

Busting Foreclosure Myths: 3 Things That Might Surprise You

Foreclosures: a difficult challenge for homeowners, a concern for neighbors

Foreclosures can be a tough situation across the board. Homeowners may be dealing with heart-wrenching circumstances when all other options have been exhausted, and a foreclosure can affect them and their families in profound ways. To further complicate matters, nearby property owners may be under the impression that a foreclosure will drag their property values down.

That perception may be driven by the fact that virtually all studies to date have concluded that foreclosures are bad for home values in surrounding communities. Most of those studies focus on 2007 to 2011, when the housing market was in crisis, so it makes sense that they would show a negative relationship between foreclosures and home values.

But there is limited data available on what happened during the period of market recovery and growth that followed the housing crisis, and negative perceptions around foreclosures can linger when homeowners assume that nearby foreclosures will have a long-term negative effect on their neighborhood.

This raises the question: do foreclosures truly have a lasting, adverse effect on nearby property values? Our groundbreaking analysis of over 1.13 million data records from 16 metropolitan statistical areas (MSAs) across the country from 2013–2018 uncovers a more complete picture of the impact of foreclosure sales.

Myth: Nearby foreclosures always have a negative impact on home values.

Fact: In most areas, the neighborhood effects of foreclosure stabilize quickly.

According to this study, the majority of the metros examined show no significant or consistent negative effects in relation to foreclosures. In most areas, the impact on home value is minimal and tends to fade away within the course of a year.

California is an exception in the data, showing significant negative effects from nearby foreclosures. This could be attributed to local economic factors that are not present in other states, or it may be linked to inflated home price appreciation due to the sub-prime mortgage boom followed by substantial market corrections after the housing crisis.

Myth: Foreclosures harm neighborhood values and make it harder to sell.

Fact: Recycling foreclosed properties quickly can have positive impacts in a neighborhood.

Contrary to popular belief, foreclosure sales can have positive effects in a neighborhood. Obviously, foreclosure should be avoided whenever possible to keep families in their homes. It is not a step to be taken lightly or an easy solution for anyone. But the data showed that processing and restoring foreclosed properties can help stabilize neighborhoods and add new sources of affordable housing to the market, which can help attract new buyers.

In our study, recycling foreclosures appeared to have helped revitalize areas hit hard by the 2007–2011 crisis. Foreclosure sales activity may also help call attention to a particular area, increasing awareness and demand in the neighborhood for both foreclosed and non-foreclosed homes alike.

Myth: Neighborhoods struggle to recover from nearby foreclosures.

Fact: Reselling foreclosed properties can boost returns on repeat sales, bringing an infusion of new investments into the community.

Some of the metros in our study that began with high rates of foreclosures even saw higher than average rates of return from repeat sales when compared to metros without foreclosures. More than one metro in the state of New York experienced concentrations of very high returns over 110 percent.

These results suggest that neighborhoods with foreclosures appreciate relatively quickly once those foreclosures are cleared, with prices rebounding even more strongly than comparable non-foreclosure areas.

The truth about foreclosures

Foreclosures should never be taken lightly, as they can deeply impact homeowners and their families. But when they do happen, it's important to remember that they don't necessarily mean the end of the world for surrounding neighborhoods.

Clearing foreclosure sales and rehabilitating those properties can create a glimmer of hope, signaling an opportunity for rebound and revitalization on the horizon not just for an affected homeowner, but also for the surrounding neighborhood. Once foreclosures are sold, they can have the potential to rejuvenate communities, draw in buyers, and add more affordable housing choices to local markets.

About our report design

This report is based on raw data for foreclosure and non-foreclosure sales in 16 metro areas in the U.S. between 2013 and 2018, which included pricing information, sale dates, geographic location, and property characteristics. These areas were defined by core based statistical area, which consist of the county or counties connected to at least one core urban area with a population of at least 10,000, and adjacent areas with social or economic ties. This data was used, along with the U.S. Census block group file, to show both the geographic distance and the difference in sale dates between traditional sales and foreclosure sales.

About Xome®

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