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Analysis Identifies 1,750 Bank-Owned Properties in New York City—Representing a Six Fold Increase in the City's "Real Estate-Owned" (REO) Inventory in Two Years

Comprehensive Analysis of 15 Years of Data Reveals That Most NYC Properties That Enter Foreclosure Never Complete the Foreclosure Process Because the Homeowner Either Sells or Becomes Current on Their Loan. Of Those That Do Complete the Foreclosure Process and End Up as REO, Nearly Half Are Bought and Resold Within a Year for Significant Profit.

In 2009, New York City had a record 20,000 foreclosure filings. Yet little is known about what happens to these properties after they receive a filing. How many homeowners manage to stay in the same home? How many sell? How many properties complete the foreclosure process and go to auction? How many end up bank-owned (termed Real Estate Owned or "REO" by lenders)?

A Furman Center report released today provides new answers to these questions. The report looked at the outcomes of New York City properties that entered foreclosure over the last fifteen years, paying particular attention to trends in recent years. The report documents that although only a small portion of properties entering foreclosure ended up as REO, the number of REO properties grew at a staggering rate in 2007 and 2008: from December, 2006 to December, 2008, the number of bank-owned properties in the city grew from 290 to 1,830, before dropping slightly to 1,750 by September, 2009.

"Understanding the life cycle of foreclosed properties in the city is crucial to developing effective public policies to stabilize neighborhoods and families, and this analysis is an important first step" said Vicki Been, faculty director of the Furman Center. "If we can identify what kinds of properties are likely to end up as REO, where they are located, and what their effects are on the surrounding neighborhoods, foreclosure response efforts can be better targeted at the neighborhoods that need them most."

Among the approximately 12,000 1-4 family properties that received a foreclosure filing in 2007, the report finds a wide range of outcomes by September 2009. The most surprising, perhaps, was that more than half of those properties were never sold and haven't completed the foreclosure process. Specifically:

- 14% were sold by the homeowners in arms length transactions (another 4% transferred ownership through other means such as divorce settlement or estate sale);
- 2% were sold at auction to third-party bidders;
- 12% went to auction but were not sold, and therefore ended up as REO;
- Almost 14% had not been sold or completed the foreclosure process, but had received another foreclosure filing; and
- 54% had not been sold or completed the foreclosure process, and had not received an additional foreclosure filing.

The report also reveals a long history of "flipping" REO properties, whereby homes bought out of REO are resold within a year. Between 1995 and 2007, 44% of properties that sold out of REO were resold within one year. Flipping activity peaked in 1998, when 55% of REO sales resold within a year. This decreased to 37% in 2006, and 32% by 2007. Between 1995 and 2007, properties flipped within a year resold at an average price increase of 45% more than their purchase price less than a year before.

"These figures on rapid re-sales are significant, but without more information on what kind of renovations are taking place in these properties, it's hard to know what to take away here."

commented Ingrid Gould Ellen, co-faculty director of the Furman Center. "On the one hand, if irresponsible investors are doing minimal renovations to distressed properties before reselling them, this will likely create problems for future owners and neighbors. On the other hand, if investors are acquiring otherwise undesirable properties, rehabilitating them and returning them to stable occupancy, then this may have a positive effect on the neighborhood."

While the overall number of bank-owned properties in New York remains small compared to harder hit cities, the report finds that these properties are highly concentrated in Eastern Queens, Central Brooklyn, and the North Shore of Staten Island—the same neighborhoods that have been hardest hit by the mortgage crisis in general.

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About the Furman Center for Real Estate and Urban Policy

The Furman Center for Real Estate and Urban Policy is a joint center of the New York University School of Law and the Robert F. Wagner Graduate School of Public Service at NYU. Since its founding in 1995, the Furman Center has become the leading academic research center in New York City devoted to the public policy aspects of land use, real estate, and housing development. The Furman Center is dedicated to providing objective academic and empirical research on the legal and public policy issues involving land use, real estate, housing and urban affairs in the United States, with a particular focus on New York City. More information on the Furman Center can be found at: http://furmancenter.org.