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

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## Abstract

Since the onset of the foreclosure crisis, many communities have faced a glut of properties that have completed the foreclosure process and are now owned by banks or other mortgage lenders. Policy-makers worry that large concentrations of these properties, referred to as 'real estate owned' or 'REO,' impose spillover effects on the price of homes and quality of life in surrounding neighborhood. Despite receiving significant policy attention, our understanding of the size, nature, and distribution of current REO stocks, as well as what becomes of properties after being sold, is extremely limited or anecdotal. Our paper shines new empirical light on the REO problem in hard-hit neighborhoods by using local data sources to analyze recent REO trends in New York City and the core counties of the Atlanta and Miami areas. For each, we calculate the size of the REO stock over time in different neighborhood types,

estimate the types of purchasers, and determine whether purchased REO properties are flipped.

Keywords::

Foreclosure housing market neighborhoods neighborhood change neighborhood stabilization REO

## Notes

1 However, if the property is occupied by legal renters, under federal law, the REO owner must honor the remaining term of the lease or, if longer, allow the tenant to remain for at least 90 days after the lender takes title. See Title VII of the Helping Families Save Their Homes Act of 2009. Public Law 111-22, effective 20 May 2009 ([www.gpo.gov/fdsys/pkg/PLAW-111publ22/pdf/PLAW-111publ22.pdf](http://www.gpo.gov/fdsys/pkg/PLAW-111publ22/pdf/PLAW-111publ22.pdf)).

2 For a list of jurisdictions with vacant property registries, see [http://www.safeguardproperties.com/Services/Vacant\\_Property\\_Registration.aspx](http://www.safeguardproperties.com/Services/Vacant_Property_Registration.aspx)

3 Although no three jurisdictions can broadly represent all US markets, we focused on these three because they represent three urban areas with distinct market conditions for which data was readily available.

4 In New York City, we rely primarily on a specific ‘foreclosure auction’ flag included in the data provided by the New York City Department of Finance. Because the flag is not applied consistently to every auction sale, we supplement our list of auction transfers by adding all other property transfers for which the grantor (seller) includes the term ‘referee.’ (As part of New York's judicial foreclosure process, all auction sales are administered by a court-appointed referee.) The Fulton County data contain two flags that identify foreclosure-related transactions, which, unlike in New York City, appear to be applied to sales out of REO or even resales after REO, not just the transfers out of auction. Because foreclosure auctions in Fulton County always take place on the first Tuesday of the month, we only count as auction sales those sales that are both flagged as foreclosure-related and take place on such a date. In Miami-Dade County, the Clerk of the County Court is listed as the grantor for all transfers resulting from a foreclosure auction, which we use to identify such transfers.

5 In a small number of cases, we observe multiple deeds purporting to transfer the same property into REO filed within a very short time frame which, given the foreclosure timeline, we believe to be administrative errors or correction deeds filed to amend earlier deeds. Accordingly, for any series of multiple transfers into REO within a defined time frame (within a year in Atlanta or Miami or three years in New York City), we only count the first such transaction as an entry into REO. This step drops 548 entries into REO in New York City, 2302 entries into REO in Fulton County, and 10 825 in Miami-Dade County. In Miami-Dade, many of these are probably correction deeds, which, unlike those in Fulton County and New York City, cannot be directly identified with the data.

6 We also automatically change a property's status to non-REO after it has been in REO for seven years, under the assumption that such properties were in fact sold out of REO at some point through a deed that was not recorded or improperly filed by the register's office.

7 HUD makes available all action plans and required reporting of NSP funding recipients at [https://hudnshelp.info/index.cfm?do = viewGranteeAreaResults](https://hudnshelp.info/index.cfm?do=viewGranteeAreaResults).

8 It is somewhat puzzling that the sales market in Miami-Dade County's hardest-hit tracts does not appear to be more dominated by REO properties than the market in other tracts. This finding appears to be due, at least in part, to our underestimation of the number of mortgageable properties in each tract. Because we rely on 2006–2010 ACS, we are unable to count vacant and rental condominium units and more recent construction. Accordingly, it is likely that we significantly overestimate the REO density in a small number of tracts and misclassify them as hardest-hit. If we omit property sales by developers, the REO share of all sales in the hardest-hit tracts in 2010 and 2011 increases by about seven percentage points.

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#### Related Research Data

[The Trajectory of REOs in Southern California Latino Neighborhoods: An Uneven Geography of Recovery](#)

Source: Housing Policy Debate

[Explaining the Pace of Foreclosed Home Sales during the US Foreclosure Crisis: Evidence from Atlanta](#)

Source: Housing Studies

[Do foreclosures cause crime?](#)

Source: Journal of Urban Economics

[Neighborhood Effects of Concentrated Mortgage Foreclosures](#)

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