Panel 1 l Patterns of Post-Foreclosure Neighborhood Investment

Moderator:	Joe Schilling, Metropolitan Institute, Virginia Tech
Panelists:	Josiah Madar, Furman Center, New York University
	Alan Mallach, Federal Reserve Bank of Philadelphia
	Dan Immergluck, Georgia Institute of Technology

Real estate matters are inherently local. Therefore, "heterogeneity" is a word that comes up often in discussions about Real Estate Owned (REO) property and policy responses to help mitigate their impact on neighborhoods. The foreclosure crisis gave rise to large numbers of these bank-owned properties, which banks often dispose of by selling to investors. Types of investors vary by market, and their behaviors respond to market conditions, with neighborhoods having higher densities of REOs treated systematically different from those with lower densities.

These market variations have important policy implications, noted Josiah Madar of New York University's Furman Center. Different market conditions demand different policy responses. Case studies by the Furman Center tracking REO market dynamics in three cities—New York City, Miami, and Atlanta—showed that areas with higher densities of REOs tended to have higher than average shares of African Americans and higher unemployment rates, but were not the poorest. Individuals (non-investors) made up the majority of buyers of REOs in Atlanta and Miami, whereas small investors (individuals or corporate entities purchasing between 2 and 10 properties) bought most of the REOs in New York. These case studies found that, although the stock of REO has declined in all three cities, the share of REO on the market for three or more years has increased.

In a recent study, Alan Mallach, visiting scholar at the Federal Reserve Bank of Philadelphia, found that single-family investor behavior in Las Vegas differs from that in Detroit due to the distinct housing market conditions in those two cities. He developed an investor typology, with categories defined by investor goals as well as by holding and maintenance strategies. In Las Vegas, "holders" comprise the majority of investors. These are individuals and small investors who buy single-family homes and rent them for three to five years before selling. Policies for dealing with investors in Las Vegas, he noted, should be focused on creating more opportunities for owner-occupants to provide stability in neighborhoods.

Mallach's investor typology also includes "milkers" who buy REO property having no expectation that it will appreciate in value. These investors do not pay property taxes, neglect maintenance, and rent indiscriminately. He found a great deal of milking activity in Detroit, where the rate of return on investment utilizing this strategy is very high— some 50 percent over three years. The rate of return on properties rented to Housing Choice Voucher Program participants is even higher. According to Mallach, these low-value properties are dying a slow death, and this slow death is more detrimental to neighborhoods than quick abandonment. Mallach noted that appropriate policy responses include creating a stronger regulatory framework, enlisting neighborhood groups and community development corporations to monitor blight, reforming the property tax and tax foreclosure systems, and focusing resources to comprehensively stabilize neighborhoods.

Heterogeneity is also evident within local markets, where investors are strategic about buying properties by location. Recent analysis by Georgia Tech's Dan Immergluck on behalf of the What Works Collaborative of Fulton County shows that investor ownership in Fulton County REO properties is disproportionately concentrated in the more distressed neighborhoods. The bottom line, Immergluck stressed, is that with marked variation in housing markets and investor behavior, cookie-cutter approaches to distressed properties are problematic.