Foreclosures and Local Neighborhoods: Context Matters

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Over the last three years foreclosure rates have rapidly increased, and this has given researchers a clear understanding of why foreclosures pose such a grave concern to local communities. Research has demonstrated that foreclosures pose significant local costs—decreased property values, increased crime, decreased local tax rolls and increased need for municipal services (Apgar and Duda, 2005; Immergluck and Smith, 2006; Smith, 2006; Rogers and Winter, 2009). Likewise, scholars have used the framework of regional resiliency to understand how local leaders respond to foreclosures (Swanstrom, Chapple and Immergluck, 2008) and conclude that some regions have the political, economic and institutional capacity to mount vigorous efforts to prevent foreclosures and, more importantly, alleviate their effects. The sum total of this research suggests that the local context of a housing market matters and that smart local leaders target resources in a cost effective manner.

Constructing Neighborhood Typologies

One method researchers have used to focus local policy is through the construction of neighborhood typologies (Goldstein and Closkey, 2006), a method called “market value analysis” (MVA). These typologies use local housing data to categorize neighborhoods into distinct groups and then link those groups to possible public strategies. In the spring of 2009, the Public Policy Research Center (PPRC), under the direction of Dr. Todd Swanstrom, E. Desmond Lee Professor of Community Collaboration and Public Policy Administration, undertook a MVA of St. Louis County housing markets in order to help local officials understand how they could utilize federal Neighborhood Stabilization Program (NSP) funds to respond to foreclosures locally. The purpose of the analysis was two-fold:

- to identify and classify neighborhoods based on housing-related characteristics; and
- to connect the characteristics of the communities to viable community development strategies and priorities under NSP.

A related goal of the analysis was to overcome the limitations implicit in targeting strategies by demonstrating viable community strategies even within the most distressed local community—in other words, that just because a local market was weaker than other areas should not mean a pattern of neglect by either public officials or private market actors.

PPRC researchers used standard cluster analysis method to group the neighborhoods. The method groups local neighborhoods based upon their similarity across a range of prior-selected characteristics. In this method, “best” refers to both the “best” number of groups as well as the “best” group membership for each case. Cluster analysis is an exploratory method that has been used in a broad range of fields, including psychology, anthropology, business and marketing research and applied public policy. It is a descriptive technique in that, unlike other methods of policy analysis, it does not
explicitly test hypotheses; nor does the method provide clear statistical tests for judging similarity. Additionally, the method directly relies upon the input of the researcher—in the selection of data to base the clustering upon, the use of a specific similarity test, the selection of the number of clusters to produce and, ultimately, the interpretation of the meaning of cluster membership.

For the St. Louis County analysis, PPRC used 10 measures that represented the degree of strength and stability of local housing markets. These ranged from sales values, to level of foreclosures, to age and size of local houses; all the data was aggregated up to the block group level, a geographic unit of analysis approximating a local neighborhood. (An 11th measure—the number of affordable housing units—was ultimately not used because these units are concentrated in just a few block groups). The clustering started with a computer-generated “best” number of groups, with subsequent runs increasing the number of groups by one. At each stage, the groups were examined spatially and the results were investigated. The clustering ended when the number of groups more or less distinguished a full set of groups, within each group representing a distinct group.

Figure 1 shows the neighborhood grouping. While the clustering method did not include any specific spatial data—for example, the centroid in longitude and latitude of the block group—the groups do organize themselves into clear spatial patterns, representing the degree of segregation in St. Louis County’s housing markets. The map shows a gradient color scheme for three distinct types of groups—red, blue and brown/orange. The blue-red groups represent a hierarchy of neighborhoods based upon median residential sales prices—with the darkest blue being the highest-priced neighborhoods and the darkest red being areas with the lowest sales price. The brown/orange areas are primarily commercial districts or mixed use districts with a high degree of mixed uses. Each of the groups also has specific average characteristics based on the other data used in the clustering. For example, the darkest blue group also is among the most recent residential areas constructed in the county—on average, in the 1980’s. On the other hand, the bright blue within the central corridor region of the county represents large residential units within a setting with less than 2 units per acre of land. The lightest pink group is lower price neighborhoods with also

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<th>Sources of Data Used in Constructing Neighborhood Typologies</th>
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<td>St. Louis County Parcel Data</td>
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<td>St. Louis County Assessor (Sales) Data</td>
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<td>United State Postal Service Vacancy Data</td>
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higher than average foreclosure rates (19% over the last couple years) and housing vacancies (5.4% of all residential units). The neighborhoods colored red are areas with the lowest average sales prices, the highest vacancy rates (14.5%) and the highest foreclosure rates (22%).

Using Typologies to Understand How Housing Markets Respond

By grouping neighborhoods within distinct groups, the typology provides some initial thoughts on the current status of local housing markets and some of the issues that they face. At the same time, however, housing markets are not static; they change and evolve in complex ways through demographic changes, economic and housing-related investments and the investment of social capital by local residents and political leadership. This evolution occurs over the long terms, as well in short term ways, as private market actors respond to the opportunities and constraints placed upon them.

For example, even within the area of St. Louis County hardest hit by foreclosures, there is significant variation in recent market-related trends. Figure 2 shows the change in vacancy rates from the 4th quarter of 2005 to the 4th quarter in 2009 in an area of North County that county officials designated as the areas in which NSP would be spent. The map shows that there are significant parts of the NSP area where vacancy has declined over the past couple years, even in areas where the numbers of foreclosures have been significant. This might represent the emergence of a new round of market activity—presumably both homeowners and out-of-area speculators—taking advantage of declining housing values to purchase REO property.

Taking into account some of these trends, PPRC conducted a second round of analysis on the NSP area specifically, looking at both the overlap of the initial grouping scheme (Figure 1) with the trend-related data (Figure 2). This resulted in a “final” typology of neighborhoods (Figure 3).
Linking Neighborhood Types

The descriptions of the four clusters—from strong and stable to transitional and distressed—basically correspond to the level of need within the four types. They also point to the sort of strategies local governments and other stakeholders might pursue. Table 1 (see appendix) provides some of the range of strategies based upon both the level of need of the particular neighborhood and the complexity of the strategy. (The table is adapted from www.foreclosure-response.org, a resource guide for preventing foreclosures and stabilizing communities produced by the Center for Housing Policy, KnowledgePlex, LISC and the Urban Institute.) The strategies range from those oriented towards homeowners (preventing foreclosures, funding work-outs), to strategies attempting to maintain housing quality (code enforcement and marketing of REO properties), to strategies emphasizing an active public investment in housing (financing or support housing development), to strategies that emphasize new “green-banking” or “right-sizing” strategies. The latter strategies directly address the issue of the viability of the housing market, but in the context of maintaining a viable community within those neighborhoods.

Ultimately, the choice of any one strategy is a complex dance between local governments, private market actors and other stakeholders in local communities, including not-for-profits and local residents. In this framework, the role of public action is admittedly difficult. First, the federal government provides only a modest set of resources to do; the condition of local and state budgets makes other funding difficult.

Additionally, there are the complex jurisdictional and political issues. The county is home to over 90 municipalities, as well as unincorporated areas, with political and administrative responsibilities spread across municipal and county officials. Local municipalities vary in their capacitand ability to respond to public problems. As communities largely established in the postwar period, they also generally lack the sort of civic infrastructure that has fostered community development schemes in many older center cities. Tying those pieces together—in order to either to face the challenge of foreclosures or to face the any of the other issues pressing upon these type of inner-ring suburbs—requires long term investments by a variety of actors in the context of campaign that ties the future sustainability of these communities together.

There also are more fundamental dangers that come from the use of typologies. While cluster analysis is not a common technique in local public policy analysis, the notion of targeting is and in many regions is linked to schemes of disinvestment and neglect. Because of this history, it is important to connect the neighborhood typology with a viable range of strategies. The most important part of the neighborhood clustering strategy, then, is the choice of public and private that results from its use and how local stakeholders use the results of the typology to advance a common set of solutions.
Appendix 1:

Table 1: Market Typology and Policy Interventions

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