The Foreclosure Crisis and Community Development: Exploring REO Dynamics in Hard-Hit Neighborhoods

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As the foreclosure crisis continues, many communities are faced with a glut of properties that have completed the foreclosure process and are now owned by banks or other mortgage lenders. These properties, referred to as “real estate owned (REO),” often sit vacant for extended periods and, recent studies suggest, depress neighboring property values. They also impose significant costs on local governments, which must try to address the risk of crime, fire, and blight that vacant buildings pose. In addition, many worry that REO properties sold to unscrupulous short-term investors hasten neighborhood decline.

In this article we shed new light on the “REO problem” by studying the stock of REO properties at the neighborhood level in three urban areas: Fulton County, Georgia (which includes Atlanta), Miami-Dade County, Florida, and New York City. Using a combination of longitudinal administrative data sets on foreclosure filings, auction sales, and property transactions provided by local government sources, we identify every property transfer into REO ownership in recent years and all subsequent transfers of these properties. To explore the ongoing neighborhood and community development challenges, we divide census tracts into four groups based on their concentrations of REO properties as of the end of 2011. We then compare these neighborhood types across several dimensions. Because we use a uniform methodology for all three areas, we are also able to compare neighborhood groups across jurisdictions with the metrics we calculate.

We find several neighborhoods in Fulton County and Miami-Dade County with extremely high concentrations of REO properties as of the end of 2011, including some tracts with more than 100 REO properties. In New York City, however, REO concentrations are generally much lower, and no census tract had more than 14 REO properties. In all three jurisdictions, the neighborhoods with relatively high concentrations of REO properties are generally not the most distressed areas of their regions in terms of poverty and unemployment, though they are still more distressed than the median census tract. Importantly, we find that that the number of REO properties in the hardest-hit neighborhoods of each area was declining as of the end of
2011, generally in line with the countywide or citywide trend in REO inventories, and that investors did not account for an appreciably higher proportion of purchasers of REO properties in the hardest-hit neighborhoods. Furthermore, few of the properties that were purchased by investors appear to have been “flipped” within a short period. On the other hand, we also find that those REO properties that remained in these cities as of the end of 2011 (including those in hard-hit neighborhoods) had been in REO for a longer duration than was typical one year earlier, so the composition of the REO stock may shifting towards more problematic properties. Additionally, in Fulton County’s hardest-hit tracts REO properties made up half of all sales in 2011, so were likely exerting significant downward pressure on housing prices. Finally while the National Stabilization Program (NSP) may be improving neighborhoods in other ways, we find that only a negligible share of the REO sales in the hardest-hit tracts of Fulton and Miami-Dade Counties in 2010 and 2011 were to non-profit entities and developers using NSP funds.