY

*Number of homeowners defaulting still on rise citywide, with even Manhattan showing more signs of distress*

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Sam Heskell, founder of HMS Associates

While green shoots may have sprouted in some sectors of the New York City residential market, there are plenty of other areas where that is far from the case. Foreclosures continue to ravage neighborhoods throughout the outer boroughs -- most notably southern Queens and parts of Brooklyn -- and more distress is quietly creeping into the Manhattan residential market.

In this month's Q & A, appraisers, analysts and brokers who follow foreclosures told *The Real Deal* that while certain areas of the city are starting to level off when it comes to foreclosures, in others it's difficult to even find a "regular" nondistressed sale.

One expert from New York University's Furman Center said that the third quarter of 2009 saw 6,000 foreclosure filings in the city -- the largest number since the research center started tracking quarterly data in the early 1990s.

And worrisome trends are on the horizon. For one, pre-foreclosure, or lis pendens, filings are up in Manhattan, even if the borough is still relatively insulated compared to the outer boroughs. In addition, the kind of homeowners throughout the city who are falling into foreclosure is shifting from just those who got into unaffordable mortgage situations to those who are losing their jobs. Finally, because New York State has the longest foreclosure cycle in the country, the numbers may be understating the severity of the problem here.

For more on how foreclosures are impacting property values, where new ones are popping up and how brokers are getting in on foreclosure sales, we turn to our panel of experts.

## **Sam Heskell**

*founder, HMS Associates*

*What's happening with residential foreclosures in the overall New York City market at the moment?*

It's an unfortunate trend. It's there and we probably haven't seen the worst of it yet. I have heard there is a two-year backlog, and there is a lot more in the pipeline. If you look at all of the boroughs, there are close to 11,000 listings of distressed sales of all sorts, including foreclosures and bank-owned REOs.

*What are you seeing in Manhattan in terms of foreclosures, and how does that compare to last year at this time?*

It's still not much when you compare Manhattan to the other boroughs. There are 23 scheduled foreclosures [now] compared to December '08, when there were 19. In Manhattan there are close to 600 distressed listings, meaning foreclosures, bank-owned REOs, whatever. For comparison, Brooklyn has over 3,000 and Queens has over 4,000.

*Do you expect foreclosures to start spreading to Manhattan in greater numbers as unemployment continues to rise?*

I think there will have to be a rise in foreclosures on the high-end apartments. I can't see how they are going to be able to maintain themselves. We are talking about [recently] laid off people or people who were laid off a

year ago and they still got some good bonuses or they still partied last year. But they are not going to make those figures again anytime soon.

*Which neighborhoods are being hit hardest by foreclosures in New York, and what's the outlook like for those places in the coming months?*

Southern Queens is a disaster -- Jamaica, Ozone Park, Kew Gardens, Cambria Heights, Queens Village -- the whole area is in distress. In Brooklyn there is East New York, Brownsville, Bed Stuy and Ocean Hill. It's not as bad as Queens, but in those areas it's very hard to find a regular sale.

*What's the most surprising example you've seen of someone in foreclosure?*

I did an appraisal at 20 Pine Street. The guy paid \$1,000 per square foot. The reality is, somebody purchased it a year later as a short sale. You'd be surprised. People cover up a lot of things.

*What effect has Obama's mortgage modification program had on foreclosures and distress in New York?*

It definitely helped -- some of the people it helped permanently and some, it just bought them some time until they are in foreclosure again.

*What kind of impact is the increase in distressed homeowners in New York having on property values here?*

It depends how common it is in the neighborhood. If there are one or two, it doesn't have such a negative effect, but when it is spread out and there are a lot of distressed sales, it brings down the value. Nobody would pay \$100,000 more for a house when there are three similar homes on the block in distress that you can get for \$100,000 less. It destroys the neighborhood -- boarded-up or abandoned homes have a negative effect on the neighborhood as a whole.

*How have foreclosures changed the world of brokering? Are a lot of brokers trying to get in on REOs and short sales?*

I think that's the hottest thing. It seems to be the trend now in the boroughs, at least in the neighborhoods that have been hit the hardest. Every broker is negotiating short sales today. Everybody suddenly became a professional on short sales.

### **Ingrid Gould Ellen**

*co-faculty director, NYU Furman Center for Real Estate and Urban Policy*

*What's happening with residential foreclosures in the overall New York City market at the moment?*

Foreclosures continue to rise in New York City. In the third quarter of 2009, there were nearly 6,000 foreclosure filings -- the largest number since we began tracking quarterly foreclosure data in the early 1990s. That is up from about 5,500 filings in the second quarter of 2009, and there have already been more foreclosure filings in the first three quarters of 2009 than in all of 2008.

*What are you seeing in terms of foreclosure now compared to three months ago, six months ago and a year ago in the city?*

In the past year, we have seen an increase in the number of condos and five-plus-unit buildings going into foreclosure. In 2007, 345 buildings with more than five units received a foreclosure filing. In 2008, that number jumped to 454. And in the first three quarters of 2009, there have been 554 foreclosure filings on five-plus-unit buildings already. This is a worrisome trend, because it reflects an increasing number of renter households living in buildings entering foreclosure. However, while it needs to be watched, the overall numbers are still fairly small, and the vast majority of foreclosures are taking place on one- to four-family properties.

*Do you expect a rise in foreclosures in New York City going forward?*

I do not expect foreclosures to diminish anytime soon. We are beginning to see the nature of foreclosures

change, with fewer rooted in subprime loans and more rooted in job loss and income declines. We are also likely to see a continued increase in multifamily foreclosures.

*What about general distress, even outside of foreclosure? What are you seeing on that front in New York City?*

Across the city, we are seeing troubling signs, such as stagnant incomes and increases in severe overcrowding, which tend to happen when families are trying to save money. The share of households that are severely crowded crept up to 3.6 percent in 2008, from a steady rate of about 2.4 percent for the past three years.

*What effect has Obama's mortgage modification program had on foreclosures and distress?*

The program has begun trial modifications for more than 650,000 borrowers around the country. I think the program will help many borrowers stay in their homes. That said, there are many borrowers out there who aren't being reached. Also, the program was very much designed to aid borrowers who had received unaffordable loans. Unfortunately, the foreclosure problem is now shifting, and more foreclosures are likely to result from job loss. It will not offer much assistance to borrowers who default on their mortgages due to job loss.

## **Bill Saniford**

*CEO, PropertyShark*

*What's happening with residential foreclosures in the overall New York City market?*

Manhattan has remained stable. There has been very little activity with foreclosures in Manhattan. The one that looks interesting to me is the Bronx. There has been a significant increase in the number of foreclosures in the Bronx -- around 70 percent year over year. Brooklyn has remained steady. It is down about 5 percent year over year. Queens has actually improved: It's down 20 percent, and the same with Staten Island. [But] when we are talking about foreclosures in general and not getting into percentages, we still see the worst borough being Queens; those numbers are far and away the largest in the city. They are larger than all of the other numbers combined.

*What are you seeing in Manhattan in terms of foreclosures, and how does that compare to what you've seen over the course of the last year?*

It is miniscule and not that significant. [But] in my opinion, Manhattan in general is at risk right now. There are significantly more lis pendens being filed in Manhattan than I have seen in a long time. That does not bode well for Manhattan. When people start going into lis pendens hopefully they will face reality and start dropping prices. If that happens I do believe that homebuyers will start coming in and scooping them up. These things tend to get worked out before the foreclosure process.

*Which neighborhoods are being hit hardest by foreclosure in New York, and what's the outlook for those places?*

Obviously, Jamaica is the worst. The outlook for Jamaica is a disaster. I see lots of houses that are going to become vacant or in disrepair. Laurelton, Queens Village, same situation; Woodhaven, Kew Gardens [are both] bad as well. Howard Beach, Ozone Park, the Rockaways, Jackson Heights, East Elmhurst, those are all not doing very well. It's a downward spiral. It's a very bad situation when the property next to you goes into foreclosure -- all of a sudden your property drops in value. I think everyone is at risk right now. I don't see an area that is not at risk.

*There's a report from Deutsche Bank saying that 11 percent of mortgage borrowers in the New York area are currently underwater, but it predicts a rise to 77 percent by 2011. How worrisome is it?*

It is incredibly worrisome. My numbers reflect the same thing. It's very basic economics that as we have more distress we are going to have more downward pressure on [prices]. As we have more downward pressure we are going to have more homeowners going underwater, and as more homeowners go underwater that increases the likelihood that they will go into distress. There is something very psychological about paying on something where you owe more than it is worth. You have this feeling of, "I just want to walk away, I want to

get out," and people do. Again, it's this downward spiral. I think there is at least another year of downward pressure.

*What effect has Obama's mortgage modification program had on foreclosures and distress?*

I think it's negligible, the reason being, any government involvement in the free market, if it does anything at all, is going to delay the inevitable, period. Actually, it could just prolong the agony.

*What kind of impact is the increase in distressed homeowners in New York having on property values here?*

A year ago I predicted prices would go down 25 percent. They went down 23 percent, I believe, roughly overall. I imagine that they are going to have to come down at least another 10 percent in the next year.

## **Rick Sharga**

*senior vice president, RealtyTrac*

*What's happening with residential foreclosures in the overall New York City market at the moment?*

New York City is seeing an increased level of foreclosure activity, but still isn't suffering from the kinds of problems many other metropolitan areas are. Of the 200 largest metropolitan areas in the country, New York ranked 138th for third-quarter foreclosure activity.

*What are you seeing in Manhattan in terms of foreclosures?*

Manhattan has experienced the largest growth in foreclosure activity of any of the five boroughs -- an increase of over 150 percent from the second quarter, and over 170 percent compared to last year. Part of this is due to buildings with multiple units being foreclosed on. Tempering all this is the fact that Manhattan still has one of the lowest rates of foreclosure activity in the state, and has the fewest foreclosure actions [by far] on a percentage basis of all the five boroughs.

*Do you expect foreclosures to start spreading to Manhattan in greater numbers as unemployment continues to rise?*

Manhattan certainly won't be immune to unemployment-related foreclosures. Economists estimate that we can expect to see one new foreclosure action for every six to 10 jobs lost. What makes areas like Manhattan particularly vulnerable are the relatively high number of buildings with multiple dwelling units, and high home prices at a time when jumbo loans are hard to come by.

*What can you tell us about foreclosures in New York City that doesn't show up in the numbers?*

In New York City and State, the numbers are probably understating the actual severity of the problem due to some legislative measures which delay the initiation of foreclosure proceedings against homeowners who are delinquent on their payments. The state also has the longest foreclosure cycle in the country, over 440 days, which means that some homes are in foreclosure over a year before going to sheriff's sale or being repossessed by the banks.

*What are you seeing in terms of buyers taking advantage of properties that are in foreclosure in New York?*

Homebuyers and investors are finding great deals on foreclosure home purchases in today's market. For example, the average sale [price] of a foreclosure home compared to a nondistressed home in Brooklyn is over \$130,000. So for buyers who have cash or can get financing, this is a great time to be in the market.

## **Ken MacBride**

*senior vice president/director of REO marketing, Fillmore Real Estate*

*Can you give us an example of a particularly telling or significant foreclosure you're seen or heard about?*

Foreclosure is the end result of a vicious cycle. [I know] a once-proud homeowner of a fully detached frame

home with a private drive and two-car garage on Bradford Street in East New York who became an innocent victim. He lost over 50 percent of his home's value because the properties on both sides were abandoned. This was once a beautiful block. Now this street is filled with vacant, boarded-up homes that have been vandalized. The anticrime unit of the 75th precinct has been called time after time to fill out vandalism reports.

*What can you tell us about foreclosures in New York City or in your area that doesn't show up in the numbers?*

Evictions. Innocent, unsuspecting tenants of foreclosed homes, who in some cases were placed inside only days before the actual foreclosure, [are being evicted]. Frequently, the homeowner feels he is on a sinking ship and wants to get all the rent money from the tenants without making a monthly mortgage payment. Unknowingly, a tenant moves into a vacant unit paying three times the monthly rent and security deposit, only to have someone like myself appear at their door to tell them the property has been foreclosed and we need to come to an agreement as to when they will move out.

*What are you seeing in terms of buyers taking advantage of properties in foreclosure in New York? Are you seeing people swoop in and get them at discount prices?*

In the '90s, 99.9 percent of all foreclosed homes were sold to all-cash investors who had the ability to close the deal in 30 days or less. Fast forward to 2009, [and there's an] inability to obtain financing, [so] the buyer pool has shrunk. However, the FHA 203k loan program has been a lifesaver for first-time homebuyers who want to purchase a foreclosed home. The program empowers the buyer to purchase distressed or foreclosed homes. It's a wonderful program that's underutilized.

### **Michael Diaz**

*owner, Village Realty in Staten Island*

*What's happening with residential foreclosures on Staten Island?*

The North Shore of Staten Island has them. There don't seem to be too many on the South Shore right now.

*What are you seeing in terms of homes going into foreclosure now compared to three months ago, six months ago and a year ago in the city?*

They were heavier six months ago and a year ago, but it takes time for them to hit. I think it is slowing down.

*What about general distress, even outside of foreclosure? What are you seeing on that front on Staten Island?*

A lot of people are upside down on their loans. Anybody who bought in '05 and '06 can't get what they paid for it, so they are okay as long as they don't lose their job and they can afford what they bargained for when they took out the loan. Unemployment is a big problem.

*What is the most surprising example you've seen of someone in foreclosure?*

A doctor who opened a bunch of clinics that he cosigned with his home. The business expanded into every borough with clinics and he overextended himself. It hasn't gone into foreclosure yet, but he was running late.

### **Jeff Silverbush**

*president, Century 21 Best in Queens*

*What's happening with residential foreclosures in the overall New York City market at the moment?*

There are plenty of them. It's obviously a trend that is going to continue over at least the next two to four years.

*What is the most surprising example you've seen of someone in foreclosure?*

We've seen some very prominent properties that we were sort of surprised to see, that were tremendously in

arrears. Thinking of the neighborhood I live in, one of the Baldwin brothers had a house in foreclosure. You see a lot of prominent people whom you thought of as wealthy, well connected and financially secure. I'm not dealing with most of these people. Most of my business is regular middle-class people.

*Are you seeing people swoop in to get properties at discount prices?*

No. There is not huge enthusiasm for them. The banks that take them in are not pricing ridiculously low. They are putting them out at pretty fair prices. Homeowners who would want to buy [are finding] that the bank is sometimes very slow in responding. And the bank doesn't like to lose money.