

# Merrimack Valley housingreport



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## Volume 1, Issue 4 | September 2008

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## Foreclosure Crisis Heightens Problem of Vacant Properties

David Turcotte

Is the foreclosure crisis increasing the number of vacant properties within local Merrimack Valley communities? According to a survey conducted by the United States Conference of Mayors (2008), 71% of cities responding reported that the mortgage crisis has increased the number of abandoned properties and vacant lots within their communities over last year. Vacant and abandon buildings reduce property values and tax revenues, requiring increased service expenditures to prevent the likelihood of vandalism and arson. During the summer, a graduate student research

assistant assessed 60 foreclosed properties in several neighborhoods in Lowell and concluded that 18 building were occupied, while 42 were vacant. Out of these 42 vacant properties, 15 were secured and 27 were unsecured. While this is an unscientific sample that does not necessarily represent the status of all foreclosed properties within the city, it may indicate that vacant and unsecure properties are increasing and many are not secured.

Concerns about negative impacts of the local foreclosure crisis led two local communities to take action and revise local ordinances.

*continued on p.3*

## Housing Prices, Part II

Richard P. Howe Jr.

Last month we looked at the change in values of properties in Lowell that were sold at least twice during the five-year period commencing July 1, 2003. While the average second sale price of the 570 properties in that group was 17% less

than the first sale, the 203 properties that did not involve a foreclosure appeared to have held their value. That conclusion raised questions because for many months now, all indications have been that housing prices were falling. How to explain the contradiction?

*continued on p.3*

## Deeds, Mortgages, and Foreclosure Recorded

August 2007 and August 2008 Compared

	Haverhill		Lawrence		Lowell		Methuen	
	Aug-07	Aug-08	Aug-07	Aug-08	Aug-07	Aug-08	Aug-07	Aug-08
Deeds	121	111	92	97	166	139	87	84
Mortgages	234	152	151	112	343	227	224	122
Foreclosure Deeds	16	15	31	36	34	31	11	6

## Foreclosures in Lawrence: a 20 Year Snapshot

*John Fraser*

In our May issue, we looked back at the number of foreclosure deeds filed in Lowell each year dating back twenty years. We noted that there were very high numbers in the mid-nineties; over 375 foreclosures in 1993 and over 365 foreclosures in 1994. In the first half of 2008 however, Lowell experienced 204 foreclosures which could put the city on track to reach over 400 by years end. Although the situation is somewhat different now than it was then, it maybe fair to assume that with the current trajectory the foreclosure crisis may mimic that of the 1990s which means it could take at least five years for things to return to normal.

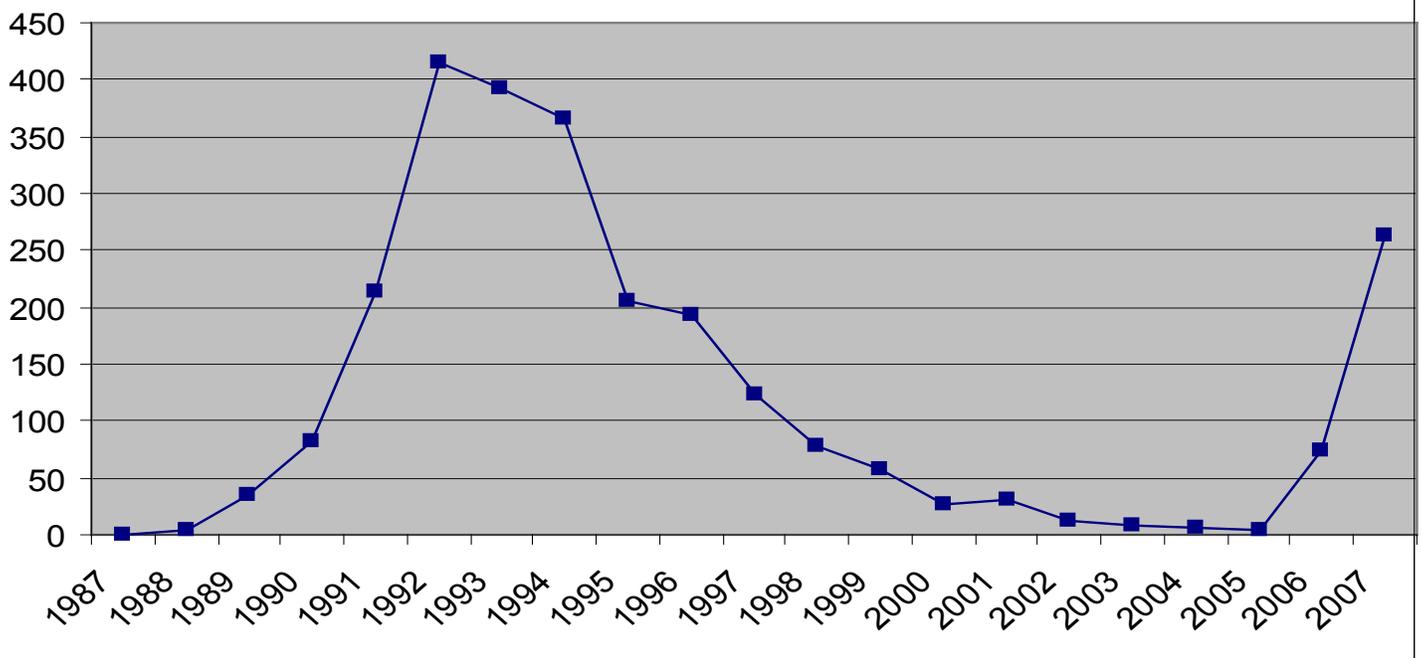
The data for Lawrence shows a similar historical trend but the number of foreclosure deeds filed in the city has consistently been higher

than Lowell. In the past, Lawrence experienced higher numbers of foreclosure deeds filed than Lowell. During the crisis of the 1990s, Lawrence experienced 416 foreclosures in 1992 and 393 foreclosures in 1993. The most recent full year of data, 2007, shows Lawrence experiencing 262 foreclosures.

In the first half of 2008, Lawrence experienced 251 foreclosures. If the foreclosure rates remain the same, Lawrence maybe on track to experience over 500 foreclosures in total in 2008. If the trends from the 1990s are any indication, the current foreclosure crisis could take years to return to acceptable numbers. However, with the recent passing of the Housing and Economic Recovery Act of 2008, it is difficult to assess what the impact will be on the number of foreclosures going forward. █

### Number of Foreclosure Deeds filed in Lawrence Each Year

*1987 through 2007*



*Housing Prices continued from page 1*

When tracking trends in housing prices, a longer chronological view usually provides a more accurate picture. In this case, however, the five years chosen straddled the point of peak value of the real estate market, so properties bought and sold during the rising market of the first half of the sample might cancel out those bought and sold during the declining market of the second half.

This month, I decided to look at more recent sales – those between January 1, 2006 and June 30, 2008. That range yielded 326 Lowell properties that were sold at least twice during those 30 months. This group had an average drop in price of 19%, going from a first sale price of \$229,313 to a second sale price of only \$186,060. But a majority of these sales – 74% - involved a foreclosure. In 33 cases, a purchase deed was followed by a foreclosure deed. In those cases, the value of the property dropped an average of 29%, from \$276,815 to 196,952. A majority of all cases studied – 205 – began with a foreclosure deed that was followed by a purchase deed to a third party. In this group, the average sales price at the foreclosure auction was \$220,405 while the average resale of the property to a post-foreclosure buyer was \$177,127, a drop of 20%.

Of the 86 properties that were resold without any foreclosure in the picture, the decline was only 12% with an average first sales price of \$230,474 and a second sale of \$210,896.

Perhaps the most pressing question today is the direction of the market. Has it hit bottom or are prices still declining? Of the 326 cases studied, about half involved resales that occurred during 2007. This group showed an average decline of 8%. The remainder of the cases involved resales that occurred during the first half of 2008. This group showed a 29% drop in value.

This statistical snapshot tells us a couple of things. Foreclosures devastate a property's value, stripping an average of 29% (33 cases) from the price paid by the owner who is losing the house to foreclosure and possibly another 20% (205 cases) when the property is sold by the foreclosing lender to a third party. These declines do not occur in isolation but serve as anchors that drag down the value of all other homes as is indicated by the 12% decline shown in deed-to-deed sales. So, has the market reached bottom? Probably not. As these numbers suggest, the decline continues and may be growing worse. █

*Vacancies continued from page 1*

In early 2007, the City of Lawrence established the Foreclosure Economic and Development Safety Task Force in response to unease about rising numbers of vacant and abandoned housing within their community. The Fire Department, as a member of the Task Force canvassed the city and identified approximately 500 properties. In an attempt to minimize the negative impacts of these properties, the Lawrence City Council in May of this year passed the "Real Property Responsibility Ordinance", which requires owners of abandoned and vacant properties to register with the

Inspectional Services Department and "designate a local individual or property management company responsible of the securing and maintenance of the property." To date, over 450 properties have been registered with the City. Property owner who fail to register, secure, and maintain their property will be fined. The Lowell Foreclosure Prevention Task Force, a coalition of several private and public organizations is also working collaboratively to address the rising foreclosures crisis. The Task Force is a key partner in the newly opened Merrimack Valley Foreclosure Preven-

tion Center, which provides counseling services and financial intervention packages to assist local homeowners at risk of foreclosure (for more information or assistance call 978-970-0600). In addition, the Task Force helped draft a foreclosure ordinance amendment approved by the Lowell City Council in July 2008. The purpose is “to protect and preserve public safety, security, and quiet enjoyment of occupants, abutters, and neighborhoods.” Under the ordinance, owners or agents are required to register all vacant and abandon property with the Building Department and contract a local property management firm to maintain and secure these buildings. The City will fine property owners not in compliance \$300 weekly. █

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