

Section 2:

Homeowners and Their Homes

In 2012, New York City continued its nascent recovery from the housing market crisis that has gripped the nation since 2006. Home prices were up from 2011 (though still well below their peak), but new foreclosure starts were also up in 2012.

The number of homeowners receiving pre-foreclosure notices, the number with underwater mortgages, and the concentration of these groups in the areas of the city that have seen the most foreclosures to date indicate that the challenges facing some neighborhoods are far from over. Thus, while indicators show that the city as a whole is recovering, homeowners and the housing market continue to struggle, particularly in the hardest hit areas.

1. The homeownership rate is down slightly from its peak.

New York City is a city of renters. Since the housing market bust in 2006 (and the attendant economic downturn and tightening of the mortgage market), the percentage of households in the city that rent has increased further. Although New York City has a much lower homeownership rate than the United States as a whole, the recent decline in its homeownership rate mirrors a similar decline nationwide over the past few years, as Figure 2.1 illustrates. But unlike the nation as a whole, which saw the rate drop by 1.6 percentage points since 2000, New York City's homeownership rate was slightly higher in 2011 than it was in 2000 (+1.1 percentage points).

Figure 2.1 also shows the changing homeownership rate of the nation's five largest cities. All five cities saw a decline in homeownership during the economic downturn between 2007 and 2011. New York City's 2.3 percentage point decline from 2007 (the peak of the nation's homeownership rate) was similar to the rate change experienced by Los Angeles (-2.8 percentage points) and Houston (-2.4 percentage points), but smaller than the declines in Philadelphia (-3.4 percentage points) and Chicago (-5.7 percentage points). Of these cities, however, only New York City and Chicago have experienced a net gain in their homeownership rates since 2000.

Homeownership rates vary significantly among New York City boroughs, as Figure 2.2 reveals. The overall patterns of change in homeownership rates between 2000 and 2011, however, were largely the same across the boroughs.

2. Home prices and sales volume are up but still well below peak levels.

In the past decade, home prices and sales volume in New York City generally followed a boom and bust pattern, with Manhattan serving as a notable exception. Figure 2.3 shows the change in house prices by borough since 2000. In all five boroughs except Staten Island, home prices in 2012 were up from 2011 levels. Nonetheless, prices remain well below their peak and close to 2004 levels in all boroughs but Manhattan. By contrast, Manhattan experienced a relatively modest and short-lived downturn, and prices have returned to their peak levels.

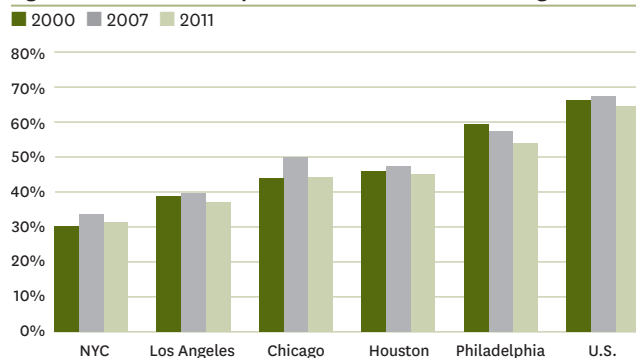
Figure 2.4 compares changes in the prices of single-family homes in the five largest metropolitan areas, based on the prices of properties purchased with conforming loans.¹ Single-family homes in four of the five metro areas experienced a boom and then a downturn. In Houston, prices rose more slowly and never declined.

While the Furman Center's Index of Housing Price Appreciation shows that housing prices have decreased 15.7 percent since 2007 in New York City, this decline has not been spread evenly across the city. The worst price declines have been concentrated in the northern Bronx, southeast Queens, and northeastern Brooklyn, as Figure 2.5 shows.

1 Conforming loans are loans that conform to guidelines created by the government-sponsored enterprises Fannie Mae and Freddie Mac. Subprime loans, among others, are nonconforming and, therefore, do not contribute to the data reflected in Figure 2.4.

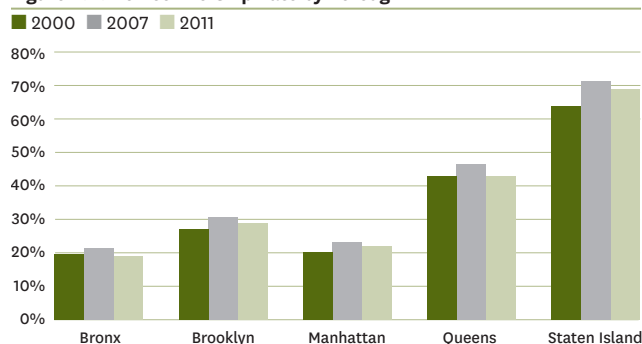
Table 2.1 shows that the price of homes across the city also varies dramatically. In 2012, Manhattan had by far the highest median sales prices for all housing types

Figure 2.1: Homeownership Rate, United States and Five Largest Cities



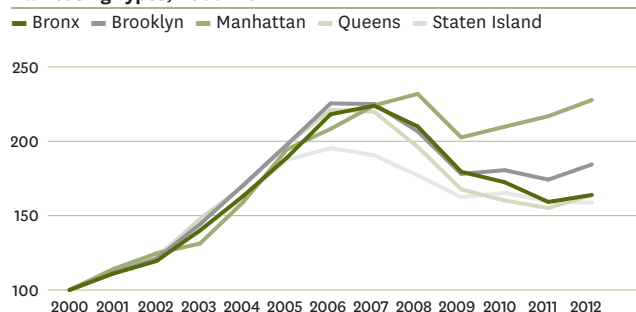
Sources: United States Census (2000), American Community Survey (2007, 2011)

Figure 2.2: Homeownership Rate by Borough



Sources: United States Census (2000), American Community Survey (2007, 2011)

Figure 2.3: Index of Housing Price Appreciation by Borough, All Housing Types, 2000–2012



Sources: New York City Department of Finance, Furman Center

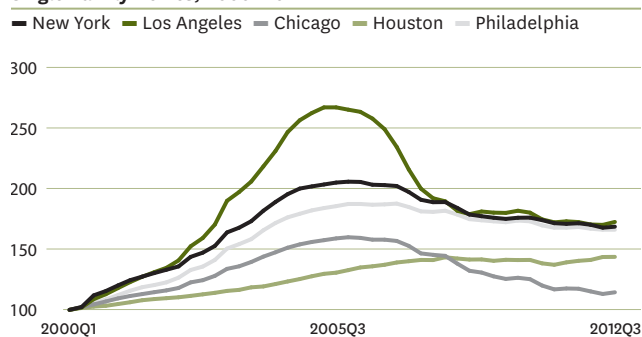
Table 2.1: Median Sales Price per Unit, 2012

	Bronx	Brooklyn	Manhattan	Queens	Staten Island	New York City
1 Family	\$ 335,000	\$ 500,000	\$ —*	\$ 415,000	\$ 375,000	\$ 405,000
2–4 Family	\$ 163,417	\$ 240,000	\$ 897,500	\$ 225,250	\$ 225,000	\$ 222,500
5+ Family	\$ 78,290	\$ 109,828	\$ 212,500	\$ 120,851	\$ —*	\$ 117,500
Condominiums	\$ 125,000	\$ 545,000	\$ 999,000	\$ 380,250	\$ 247,500	\$ 700,000

* Insufficient data. Sources: New York City Department of Finance, Furman Center

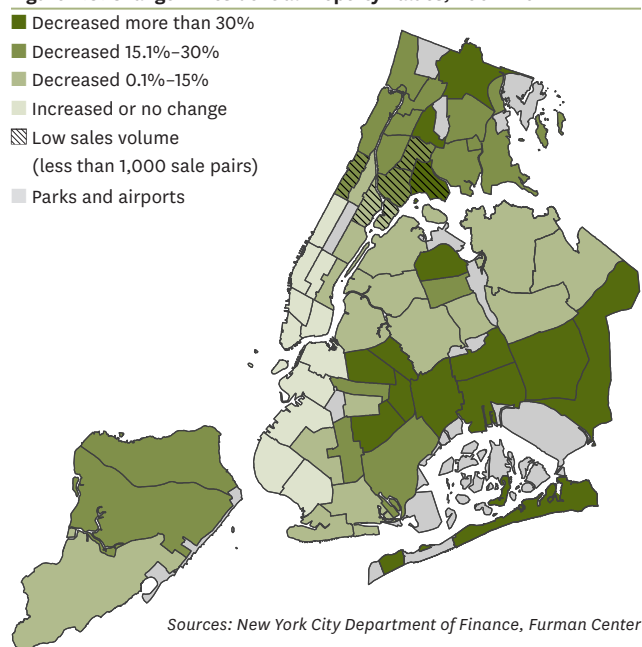
for which data were available. Brooklyn had the second highest prices, followed by Queens, Staten Island, and finally the Bronx.

Figure 2.4: House Price Index in Five Largest Metro Areas, Single-Family Homes, 2000–2012



Source: Federal Housing Finance Agency

Figure 2.5: Change in Residential Property Values, 2007–2012



Sources: New York City Department of Finance, Furman Center

The volume of property sales inched up slightly from 2011 to 2012, as Figure 2.6 illustrates. The number of sales of all residential property types declined dramatically during the housing bust, though at somewhat different times. Single-family and two- to four-family home sales peaked in 2005 and 2006, and each had declined by 58 percent by 2011. However, in 2012, sales volume rebounded slightly with 8,548 single-family home sales and 9,296 two- to four-family home sales. The sales of multi-family (five-plus units) rental buildings, which are far less frequent than transactions involving other building types, peaked in 2005 and declined by 64 percent by 2009 before rebounding in the past three years. In 2012, 1,973 multi-family buildings sold. Condominiums were the only property type that sold in notably greater quantities in 2012 than in 2000.

3. Lending

A. Home purchase lending declined slightly in 2011.

The 2000s saw a great deal of change in total home purchase lending activity, shown in Figure 2.7. Similar to home prices and sales volume, discussed above, home purchase lending in 2011 was well below peak levels. But while home prices and sales volume were higher in 2011 than in 2000, the home purchase lending rate in all five boroughs was lower in 2011 than it had been in 2000.

Figure 2.8 shows that a large share of the lending at the peak was in high-risk loans. Even during the housing boom, prime-rate lending declined in New York City and in the nation as a whole. However, a sharp increase in high-cost lending kept total loan numbers up during this period. Following the bust, high-cost lending all but disappeared due both to dramatic shifts in lending practices and significant tightening of New York's banking laws governing subprime home loans.²

Like lending nationwide, lending for home purchases in New York City has been at the same level roughly for the past three years, down from higher levels of lending seen in the middle of the last decade. From 2010 to 2011, all five cities and the nation as a whole saw a dip in first-lien lending, as shown in Figure 2.9. The dip corresponded with the end of the federal tax credit for first-time home buyers: 2011 was the first full year of the past four (2012 data are not yet available) during which federal tax credits were not available.³

While total home purchase lending shrank during the housing bust, the subset of government-backed FHA/VA loans in the city has grown since 2007, both in absolute numbers and in the share of total loans made. In 2011, FHA/VA loans represented 21.3 percent of home purchase loans in New York City, a much larger share than during the housing boom, when such loans were almost nonexistent. While FHA/VA loans represent a smaller proportion of lending activity in New York City than they represent in the United States as a whole, these loans have become much more important both locally and nationally, as illustrated in Figure 2.10.

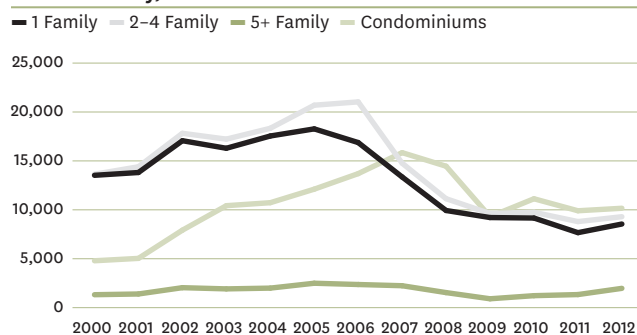
B. Lending to black and Hispanic borrowers has declined more than lending to white and Asian borrowers.

The overall decline in lending has affected all racial groups in New York City. However, as Figure 2.11 illustrates, lending to black and Hispanic borrowers has fallen the most. This is perhaps not surprising because a high share of mortgages issued to black and Hispanic borrowers during the boom were subprime loans that were securitized and not backed by government guarantees, and that segment of the mortgage market no longer exists.

² For subprime loans consummated on or after September 1, 2008, New York Banking Law Section 6-m instituted a detailed ability to repay requirement and prohibited teaser interest rates, negative amortization, and prepayment penalties, among other lending practices. N.Y. Banking Law § 6-m (McKinney 2012).

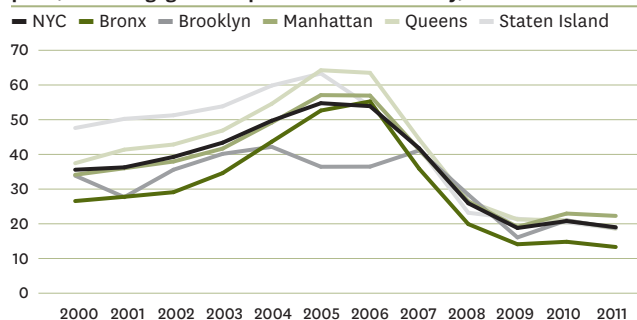
³ Internal Revenue Service. (2013). First-Time Homebuyer Credit. Retrieved from <http://www.irs.gov/uac/First-Time-Homebuyer-Credit-1>.

Figure 2.6: Property Sales Volume by Property Type in New York City, 2000–2012



Sources: New York City Department of Finance, Furman Center

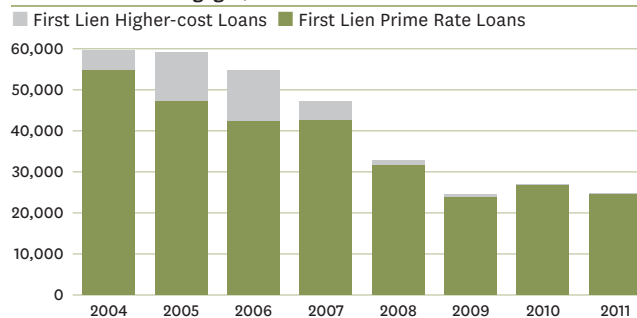
Figure 2.7: Home Purchase Loan Originations* per 1,000 Mortgagable Properties in New York City, 2000–2011



*All home purchase loans (first and junior liens) issued to owner-occupants of one- to four- family homes, condominiums, and cooperative apartments.

Sources: Home Mortgage Disclosure Act, Furman Center

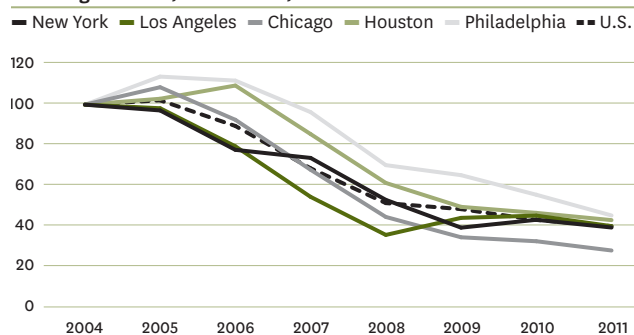
Figure 2.8: New York City One- to Four-Family Home Purchase Mortgages,* 2004–2011



*First lien home purchase loans issued to owner-occupants of one- to four- family homes, condominiums, and cooperative apartments.

Sources: Home Mortgage Disclosure Act, Furman Center

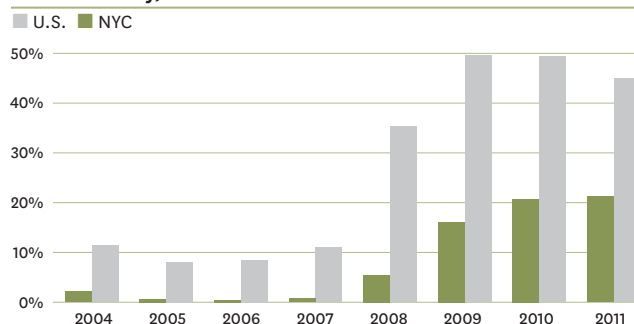
Figure 2.9: Home Purchase Loan Originations,* United States and Five Largest Cities, 2004–2011, Indexed to 2004



*First lien home purchase loans issued to owner-occupants of one- to four- family homes, condominiums, and cooperative apartments.

Sources: Home Mortgage Disclosure Act, Furman Center

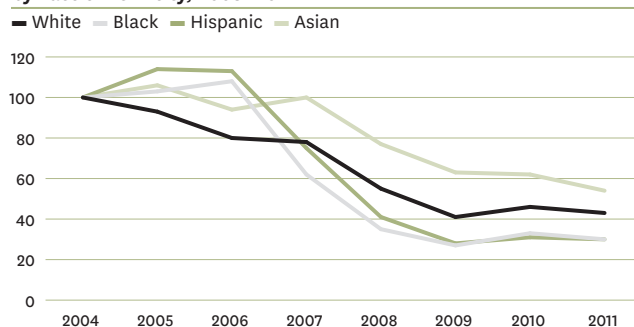
Figure 2.10: FHA/VA Share of Home Purchase Mortgage Originations in New York City, 2004–2011*



*First-lien home purchase loans issued to owner-occupants of one- to four- family homes, condominiums, and cooperative apartments.

Sources: Home Mortgage Disclosure Act, Furman Center

Figure 2.11: Index of New York City Home Purchase Mortgages* by Race or Ethnicity, 2005–2011



*First-lien home purchase loans issued to owner-occupants of one- to four- family homes, condominiums, and cooperative apartments.

Sources: Home Mortgage Disclosure Act, Furman Center

As Figure 2.12 shows, the rate of lending to black and Hispanic borrowers has consistently been far below their population shares. The gap between loan share and population share is the widest for Hispanics. In 2006, Hispanics made up 27.6 percent of the city's population and only 16.4 percent of home purchase borrowers; and in 2011 Hispanics made up 28.8 percent of the population, but only accounted for 9.7 percent of purchase borrowers.

C. Refinance lending is high in Manhattan but well below peak levels in the other boroughs.

Despite low interest rates, refinance lending has dramatically decreased in the outer boroughs since 2006, likely driven by the fall in city home prices illustrated in Figure 2.3 above. Lending rates everywhere other than Manhattan fell by 70 percent between 2006 and 2008, and have remained at more or less the same levels since then. In 2011, citywide refinance originations ticked up slightly (1%) compared to 2010. As Figure 2.13 dramatically portrays, the pattern of refinance lending in Manhattan has been notably different. In Manhattan, the current refinance level significantly exceeds the refinance rates of the boom years, as homeowners with equity in their homes are taking advantage of historically low interest rates. As discussed in the Pre-foreclosure Notices and Underwater Loans subsection below, for many homeowners in the city who currently owe more than their homes are worth, refinancing is not an option. Unlike refinance lending, purchase lending has followed a much more uniform trend across all five boroughs.

4. Foreclosures

A. Foreclosure starts were up slightly in 2012 but remained below peak levels.

New York City just saw an unprecedented spike in foreclosures, like many other cities across the country. Like the other market indicators discussed above, foreclosures have both driven and been generated by changes in the housing market over the past decade.

In New York City, as in the rest of the country, the foreclosure crisis has primarily involved one- to four-family homes. Figure 2.14 shows the number of foreclosure notices (*lis pendens*) filed since 2000 by property type. Since the start of the foreclosure crisis, the vast majority (87%) of properties that have received a *lis pendens* in the city have been one- to four-family buildings.

In 2012, 12,850 *lis pendens* were issued in New York City, a 5.3 percent increase over the number issued in 2011. However, this level was still well below the 2009 peak of 20,542 *lis pendens*.

Compared to other states, New York State ranked fourteenth in the nation for new foreclosure filings in February 2013.⁴ However, given the length of its foreclosure process (discussed below), New York State ranks much higher in terms of its share of the nation's foreclosure inventory (homes in the foreclosure process or bank owned). At the end of 2012, five percent of the nation's foreclosure inventory was in New York State, making New York the fourth largest contributor (tied with Ohio).⁵

B. Foreclosures are concentrated in particular neighborhoods.

The foreclosure crisis has not been felt uniformly across New York City. Figure 2.15 shows that more property owners in Queens and Brooklyn have received *lis pendens* than those in the other boroughs.

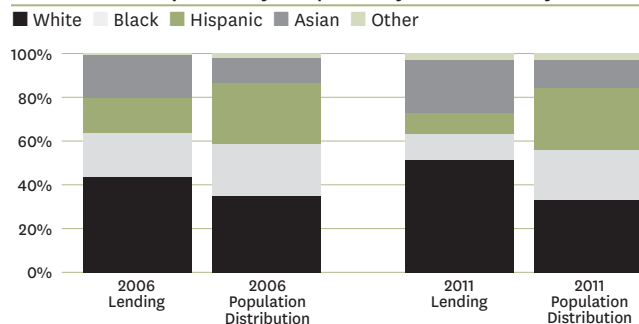
As Figure 2.16 reveals, in the Bronx, Brooklyn, and Queens, and to a lesser extent Staten Island, foreclosures are concentrated in certain areas. Not surprisingly, other indicators of mortgage and housing market distress discussed throughout this section are also concentrated in the same parts of the city, including price depreciation (Fig. 2.5), pre-foreclosure notices (Fig. 2.21), and underwater mortgages (Fig. 2.22).

Multiple studies have shown that concentrated foreclosures have significant, negative consequences for their neighbors and neighborhoods.

⁴ Realty Trac, (February 2013). National Real Estate Trends. On file with the Furman Center.

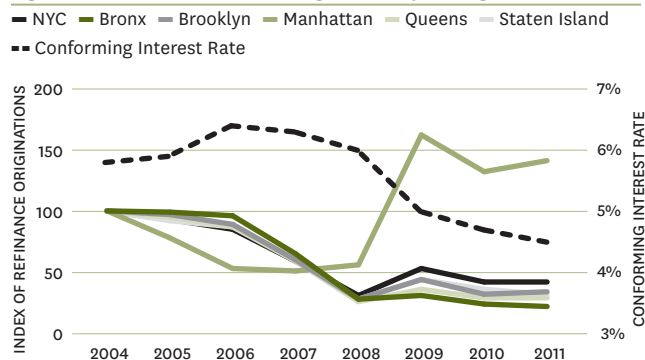
⁵ Realty Trac, (January 14, 2013). 1.8 Million U.S. Properties with Foreclosure Filings in 2012. Retrieved from <http://www.realtytrac.com/content/foreclosure-market-report/2012-year-end-foreclosure-market-report-7547>.

Figure 2.12: Share of Home Purchase Loans Originations* Versus Share of Population by Race/Ethnicity in New York City



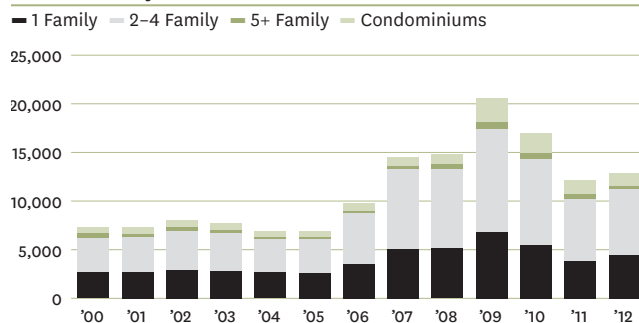
*First-lien home purchase loans issued to owner-occupants of one- to four-family homes, condominiums, and cooperative apartments. Sources: Home Mortgage Disclosure Act, Furman Center, American Community Survey

Figure 2.13: Index of Refinance Originations by Borough



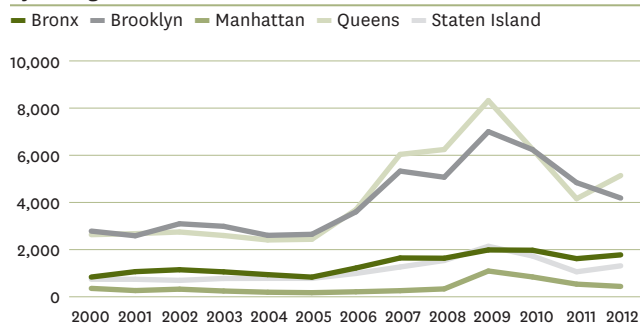
Sources: Home Mortgage Disclosure Act, Furman Center, Freddie Mac Primary Mortgage Market Survey

Figure 2.14: Number of Lis Pendens by Property Type in New York City, 2000–2012



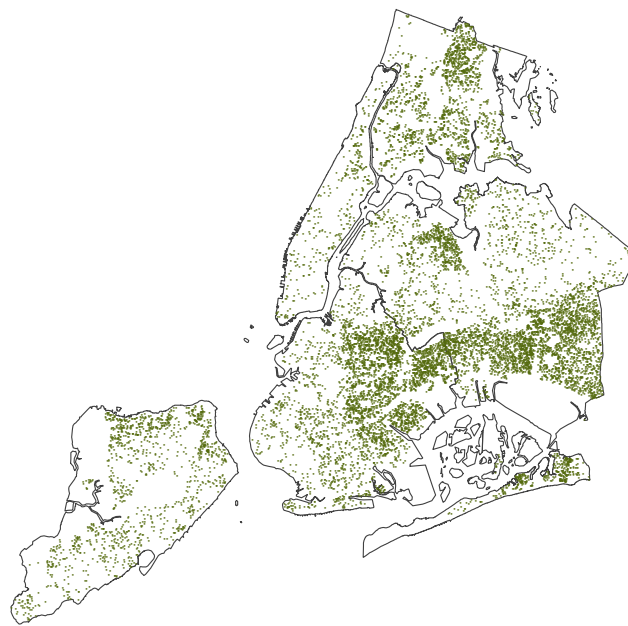
Sources: Public Data Corporation, New York City Department of Finance, Furman Center

Figure 2.15: Total Lis Pendens for All Residential Property Types by Borough, 2000–2012



Sources: Public Data Corporation, New York City Department of Finance, Furman Center

Figure 2.16: Lis Pendens Issued to All Residential Property Types in 2012



Sources: Public Data Corporation, Furman Center

The Collateral Effects of Concentrated Foreclosures

Foreclosures affect communities in ways that extend beyond the hardship experienced by homeowners facing the loss of their home. Since the start of the foreclosure crisis, the Furman Center has undertaken a number of research projects to better understand the varied effects foreclosures may have on children and neighborhoods.

Foreclosure and Crime: Concentrated foreclosures cause crime to increase.

To consider the relationship between foreclosures and crime, we analyzed detailed, point-specific data about foreclosures and crime in New York City between 2004 and 2008. We found that an additional foreclosure on a block led to an increase in total crime, violent crime, and public order crime; additional foreclosures had no effect on property crime. This effect occurs when foreclosures are concentrated at a level of three or more on a block.

Foreclosure and Property Values: Concentrated foreclosures decrease nearby property values.

In this 2008 study, we used data on property sales and foreclosure filings in New York City from 2000 to 2005 to compare sale prices of properties located near a foreclosure to prices

of similar properties not located near a foreclosure. We found that properties located in close proximity to foreclosures sold at a lower price than comparable properties. Again, there appears to be a threshold effect, because differences emerged only when there were three or more foreclosure notices issued within 250 to 500 feet of the property.

Foreclosure and Kids: Children living in homes that are foreclosed are more likely to switch schools.

In a 2010 study, the Furman Center, in partnership with NYU's Institute for Education and Social Policy, evaluated how children in New York City public schools have been affected by foreclosures by linking data on individual students' academic performance to building-level foreclosure data, focusing on the 2003–2004 and 2006–2007 school years. We found that students living in homes that received foreclosure notices were more likely to change schools in the year following a foreclosure notice, but were less likely to leave the school system (to attend private or parochial schools or to leave the city altogether). Students who move to a new school from a home in foreclosure moved to lower performing schools on average, though that was also true for students who moved for reasons other than foreclosure.

To provide a basic description of the communities that have been hardest hit by foreclosures, Table 2.2 compares the average neighborhood characteristics of properties in foreclosure to New York City overall in 2012. Relative to the city overall, properties in foreclosure are in neighborhoods that on average have a higher share of black residents, a lower share of white residents, a slightly lower unemployment rate, lower poverty rate, and higher median household income.

C. The number of properties in REO (Real Estate Owned) has declined.

Not every property that receives a notice of foreclosure will complete the foreclosure process, as Figure 2.17 illustrates.

If homeowners still have equity in their property, they may be able to avoid foreclosure by refinancing the loan or selling the property. Distressed homeowners who do not have equity left in their property have fewer options for avoiding

Table 2.2: New York City Characteristics and Mean Neighborhood Characteristics of Properties with *Lis Pendens*, 2012

	Percent White	Percent Black	Percent Hispanic	Percent Asian	Unem- ployment Rate	Poverty Rate	Median Household Income
Neighborhoods with <i>Lis Pendens</i>	22.5%	40.4%	24.9%	9.1%	10.0%	17.5%	\$57,354
New York City	33.1%	22.8%	28.8%	12.7%	11.2%	20.9%	\$50,433

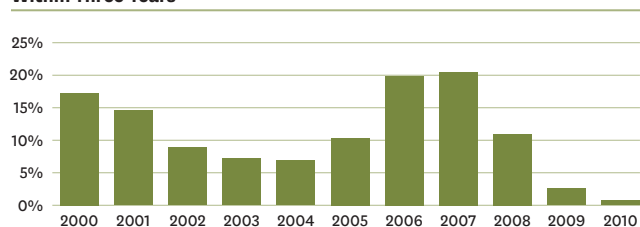
Sources: American Community Survey, Public Data Corporation

foreclosure, but may be able to obtain a loan modification, repay their arrears, or less commonly, sell their property for less than they owe with the bank's approval or hand over their deed to the bank to avoid foreclosure.

Of the properties that entered foreclosure in 2009, by the end of 2012 just 2.6 percent had gone to auction—0.7 percent had been sold to a third party at auction while 1.9 percent did not receive any bids acceptable to the lender and so became REO.⁶ Still, for 97.4 percent of the properties that began the foreclosure process in 2009, we have not been able to track a further action. Some of these properties may have received mortgage modifications, and it is possible that other homeowners were able to resolve their delinquencies on their own, but many others are likely lingering in the foreclosure process. New York State has the longest foreclosure process of any state in the country—and it is getting longer. For properties that went to auction in 2012, the average time between *lis pendens* and auction was three years. The national average in the fourth quarter of 2012 was 414 days.⁷

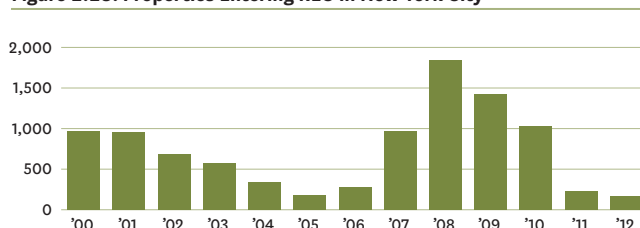
Switching our focus to the properties that became REO in 2012 (but which may have received a *lis pendens* anytime between 2007 and 2011), Figure 2.18 shows that just 162 properties entered REO in 2012, down slightly from 2011 but decreased by more than tenfold since the peak in 2008. The stock of REO properties continued to decline in 2012 as fewer properties entered REO than were sold out of REO. Figure 2.19 shows that by the end of 2012, just 684 properties remained in REO—the lowest level since early 2007. For properties that sold out of REO in 2012, the average time spent in REO was 654 days. Not surprisingly, Figure 2.20 shows that REOs are concentrated in the neighborhoods that have the highest number of foreclosures.

Figure 2.17: Share of *Lis Pendens* Issued in the Year Indicated that Completed Foreclosure (Auction, REO, or Deed-in-Lieu) Within Three Years



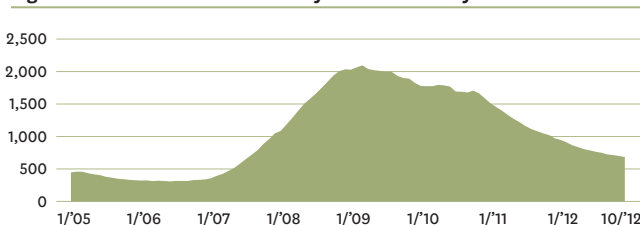
Sources: Public Data Corporation, New York City Department of Finance, Furman Center

Figure 2.18: Properties Entering REO in New York City



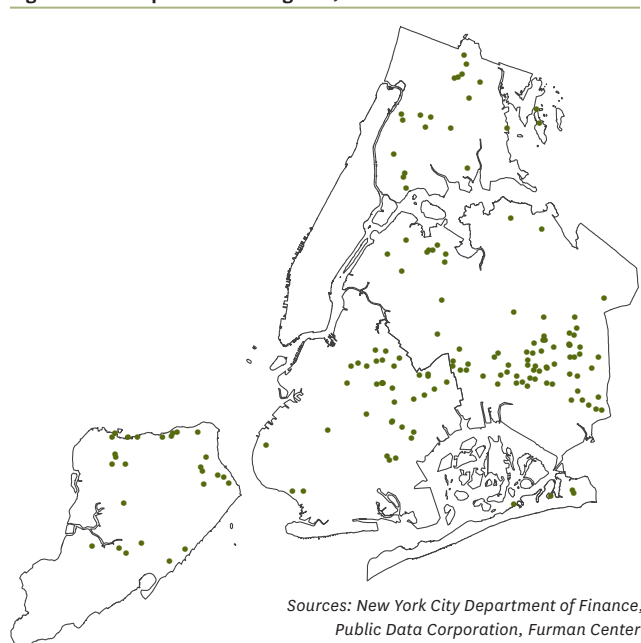
Sources: Public Data Corporation, New York City Department of Finance, Furman Center

Figure 2.19: Stock of REO Inventory in New York City Over Time



Sources: Public Data Corporation, New York City Department of Finance, Furman Center

Figure 2.20: Properties Entering REO, 2012



⁶ REO stands for "Real Estate Owned," and means that the lender repossesses the property and records it as an asset on the lender's financial statements.

⁷ Realty Trac. (January 14, 2013). 1.8 Million U.S. Properties with Foreclosure Filings in 2012. Retrieved from <http://www.realtytrac.com/content/foreclosure-market-report/2012-year-end-foreclosure-market-report-7547>.

D. Pre-foreclosure notices and underwater loans indicate that the crisis is not over.

Pre-foreclosure notices provide some insight into what the city faces in the coming year, even though the vast majority of homeowners who receive pre-foreclosure notices become current on their loan or avoid a *lis pendens* through some other resolution. Table 2.3 shows the number of pre-foreclosure notices issued to one- to four-unit properties, condominiums, and cooperative apartments in each borough in 2011 and 2012. The city as a whole had two percent fewer notices issued in 2012 than in 2011. The Bronx was the only borough where the number of notices went up between 2011 and 2012, but only by one percent. The number of pre-foreclosure notices in Queens declined by four percent, but still exceeded 30,000 notices. In fact, more than 10 percent of all pre-foreclosure notices issued statewide were for properties located in Queens.

Table 2.3: Pre-Foreclosure Notices Issued to One- to Four-Unit Properties, Condominiums, and Cooperative Apartments, 2011–2012

	2011	2012	% Change
Bronx	10,174	10,245	1%
Brooklyn	24,057	23,975	0%
Manhattan	4,470	3,773	-16%
Queens	31,954	30,827	-4%
Staten Island	11,127	11,020	-1%
New York City	81,782	79,840	-2%

Source: New York State Department of Financial Services

New Indicator: Pre-Foreclosure Notices

Legal Requirement: New York State law requires banks to give homeowners who are behind on their mortgage payments 90 days’ notice before starting a foreclosure action. The requirement, instituted on September 1, 2008, for borrowers with high-cost, subprime, or non-traditional loans, was extended to all home loans (defined as loans secured by a one- to four-unit property or condominium that is owner occupied) and to foreclosures on co-ops on January 14, 2010.⁸

Notice Content: The law requires that the mailed notice inform borrowers of the number of days their loan has been in default, the amount necessary to cure the default, and the telephone number of the lender or mortgage servicer. The notice must also include a list of at least five government-approved housing counseling agencies in the homeowner’s region that provide free or low-cost counseling.⁹

Not All Notices Result in Foreclosures: Homeowners are often able to avoid foreclosure before a formal case is instituted by repaying their arrears, entering into a loan modification or repayment plan, selling their home, or transferring the deed for their home to their bank. There were ten times as many pre-foreclosure notices issued in 2012 as new foreclosure starts, and the same was true in 2011. While some of those notices likely resulted in foreclosure filings the following year, the majority of borrowers who receive pre-foreclosure notices appear to resolve their delinquencies before a foreclosure case is filed.

8 N.Y. Real Prop. Acts. Law § 1304 (McKinney 2012). Co-op foreclosures do not go through the court system. N.Y. U.C.C. § 9-611(f) (McKinney 2012).

9 N.Y. Real Prop. Acts. Law § 1304(1) (McKinney 2012).

Comparison of Figure 2.16 above (2012 *lis pendens*) and Figure 2.21 below (2012 pre-foreclosure notices) shows that pre-foreclosure notices in 2012 were concentrated in the same areas of the city that have been hardest hit by the foreclosure crisis.

Another indication of mortgage distress and risk for future foreclosures is the number of properties with “underwater mortgages,” or mortgages with an outstanding balance that is greater than the value of the home. While the vast majority of people who are underwater remain current on their mortgages and do not receive pre-foreclosure notices or enter foreclosure, the underwater rate nevertheless provides insight into the health of the housing market and the vulnerability of homeowners to distress. A borrower who is underwater has fewer options for responding to a financial shock like a job loss or medical emergency because the borrower will not be able to draw on the home equity for financing. Further, without equity in their home, borrowers will be unable to sell or refinance without their lender’s permission. As a result of the price depreciation described above and the high loan-to-value mortgages made during the housing boom, data provided by Zillow shows that 15.4 percent of mortgaged, owner-occupied homes in New York City were underwater in 2012, although the rate ranged from 12 percent in Manhattan to 26 percent in the Bronx.

Owner-occupied underwater homes in 2012 (shown in Figure 2.22) were clustered in many of the same neighborhoods in which foreclosures and pre-foreclosure notices are concentrated.

Figure 2.21: Pre-Foreclosure Notice Rate (per 1,000 1-4 Family and Condo Properties) by Community District, 2012

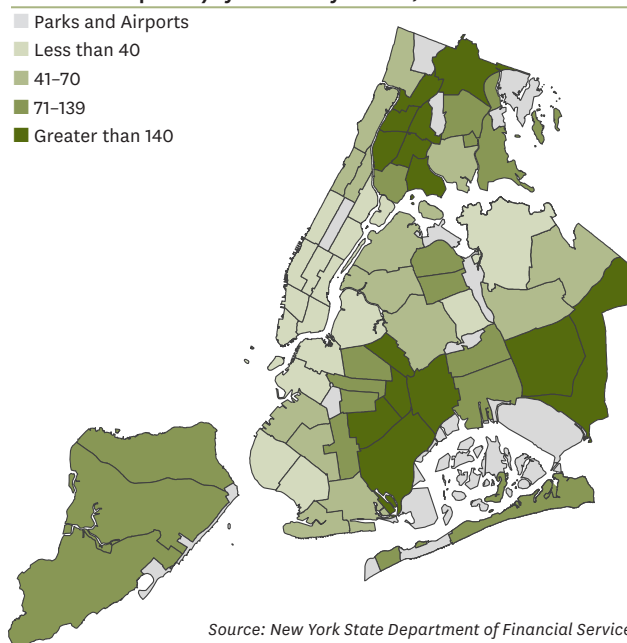


Figure 2.22: Percentage of Owner-Occupied Homes Underwater by Zip Code, 2012

