



Impacts of Recovery Efforts on Residential Vacancies

What we learned in Cuyahoga County

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*The views expressed are mine and not necessarily those of the Federal Reserve Bank of Cleveland
or the Federal Reserve System*

Recovery legislation



Housing and Economic Recovery Act

NSP 1: \$ 4 Billion in block grant funds

American Recovery and Reinvestment Act

NSP 2: \$ 1.93 Billion

Cuyahoga County

NSP1: \$ 49 million

NSP2: \$ 40 million

The purpose of research



Quantify the extent to which NSP interventions impacted *stability* of housing market

Stability measured by vacancy rates of formerly-REO properties

Overview of findings



Overall, not much of an impact

BUT! It matters whether the buyer out of REO is a consumer or investor

Less likely to be vacant today if bought by consumer (in NSP 1 areas only)

Data



Sales transactions

(i.e. buyers & sellers, sales price)

Property characteristics

(i.e. living area, age)

Neighborhood characteristics

(i.e. education, race, vacancy)

NSP plans to identify targeted areas

Who is purchasing REO in NSP 1 areas?

		Number of purchases	Vacancy rates
Non-NSP	Investor	6,005	21
	Nonprofit	254	48
	Individual	5,869	10
NSP	Investor	3,765	30
	Nonprofit	300	64
	Individual	1,717	18

Property Characteristics by Buyer Type (averages)

	Investor	Nonprofit	Individual
REO seller: Local Bank	13	5	14
REO seller: Non-local Bank	67	22	60
REO seller: Government	20	73	27
Post REO conveyance amount	22,080	8,031	54,617
Tax delinquency	27	22	23
Age of property (years)	84	90	73
Property Size (Sqft)	1515	1537	1572
Neighborhood			
Vacancy rate	10	12	7
Less than high school	27	29	21
African-American population	56	55	35
In Cleveland	59	76	41

Results – logistic regression

- ❑ Vacancy rate ordering: Nonprofits, Investors, and individuals
- ❑ Impact limited to NSP 1 areas
- ❑ NSP 2 no impact but more recent history may be culprit
- ❑ Lower priced, smaller, older, tax delinquent properties inside the city, in high minority neighborhoods are more likely to be vacant today

Caveats



- NSP areas are depressed markets
 - Properties in depressed markets more likely to be vacant
- Comparing NSP and non-NSP areas may be problematic
 - Variables such as property age, size, neighborhood characteristics may not enough to control for differences

Solution: Matched-sample analysis

- ❑ Match NSP and non-NSP properties
 - ❑ Sold out of REO within 90 days of NSP sale
 - ❑ Same tax delinquency status
 - ❑ Located in block within mile of NSP block
 - ❑ Same REO buyer type
- ❑ Calculate Euclidian distance btwn NSP & matched non-NSP properties based on:
 - ❑ Total usable area, age, sale price out of REO

Impact of Matching

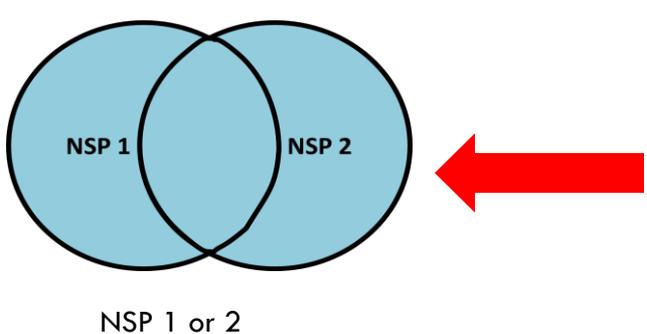
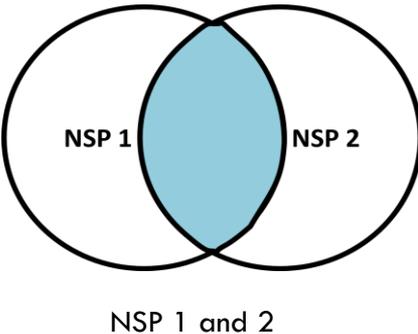
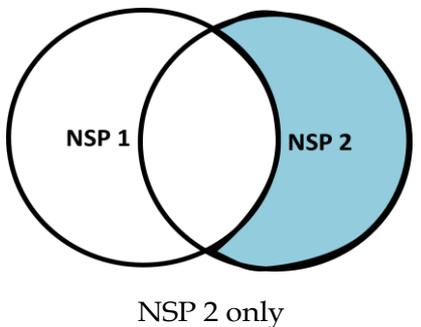
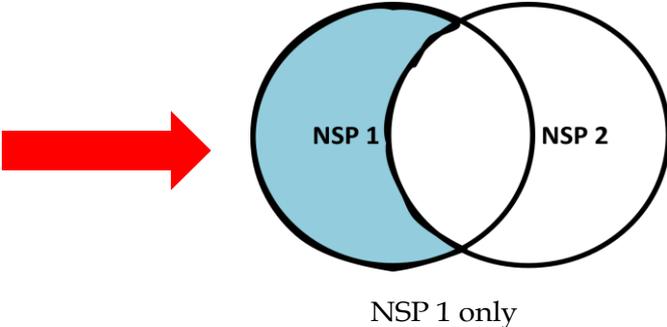
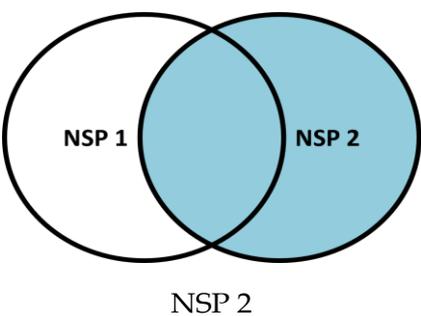
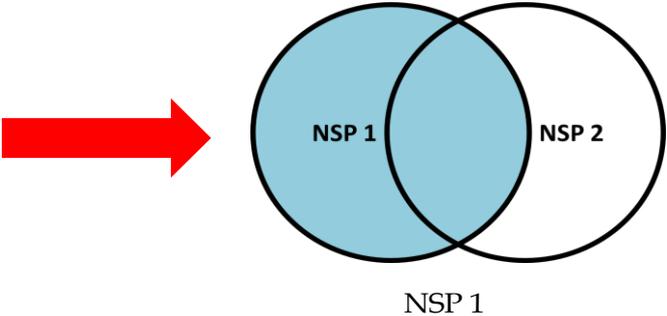
(Median observation)		PANEL A		PANEL B	
		Full Sample		Matched	
		NSP1	NSP2	NSP1	NSP2
N	Non-NSP	12,331	13,446	4,811	3,994
	NSP	5,905	4,790	4,811	3,994
Purchase Price	Non-NSP	25,800	25,000	8,500	9,000
	NSP	9,000	9,500	8,500	9,672
Tax Delinquency (mean observation)	Non-NSP	24	25	24	23
	NSP	28	27	24	23
Age	Non-NSP	82	81	90	90
	NSP	90	90	90	90
Neighborhood Vacancy Rate	Non-NSP	6	6	10	10
	NSP	11	13	12	12
Neighborhood: Educational Attainment Less than High School	Non-NSP	21	19	29	31
	NSP	28	30	29	30
Neighborhood African American Population	Non-NSP	16	18	81	89
	NSP	70	93	75	94

Results – matched sample analysis



- Vacancy rates inside and outside NSP areas are statistically indistinguishable
- Vacancy rates decline if a property is purchased out of REO by an individual and only if the property is in an area targeted by NSP 1
- Vacancy rates are higher in NSP 1 areas if the property is purchased by an investor

NSP coverage



Results – with post-REO sale



- Individuals who have not resold their properties are less likely to have abandoned their properties in NSP 1 areas.
- Properties that were purchased by investors and remained unsold are more likely to be vacant as of June 2011 if they were in an area targeted by NSP 1

Results – with post-REO sale

		NSP 1									
REO BUYER		Investor				NonProfit			Individual		
NEXT BUYER		Unsold	Foreclosed	Investor	Individual	Unsold	Investor	Individual	Unsold	Investor	Individual
Non-NSP	N	937	9	140	269	82	9	12	606	11	33
	Mean	29.6%	77.8%	46.4%	15.6%	72.0%	33.3%	33.3%	25.4%	81.8%	6.1%
NSP	N	949	15	177	209	99	2	2	608	13	30
	Mean	34.1%	53.3%	44.6%	16.7%	64.6%	100.0%	50.0%	18.1%	38.5%	13.3%
z		-2.13		0.32	-0.33	1.05			3.09		-0.98

Conclusion

- NSP1 seems to have succeeded in stabilizing the distressed markets but only if the buyers are purchasing the properties to live in them
- Studies of REOs that do not take buyer heterogeneity into account can be misleading
- Do not generalize our findings:
 - ▣ Our findings may not apply to areas other than Cuyahoga County



Questions or comments?

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