Your Neighbor's Troubles May Become Your Own

By JONATHAN J. MILLER

Like it or not, a neighbor's misfortune may cross your threshold.

Jenny Schuetz of City College of New York, Vicki Been of N.Y.U.’s Furman Center and Ingrid Gould Ellen of NYU’s Wagner School prepared an excellent research paper called “Neighborhood Effects of Concentrated Mortgage Foreclosures.”

One of the authors, Vicki Been, testified on this issue before Congress last spring.

One of the considerations in property valuation, especially pertinent in today’s credit environment, is the impact of foreclosures on surrounding property values. There is a lot of confusion and concern about whether or not a foreclosure in a neighborhood has an impact on property values.

I recall the Manhattan real estate market in the early 1990s when sales in certain co-op conversions were nearly all foreclosures. In those cases, foreclosures set the market.

The paper suggests that property values may be affected when in close proximity to a foreclosure sale but the impact is realized only after a threshold of foreclosure activity is exceeded. The study also discusses how lower-priced neighborhoods are more likely to have foreclosures.

Its statistical analysis suggests that “above some threshold, proximity to properties in foreclosure is associated with lower sales prices. The magnitude of the price discount increases with the number of properties in foreclosure, but not in a linear relationship.”

The Furman Center at NYU publishes a number of other helpful publications, including an essential housing resource on New York City called State of New York City’s Housing and Neighborhoods 2007.

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