Renters, Homeowners & Investors: The Changing Profile of Communities
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Renters, Homeowners & Investors: Panel 1

JOE SCHILLING: Thank you very much. I'm Joe Schilling with the Metropolitan Institute at Virginia Tech here in Washington DC, Alexandria, Virginia and our panel today will--as Sandy said delve into the details a little bit and looked at sort of the emerging patterns of new investment, private investment in the post-REO world and I would say that the word investment really is broadly interpreted, so we're also looking at what the patterns of the investors are in these neighborhoods. But more importantly, trying to have a discussion about what are the impacts on the neighborhood and on the community. So, we've got a stellar line up of researchers. We have Madar, Mallach and Immergluck. It could be a Wall Street financier firm, or I'd like to think about it since spring is almost here as the first three batters in an all-star baseball team.

I thought it was the infield [inaudible].

[Laughs] So, Josiah Madar is with the Furman Center in New York and he, of course, has been working a lot of--and looking at these different markets and different cities particularly New York City. And, of course, Alan Mallach is a man who's come from many teams. He is associated with as a senior fellow at the Federal Reserve Bank in Philadelphia, also the Center for Community Progress, and the Brookings Institution. And then batting third will be Dan Immergluck, professor of City and Regional Planning at Georgia Tech, who has also been looking at the impacts in this sort of a metro perspective of, you know, the post-REO foreclosure world. And again, I think as you hear their snapshots from some of these different communities, both sort of a high value or relatively stable, some that are somewhere in between and also cities that have sort of low-value neighborhoods is--I urge you to sort of think at the narrative of these different communities either from the market place, those of you who are involved in the private investment or private market world or from the neighborhood and nonprofit community. There's a certain narrative when you hear the impacts and the data that they're talking about, or those of you who are involved in sort of the policy dimension, and I think as the speakers before have framed it, it will take some kind of a blend or mixture of those three perspectives in order to come out of this housing crisis. So, with that, I will pass it on to Josiah to lead us off.

JOSIAH MADAR: Great. Thanks, Joe. And thank you Eric for the plug earlier, too, to our work. So, I'm going to go over just some basic data about the REO stocks in three different markets that we thought would be useful way to kick off this panel. This is a research we've began about a year ago with the generous support from Pew and it was motivated really by what we saw as sort of a gap in publicly available data about REO stocks. There're certainly reports about nationally REO stocks. There are lots of great works looking at individual cities including some by other people in this room, including Dan and drilled down some neighborhoods that have been fantastic, too. But it was very difficult to compare across cities because of the way the research was done. It's very idiosyncratic, not surprisingly giving the data sources. Doing REO research can be very labor intensive because it depends often very much on local deeds data, depending on how you do it. So, we focused on three markets, New York City which is where we're housed, Fulton County, Georgia where Atlanta is and Miami-Dade County. These, by no means, represent every type of metro area in the country, of course, but we thought they were at least a diverse enough set to give some sense beyond just looking at one individually of what type of variety there is nationally. Governor Stein mentioned it earlier, but heterogeneity is really going to be the keyword talking about these problems. The markets are so different and the issues they face are so different. This just quickly is the REO stocks over time in each of these cities. Our data right now only goes to the end of 2011 but we're in the process of updating it to the end of 2012. Related to kind of the--our voting this morning, I mean there's certainly good news if you think that REO stocks are an indicator of market distress and we've seen them decline in each of the three markets we looked at. Miami-Dade County that decline has been--was incredibly, you know, steep if you look but in all of them, it's been significant and we've already looked for 2012 on Fulton County and New York City and the decline continued through 2012, too. The choice of REOs as something to focus on of course is a little bit narrower than this topic overall. Lots of investors get into neighborhoods not just through REO properties but REO is surely an obvious place to study, you know, the way good foreclosure crisis in neighborhoods. A lot of disamenity effects are associated with them directly including the crime which is something we studied as Eric mentioned. Also people are concerned about the forced sale or at least the distress sale of REO holders swamps markets. And it's just a natural point to focus because it's often a point of tenure transition 'cause it's often homeownership transitioning through whoever buys the REO property ultimately. So what we did to drill down further within each of these counties or cities that we looked at was to define different neighborhood types with the idea that there's obviously heterogeneity between metro areas and cities but also within them and we thought we might be most concerned with the "hardest hit neighborhoods" where we think the REO densities are the highest. I, just for good, you know, record keeping, I posted our definitions up of different neighborhood types there but they're based on REO densities per a thousand mortgageable properties and the dividing lines are a little bit arbitrary but we chose them so we really, I didn't choose the tail of the census tracts that--in are hardest hit neighborhoods and those happened to be ones were about four percent of all the mortgageable properties were an REO as of the end of 2011 but they also had to have at least five REO properties, so we didn't capture the heavily-rented neighborhoods so there's only a handful of single family homes. Or they had an enormous number of REOs despite the rate. And comparing the three cities, the heterogeneity is extremely apparent. Starting on the left with Fulton County, we see that the red chunk, it's 10 percent of the tracts made it into our hardest hit category, that was about 20 tracts. All the way to the right in New York City, none of them were a hardest hit by our methodology, and in fact, 72 percent of all the tracts in New York City had no REO properties as of the end of 2011. Obviously, this has partly to do with New York City's housing stock where there's just lots of more multi-family housing and fewer mortgageable properties but it's a little different than that, too, for lots of idiosyncrasies of New York City's housing market. The Miami-Dade County was somewhere in the middle. Now, there are systematic differences between this tracts which are notable. Some, I think people will readily be able to guess. So, especially in Fulton County, the tracts that had--the hardest hit tracts, the ones with the highest REO densities tended to have a higher share of African-Americans, tended to have higher than normal unemployment rates, higher than normal poverty rates. But it's important to note that none of these cities were the hardest hit tracts, the tracts that we're really in the worst shape by standard socio-economic measures. None of these were the very poorest tracts. For instance, they're the ones with the very highest unemployment tracts and that makes sense 'cause those tracts tend to be the ones that have fewer mortgageable properties and might be tracts that have high concentrations of public housing, for example. So, one thing to note too in those that I don't have a slide, but I just want to make clear this one trend, even though we've seen the number of REOs declining in each of these cities, and we see that the decline occurring in each of the different neighborhood types we see, too, one possibly worrying trend is the REOs that are there are increasingly very stale or the share of properties that have been REO for more than three years increased quite a lot between the end of 2010 and 2011. So that's something we're keeping our eye on. Certainly, as I mentioned, we're concerned about REO sales swamping markets and having continuing downward pressure on prices in that way and here we just did a quick slice between the markets and the different track types of the share of all sales in 2011 that we're made up of sales out of REO. And we can see in Fulton County in the hardest hit neighborhoods half of all the sales were of REO properties. It was much less in the other communities and within the Fulton County, it was it much less but still sizable within our sort of middle moderately hit, and even the modestly hit ones that are sizeable sharable to market. So, who is buying REOs is certainly I think going to be a lot of the discussion today because it's a common point for investors to get in the neighborhoods. Here again, we slice each of the cities or counties that we looked at by the types of REO buyers. We identify buyers just by looking at the deeds and if it's a corporate name, we call it an investor. If it's someone whether an individual's name who is buying multiple properties, we call them investors and if there's someone who flips the property in short order even if it's the only property that they buy, we call them an investor. Other people we call individuals if they have natural human names. And then we further divide the investors into different groups based on how many properties they buy between small, medium, and large. I think our cut-offs were 10 and 50 on either side of medium. And then finally, we try to identify who the entities that were buying, which of them were receiving financing, or other support through NSP. That was a little harder than we expected because of all the entity level names. It took a lot of legwork to track down looking at the public reporting. But you can see that in Fulton County and Miami-Dade, it's the individuals that are dominating the purchases even in the hardest hit neighborhoods which is something that I think we found a little bit surprising, but certainly sizeable shares were going to investors especially in New York City which because of the much higher cost of entry, I think we weren't terribly surprised to see that. I think the median sales price varied widely as you'd expect. For New York City, the median sales price for [inaudible] of REO, I think was in the 300,000 while at Fulton County, it was much, much lower than Miami-Dade or somewhere in the middle but obviously much lower. Interestingly among the investors, a vast majority of them were small investors so people are buying just a handful of properties as far as we can tell although an obvious weakness of our methodology is that if sophisticated investors are using different entity level names to make their purchases, we can't connect to them to see whether or not it's part of a larger enterprise. And the NSP buyers that we're able to identify, they were observing only a very small share of the REO properties even in the hardest hit neighborhoods, but it's very important to point out that NSP was involved in many other ways than just financing the direct purchase by nonprofits of REO properties. So we're not able to pick up individuals who are purchasing with NSP provided financing or a down payment assistance. In New York City interestingly enough were the fewest REOs per capita are for mortgageable property, the NSP financed-entities were actually absorbing the largest share of any of the three communities. We're nine percent in the moderately hit neighborhoods, the REO sales went to NSP-funded nonprofits. Last bit of data, it's just the share of REO purchases that were flipped. It's something that's been on a lot of people's mind. People see it as a signal of perhaps unscrupulous investors but we can see that the three-month flip share is very low in each of the cities or counties that we looked at, really about five percent or less in all of them. If we bring the window out to a year, people are reselling within 12 months. It's a very sizable portion in New York city which I think was not too surprising for us--to us because we think a lot of these investors are buying--doing some amount of a rehab of, you know, varying levels of quality. But even within one year, the flip rate was pretty low between Fulton County and

Miami-Dade County which is something that I think surprised us a little bit. Now, I should mention, too, that since this only goes through 2000--this is 2010 'cause we wanted to make sure we had the adequate window after the sale to make sure we could capture all the flips. It's possible that this data looks a little different now because of the large REO-to-rental corporate level groups that have gotten in. But we're not sure how much this is really going to change going forward. So, I mean several policy implications of all these of course, the most obvious of which is there's a such wide variation that a program like NSP which always going to be really difficult to craft because the market conditions were so different from place to place. You know, it's unclear whether or not New York City really needed the NSP, I mean it could certainly use it but whether or not the money was best spent there compared to much more troubled communities. I think we'll get into many more policy implications below but I mentioned the problem of stale REOs, that might be a place that we choose to really focus interventions going forward, so.

Thank you very much. So, Alan will sort of pass the clicker and take a look at another sort of comparison between a number--two different, very different cities.

[Pause]

ALAN MALLACH: I don't know if you all can read this but I think my presentation is basically could be entitled it's all about heterogeneity. And it's about how investor behavior is model--is very modelable and is driven by economic variation between one market or submarket and the next. Not about whether people are good or bad and to large extent not about whether they are corporate, large or small. So what this is the basic model or typology of investors. And I'm going to concentrate mainly on investors, two different types of investors, both of whom are primarily cash flow driven and one of which I've dubbed the holder and the other the milker. And you will understand I hope why as I go along. And I'm going to contrast two very different markets and how they drive investor behavior. One is the Las Vegas market and the other is the Detroit market. And these are both interesting because in both cases, you have essentially consistent behavior market-wide as distinct from cities like Atlanta or New York or Miami where you have very wide variations within the same market. So, by way of background, first, the investor universe, and this is very consistent with Josiah's findings, the investors in single family property in the Las Vegas market as well as in others, it's still overwhelmingly a cottage industry. And I think this is very important. We know--There're all these headlines in the trade press about such and such a hedge fund buying a thousand properties, so and so is buying 500, so and so is moving in, this looks very significant. In the context of the overall market, it is trivial. The market is still overwhelmingly dominated by individuals and by small investors buying anything, say, from two or three up to, say, 15, 20, 25 properties. And should mention just by way to give a sense of order of magnitude and compare this with the NSP program for example, in the Las Vegas metro area, and this is a ballpark estimate, not a hard number, from 19--2009 through 2012, investors spent approximately 20 billion dollars buying single family properties in the Las Vegas market. That is significant. And again, as I said, it was overwhelmingly small investors, not necessarily local, a lot of them came from all over the country, all over the world. One of the largest infusions of capital into the single family market in Las Vegas was from China, interestingly. And there's a whole segment of the Las Vegas real estate industry that is oriented towards working with Chinese, single family investors. So, this--the typical return on a mid-range property cash flow, on a mid-range property in the current market in Las Vegas is about eight--a net but before taxes is about eight percent per year. That's actually a very good return especially as for a lot of reasons. The downside is almost minimal because you have a very strong support system in terms of realtors, property management, home warranty companies, lawyers, and so forth. The repairs and maintenance and taxes represent a very small part of the rent role. So even if you had an extended vacancy period or a problem of some sort, it's very unlikely that you would find yourself in a negative cash flow situation. So coupled with the expectation that people have for the most part in the Vegas market that there will be gradual appreciation over the next three to five years, this is an extremely good proposition. And again, because of the strong support system of realtors, property managers and so forth, it's a proposition in which an outside investor can enter with a fair amount of confidence even though they may be located in Shanghai or Canberra, Australia that the properties will be managed and generate return. Interestingly, the rate of return at the low end tends to be even with higher maintenance costs. The net is higher because the price differential, and this is true in most markets, tends to be much smaller than the rental differential. So again, this is a very--it's a very attractive market for somebody who is interested in buying, renting out, typically for three to five years and then putting the property on the market and hoping to generate a 50--say, between 15 and 25 percent overall appreciation over that period. Not particularly greedy but a very good return. This is a typical proper--and one thing that's very important to bear in mind is when you compare this with what you're going to see in Detroit is that a property taxes on houses in Las Vegas are quite consistently one percent of actual current market value, which means they represent typically about no more than about 10 percent as a rule if that of cash flow. So, that means, of course, that it's easy, you know, to cover the property taxes and it doesn't--and paying property taxes is not a significant disadvantage. So, what was very interesting in Josiah--you might want to look at your data going back. We found that flippers were very strong in the Las

Vegas market in '08 and '09, when there was a huge dis--huge disparities in access to properties and access to information within the market and there was huge variations between REO and other arms length sales. As those disparities narrowed, that flippers basically left the market during 2010, 2011, and today, the market is almost exclusively holders. And in fact, we tracked the cash flow of flippers over time and found that many of them saw dramatically reduced returns after about late-2009, early-2010. So their short-term hold--the big question, of course, is going to be what happens on resale. And I'll get to that. Now, by contrast in Detroit, you have a market which is--a milker is somebody who buys a property with no expectation of appreciation or even of necessarily finding a buyer down the road, and who is going to get his entire return from short-term cash flow. The way you accomplish this is number one, by not paying property taxes, by providing the absolute minimum in maintenance, by renting, no questions asked, and by being quite ready and willing to walk away from the property after three years. In Detroit today, the ratio, the gross rent multiplier, the ratio between sales price and annual rent is 1.96. In other words, you can actually get your entire investment back in two years. In three years, you can increase your return by 50 percent and if you don't pay taxes, the county won't catch up with you for a minimum of three and a half to four years. So you can count on three years of basic tax free operation. The other thing which drives this, and here's a typical--this is a typical listing in Detroit is property taxes rather than being one percent of market value are typically between 25 and 50 percent of the current market value of houses in Detroit. So there's a compelling reason to not pay property taxes. Now, if the milker is fortunate enough to get a housing choice voucher. And in some part of Detroit as in many other parts of the United States, landlords game the voucher program and raise their rents accordingly. Then, the rate of return goes from 50 percent to almost 70 percent in the same year because the fair market rents for whatever perverse reason, I don't know, are literally 50 percent higher than the typical true market rents in even the better neighborhoods of this--in the city of Detroit. So, to conclude, you have a market in Detroit in contrast to the Las Vegas market where the economic conditions encourage a relatively responsible short to medium term holding period, in which landlords are motivated to maintain the value of their investment. The economic conditions in Detroit are basically driving investors and landlords into a behavior pattern in which it is from a pure economic standpoint irresponsible to maintain the property, irresponsible to pay property taxes, and irresponsible to care about the impact of your activities on the neighborhood from an economic standpoint. This is extremely destructive and basically means as to--I was talking about this with Tony Brancatelli and he characterized this as what's happening is that these properties are dying a slow death. And that if anything may be more destructive from a neighborhood standpoint then simply having them abandoned upfront once and for all. So finally, this just describes the different presence of different types of investors. And this analysis can be done again, within any market area and again, most cities though are much more internally heterogeneous than either Las Vegas or Detroit. So finally, what does this mean? Well clearly, any analysis of the impact of investors, large or small, has to take into account the distinct characteristics of the submarket in which they are operating as well as the question of access to information and to properties within those markets. Within--in Las Vegas, clearly, realtors and lenders much prefer selling to investors. Again, no mortgage contingency, no appraisal contingency, all cash, quick closing, it's not a price issue. And there's no evidence that investors are any more or less price sensitive than homebuyers in markets which are not particularly expensive markets. It's a speed, convenience, and efficiency issue. Now, during the period when the market was being flooded in Las Vegas, I think there's evidence that the rise of investors was actually highly beneficial to Las Vegas communities, and in many respect may have saved many neighborhoods from the massive abandonment that took place in other parts of the city, of the country. At this point, however, they're crowding out. There's no question. They are crowding out homebuyers, and the long-term impacts are much less certain. Detroit on the other hand, the effective investors is clearly harmful. And the question is, what strategies can be developed in these low-value areas to--not so much to rebuild the market but to make the market work in ways that are not so utterly destructive to the fabric of the neighborhoods. Thank you.

JOE SCHILLING: Thank you very much, Alan. [Applause] Some sobering news but as again, our theme for today is different places are going to take different types of strategies. Dan?

DAN IMMERGLUCK: If you're looking from good news from me or--[laughter] you've got the wrong guy.

That's why we had you last.

I'm the only guy who can make him look like, you know, the feel good guy. Okay. So, I'm going to agree with a lot of what's been said but back to that word heterogeneity, I'm going to harp on heterogeneity within a place, within a market. I'm going to drill down into Fulton County so it's nice that Josiah looked at Fulton County. I want to thank Furman Center for sharing their data in Fulton County. I had done some work four, five years ago at the beginning of the crisis, they used some of the same methods, got some new data. I was starting this project and their paper came out and I said, "Can I have your data?", and they said "Yes." So, the nice thing is, the raw data is pretty much the same data and definitions of investors are pretty much the same. My neighborhood typology is quite different and I'll explain that. But I first want disabuse folks of the notion that Atlanta is, you know, I don't know, people have call it a strong market place, people have called it, you know, people know I think now that it's one been one of the weaker housing markets at a metro level. So it's a little easier to disabuse people of the notion that Atlanta is a strong market. But also, people don't--when people think of vacancy, they think of Cleveland, Detroit, Buffalo, Rust Belt. The city of Atlanta has a 17 percent vacancy rate as of the 2010 census. The Fulton County which is about a million folks, just under a million, so it's about fifth of the metro, it includes--it's a very diverse county because it includes the most affluent tracts on the metro and the poorest tracts on the metro. In Fulton County, 20 percent of the tracts in Fulton County in 2010 were at least 25 percent vacant. So, got a serious vacancy problem. We have some very low-value housing not as much as Detroit but there are neighborhoods in Atlanta that--I grew up in Detroit--looked like Detroit, many parts of Detroit. So, I want to start out with that context. This is Fulton County. That north bulge is the affluent and just below it is some of the most affluent neighborhoods in the country yet alone in Atlanta. And then you see the dark line which outlines the city and the cities about half the population of the county. And pretty much that southwest arc of dark color is the poor lower income neighborhoods. And unlike Josiah's analysis, my typology of neighborhoods does match up quite well with poverty. I didn't use poverty. What I used is percentage of single family homes that are owned by investors at the end of 2011, likely investors the same. And the reason that I think that Josiah didn't find the highest poverty neighborhoods to be the hardest hit is because most of their formerly foreclosed properties had long been passed through foreclosure and into the hands of investors by the end of 2011. So in fact, it's more the kind of suburban moderate-income neighborhoods still often largely African-American that saw REO come on. A lot of these neighborhoods that are hardest hit don't have that much REO as much because they are getting tapped out. I mean, the properties--the investors aren't using mortgages, so they can't go in REO. And basically, I've got these, you know, very high investor neighborhoods and high investor neighborhoods, moderate investor neighborhoods. Those are all on the top 50 percentile. And I've got this blow up of just the city to show you that those blue lines represent three neighborhoods I used in my qualitative research to identify--to basically talk about to investors three types of distressed neighborhoods. Unlike Alan's work in Las Vegas, I really focused just on fairly distressed neighborhoods in my analysis and left the kind of more affluent places or at least even middle income places out. Although, when I talked to investors, the topics of who's investing in those types of places came up. This is the same typology of neighborhoods and what you see in the low investor tracts, this is the flow of REO sales in 2010 and 2011 and you see only 13 percent were to likely investors and those lower investor tracts versus 63 percent in the kind of most investor intensive tracts. And then the red is the prices paid for REO and you can see a dramatic difference and very low value medians in the high and very high investor tracts. Just because I was given a limit of slides, I have lots more slides that I could've put in. As I think consistent with what other folks have said, not--this is--as of the end of 2011 and this date, a particular date is 2010 and 2011. And I do think things have changed not so much in the distressed neighborhoods but in the county as a whole for 2012 that just my gut --so it would be interesting to see Josiah's data. But very deconcentrated atomistic market, top 10 investors accounting for only 12 percent of the investor's top 20, only accounting for 18 percent. This didn't change more. I looked at--really focused on 2008 through 2011 and it didn't change dramatically. Fifty percent of REO sales in these very high investor tracts worked a medium size or big investors much smaller number in the low investor tracts, and that kind of make sense. It's, you know, in the less impacted tracts, it's--it's home buyers buying REO much for homeownership. Now, I also found--it was interesting when I got the latest version of the Furman report to see the very low flipping rate. I looked at and this kind of corroborates what Alan said about changes over time. I looked at sales in '09 and '010 and how many were flipped and I got a 30-percent figure. So, that was just a rapid change downward 'cause you looked at 2010. And I generally found a lot more flipping in 2008 and 2009, especially 2009 all over the place. But the other thing I found is that there was actually more flipping in the low-impacted tracts because they're selling to homeowners. And they were able to sell the homeowners. But when the flips did happen, the flips in the high investor tracts were much more likely to be to other investors which kind of make sense. The flips and the low investor tracts were to homeowners. So it's not just the volume of flipping that's different, it's the nature of flipping that's different. So, I want to switch to the qualitative work and I what I did was identify nine investors, two of which were non-profit investors. The rest of which were for-profit investors and I deliberately picked the kind of purpose of sample of different sizes, ma and pa, large institution--one very large institutional investor. Most of these, I wanted folks who had been doing it for a while so, it was kind of hard to find the large institutional investor and they hadn't really been institutional when they were buying these homes originally. In Atlanta, up until 2011, it really was a very ma and pa market and I think in these neighborhoods, it still is, meaning I don't think the large investors have gone into the distressed neighborhoods. So, one of the key findings on the qualitative side is that, as Eric was talking about, the investors are very strategic about buying properties by location. I talked to nobody who thought bulk investing, bulk buying made any sense. And most of the investors warned against that for some other reasons Eric already talked about. I'm not saying it's not happening. I did find some investors who had done it but they wouldn't talk to me, they were gone. I found a good number of investors who were gone in various different ways, very entertaining stories I could tell you about. Besides things like crime, you know, and property crime was more important than violent crime, frankly. Meaning just holding the property and keeping the air conditioning seem to be the dominant concerns. Home ownership--it's ironic. The investor is moving in the neighborhoods and they look at home ownership as a key factor for picking neighborhoods meaning they like high home ownership rates to move into those neighborhoods. So it's maybe a signal about home ownership still being important to at least some folks. There's definitely been a shift but during up until 2011, the dominant way of acquiring properties was through REO, post-REO, MLS. Only one investor used foreclosure sales courthouse steps. That's definitely the big investors are definitely buying more courthouse steps but again it's mostly not in distressed neighborhoods. One of these investors did talk a lot about and showed me without me being able to say too much about it, their proprietary software using a lot of data to identify not just properties but neighborhoods, bring us up some interesting kind of implications for fair housing and investment patterns because of some of the criteria they're using. On the management and kind of process side, a lot of the investors really talked about the challenge of working with neighborhoods and that they've learned to work with neighborhood residents, homeowners much more proactively, and much more constructively. I'd really echo the issue, a kind of real key difference in the success of the investors seem to be Housing Choice Vouchers in these neighborhoods. The investor with the very low turnover rate, the one that I talked to, lots of experience was almost entirely Housing Choice Vouchers and they had basically a two percent turnover rate compared to 50 percent for some of the others. I did use and I don't have time to talk about it--I did use basically Alan's typology and I also found that, you know, milking and flipping were more common in 2008, 2009 and I think the reason we now have 50 percent vacancy and some of these neighborhoods is the milkers had pretty much abandoned a lot of property. The--I also did--we're part of the same--What Works Collaborative project and I have to say that I'm less optimistic about the long-term stability of at least in the Atlanta market of even the kind of mid-range long-term hold. So up in the left hand corner, I have this kind of $72,000 all in cost and they show a nine percent return in their projections but it's pretty optimistic like five percent vacancy. You know, they've had one percent vacancy, I don't think they can keep up five percent vacancy because they're not going to be able to get any more vouchers. And then on the low end in the mid-range as Alan said, they get higher rates of return but it's higher percentage rates of return. So they get 18 percent rate of return under optimistic scenarios but it's $4,000. So you've got to be a ma and pa to make that, it make sense and it really doesn't make sense to put any money into the property. So these properties are, I think, largely are going to be abandoned over the long run. Thank you.

JOE SCHILLING: Such great news.

I didn't get to my policy stuff.

Okay.

[Applause]

So while the Federal Reserve Bank staff start to roam around with the microphones so, raise your hand. I'll sort of pose one kind of question to the panel to get us going is certainly there's a lot of variables that we've heard and variables in terms of cities and submarkets and also the variable of time. I mean, you can see through the research here the different waves of flipping investors in these profiles. So, my question to the panelist is let assume and you can pick which ever sort of city you would like to be and but you've called in to the mayor's office who has a special task force on these issues of REO foreclosure, rental properties, and you've got the usual suspects there. There may be some of the communities leading non-profits involved with these issues as well as, you know, the housing commissioner and planning commissioner and they're saying, "Okay, you've showed us your research about what has gone on the past. What we sort of think is going on in the future in terms of rental markets and your analysis about the trends. What do we do? Or where do we start? What would be your recommendations?" So a panelist sort of choose a city and see what you might prescribe as the first starting place for trying to take this great information and shape it into some policies that may be trying to minimize the negative as well as try to facilitate the positive, right? 'Cause we did see some positive signs of the--this new profile of investors.

I'll take an easy one. I think, and Eric already kind of teed it up in the first panel, but I think reform to the tax foreclosure process is something that's-- [Inaudible Remark] I know, the easy one. If you can make it harder to milk a property without paying taxes or shorten the time that that happens, you might change the economics or the incentives, and on that the front end and obviously in the back end, you're taking that property out of the--to the churn machine when it does reach that point.

Can I complement that? For us--for Atlanta, it's not just tax foreclosure, it's lien foreclosure. We actually have the ability under state law to make demolition liens senior but it's not being used 'cause we have smaller cities in the state that are using it and are acquiring properties. Of course, the other part is what they do with those properties, we have a land bank. I don't know if there's the capacity to deal with the number of properties we have to deal with.

I think the tax foreclosure is critical but also tax assessment. I think the fact that Las Vegas has an efficient process that ensures the taxes stay at one percent of true market value is very important. If I lived in a city where my taxes were 30 or 40 percent of what my realistic market value is, I would be strongly motivated unless I felt that there was a tremendous potential of appreciation. Under any circumstances, I would be motivated to not pay them and currently the Wayne County is projecting that the number of properties that will be sold at tax foreclosure auction this fall is going to be in the vicinity of 42--in the city of Detroit, it's going to be about 42,000 properties. Because rational people, not just investors, homeowners, business people, and so forth are saying, "It doesn't make sense for me to continue paying these taxes." The other thing I think is cities have got--especially cities like at Detroit or in Atlanta, or any city where you have--relatively low-value of properties and you have investors who are not strongly motivated to maintain the value of their property, is you have to take regulation seriously. These cities do not have efficient code enforcement, nuisance abatement, property registration, et cetera, systems in place. Some of them have very good ordinances. Detroit has great ordinances but they're not enforced.

Okay. So, part of this is some of these policy lifts will be significant if you're trying to restructure tax or tax foreclosure processes, if you have a state that hasn't done that recently. Some of these maybe shorter fixes if you've got the ordinances, its capacity although, again, in cities that are more distressed, building capacity is a challenge.

Can I just add one that--

Sure.

--that probably folks on this room have thought a lot more about than I have but, you know, they're just aren't subsidy tools designed for scattered, say, rental. I know people have used tax credits. We did a set-aside tax credits in Atlanta and Georgia and nobody did it even though it was a set-aside. So trying to figure out ways to encourage responsible single family rental management, investment, and tie strings to it is a tough one but I think we need to do it.

Okay, there's a question in the back. If you could identify yourself Mr. McCarthy?

GEORGE MCCARTHY[Laughter] Thanks Joe, so I'm George McCarthy from the Ford Foundation and I--I guess let me just start with a provocative question because one of the things that encourage me, you guys did a very good job of pattern recognition on different markets trying to understand kind of the logic of investors and how kind of local policies in the logic of investors sometimes contribute to bad outcomes in general. But I really wonder, you know, we're here at the Fed, right? How much of the problems in local housing markets can be solved by intervening in housing? And how much do we have to really start thinking about other levels of policy that are critical to getting housing markets kind of to function right? Because I don't care how much you've punished people for not paying their taxes in Detroit, Alan, but if you don't find a way to re-inhabit that city when there's 80,000 vacant structures there, then what good is it to tinker on the edges, right? And how much can you depend on a land bank to take over 80,000 properties and manage them for any period of time before, you know, that will just implode, right?

Yeah.

So, you know, I think we need to think a little bit broader about this and here we are in kind of macro policy central, right? So what do we think about doing macro policy wise, industrial policy, urban policy that might actually change your trajectory of the markets, and then change the kind of the way investors and others kind of, work in those markets because I don't think you're going to get to the answer by just intervening in housing.

Amen, amen,

Alan and then Josiah.

Yeah, you can't. You have to intervene in housing because you have to take short-term steps to try to stabilize the conditions while you're trying to put in larger more macro steps to actually fundamentally change. Like, for example, in the Detroit context, I would be less concerned with trying to punish people for not paying property taxes as trying to figure out some way to bring property taxes down to a level where people would be motivated to pay them while you're trying to create the steps that actually make Detroit a healthier city and a city where people are more likely do want to live. And that in turn, you're not going to be able to do on the basis of housing, you have to do it on the basis of, you know, basically changing the economic realities of what it means to live in or work in Detroit. And I think there is some things you can do at the local level, but most of it is going to take much more fundamental changes at the state and federal level in terms of saying, what do we want these cities for and how are we as a country going to responsibly address the challenges that they represent. And that is a huge issue.

Yeah, and just to carry that a little further, I mean that, I mean--did get back to heterogeneity, I mean the housing issues and the foreclosures issues are just so different in a place like Detroit from Miami with a long-term demand prospects are so different. And in Detroit, what's happened is, you know, in some sense and manifestation of larger, long-term demand issues that housing policy can't really address which I guess is the whole point of Mac's question. I mean in some of this has to do with just jurisdictional line drawing, I mean, the house price trend has been bad for all of metro Detroit, but when people see the horror stories about the average house cost in Detroit, I mean those are--the city of Detroit. I mean there are functional housing markets in the Detroit region. The city of Detroit is a decreasingly--is a shrinking share of the whole metro area. So, I mean it's just very different from city to city.

I don't want to be trite but Atlanta is number one on income inequality by various measures and it's number 300 or something on educational quality of public schools. Atlanta isn't going to do much until it fixes the school situation. That's--and I actually think there are some prospects for that long-term, but some--there was actually, some progress in some very hard hit neighborhoods with even during the crisis, in part because some of the local public schools, elementary schools were showing very good improvements and at least the population seemed to be stabilizing, people came out--report saying, some of these very poor neighborhoods were kind of stabilizing. And then, the school test scores scandal hit, and it just imploded, meaning it turned out some of those, a lot of data was just bogus data. So, I mean, everybody know schools are important, but in cities with this high--and Detroit also are very high income inequality. We got to figure out place-based strategies around schools. And those are good article in Planning magazine around Detroit schools and that are actually are trying to do something, but other problems like taxes are--

I'll just add a footnote I think to the next question is we've been looking at some of the regeneration models across the Atlantic. So the regeneration models in the UK, sort of a national policy level and even though that policy model in the UK is also sort of under attack, I think it helps integrate some of the social challenges with school education and jobs better aligned with sort of the place or the regeneration of the physical environments, so they had a much more cohesive sort of policy structure, also at the regional level and then down the community level and neighborhood. So vertically, it--I mean, that's the reason why you see cities like Manchester and Liverpool in the last census in UK that had lost population, 20, 30, 40 percent over a period of time but have actually gained population. Certainly, immigration played in that, but I think there's a lot we can learn from our colleagues across the Atlantic. Yes, ma'am?

SANDY JOHNSON: My name is Sandy Johnson and I'm from the Camden Redevelopment Agency. I'm new to the state of New Jersey. I live, Joe, what--

[Inaudible Remark]

There you go.

Okay, Okay. Do I need to say my name again?

No, you just--that you lived with the mayor?

Yeah, I-- [Laughter] And by the way she's a terrific man, okay? The issue that this confluence of activities, I mean, of elements coming together at the same time for education and public safety and housing is our daily appetite. And certainly, she's dealing with--she's working on trying to bring a better reality for education and public safety with the regional public safety that you've been reading about in the newspapers. However, in our lives, we can't stop anything. So if the balance, if you're riding a balance where it's all roads have to lead to Rome because we have to do everything at the same time. So everybody is at the wonderful sunshine place at the same time. Now having said that, one--and thank you, thank you for this invitation, too, because I'm looking on the list and I may be one of the few here who's on the pavement, so I appreciate that. But on the housing side, let's go back there, and Alan knows as well 'cause we were with each other often. It is--and this is something--and bankers, please understand and regulation--but it is an examination of community reinvestment, too, that we need to look at. In our world and we just finished successfully 26 million dollars in NSP2 funding, successfully and we are really changing some of our neighborhoods but we need to do more. We have stock about--the inventory of housing that we don't want to take all down because it's beautiful, although abandoned. And we've got to turn that around. I don't want to go back to the '90s of the Urban Homestead Act and it's all its foibles that occurred there in the '90s and the '80s. But, we've got to come up with the design, a private and public investment and not so much the restrictive kind of investment because we have got to bring middle income people to our city, if it's going to roll, as a kid say. And we've got a new medical school, there's 50 and 416 will be coming in 2014. We have a new cancer center that is going to be bringing in 300 employees. We've expanded an international graduate school for Rutgers University and people are coming from all over the world, we've got to keep them here. And we're going to open up a new nursing school. So we--the platform is being laid for Eds and Meds, and the housing has to be there to keep at least a large if not all of them in our city to create that middle income. And I ask you, you're talking about policy. We need to look at the reinvestment, what kind of mar--products are out there now for cities that need a middle income, no cap on anything. Anybody in this room could be able to come in and buy a house, work, be a doctor, or a medical student or somebody in one of those colleges and live in our city because we surely need that. Not only--sorry, I'm almost stopping, but not only, not--we're talking policy here, but not only do we needed to create that home that the middle income families households give, but we also need it as role models for--because 40 percent of our population right now is in poverty.

Right.

So, Community Reinvestment Act, CDFI, OSS, all of those we need to look at.

Okay. So folks, any thoughts on how you recalibrate some of those tools to sort of bring back the middle class?

Well, I just say one thing. First, I agree completely, I think it's critically important. I think what we need, though, are not sort of public subs--you know, public subsidy tools NSP. But we need tools that basically signal to that prospective middle class in-migrant to a city like Camden or Detroit or wherever. That if they buy this house, number--their investment, not just financial but also psychological in that house and that neighborhood is going to be reasonably rewarded. And that one thing that I'm a big proponent on would be something like a tax credit that would allow, make up basically the difference between what they might be spending and what that house might actually be worth on the market, so they feel, they're coming out at least even financially. The other piece, though, goes back to what Dan had said, it's not going to be just about housing. If you want to attract significant numbers of middle income people, couples, families with children and so forth into a neighbor that you're trying to revitalize, you have got to make sure that neighborhood is going to be safe and that hopefully, the families with children can find a school that they can afford, whether it's a public school or a charter school or a parochial or something, that they can comfortably send their kids to.

Well then again, there's been some experiments out there, I mean here in this region, the EBDI, John Hopkins revitalization around in Baltimore, Philadelphia with the university partnership, the West End, I mean, those are projects that seem have gotten off on the right foot in terms on integrating sort of education, safety and--but again, they are small experiments.

But I think the fact that you have the medical school and the nursing school and these things, you can--those can become anchors that you can use to try to--but if you don't the other pieces, it's not like--they're not likely to generate the housing demands that you're looking for.

Okay. I see a gentleman in the back--Oh, we have two gentlemen. So I think we have time for two more questions thereabout, so.

TOM FITZPATRICK: Hi, Tom Fitzpatrick, Federal Reserve Bank of Cleveland, thank you all for coming out and sharing some of your research with us. I had a question specifically about the short-term housing interventions. The--and more specifically about how they're funded. Everything that we have is--all the tools that are out there are pretty expensive whether you're talking about the enforcement of a registry or just general code enforcement, or you're talking about active land banking or you're demolishing property, even passive land banking in a lot of these areas, where you've got to go out and mow the grass is really expensive. So I was hoping you might talk a little bit about those costs whether it's something that communities can bear themselves, whether there needs to be some sort of external funding, and maybe the difference in timelines on addressing some of these issues.

Well, I would say one thing in terms of code enforcement, I don't think necessarily can be expensive particularly compared to maybe starting up a new institution. I think, I'll sort of rely on my colleagues from Baltimore, Michael Braverman and his team has sort of transformed the code enforcement processes, sort of taking a lot of the existing ordinances and streamline those. That took them a long time to sort of organize a new culture of code enforcement but it seems that that operation now is more efficient, it generates fees, it's cost recoverable. So it can be done, but it does take time, but I think, you know, the Baltimore code enforcement story is one that I think could be replicated in a lot of communities.

I have an idea that's going to--I hope it doesn't make anybody laugh.

You say a Marshall plan--

[Laughs] No, no, no. But an earlier questioner asked about CRA and we're seeing all this money, and I actually think it--depending on how it goes and we're going to find that out in about 18 months. There is a lot of money flowing in not to distressed neighborhoods but into suburban neighborhoods. In the old days, that would have been financed through banks and would have been subject to CRA, meaning, it would have been in the pool, the assets would have been in the pool. Those assets now are outside the pool, the CRA pool. So we've got that old fashioned CRA modernization issue. And I know that some folks have been talking to the hedge funds and to the Carringtons and to the Waypoints about doing partnerships in lower income communities and bringing them in. I think they need a little bit of arm twisting to do that. I don't think Enterprise going to them by themselves is going to get them at the table, I think. You know, and maybe this isn't the right political climate, maybe it could be done at the state level, in some states, but I think there needs to be some affirmative obligations on the parts of money flowing into housing.

Okay. So we've got one--

Can I, can I just--

Sure.

I think, two quick points to that. One is I certainly agree. I think, a lot of the code enforcement and similar stuff can be rendered more efficient. I recently met with code enforcement people in one medium sized city, I won't mention, where we talked about their systems. And we found that because their system is so totally paper-heavy, their inspectors spend much more time in the office filling up paper work than they do in the field. Now, those kinds of situations are very common. The other thing that just struck me, we need to really look I think very creatively about what kind of local regulation and state regulation structures can be put in place. I know in New Jersey, we enacted, you know, a state law that makes lenders responsible for maintaining property from the day before the foreclosure is initiated which has helped a great deal. I'm just thinking in Las Vegas, a big issue is what happens to properties, these holder properties when they go back on the market. Suppose you passed a state law that said anytime you convert a property from ownership to rental, you have to pay, let's say a thousand dollar fee. And then, you also provide that if when you sell the property, next, you sell it to a home owner, you get the fee rebated or something like that.

So kind of like a point of sale but a little different incentives, right?

Yeah, but create incentives for these properties to go back into the owner occupancy market. So I think we've got to really look very differently and very creatively at the tool kit that we have.

All right, I think that's a good point.

Okay, so we have two questions. And gentlemen way far in the back and a gentlemen down here, and then we will close for lunch.

Roger Williams and since I'm standing between you and lunch, I'll be very brief--

But there's one more guy, so you-- [Laughter]

I’m standing between you and lunch.

You know, the data that everyone has presented has been very informative. But one thing I think were changed that the interpretation of the data is to put a racial lens on what you're seeing. No one there has talked about the disparate impact of foreclosures and even the rental movement on minority communities. When Dan mentioned what's happening in Atlanta, he talked about the Pittsburgh community, that was devastated long before and you don't really hear much about that. You talk about New York and if you look at Queens or parts of Brooklyn, the data is different. Could you just sort of put your data to a racial lens for a quick second for me and tell me what you come up that's different?

I don't know if it's different, it's just--when I saw one of these large investors, their rating systems for neighborhoods based on projected cash-on-cash returns and ROI, it looked really familiar. Let's put it that way. So I mean they're clearly impacts if not treatment issues with how they're evaluating neighborhoods that are at least in Atlanta's case, very correlated with race, particularly, African-American. I don't know of any, I mean, basically one guy--one person told me, I don't know of any large investors looking on the Southside of Atlanta, period.

Well, actually, what I found was fascinating. And again, this is an anomaly, is that when I started to crunch the numbers in Las Vegas and I looked at a cross section of census tracts and zip codes with different racial configurations, really more ethnic configurations because predominantly the difference between Latino and non-Latino as well as income levels, I expected to find some significant disparities. And actually I found none, that essentially the investor patterns seemed quite consistent across income level, at least within the lower three quintiles, as well as across ethnic levels. But again, I think that's an anomalous situation where you have again a relatively homogenous underlying market character for pretty much the entire metro.

Okay. Last question.

JOE KRIESBERG: Hi everyone, I'm Joe Kriesberg from the Mass Association of Community Development Corporations and the National Alliance of Community Economic Development Associations. And I want to talk about tools 'cause you mentioned a lot about housing tax credit and it seems to me the affordable housing field and industry is very oriented toward preserving our existing stock and building new low income housing tax credit developments. Both really important and both important to the supply of affordable rental housing but neither of which address any of these problems. The big new ideas in national housing trust fund, that probably won't help address these issues, not really designed to do that. The one federal tool that I can think of that could be used is the HOME program, it's been cut in half in the last two years. So what thoughts you have about a new federal tool to really help the affordable housing industry be useful in addressing these problems because I feel like, and I represent the affordable housing industry, were not as useful as we should be because we're oriented doing these other things.

Any federal tools?

Federal tools are kind of in short supply these days.

That will be the quote, that's the headline quote tomorrow, yes.

What I do think we need to look as much at tools that stabilize neighborhoods as tools that are focused on qua housing, and I think that's we're really missing the boat because even

NSP was, it called itself a neighborhood stabilization program, but ultimately it was predominantly a housing acquisition and rehab program--

Right.

--not a neighborhood stabilization program. And we really have to--I think it's especially in areas where house prices are low and where it's not really an issue of an under supply of housing. It's at least theoretically affordable. We really have to look at neighbor--real neighborhood stabilization and come up with the tools that work there as distinct from more housing production tools as such.

I would just say the most important housing program by far is Housing Choice Vouchers for this because it's creating the stability that doesn't exist in the private market at least in distressed neighborhoods. So protecting that, I hate to say, being defensive. You know in some markets, vouchers are predominantly multifamily. In Atlanta, there are predominantly single family and they are the bulwark of a functioning scattered site rental market. And, you know, maybe state level vouchers whatever, but the other thing is I actually was pretty skeptical of the voucher program in Atlanta until talking to both folks who have studied it from the renter side and from the investor side. And my sense is, the Atlanta's voucher market does a pretty good job at raising the bar of single-family scattered site rental, meaning the good stuff is what can get into the voucher program and the really lousy stuff can't. We do have an issue in terms of place space development that AHA, Atlanta Housing Authority, has pretty much if you have more than 35, 40 percent vacancy, you can't vouchers in that neighborhood. And there are some good arguments for that but it basically cuts those. Pittsburgh is one of them. It cuts--that market is not viable for single family rental anymore.

I think I'd agree on the vouchers program. I think two issues, though, with the vouchers. One is that maybe Atlanta does a very good job in monitoring quality in their voucher program but a lot of--a lot of communities do not. And I think we need to consistently raise the quality bar with respect to those units that are receiving the vouchers, and the second is to really rethink the whole regional fair market rent concept so you don't get landlords gaming the system and implicitly imposing of massive tax on those renters in the same neighborhoods who do not have vouchers.

They don't have submarket rents and--

They have a cost comparability standard which is typically not--

So I found in--

--which is not used as widely as it could be--

Yeah, I mean, historically Atlanta had over pricing but over the last five years, in my understanding is they match pricing pretty well.

HUD gives the entities some tools to deal with these issues that many housing authorities or state agencies administering vouchers don't actually use.

Okay.

So there are some tools, I mean, I would probably echo in closing sort of Dan's comment is, you know, I think it was Justice Brandeis who talked about the states as laboratories of democracy and sort of given the current climate, you know, are there things that the feds can do to help build some of that innovation and recalibration at the state level 'cause that maybe we're, in terms of broad policy change, we may see more opportunities there in the short-term but thank you, let's thank our panel.

[Applause]