Who Owns Your Neighborhood?

The Role of Investors in Post-Foreclosure Oakland

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URBAN STRATEGIES COUNCIL

Executive Summary

In Oakland, the narrative sweep of the foreclosure crisis is as messy and dramatic as a Greek tragedy, encompassing themes of hope, opportunity, greed, despair, and loss. In broad strokes, the basic trajectory is well known: what began with an over-inflated housing bubble and the targeting of predatory loan products to homeowners of color has ultimately peaked with the displacement of thousands of Oakland residents due to foreclosure. With the much needed attention given to foreclosure prevention and the questionable behavior of financial institutions, there has been very little focus on what has happened to properties post foreclosure. This report seeks to fill this gap.

The point of departure for our analysis is the precise moment of loss—when the foreclosure process is legally complete and a home is sold at a trustee sale. From there, we tell the story of who is benefitting from the new opportunities created out of the life altering misfortunes of others. To this end, we address the following questions:

> *What has happened to the thousands of homes that have gone through foreclosure in Oakland?*
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> *Who has acquired, or currently owns, these houses?*
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> *What is the status and condition of these distressed properties and what is their ongoing and future impact on the surrounding community?*

To approach these questions, we analyzed, condensed, and simplified what is otherwise a convoluted process of property transactions and official document filings. Using an array of different data sources, this report situates Oakland's post-foreclosure reality in the larger context of the housing crisis. Through our analysis of foreclosure outcomes, we reveal which financial institutions have completed the most foreclosure proceedings in Oakland.

Further, we follow the labyrinth of transactions to see who is buying properties at trustee sale auctions, as well as purchasing foreclosed properties directly from banks. Given the lack of information available on the neighborhood level impacts of investor activity, we present the results of a field survey of the properties owned by Oakland's two largest foreclosure investors.

Finally, we consider the range of possible implications of these discoveries and how Oakland residents stand to benefit or lose from the unprecedented shift in housing tenure in the city.

Overview

The collapse of housing values in Oakland brought about by the foreclosure crisis has opened up a colossal opportunity for those individuals and corporate entities with the financial resources to play the real estate investment game. Our analysis shows that eighty one percent of the 10,508 completed foreclosures in Oakland (since 2007) reverted to REO status; that is, they ended up being owned by banks, other financial institutions, or one of the Government Sponsored Enterprises (GSEs). However, that status—in large part—has proven to be only temporary, revealing just one aspect of Oakland's post-foreclosure reality.

In fact, 16 percent of foreclosed properties never reached REO status, and instead were purchased by investors at trustee sale auctions. Moreover, investors acquire a significantly higher volume of properties post-foreclosure through direct purchases from financial institutions. Our analysis reveals that—as of October 2011—investors had acquired 42 percent of all properties that went through foreclosure since 2007 in Oakland. Of these properties acquired by investors, 93 percent are located in the low-income flatland neighborhoods of the city. Further, only ten out of the top 30 most active investors are located in Oakland.

Our analysis also revealed that while non-investor individuals are very rarely able to engage in the trustee sale auction process (due to the fact that cash is required to purchase at auction), they have demonstrated a significant demand for affordable homeownership opportunities through REO purchases. Between 2007 and October 2011, non-investor individuals acquired 55 percent of the REOs sold by banks and the GSEs, even in the face of the competitive advantage that cash investors wield at multiple stages in the post-foreclosure home buying landscape. Further, we found that *non-investor individuals or entities were six times more likely than investors to retain ownership of their REO or trustee sale acquisition*. In large part, the post-foreclosure transaction churn grinds to a stabilizing halt when non-investor purchasers are able to successfully engage in the process and buy a home as an owner-occupant. Despite the volume of individual acquisitions, the fact remains that investor capital to purchase foreclosed properties far outweighs the resources that nonprofit organizations or local governments have to address the problem. Further, investors increasingly have the upper hand in transaction situations—frequently prevailing over families and nonprofits—due to the fact that they are able to purchase with cash.

These findings raise a series of questions regarding the role that investors are playing—and will continue to play—in Oakland neighborhoods already devastated by the foreclosure crisis. The spike in non-local ownership and non-owner occupied housing presents concerns related to the extraction of wealth from low-income neighborhoods, in addition to ongoing property maintenance and management issues. Given the nearly exclusive focus of investor activity in Oakland's flatland neighborhoods, a range of apprehensions emerge regarding shifting tenure, neighborhood succession, and the displacement of residents. Embedded in all of these issues is the underlying question about the strategies and intentions of both banks and investors in Oakland. A bank's decision to sell a foreclosed property to a limited liability corporation as opposed to a working family produces a very different outcome for the community. This decision made repeatedly over thousands of transactions amounts to a sea change in the composition and tenure of neighborhoods. In a piecemeal process, banks and the GSEs are essentially selling the control and ownership of neighborhoods to non-resident investors and corporations.

The top two foreclosure investors profiled in this report, Community Fund LLC and REO Homes LLC, have acquired nearly 500 properties in Oakland since 2007. The fact that these two investors could, in the span of several years, amass such substantial portfolios is indicative of their capacity to impact both the built and socio-economic environments of Oakland neighborhoods. Moreover, this rapid scaling of acquisition activity has occurred in the absence of any real public awareness or civic engagement.

For instance, amidst the deep history of neighborhood activism and long held concerns regarding resident displacement in West Oakland, REO Homes LLC has been able to infiltrate a community beset by a crisis and cobble together a sizeable fiefdom. Community Fund LLC has been even more active in East Oakland, yet in a slightly more dispersed manner. While this kind of investor activity has eluded public scrutiny, its impacts will reverberate throughout the city for many years to come.

In the absence of reliable information about the activity of investors in Oakland, it is nearly impossible to grasp the magnitude of the impact they are having. Individually, their impacts may vary by degrees; yet over time, the aggregate effect will be significant. As this study begins to part the post-foreclosure fog in Oakland, there is an uncanny sense of history repeating itself in the city's low-income neighborhoods. Rampant speculation, excessive risk, and a lack of adequate regulation spurred the crisis in which we now find ourselves. The question remains: what evidence exists that demonstrates the same approach will successfully stabilize neighborhoods for Oakland residents and lead us out of the current morass?

Major Findings

Foreclosing Institutions

- Of the 10,508 completed foreclosures in Oakland between 2007 and October 2011, 81 percent reverted to REO status (owned by a bank, GSE or government entity) at the trustee sale. As of October 2011, 69 percent of these REO properties were subsequently sold by their foreclosing beneficiary; the remaining 31 percent of REO properties were still owned by a financial institution.
- Deutsche Bank foreclosed upon 1,511 properties in Oakland between 2007 and October 2011, the most of any financial institution. US Bank, Wells Fargo, Fannie Mae, and Bank of America are the other institutions among the top five foreclosing entities.

Speculative Real Estate Investment Pipeline

- Of all completed foreclosures in Oakland between 2007 and October 2011, 42 percent were acquired by investors, either at trustee sales or through direct purchases from financial institutions. Investors acquired 45 percent (2,681) of the 5,923 REOs sold by banks, GSEs, and government entities.
- Investor activity at trustee sales of Oakland properties picked up significant momentum after 2008, rising from a 7 percent share of all trustee sales in 2008 to nearly 25 percent in 2010.
- Of the 886 homes acquired at trustee sale and subsequently flipped by investors, 312 were purchased by a second investor.

Investor Profits Draining Local Wealth

- Only ten of the top 30 foreclosure investors in Oakland are actually based in Oakland.
- 93 percent of investor-acquired properties are located in the low-income flatland neighborhoods of Oakland—the same communities targeted by predatory lenders in the years preceding the foreclosure crisis.
- As of October 2011, Community Fund LLC had flipped 120 homes with an average acquisition price of $124,535 and an average selling price of $195,256, for an average gross gain of $70,721 per property.
- As of October 2011, REO Homes LLC had flipped 10 homes, with an average acquisition price of $128,270 and an average selling price of $315,250, for an average gross gain of $186,980 per property.

The Investor Property Survey

The distressed housing pursued by investors is often in poor condition, whether due to deferred maintenance related to the age of the housing, or more recent problems associated with foreclosure and vacancy, such as squatting, vandalism, and theft. It remains to be seen whether investors are willing to do costly, yet crucial upgrades to ensure the health and safety of their properties, such as seismic retrofitting or the remediation of outstanding environmental health hazards. This continues to be a major concern for residents in the community, groups working to support neighborhood revitalization, local government code enforcement, and a very problematic issue for tenants of investor-owned properties.

Given our findings related to the top two Oakland investors and the dearth of information on their disposition strategies, we designed and launched a comprehensive property condition survey of their portfolios. We adapted a property inspection survey form for mobile use with an Android phone. Each property was inspected from the exterior and rated on over 20 different metrics. The resulting data were uploaded into a Geographic Information System and linked to our existing database of property transaction records.

Our survey assessment revealed that only six percent of Community Fund LLC's properties had some visibly recent rehabilitation work. Conversely, 56 percent of REO Homes LLC's holdings appeared to have had some degree of work done, ranging from cosmetic improvements to more substantive repair. However, properties owned by REO Homes LLC scored marginally worse than those of Community Fund LLC according to our aggregate condition index. The deferred maintenance and age of REO Homes LLC's properties in West Oakland could partially account for condition related issues and their rehabilitation activity; further, their apparent focus on a short- to medium-term rental strategy may necessitate some baseline level of work to ensure that their holdings are in leasable condition. Community Fund LLC, on the other hand, appears less engaged in active rehabilitation of their acquisitions. Their disposition strategy is seemingly more varied and oriented towards realizing shorter-term gains where possible, utilizing both sales and rentals.

Key Recommendations

Given our findings, we are proposing several recommendations to address discrete aspects of the post-foreclosure situation in Oakland.

At the municipal level:

1. The City of Oakland's foreclosure recovery arsenal needs to be expanded to include a rental registration and inspection program. Extending a registration program to include inspections of rental properties would incentivize owners to properly maintain their units and ensure compliance with the existing building code. The deferred maintenance and age of much of the flatland housing stock where investors have been particularly active magnifies the need for some form of proactive municipal oversight of rental properties.

Banks, the Federal Housing Finance Agency, and the GSEs can undoubtedly have a more beneficial, community-oriented impact on the post-foreclosure landscape in Oakland in a number of key ways:

2. Banks and the GSEs need to expand and improve their first-look programs to give owner-occupant buyers and nonprofits priority access to their foreclosure holdings. Their existing first-look efforts are clearly not producing the kind of transformative neighborhood impacts as investor activity in the distressed property market is having. Families should be prioritized in their disposition strategies rather than corporations.

3. Financial institutions, the federal government, and the mortgage finance industry must redouble their commitments to invest in strategies that support safe and sustainable homeownership. It is essential that the opportunity to become a homeowner is not inequitably limited to middle- and upper-income families.
4. Banks also have the opportunity to play a more proactive role in the way they manage and maintain their foreclosure portfolios. Banks could expand their REO property maintenance activities to include some targeted rehabilitation work and code compliance upgrades to ensure the health and safety of their properties, improve the marketability to new owner-occupants, engage the local workforce, and effectively cut out the investor as an unnecessary intermediary.

Finally, completing this analysis was particularly difficult due to the convoluted and disjointed nature of the various data sets needed to effectively track properties in and out of the foreclosure process. This fact can partially be blamed for the paucity of awareness regarding the surge in investor activity in Oakland. The data is simply not readily available. Without reliable data, the big picture trends and detailed minutiae are both out of reach.

5. This reality points to a clear need for more accessible and user-friendly public data systems that electronically link property transaction filings to real parcels (in addition to owner) and feature exportable data that would facilitate both record-level and aggregate analyses. A more transparent and usable public data system could provide a view into the transaction trail and ownership history of properties, and more specifically, could give the public a new oversight capability to help prevent fraud and wrongful foreclosure or eviction. Such a system would allow renters and homeowners to better monitor any liens or official documents filed against any property in question.