



Do homeowners associations mitigate or aggravate negative spillovers from neighboring homeowner distress?



Ron Cheung^{a,*}, Chris Cunningham^b, Rachel Meltzer^c

^a Oberlin College, Rice Hall 233, 10 N. Professor St., Oberlin, OH 44074, United States

^b Federal Reserve Bank of Atlanta, 1000 Peachtree St. N.E., Atlanta, GA 30309, United States

^c The Milano School of International Affairs, Management and Urban Policy, The New School, 72 Fifth Avenue, Room 503, New York, NY 10011, United States

ARTICLE INFO

Article history:

Available online 7 December 2013

Classification codes:

R00
R21
R31

Keywords:

Homeowners associations
Foreclosures
Delinquency
House prices

ABSTRACT

Experiences reveal that the monitoring costs of the foreclosure crisis may be non-trivial, and smaller governments may have more success at addressing potential negative externalities. One highly localized form of government is a homeowners' association (HOA). HOAs could be well suited for triaging foreclosures, as they may detect delinquencies and looming defaults through direct observation or missed dues. On the other hand, the reliance on dues may leave HOAs particularly vulnerable to members' foreclosure. We examine how property prices respond to homeowner distress and foreclosure within HOA communities in Florida. We combine datasets of HOAs, sales and aggregate loan delinquency and foreclosures from 2000 through 2008. We find properties in HOAs are relatively less impacted by more distressed neighbor homes compared to non-HOA properties, but only when considering less severe delinquency rates. We also find that negative price effects from higher delinquency exposure rates are ameliorated for properties in larger and newer HOAs.

© 2013 Elsevier Inc. All rights reserved.

1. Introduction

Scholarly work and popular media have paid great attention to the impact of foreclosures on the housing market; in particular, their effect on the prices of neighboring homes (see, for example, [Immergluck and Smith, 2006](#); [Leonard and Murdoch, 2009](#); [Kobie and Lee, 2011](#); [Rogers and Winter, 2009](#); [Harding et al., 2009](#); [Lin et al., 2009](#); and [Campbell et al., 2011](#)). While this research generally finds that proximity of foreclosure negatively affects sales price, there is still some uncertainty as to the causal mechanism. Do foreclosed properties stigmatize a neighborhood, create low comparable sales that affect price bargaining or underwriting, simply increase of the supply of homes for sale, or create a specific disamenity as the delinquent property owner or bank allow the home to

languish? It is the concern about this last externality that often drives local governments to secure abandoned homes against squatters, mow lawns or drain swimming pools.¹ Since the beginning of the foreclosure crisis, 448 cities have enacted Vacant Property Registration Ordinances (VPROs) in an attempt to better monitor foreclosed property and ensure they are properly maintained ([Immergluck et al., 2012](#)). These efforts suggest that the monitoring costs of the foreclosure crisis may be non-trivial and smaller government could have more success at identifying and addressing these potential negative externalities.²

¹ Jesse McKinley and Malia Wollan, "Skaters Jump In as Foreclosures Drain the Pool", *New York Times* December 28, 2008; Alex Klotlowitz, "All Boarded Up", *New York Times Magazine*, March 4, 2009.

² A study on the distribution of foreclosures across suburban and inner-city communities suggests that a smaller government entity, like an HOA, could be particularly useful for addressing negative spillovers in the suburbs (where non-profits are more sparse, local government is less resourced and where housing is more dispersed in general) ([Schildt et al., 2013](#)).

* Corresponding author. Fax: +1 (440) 775 6978.

E-mail addresses: rcheung@oberlin.edu (R. Cheung), Chris.Cunningham@atl.frb.org (C. Cunningham), meltzerr@newschool.edu (R. Meltzer).

One highly localized form of government is a homeowners' association (HOA). Formed to accommodate heterogeneous tastes for public goods, HOAs could be well suited for triaging foreclosures in their communities, as they may detect delinquency and a looming default through direct observation of the property or because the delinquent owner also stops paying dues. By providing landscaping and sanitation services, they may also help prevent negative spillovers to neighbors arising from unmaintained homes. On the other hand, the reliance on dues may leave HOAs particularly vulnerable to members' foreclosures; as more and more members are unable to pay, the burden on remaining homeowners grows. Also, in the event of foreclosure, HOAs are unlikely to recoup past dues because local government claims supersede theirs. In this paper we examine how property prices respond to homeowner distress and foreclosure within HOA communities in Florida. By examining the price spillover of loan delinquency and foreclosure for properties located within the HOA community, compared to properties located outside, we hope to understand whether hyper-local government is more efficacious than traditional cities or towns in responding to a shock. We combine a novel data set of Florida HOAs, sales level data from county assessors and zip-code level measures of loan delinquency and foreclosures from 2000 through 2008.

Results suggest that while properties within an HOA are somewhat more valuable, and zip codes with more HOAs suffer fewer foreclosures, homes within an HOA do not appear to be insulated from the negative effects of extended nearby delinquencies or foreclosures. Only in the case of less severe delinquency rates, do HOA properties appear to be less impacted than non-HOA properties in a statistically significant and economically meaningful way. We find that a one-standard-deviation increase in localized 30-day delinquency lowers HOA property prices by 1.5 percent less than it does non-HOA prices. This initial finding (weakly) suggests that smaller government structures, like HOAs, may shield neighboring properties against some negative spillovers from initial delinquency. Richer specifications suggest that larger HOAs play an important mediating role: negative price effects from higher delinquency exposure rates are further ameliorated for properties that are located in relatively larger and somewhat newer HOAs. This implies that more sophisticated or more resourced HOAs (i.e., the larger ones) are more effective at staving off the negative externalities of nearby distress. The results on age may indicate that newer HOAs may be less subject to the substantial capital expenses that have put older HOAs into financial difficulty and have minimized the ability of HOAs to address distress among their members. Finally, we do not find any positive spillovers from HOAs to neighboring non-HOA property, confirming the prediction that any positively mediating effect is exclusive to the HOA properties.

The paper proceeds as follows. Section 2 gives a brief overview of the growing literature on foreclosures and housing markets. We discuss HOAs and relate their impact to the foreclosure crisis in Section 3. Section 4 introduces the econometric methodology and the data. Section 5 provides the results. Section 6 discusses next steps, offers some policy recommendations and concludes.

2. Foreclosures and the housing market

As the subprime mortgage crisis continues to make its way through the housing market, there has been a large empirical literature on the effects of foreclosures on a range of outcomes. In this section, we review some research that has particular relevance to foreclosures' effects on local neighborhoods and communities in which homeowners are likely also to be in contact with homeowners' associations.

Most work in this area takes the form of hedonic studies of house prices. Among the earliest work in this category is that of [Immergluck and Smith \(2006\)](#), who use Chicago data from 1997 and 1998. They find that single-family property values experienced a 0.9 percent decline for each foreclosure within a 1/8-mile radius. [Leonard and Murdoch \(2009\)](#) use sales data and structural and neighborhood characteristics from 2006 in Dallas County, and they find that proximity to foreclosed properties is associated with a lower selling price.

[Schuetz et al. \(2008\)](#) use a data set from New York City to estimate a spatial hedonic model of the effects of foreclosure starts (the filing of the foreclosure notice known as the *lis pendens*) on house prices in the immediate neighborhood. They find evidence of a threshold effect: being near a small number of foreclosures does not depress property values, but past that threshold, additional foreclosures lower home values in a nonlinear fashion. They also show that prices are lower in neighborhoods that would eventually experience foreclosures, suggesting that researchers need to account for the non-random location of foreclosures to avoid bias. The paper has some important differences from our work: the analysis takes place in New York City, with its vastly constrained housing supply, and between 2000 and 2005, before the onset of the housing crisis.

[Daneshvary and Claretie \(2012\)](#) do use more recent data from the midst of the housing crisis to estimate the effects of foreclosures and short sales on property values in Las Vegas from 2008 to 2009. They find that six months after a foreclosure, neighbors suffer a negative spillover effect of 10% on their property values. They stress the importance of correcting for market trends, especially in volatile markets, and so their paper is particularly applicable to Florida data.

Recent research has taken advantage of more detailed data and innovative estimation methods. [Gerardi et al. \(2012\)](#), for instance, use repeat sales of single-family houses in the largest fifteen metropolitan statistical areas along with house-level measures of mortgage distress. They are able to observe the precise stage of distress for a home, which includes being seriously delinquent on the mortgage, in foreclosure proceedings and real-estate owned. The authors can therefore account for the fact that the foreclosure externality impacts neighbors before the lender initiates foreclosure. Their model, a modified hedonic, controls for unobserved heterogeneity across parcels using fixed effects at a very fine census block group level. They find that the effects of foreclosures on neighboring home prices are fairly small. Houses trade at slightly lower

Download English Version:

<https://daneshyari.com/en/article/961899>

Download Persian Version:

<https://daneshyari.com/article/961899>

[Daneshyari.com](https://daneshyari.com)