

## Foreclosure Monitor

### 2.4 - Interest in foreclosed properties weaker outside Boston

*(Foreclosure Monitor is an effort by MHP to help public officials determine how best to use their resources to help homeowners and neighborhoods hard-hit by foreclosure).*

**By Tim H. Davis**

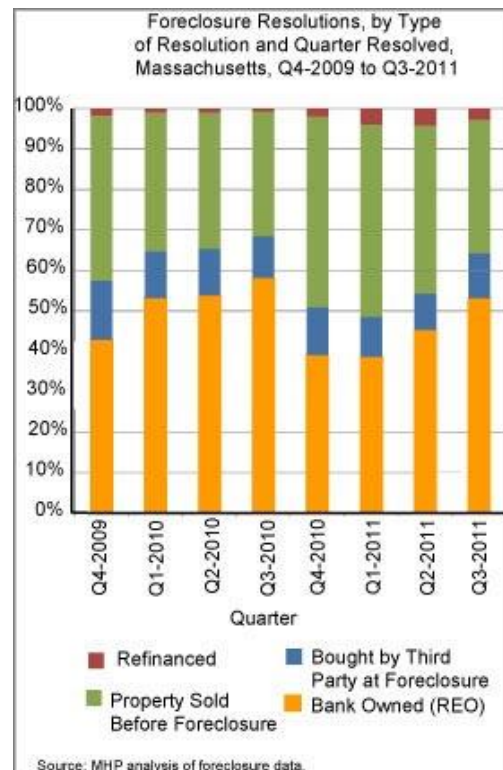
BOSTON --- As lenders renew foreclosure activities in the wake of the so-called "robo-signing" scandal, more than half of all properties in foreclosure are becoming bank-owned, indicating that despite record low interest rates, third-party buyers and investors in Massachusetts still have little appetite for buying foreclosed properties, especially outside of Boston.

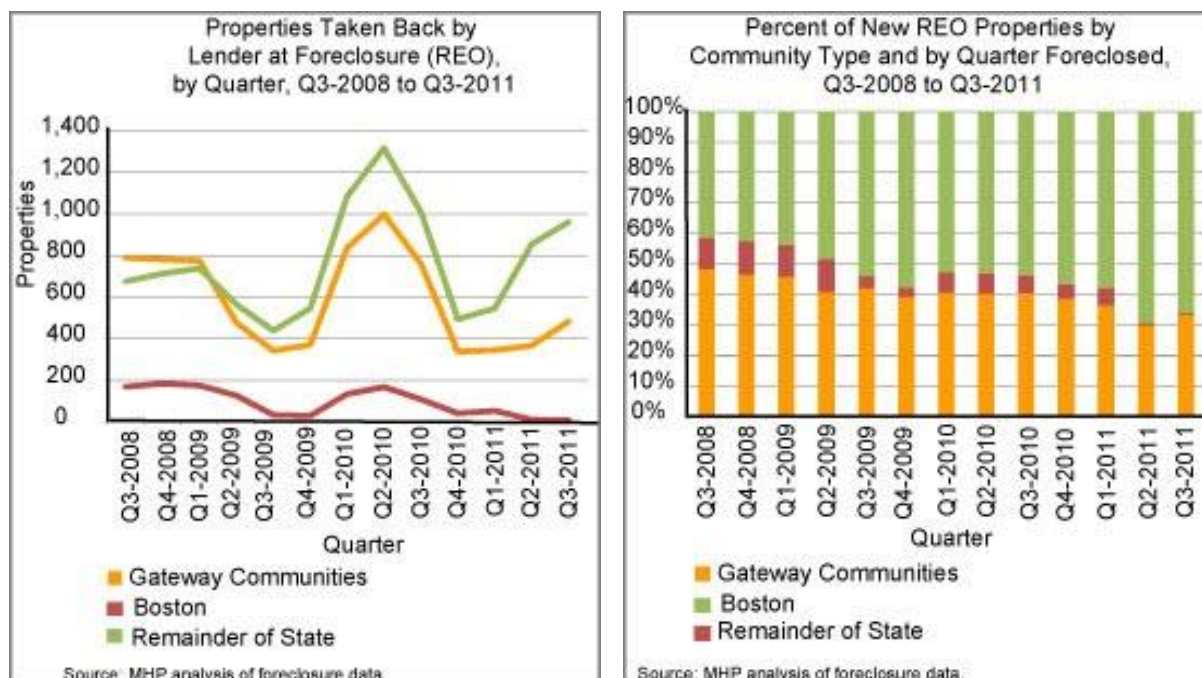
Using [Warren Group](#) data to compare foreclosure outcomes in Boston, the state's [Gateway cities](#) and the rest of the state, Foreclosure Monitor found that in the third quarter of 2011, 53 percent of the properties in foreclosure in Massachusetts became bank-owned (known commonly as real estate owned or REO). This was up 14 percentage points from the first quarter of 2011 when 39 percent of the properties in foreclosure became bank-owned.

The last time that the percentage of REO resolutions was this high was in the second quarter of 2010, which was also the quarter when total resolution activity by refinancing, sale or REO peaked at 3,935. After that, charges of fraudulent documentation in foreclosure processing forced banks to slow down their activities. Lenders have begun to pick up their activities as resolutions increased by 47 percent in the third quarter of 2011 compared to the fourth quarter of 2010. But even with that increase, resolutions were below the second quarter 2010 peak.

In the third quarter of 2011, Foreclosure Monitor found that the second-most numerous outcome after REO was short sales of properties before foreclosure auction (33 percent), followed by sales at auction to a new owner (11 percent) and refinancing of existing owners (3 percent).

It's important to note that the data available does not include loan modifications. Therefore, all data are those properties where a foreclosure petition was filed, and the resolution of the foreclosure process was a refinance, sale of the property before the foreclosure was completed, or the foreclosure was completed (whether sold at auction or kept by the bank).





**Investor appetite in Boston:** In looking at foreclosure outcomes by region in the third quarter of 2011, Foreclosure Monitor found there is a greater investor appetite in Boston for properties in foreclosure than elsewhere in Massachusetts.

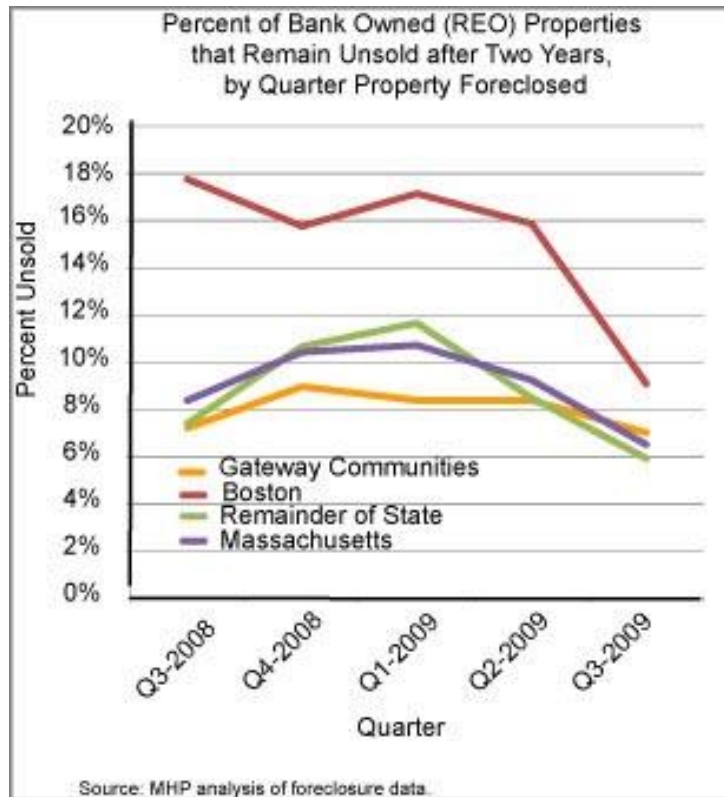
Foreclosure Monitor found that whereas Gateway communities and the rest of the state followed the trend of having a higher percentage of REO outcomes, only 44 percent of the foreclosed properties in the City of Boston became bank-owned.

Boston had a higher percentage of short sales before auction (36 percent) and sales to new buyers at auction (17 percent) than the rest of the state. Foreclosure Monitor also found that the number of REO outcomes is increasing in suburban and rural communities, with the gap widening significantly in the second and third quarter of 2011. The chart above illustrates this and also how REO outcomes have declined in the City of Boston.

**Shift away from urban:** Examining REO outcomes by region mirrors how the foreclosure crisis has shifted away from urban areas, something Foreclosure Monitor first [reported](#) in Nov. 2010.

Foreclosure Monitor found that the percentage of new REOs in Boston and the Gateway Communities has declined from 59 percent of the statewide total in the third quarter of 2008 to 31 percent in the second quarter of 2011. That percentage edged up slightly to 34 percent in the third quarter of 2011 but it's too soon to tell if this represents a shift back to increased foreclosure distress in urban areas.

**The REO market:** Another way of gauging the pace of the real estate market recovery is to measure the length of time it takes for banks to sell their REO inventory. This is important because the real estate market cannot fully recover until the foreclosed property inventory is substantially reduced. An increase



in third-party sales or a decrease in the length of time an REO property sits on the market indicates that investor interest is returning.

According to an analysis of Warren Group data of Massachusetts REO properties that sold within two years, the average sales time declined from 204 days for properties foreclosed in the third quarter of 2008 to 168 days for properties foreclosed in the third quarter of 2009.

What's interesting about looking at this aspect of the market is that while Boston has a larger investor appetite and fewer REO outcomes, properties that make it to REO take longer to sell. Re-sales of REOs in Boston averaged 255 days for properties foreclosed in the second quarter of 2008 and 238 days for properties foreclosed in the third quarter of 2009. This is contrary to what is

expected, given that the Boston market is stronger than the rest of the state as whole.

Why do Boston REOs take longer to sell? It is not immediately clear, but it could be linked to efforts to keep residents of foreclosed properties (both former homeowners and tenants) in their homes. [Project No One Leaves](#) has taken the lead in this effort, with CityLide/Vida Urbana organizing residents, the Harvard Legal Aid Bureau, Greater Boston Legal Services and the WilmerHale Legal Services Center providing legal assistance, and Boston Community Capital providing innovative financing that helps former homeowners re-acquire their property.

In addition, the City of Boston has taken additional steps to [inform tenants of their rights](#). In places without such outreach, tenants may move out quickly after a foreclosure when offered "cash for keys" by a lender's representative and this could explain faster REO sales outside of Boston.

Without more in-depth research, it is difficult to know if these efforts have reached enough households to account for the difference in the foreclosure and re-sale timelines between Boston and the remainder of the state.