



FORECLOSURES, INVESTORS, AND UNEVEN DEVELOPMENT DURING THE GREAT RECESSION IN THE LOS ANGELES METROPOLITAN AREA

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ABSTRACT: *In the wake of the U.S. housing crisis, what has happened to the substantial stock of foreclosed or real estate–owned (REO) properties is only beginning to be understood. The eventual outcomes of these properties are central to our understanding of the varied impacts of the foreclosure crisis, including its contribution to enduring and emerging patterns of uneven development. This article considers the scope and potential impacts of investor purchases of foreclosures in diverse neighborhoods in the Los Angeles region. Overall, findings suggest that very different patterns of investment emerged in the urban core, the postwar inner-ring suburbs, and the exurbs. In addition, investors' purchases and strategies varied significantly according to neighborhood racial composition and, to a much lesser extent, neighborhood socioeconomic characteristics. These patterns highlight two major issues: a sharp divide in investment between the relatively similar urban/inner-ring suburban core and the newer exurbs; and the enduring relationship between race and capital investment in neighborhoods in the wake of the housing crisis.*

Between 2007 and August 2010, banks seized more than 3 million homes through foreclosure nationwide in the United States (Bohan & Daly, 2010). By 2010, banks had repossessed more than 12% of the housing stock in California, and the state consistently ranked among those with the highest rates of foreclosure in the country, along with Nevada, Florida, and Arizona (Associated Press, 2012; Bocian, Smith, Green, & Leonard, 2010). However, what happened to this substantial stock of foreclosed (REO, or real estate-owned) properties in the wake of the recent housing and financial crisis is only beginning to be understood. The eventual outcomes of these properties are central to the physical and demographic landscapes of neighborhoods, the quality of life of residents, and to our understanding of the varied impacts of the foreclosure crisis, including its contribution to enduring and emerging patterns of uneven development in the metropolis.

Dramatically falling home prices during the housing crash provided opportunities for owner-occupants—especially first-time homebuyers—to purchase REO properties, but large-scale corporate and smaller “mom and pop” investors also entered into the REO market in droves during the recession (Ellen, Madar, & Weselcouch, 2013; Immergluck & Law, 2013; Mallach, 2013; Pfeiffer & Molina, 2013). While the large-scale transfer of REOs to rentals recently documented in news accounts (Popper, 2013; Tempkin, 2013) happened primarily after 2010 with aid from government-sponsored enterprises (GSEs), 2008–2009 was a crucial era in which federal housing policy was largely laissez-faire and huge volumes of foreclosures were on the open market, ostensibly available to a diverse set of investors and owner-occupants. Analyzing the outcomes of these purchases helps to uncover the patterns of uneven investment that emerged in this policy vacuum and illuminates the complex

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dynamics of wealth transfer during the recession even prior to the large-scale and government-backed investment by financial institutions.

Foreclosure sales to new owner-occupants produce arguably the best-case scenarios for many communities, but the long-term impact of investor purchases is less clear. It is imperative to identify patterns of owner-occupant and investor purchases to fully consider the social impacts of the housing crisis on neighborhoods in the Sunbelt and across the nation. This article considers the scope and potential impacts of investor versus owner-occupant purchases of foreclosures in diverse neighborhoods in the Los Angeles region, a booming Sunbelt metropolis with high foreclosure rates. What property and neighborhood factors influenced patterns of investor purchases during this period? Where were investors' activities concentrated, especially their potentially harmful speculative strategies? Did the purchase patterns of large-scale corporate investors differ from those of smaller "mom and pop" investors? Examining the outcomes of foreclosed properties provides a more complete picture of the overall impacts of the crisis on neighborhoods in the region. It also helps to identify how the ongoing foreclosure crisis has affected existing place-based racial and class inequalities in regions nationwide by offering empirical evidence of patterns of uneven investment during the recession.

Overall, my findings suggest that very different patterns of investment emerged in the urban core, the postwar first-ring suburbs, and the newest exurbs on the region's fringe. Holding property price and other property characteristics constant, investors—especially corporate investors—were much more likely than owner-occupants to purchase REO properties in the urban core and the older, inner-ring suburbs. Owner-occupants were more likely to purchase in the region's exurbs, challenging popular accounts of the "exurban slum" (Leinberger, 2008, 2011). While both owner-occupants' and investors' purchases on the whole were not related to neighborhood poverty or owner-occupancy rates, investors in general and large corporate investors in particular were more likely to purchase REOs in neighborhoods with relatively higher quality elementary schools. Finally, while investors on the whole were more likely to purchase REOs in neighborhoods with more nonwhite residents, smaller investors were largely responsible for this pattern, as corporate investors as well as owner-occupants were significantly more likely to purchase REOs in places with larger white populations regardless of neighborhood socioeconomic characteristics and location.

These findings suggest that the concomitant conditions of restricted credit, the power of cash in the housing marketplace, the lack of far-reaching and stabilizing housing policy, and the uneven impact of the foreclosure crisis itself during the height of the recession led to a distinctly uneven recovery from the crisis among neighborhoods in the region. This uneven recovery exacerbated uneven development among urban, suburban, and exurban locales, as well as the dual housing market.¹

THEORETICAL MOTIVATIONS

As Neil Smith argued, "The mobility of circulating capital during bouts of rapid devaluation becomes a means not toward geographical equalization but a differentiation upon which the survival of capital is predicated" (1984, p. 173). Long-standing patterns of uneven development in U.S. metropolitan areas rest on this geographical differentiation. Yet the geography of capitalism changes with shifts in the broader economy, and the particular spatial patterns of racial and economic inequality produced in the wake of the most recent and worst crisis of capitalism since the Great Depression are largely unknown. One way to start to identify these patterns is to examine residential foreclosures and their outcomes at the height of the foreclosure crisis between 2008 and 2009. During this period, tens of thousands of properties were foreclosed and entered the "open market." Identifying the property and neighborhood characteristics that influenced investor purchases of REOs helps to illuminate enduring and emerging spatial fixes (Harvey, 2001).

Smith (1984) defines uneven development as "social inequality blazoned into the geographical landscape, and it is simultaneously the exploitation of that geographical unevenness for certain socially determined ends" (p. 206). Theories of uneven development proliferate at a range of scales and have been particularly convincing in accounting for the intimate connection between suburban boom and urban disinvestment in the post-World War II era in the United States (see, e.g., Gotham,

2002; Hirsch, 1983; Lipsitz, 2006, 2011; Oliver & Shapiro, 2006; Squires & Kubrin, 2006; Sugrue, 1996).

Most recently, research has identified uneven investment among urban communities and among suburbs, a sharp break from past patterns when both cities and suburbs were more—though not entirely—homogenous. For example, contemporary suburbs differ in their population density, racial composition, poverty rates, income, rates of owner-occupation, and property values, among other characteristics (Anacker, 2015; Ehrenhalt, 2012; Frey, 2011; Hanlon, 2010; Holliday & Dwyer, 2009; Hulchanski, 2010; Keil, 2013; Lee, 2007; Lucy & Phillips, 2000; Short, Hanlon, & Vicino, 2007). Indeed, many postwar inner-ring suburbs—the very communities that thrived with the investment of affluent and middle-class whites fleeing from inner cities—now face severe declines in population, tax revenue, public and private investment, and neighborhood quality for a range of reasons. These qualities tend to render them more similar to many older urban communities than to newer fringe suburbs built post-1980 in terms of the social and economic problems they face (Hanlon, 2010; Hanlon, Short, & Vicino, 2010; Holliday & Dwyer, 2009; Lucy & Phillips, 2000).

These portraits of inner-ring suburban decline suggest that exurbs on the metropolitan fringe have generally—but not exclusively—experienced disproportionate investment relative to the increasingly similar declining urban and inner-ring suburban core (Hanlon, 2010; Hanlon, Short, & Vicino, 2010; Holliday & Dwyer, 2009; Lucy & Phillips, 2000; Short, Hanlon, & Vicino, 2007). On the other hand, the recent housing crisis has cast doubt on the future of the exurbs. Years of highly leveraged overbuilding followed by a construction collapse coupled with the absence of employment centers and the continuing increase in gasoline prices has rendered the future of these newly developed neighborhoods uncertain (Frey, 2012; Goodman, 2008; Leinberger, 2008, 2011; Lucy, 2010).

At the same time, a rich body of research highlights contemporary patterns of gentrification and urban redevelopment. Some scholars note a “back to the city” movement among the millennial generation, representing the demand for walkable, less car-dependent, and more environmentally responsible development (see, e.g., Doherty & Leinberger, 2010; Leinberger & Lynch, 2014; Lucy, 2010). While this argument is popular particularly among real estate professionals, it is still debatable as to whether contemporary gentrification patterns represent a movement of people (demand) or of capital (supply) of housing to the urban core (Smith, 1979). Regardless, it is clear that while developers and new, more affluent owner-occupants have not invested in all urban neighborhoods, many city communities have seen a resurgence of capital investment in the past twenty years, a sharp break from past patterns (Lees, Slater, & Wyly, 2010; Smith 1996, 2002). Research is only beginning to establish whether these patterns have persisted or transformed in the wake of the housing crisis as evidenced by both owner-occupants’ and investors’ purchases of foreclosures.

Furthermore, given that neighborhood racial composition has historically been an important dimension of uneven development, there is also reason to believe that patterns of investment—and therefore investment in foreclosed properties—continue to differ in neighborhoods with varied racial compositions. Predominantly black neighborhoods in particular have historically been sites of cycles of planned abandonment alternating with real estate and financial speculation and exploitation (Metzger, 2000; Wyly et al., 2012), most recently targeted aggressively by subprime firms (Ashton, 2008, 2012; Beeman, Glasberg, & Casey, 2010; Newman, 2009; Wyly, Atia, Foxcroft, Hammel, & Phillips-Watts, 2006; Wyly, Moos, Hammel, & Kabahizi, 2009). And while many predominantly Latino communities have experienced similar trends, particularly in places where they make up more of the population, the banking and real estate industries have also treated Latinos and Latino communities as distinctive “niche markets” on which they can increasingly capitalize (Pfeiffer & Molina, 2013). The persistent dual housing market encouraged racialized patterns of financial exploitation of households and neighborhoods (Dymski, 2009; Logan & Molotch, 1990; Satter, 2009; Wyly et al., 2012). However, CMBS (commercial mortgage-backed securities) investors’ “appetite for yield” (Ashton, 2009) eventually led subprime loans and attendant foreclosures to migrate to the exurbs, to white households and neighborhoods, and to the middle class, thus creating a highly diverse market of REO properties during 2008 and 2009. Whether and how the dual housing market was reinforced, altered, and/or exploited in light of these potentially equalizing circumstances is still unclear.

Identifying where owner-occupants and various types of investors invested their time and capital in foreclosed properties thus sheds light on where these heterogeneous actors contributed to maintaining enduring patterns of racial and economic segregation, as well as on where and how their activities contributed to emergent sociospatial divides. While their purchases had the potential to contribute to economic stability in neighborhoods, they also had the potential to exacerbate the dual housing market and/or fuel rapid demographic transitions, including abandonment, white flight, and gentrification (Baxter & Lauria, 2000; Lauria, 1998).

I help to identify the post-housing crisis dimensions of uneven investment in the Los Angeles region partly by examining where foreclosed properties were more likely to be purchased by investors. The eventual outcomes of concentrated investor purchases vary widely, including vacancies, gentrification, flipping, and the development of various kinds of rental housing. I examine the contemporary dimensions of neighborhood inequality that may influence these new investment patterns, including race, class, and geographic location, helping to adjudicate between competing claims about the nature and shape of contemporary and future uneven metropolitan development.

INVESTORS AND FORECLOSURE PURCHASES

Understandably, foreclosure sales became a much more significant share of regional housing markets beginning in late 2007. In Phoenix, sales of non-foreclosures fell between September 2008 and February 2009 while sales of foreclosures dramatically increased, making up between 40% and 80% of home sales there in 2009 (Mallach, 2010a). REO sales made up 43% of the entire home sales market during 2008 and 2009 in Los Angeles and the Inland Empire (Riverside and San Bernardino counties). The share was higher in Riverside and San Bernardino counties, where REO sales made up 56% and 61% of the home sales market, respectively.

Investors' Strategies and Impacts

The sales of recently foreclosed properties can have dramatic effects on neighborhoods highly affected by the housing crisis. Purchases of foreclosures by new owner-occupants are likely to contribute to some measures of neighborhood recovery. However, investors make up a significant portion of foreclosure purchases, and their intentions are often unclear (Coulton, Schramm, & Hirsch, 2010; Immergluck, 2010). Investors employ a diverse set of strategies to generate profit, and while some strategies can contribute to neighborhood housing recovery, others can be extraordinarily harmful to communities. In general, however, owner-occupants and local investors maintain their properties better than larger institutional investors (Fisher & Lambie-Hanson, 2012; Galster, 1983). Hwang (2015) recently found that REOs purchased by investors in Boston had a higher likelihood of poor maintenance, with higher levels of housing violations and 911 calls associated with properties purchased by corporate investors.

Distinguishing “good” from “bad” investors is generally difficult if not impossible using the available data, in part because investors are so diverse. They vary from “mom and pop” investors who purchase few properties to Wall Street traders to foreign investors buying properties nationwide (Immergluck & Law, 2013; Mallach, 2010b). Some only purchase REO properties, while others purchase short sales or entire portfolios of delinquent mortgages (Mallach, 2010b). Given investors’ diverse strategies and widespread purchases, it is difficult to discern what they actually do with their properties after purchase. Still, recent research has begun to shed light on this puzzle.

According to Mallach (2010b), investors are employing four strategies after purchasing foreclosed properties: rehabbing, holding, flipping, and milking. Rehabbers typically buy foreclosures in poor condition, repair and rehabilitate them, and sell them either to new owner-occupants or investors usually within a year at varying rates of profit. Holders purchase foreclosures to rent out for the longer term, typically maintaining their properties, paying taxes, and accumulating both rental income and considerable profit when they sell. In general, although there are undoubtedly important exceptions, foreclosure investors who rehab or hold their properties and responsibly maintain them

can contribute to the recovery of neighborhoods highly affected by the foreclosure crisis by repairing damaged properties for future residents and by providing long-term rental housing. Each of these investment strategies requires relatively large investments of time, labor, and capital in the longer term and yields a more conservative but still very lucrative profit.

The investment strategies of some other investors, however, are likely to be extraordinarily harmful to neighborhoods. Foreclosure milkers, for example, tend to purchase lower priced properties in poor condition, taking advantage of high market rents, and rent them out “as is” with very little investment and maintenance, usually for a period of one to three years. Similarly, foreclosure flippers buy properties to sell quickly to new buyers in similar condition, often artificially inflating prices and “taking advantage of buyer ignorance, providing misleading information or misrepresentation, or collu[ding] with others” (Mallach, 2010b, p. 10; see also Harney, 2010). For much of the last decade, property flipping was thought to be so harmful to housing markets that the Federal Housing Administration adopted an anti-flipping policy to prevent “fraudulent quick flips of houses that inflated their values far beyond their true market worth” (Harney, 2010). Until 2010, the FHA would not insure mortgages taken out on properties that had been previously owned for less than ninety days.² Both milking and flipping are short-term speculative strategies designed to produce the maximum profit with a minimum amount of investment. The high vacancy rates, high turnover of properties, and artificial inflation of housing values produced by these activities can further destabilize communities already highly—even moderately—impacted by the foreclosure crisis.

It is difficult to discern investors’ strategies from existing data, but recent research has begun to identify some patterns. Early in the recession, investors in Las Vegas and Atlanta largely pursued flipping, purchasing REOs at significant discounts in a flooded market to quickly resell them at a profit. Later on, investor competition dampened demand among potential owner-occupants, and restricted lending led many investors in these places to hold and rent properties rather than flip them (Herbert, Lew, & Sanchez-Moyano, 2013). Flipping was less common in Boston, however, where investors tended to hold their properties. Large local investors in Boston also seemed to be rehabbing at fairly high rates (Herbert, Lew, & Sanchez-Moyano, 2013). Anecdotal evidence suggests that in Las Vegas, Cleveland, Boston, and Atlanta, investors rehab properties if the investment return is sufficient or if they are able to get public subsidies to cover the associated costs. Many will not rehab in places with high vacancy or crime rates. Evidence from the California regional markets is lacking, but one recent survey conducted by a California real estate industry source reported that more than half of foreclosure investors surveyed planned to hold on to their properties for at least five years, but more than half also said they did not plan on investing their own time or energy to repair, maintain, or improve their properties, and only 30% said they would hire a contractor (Sichelman, 2011).

Characteristics of Investor Purchases

In sum, neighborhoods experiencing high rates of investor purchase of foreclosures are likely experiencing more social and economic disruption at the very least and potentially a worsening of neighborhood quality. But what property and neighborhood factors are likely to influence investor purchases? Where are their activities concentrated?

Immergluck and Law (2013) found that investment in REO properties in Atlanta was concentrated in neighborhoods with higher poverty and vacancy rates and lower median home prices. Similarly, Hwang (2015) found that corporate investors purchased REOs in Boston neighborhoods with higher poverty and vacancy rates, more renters, and larger black populations between 2005 and 2011. Individual investors tended to avoid predominantly black communities, purchasing in heavily Latino, Asian, and immigrant neighborhoods during this period. In Cleveland, investors concentrated their REO purchases in lower income neighborhoods and in predominantly black neighborhoods (Herbert, Lew, & Sanchez-Moyano, 2013). REO investors in Boston and Atlanta seemed to especially target lower priced properties, seeking out a higher return (Herbert, Lew, & Sanchez-Moyano, 2013). In Las Vegas, however, Mallach (2013) found that investor purchases of REOs were more or less evenly distributed across neighborhoods.

Given that the characteristics of the Los Angeles housing market—its relatively high housing prices and stable demand for housing, even during the crash—render it unique with respect to other markets, the patterns and impacts of investor REO purchases are still unclear. Based on evidence from other cities, we would expect that investors would be more likely to purchase less expensive foreclosed properties, particularly in higher poverty neighborhoods with larger shares of black residents. There are undoubtedly exceptions, but in general, smaller investors with smaller amounts of capital relative to corporate investors may be motivated to ensure a steady stream of rental income and/or the highest yield possible on their investments in the short term. Larger corporate investors, on the other hand, have more capital and thus more flexibility to purchase properties that may require more rehabilitation or longer term holding but provide more equity and leverage in the longer term, especially as part of a portfolio of properties.

DATA AND METHODS

The Los Angeles Region

The Los Angeles metropolitan region encompasses five counties and more than 30,000 square miles (Waldinger & Bozorgmehr, 1996). The region includes more than 180 distinct municipalities, is home to more than 16 million people, and is among the most diverse places in the world, with relatively large numbers of predominantly African American, Latino, Asian, and white neighborhoods. In 2010, the region was approximately 31% white (non-Hispanic), 12% Asian, 8% African American, and 47% Hispanic/Latino. While this diversity is reflected in some residential integration, especially compared to older cities of the East, Midwest, and South, the region remains largely segregated by race/ethnicity (Logan & Stults, 2011). Furthermore, the region's urban neighborhoods, its older inner-ring suburbs, and its newer exurbs on the metropolitan fringe all include communities that are extraordinarily segregated as well as those that are relatively integrated. These characteristics make it an ideal place to tease out the property and neighborhood characteristics associated with real estate investment.

In addition, in California, the Inland Empire—part of the Los Angeles region—and Central Valley have experienced the largest concentrations of foreclosures in the state (Bocian et al., 2010). In Los Angeles and the Inland Empire, foreclosures were more common in poorer neighborhoods, in the suburbs and exurbs (though not the urban core), and in neighborhoods with more black and Latino residents (Molina, 2012). Despite large concentrations of foreclosures, the region maintained a relatively active housing market during the foreclosure crisis and recession, making it an ideal place to identify patterns of uneven development.

Data Sources

Analyses were performed on a unique data set that combines three sources of data at two levels: property and census tract. Records for all foreclosures and home sales in Los Angeles and the Inland Empire (Los Angeles, Riverside, and San Bernardino counties) during 2008 and 2009 were procured from San Diego, CA-based DataQuick, Inc. These data were combined with census tract-level demographic data from the 2000 U.S. Census and census-tract level school quality measures from the California Department of Education.³ Home foreclosures and sales were identified uniquely by their parcel number assigned by county assessors and merged with their respective sales if they sold during the 2-year period. If they did not sell at or following auction, they were coded REO (bank-owned). Sales were coded investor purchases if terms like “corporation” or “LLC” were identified in the buyer field⁴ or if the same buyer purchased more than two properties during the 2-year period. This method almost certainly underestimates investor activity, as it does not identify investors who purchased only one property during the 2-year period. Given that one possible measure of harmful speculation is the rate of property flipping, properties were coded as flipped if they sold at least twice during the 2-year study period.

Independent Variables

Property-level data included property price, size, age, number of bedrooms and bathrooms, lot size, foreclosure date, and sale date. Bedrooms, bathrooms, and lot size were subsequently dropped from the analysis because of collinearity issues. Tract-level variables included urban, suburban, or exurban location, defined by median housing age⁵; racial composition⁶; the percent change in median home sales prices from 2005 to 2007 (from DataQuick); owner-occupancy rate; poverty rate; foreclosure rate (defined as total foreclosures 2008–2009/total housing units in 2007); and nearest elementary school API score, a widely used measure of school quality. Urban, suburban, and exurban location were dummy variables with exurban as the omitted category. Properties or tracts with any missing data were dropped from the analysis. Property size and price were logged to reduce skew, as were census tract foreclosure rates. All variables were grand mean-centered. The final data set includes a total of 113,734 foreclosed properties that sold in 2,413 census tracts.

Analytic Strategy

With property as the unit of analysis, I examined three dependent variables in turn: (1) odds of sale to investor; (2) among investor purchases, odds of sale to corporate investor; and (3) among investor purchases, odds of being flipped within the study period. I fit multilevel logistic regression models to account for the fact that variables are measured at both the property and census tract levels. Multilevel models account for random error at both property and tract levels and allow for tract-specific intercepts and slopes, circumventing issues with correlated outcomes among properties within the same census tracts and producing more accurate and robust estimates of the effects of neighborhood characteristics on investor purchases net of property characteristics.

The formal model is specified as follows in single equation form:

$$\begin{aligned} \ln[\varphi_{ij}(1-\varphi_{ij})] = & \gamma_{00} + \gamma_{10} \text{ price (ln)}_{ij} + \gamma_{20} \text{ square feet (ln)}_{ij} + \gamma_{30} \text{ year built}_{ij} + \gamma_{40} \text{ sale date}_{ij} \\ & + \gamma_{01} \text{ urban}_j + \gamma_{02} \text{ suburban}_j + \gamma_{03} \% \text{white}_j + \gamma_{04} \% \text{inpoverty}_j + \gamma_{05} \% \text{owner} \\ & + \text{occupied}_j + \gamma_{06} \text{ elementary school quality}_j + \gamma_{07} \% \text{housing units in foreclosure}_j \\ & + \gamma_{08} \% \text{change in median home sales price 2005 - 2007}_j + (u_{0j} + r_{ij}), \end{aligned}$$

where φ_{ij} is the probability that property i in census tract j had each outcome detailed above in turn, γ_{00} is the average odds of sale to each party when all property and tract characteristics are held at their means, $\gamma_{01} \dots \gamma_{08}$ denote the effects of tract characteristics when property-level variables are held at their means, $\gamma_{10} \dots \gamma_{40}$ denote the effects of property characteristics when tract-level variables are held at their means, u_{0j} accounts for random between-tract variation, and r_{ij} accounts for random property-level within-tract variation.

FINDINGS

In the three-county region, about 8.3% of REO properties first sold to investors; the vast majority (over 90%) first sold to owner-occupants. Significantly, about 60% of investor-purchased REOs were purchased by corporate investors, a finding that is distinct with regard to other markets. Research thus far suggests that smaller investors were predominant in the REO market prior to 2010, when Blackstone and other large-scale institutional investors entered the REO market. In Boston, Cleveland, Atlanta, and Las Vegas, the vast majority of REO investors between 2008 and 2011 were small-scale, purchasing only 1–2 properties (Herbert, Lew, & Sanchez-Moyano, 2013). It is important to note, however, that like in Boston, the corporate investors detailed here are not very large entities, and they tend to be local (Hwang, 2015).

A sizable portion of investors used cash to purchase REOs. In Atlanta between 2008 and 2011 cash purchases under \$50,000 were typical. REO investors in Boston used cash in 40% of their purchases

TABLE 1

Mean Property and Neighborhood Characteristics of Sold Foreclosed Properties by Outcome

Variable	All Sales	Sold to Investor	Sold to Owner	Sold to Corporate Investor	Sold to Individual Investor	Flipped by Investor
<i>Tract characteristics</i>						
Foreclosure rate	9.9	9.3	10.0	9.0	9.9	6.0
% in poverty 2000	12.9	15.8	12.6	15.3	16.7	16.2
% Owner-occupied 2000	62.9	58.7	63.3	58.4	59.1	56.7
Nearest elementary school API	749.0	730.3	750.7	738.5	714.6	724.5
% White 2000	43.2	39.6	43.5	42.5	34.2	24.5
% Black 2000	9.4	11.2	9.2	10.7	12.2	13.1
% Latino 2000	38.6	41.7	38.3	39.4	46.2	46.1
% Asian 2000	5.5	4.3	5.6	4.3	4.2	5.9
Urban	0.03	0.04	0.04	0.05	0.04	0.09
Suburban	0.29	0.34	0.29	0.33	0.38	0.51
Exurban	0.67	0.61	0.67	0.63	0.54	0.40
<i>Property characteristics</i>						
Price	\$217,127	\$169,613	\$221,439	\$182,644	\$144,572	\$220,069
Square footage	1,678	1,516	1,693	1,554	1,442	1,397
Year built	1977	1970	1978	1971	1969	1960
N	113,734	9,681	104,271	6,224	3,239	3,114

during roughly the same period (Herbert, Lew, & Sanchez-Moyano, 2013). In Los Angeles, Riverside, and San Bernardino counties, 54% of REO investors used cash between 2008 and 2009 compared to 29% of owner-occupants during this period. Cash buyers tend to be favored in the housing market because they are more willing to take properties “as is” and are able to close quicker than buyers reliant on financing, giving them a structural advantage in the market (Herbert, Lew, & Sanchez-Moyano, 2013).

Not surprisingly, properties that sold to investors were smaller, less expensive, and older than those purchased by owner-occupants on average. As Table 1 illustrates, mean tract characteristics were relatively similar between foreclosures that sold to investors and those that sold to owner-occupants, with a few important exceptions. Foreclosures that sold to investors were located in neighborhoods with slightly lower foreclosure rates. They were also located in neighborhoods with slightly poorer elementary school quality, more residents living in poverty, fewer owner-occupants, and slightly more black and Latino residents.

In all, about a third (33%) of REOs purchased by investors were flipped at some point during the study period. Flipped properties were more common in poorer neighborhoods with relatively lower foreclosure rates, more renters, poorer schools, and, most strikingly, much larger nonwhite populations. These results are consistent with evidence from New York City and Fulton County, Georgia. More than 30% of REOs purchased in 2010 in New York City were flipped (Ellen et al., 2013). Furthermore, less than 3% of REOs in high-foreclosure neighborhoods in Fulton County, Georgia, in 2010 were flipped within 3 months, and 8% were flipped within a year, a finding supported by the fact that flips were more common in less hard-hit communities in the Los Angeles region.

Spatially, investor purchases appear to be concentrated in the older city of San Bernardino, in and around Moreno Valley, in Lancaster and Palmdale, in parts of the San Fernando Valley, and in neighboring Watts, Willowbrook, and Compton.⁷ These communities vary by location—Lancaster, Palmdale, and Moreno Valley are all exurban, while the others are urban or older suburban neighborhoods. However, nearly all of these places have larger than average black and/or Latino populations. Although it appears that investor purchases may be more likely in black and Latino communities, there are also clusters of investor purchases in predominantly white communities like Canoga Park in the San Fernando Valley. These neighborhoods also tended to have higher foreclosure

TABLE 2

Multilevel Logistic Regression Predicting Foreclosed Properties' Odds of Sale to Investors v. Owner-Occupants, Corporate v. Individual Investors, and Odds of Being Flipped by Investors in Los Angeles and the Inland Empire 2008–2009

Variable	Sold to Investor N = 113,734		Sold to Corporate Investor N = 9,681		Flipped by Investor N = 9,681	
	b	e ^b (OR)	b	e ^b (OR)	b	e ^b (OR)
Fixed Effects						
<i>Tract Characteristics</i>						
Foreclosure rate (ln)	-0.134 (0.017)	0.875***	-0.231 (0.038)	0.794***	-0.195 (0.044)	0.823***
% Change in home sales price 2005–2007	0.206 (0.167)	1.229	-0.120 (0.341)	0.887	-0.260 (0.522)	0.771
Urban	0.480 (0.086)	1.616***	0.805 (0.166)	2.236***	0.915 (0.206)	2.497***
Suburban	0.330 (0.048)	1.390***	0.293 (0.089)	1.341**	0.570 (0.128)	1.768***
% in poverty 2000	0.000 (0.035)	1.000	0.069 (0.064)	1.071	-0.195 (0.089)	0.823*
% Owner-occupied 2000	0.025 (0.015)	1.025	-0.049 (0.030)	0.952	0.085 (0.041)	1.088*
Nearest elementary school API (in 100s)	0.160 (0.036)	1.174***	0.308 (0.067)	1.360***	0.020 (0.094)	1.020
% White residents 2000	-0.024 (0.010)	0.977*	0.158 (0.020)	1.171***	-0.117 (0.027)	0.890***
<i>Property characteristics</i>						
Price (ln)	-1.434 (0.034)	0.238***	-0.240 (0.065)	0.787***	-0.478 (0.107)	0.620***
Size (ln, in square feet)	0.894 (0.047)	2.445***	0.343 (0.097)	1.409***	0.687 (0.157)	1.988***
Sale date	0.000 (0.000)	1.000***	0.000 (0.000)	1.000***	-0.002 (0.000)	0.998***
Year built	-0.004 (0.001)	0.996***	-0.005 (0.002)	0.995**	-0.006 (0.002)	0.994*
Intercept	-2.627 (0.037)		0.359 (0.065)		-1.585 (0.145)	
Log likelihood	-30,904.885		-5,504.724		-2,408.778	
Level 2 variance component	0.475 (0.021)		0.588 (0.048)		0.586 (0.080)	
Properties	113,734		9,681		9,681	
Census tracts	2,413		1,594		1,594	
Minimum properties per tract	1		1		1	
Average properties per tract	47		6		6	
Maximum properties per tract	2,031		268		268	

Notes: Standard error in parentheses. OR = odds ratio.
 ****p* < 0.001; ***p* < 0.01; **p* < 0.05.

rates on average. Thus, it appears that neighborhood racial composition, location, and foreclosure rates may be important factors that are associated with investor purchases. To fully tease out these effects and that of other property and neighborhood characteristics, I performed a multivariate analysis presented in the following section.

To estimate the property and neighborhood characteristics associated with odds of sale to investors, odds of sale to corporate investors, and odds of being flipped, I fit a set of multilevel logistic regression models. Table 2 presents estimates from the models. In general, the estimates of the effects of property

and neighborhood characteristics were similar across the different outcomes, with a few important exceptions.

In general, holding property-level characteristics constant, investors were more likely than owner-occupants to purchase REOs in neighborhoods with relatively lower foreclosure rates and much less likely to purchase in the exurbs. Indeed, compared to owner-occupants, investors on the whole were 62% more likely to purchase REOs in urban tracts and 39% more likely to purchase in inner-ring suburban tracts than in exurban tracts. They were also more likely than owner-occupants to purchase REOs in neighborhoods with better elementary schools, and in neighborhoods with relatively fewer white residents.

When considering investors more specifically, distinct patterns emerge between corporate and smaller mom and pop investors. Corporate investors were more likely to purchase in neighborhoods with relatively lower foreclosure rates and higher quality schools. They were also more than twice as likely as smaller investors to purchase in the urban core and 34% more likely to purchase in the inner-ring suburbs. Corporate investors were also significantly more likely to purchase REOs in neighborhoods with more white residents. Each increase of 10% in the proportion of white residents was associated with a 17% increase in the odds of purchase by a corporate investor relative to smaller investors.⁸

These patterns suggest that owner-occupants, corporate investors, and smaller investors expressed different considerations. While owner-occupants were more likely to purchase REOs in the exurbs and investors on the whole were more likely to purchase in the older urban and inner-ring suburban core, corporate investors were much more likely than smaller mom and pop investors to purchase in tracts with the oldest housing stock. While investors in general were more likely to purchase in places with relatively low foreclosure rates and high-quality schools, corporate investors seem to be driving this pattern—they were more likely than smaller investors to purchase REOs in these places. Finally, while investors on the whole were more likely to purchase in neighborhoods with more nonwhite residents, smaller mom and pop investors were largely responsible for this pattern, given that the largest investors as well as owner-occupants were significantly more likely to purchase in places with relatively larger white populations.

Theoretically, if investors bought foreclosures and rehabbed or held and rented them, they may have contributed to neighborhood recovery from the housing crisis. On the other hand, they could have displaced some would-be owners from the housing market and/or engaged in harmful speculative activities. It is difficult to know what investors do with their properties after purchase, but one possible measure of harmful speculation is whether properties are flipped. During 2008–2009 investors in the Los Angeles region were more likely to flip REOs in neighborhoods with relatively lower foreclosure and poverty rates and more owner-occupants. Most significantly, investors were nearly 2.5 times more likely to flip REOs in urban tracts relative to exurban tracts, and 75% more likely to flip REOs in inner-ring suburban tracts than in the exurbs. They were also significantly more likely to flip REOs in neighborhoods with relatively fewer white residents. An increase of 10% in the percentage of white residents was associated with about a 10% decrease in the odds of flipping. These findings clearly illustrate the stark differences in investors' strategies in different neighborhoods.

DISCUSSION

Owner-occupants' and investors' distinct investment patterns in previously foreclosed properties in the Los Angeles region during 2008 and 2009 provide several key insights into the nature and shape of metropolitan development in the wake of the housing crisis. In general, my findings suggest that, independent of price and other property and neighborhood characteristics, racial composition and neighborhood age, and to a lesser extent school quality, remain chief dimensions of uneven investment patterns in the Los Angeles region. Widespread foreclosures coupled with a largely laissez-faire government policy toward the housing market created conditions that exacerbated gentrification and the dual housing market while aiding in a general exurban "recovery," with the exception of exurbs with relatively larger nonwhite populations.

The Shape of Uneven Development During the Recession

All else equal, investors in the Los Angeles region in 2008 and 2009 were more likely to purchase REOs in urban and inner-ring suburban communities, with corporate investors most likely to do so, while owner-occupants were significantly more likely than investors to purchase REOs in the newer exurbs on the region's fringe. In addition, investors were more likely to flip REOs in urban and inner-ring suburban places than in the exurbs. While it is impossible to know for sure without more specific data on buyer characteristics, these findings suggest that the foreclosure crisis potentially exacerbated the gentrification of the urban core at the same time that it resulted in general exurban "recovery."

These findings suggest a movement of corporate capital to the region's urban core—including many of its inner-ring suburbs. Despite the larger volumes and higher concentrations of homes for sale on the suburban and exurban fringe as well as lower prices there, corporate investors targeted the oldest housing stock in the region and were more likely to resell properties within 2 years in these places. Given that owner-occupants were much less likely than investors to purchase in the region's older urban and inner-ring suburban neighborhoods, this suggests a movement of capital rather than people *per se* to the urban core. Larger real estate firms may be relying on (and in some ways, spurring) a "back to the city" movement that despite being espoused by the real estate industry (Doherty & Leinberger, 2010; Leinberger & Lynch, 2014; Lucy, 2010) has been relatively delayed in car-dependent Southern California. They may also be looking to capitalize on investment near new mass transit lines, including the Exposition and Crenshaw/LAX lines that run through some of the region's oldest communities, as well as near recent downtown development sites, including the Staples Center and LA Live.

Investors—particularly corporate investors—were also more likely than owner-occupants to purchase in the older, inner-ring suburbs, all else constant. Places like the eastern San Fernando Valley, Willowbrook, Moreno Valley, and Compton that were once sources of mass wealth-building for homeowners of color shifted to places of mass wealth-building for financial institutions during the subprime boom and then for real estate investors via the purchases of REO properties during the recession.

These findings also challenge accounts of the "exurban slum" and the so-called death of the exurbs (Frey, 2012; Goodman, 2008; Leinberger, 2008, 2011; Lucy, 2010). Whereas foreclosure rates were highest in the Los Angeles exurbs, there is some evidence that foreclosures there were more likely to sell overall (Molina, 2015). This article provides evidence that this "exurban recovery" was fueled especially by owner-occupants' purchases. Holding property and neighborhood characteristics constant, including property prices, owner-occupants were significantly more likely to purchase foreclosures in the newer exurbs in outlying areas, as well as in neighborhoods with higher foreclosure rates. Smaller investors were also more likely than corporate investors to purchase REOs in the exurbs. Buyers seem relatively unfazed by the jobs-housing mismatch in these places and the necessity of cars in the region's exurbs. While it is unclear if these owner-occupant purchasers represent the millennial generation, it is clear that the pattern of owner-occupant purchases of REOs in the Los Angeles region does not provide evidence of a large-scale "back to the city" movement spurred by increased demand for urban living envisioned by Leinberger and others (Doherty & Leinberger, 2010; Leinberger & Lynch, 2014).

Together, these findings suggest that contemporary uneven development in the region reflects a salient divide between the urban/inner-ring suburban core and the newer fringe suburbs. The urban core and much of the inner-ring of postwar suburbia experienced similar patterns of investment that were distinct from those in exurbia. Corporate real estate capital found its spatial fix in the oldest housing stock of the region in the city of Los Angeles and its proximate suburbs during the recession, while homebuyers increasingly invested—with significant financing assistance from the private and public sectors—in the newest housing on the region's fringe. These findings are consistent with the mounting evidence that many postwar inner-ring suburbs share more social and economic challenges with older urban places than with newer fringe suburbs (Anacker, 2015; Hanlon, 2010; Hanlon et al., 2010; Holliday & Dwyer, 2009; Lucy & Phillips, 2000). But it also suggests that gentrification may

be on the horizon of some inner-ring suburban communities just as it has been in the urban core. While the future of exurban communities hinges on the strategies and activities of homeowners and small individual investors, neighborhood life in the urban and inner-ring suburban core will be far more shaped by the strategies and activities of corporate investors.

A Persistent Dual Housing Market

However, not all exurban communities have “recovered,” and not all urban and inner-ring suburban communities are gentrifying in the wake of the housing crisis. Indeed, neighborhood racial composition remained a significant dimension of uneven investment in the Los Angeles region during 2008 and 2009. Buyers exploited and contributed to enduring racial geographies in the wake of the housing crisis, with distinct patterns of investment and “recovery” emerging in predominantly nonwhite neighborhoods versus predominantly white neighborhoods regardless of neighborhood socioeconomic characteristics and urban, suburban, or exurban location. Investors in general purchased distressed properties, especially in predominantly nonwhite communities, but this analysis reveals that smaller mom and pop investors are largely responsible for this pattern. Corporate investors, on the other hand, as well as owner-occupants, tended to purchase REOs in predominantly white communities regardless of location and other property and neighborhood characteristics. These results are consistent with Hwang and Sampson’s recent findings that gentrification is more likely to occur in Chicago neighborhoods with more white residents (Hwang and Sampson, 2014). But they are somewhat distinct from patterns in Boston, where corporate investors were more likely to purchase REOs in black neighborhoods (Hwang, 2015).

Given the highly diverse and unregulated market of REO properties in 2008 and 2009, these findings highlight the persistence of the dual housing market. White neighborhoods received an influx of corporate capital and new owner-occupants regardless of location and other property and neighborhood characteristics, and investors were less likely to flip REOs in these places. Predominantly nonwhite neighborhoods, on the other hand, were disproportionately impacted by the activities of smaller investors as well as flipping. The smaller investors in these places may constitute a “parallel housing industry” (McGee, 2013) that operates housing in communities of color given corporate developers’ and owner-occupants’ preference for white neighborhoods in the Los Angeles region.

That investors were more likely to flip properties in nonwhite neighborhoods is an unsurprising finding given that the dual housing market makes investors’ most harmful strategies more profitable in nonwhite neighborhoods. It is well established that racial segregation both results from and is necessary for the maximization of profit for different types of real estate investors (Logan & Molotch, 1990; Wylie et al., 2012). Real estate investment takes place within a dual housing market that skews the availability and financial returns on home purchases and rentals, making certain investment strategies more lucrative in different types of neighborhoods. The “buy and hold” and “rehab” strategies are generally more lucrative in predominantly white communities, as long-term property values are higher and appreciate more in neighborhoods with more white residents, all else equal (Anacker, 2010, 2012; Flippen, 2004; Freund, 2007; Harris, 1999; Lipsitz, 2006; Oliver & Shapiro, 2006).

At the same time, the dual housing market makes “milking” and “flipping” strategies more lucrative in predominantly nonwhite—particularly black and Latino—neighborhoods. Milking is more lucrative in places with tight rental markets, and flipping is more lucrative in places with tighter owner-occupancy markets, as research on the classic blockbusting technique has shown (Orser, 1994; Seligman, 2005). Racial discrimination in the home rental and purchasing markets (Logan & Molotch, 1990; National Fair Housing Alliance, 2008; Roscigno, Karafin, & Tester, 2009; U.S. Department of Housing and Urban Development, 2012) combined with the disproportionate impact of the foreclosure crisis on black and Latino households (Hernandez, 2009; Rugh & Massey 2010) has created a constricted housing market in which investments in predominantly black and Latino communities yield higher short-term profit, as investors can effectively exploit the dual housing market to charge relatively higher rents and artificially inflate housing prices via short-term flips.

Race remained a primary driving force behind real estate investment in the region beyond any confluence with socioeconomic characteristics of neighborhoods. Neighborhood racial composition

remained a salient factor in both owner-occupants' and investors' purchases net of other property and neighborhood characteristics, while other neighborhood socioeconomic characteristics were largely insignificant. Neighborhood racial composition was also a significant predictor of investors' strategies—they were more likely to flip properties in nonwhite communities, even as they were *less* likely to flip in poor communities. Thus, new patterns of investment evidenced by REO purchases of investors and owner-occupants were built in part upon old patterns of exclusion and exploitation that constitute the dual housing market. Nonwhite neighborhoods appear to be positioned in a new web of speculation built upon generations of racialized financial exploitation (Dymski, 2009; Logan & Molotch, 1990; Satter, 2009; Wylie et al., 2012).

On the whole, then, predominantly nonwhite neighborhoods suffered the most negative effects of the foreclosure crisis in 2008 and 2009 in the Los Angeles area. Predominantly black and Latino neighborhoods experienced the highest foreclosure rates (Molina, 2012). Predominantly black neighborhoods experienced the highest REO vacancy rates, the most potentially harmful outcome of all possibilities (Molina, 2015). And predominantly nonwhite neighborhoods (the effects are similar for the proportion of black, Latino, and Asian residents) experienced more corporate investment and more REO flips—the most risky and potentially destabilizing of outcomes. And like in the New York, Atlanta, and Miami markets, the neighborhoods most negatively impacted by foreclosures are not the most distressed in terms of poverty or unemployment, but they are disproportionately black (Ellen et al., 2013).

It is important to note that this study covers only the 2008–2009 period, the subprime-intensive phase of the foreclosure crisis. In the following years, foreclosures were driven by mounting unemployment and other economic factors rather than by risky lending terms. Because households of color disproportionately held subprime loans, foreclosures were more common in nonwhite neighborhoods during this earlier phase of the crisis. Thus, this analysis focuses particularly on properties that were lost as a result of risky lending terms and applies particularly to places hard-hit by subprime-fueled foreclosures.

In addition, the GSEs and private equity firms began purchasing large portfolios of REOs beginning in 2010, including in the Los Angeles–Inland Empire region. These large-scale transfers of REOs to rentals by the GSEs and the large-scale purchase of portfolios of REOs by private equity firms for rental conversion greatly impact neighborhoods, to be sure. But those purchases and impacts are distinct from the corporate investor purchases detailed in the analysis presented here. Local corporate and smaller mom and pop investors dominated the REO market during the subprime-intensive phase of the housing crisis in the Los Angeles region, while the GSEs and private equity firms likely had a much stronger foothold beginning in 2010.

CONCLUSION

Patterns of REO purchases in the Los Angeles region in 2008 and 2009 shed light on the shape of uneven development during the most recent crisis of capitalism. While this period does not capture the large-scale transfer of REOs to Wall Street investors, it does capture a crucial period of creative destruction and the attendant transformation of regional space at the height of the housing crisis. Restricted credit and the power of cash in the housing marketplace coupled with a lack of visionary housing policy and uneven foreclosures led to distinct uneven investment patterns and an uneven recovery from the crisis among neighborhoods in the region.

Neighborhoods in the urban and inner-ring suburban core experienced disproportionate corporate investment and speculative flipping, and exurban communities largely benefitted from the purchases of owner-occupants during 2008–2009. These distinct investment patterns illustrate how the region's older urban core and inner-ring suburbs experience increasingly similar development patterns that are distinct from the scope and character of investment in the exurbs. Whereas exurban futures depend on the strategies and activities of homeowners and small individual investors, the future of the urban and inner-ring suburban core will be far more shaped by the strategies and activities of corporate investors.

Corporate investors and owner-occupants also disproportionately purchased REOs in predominantly white neighborhoods, while smaller investors targeted predominantly nonwhite communities. All investors were also more likely to flip properties in communities of color, a particularly harmful speculative strategy. Given the general insignificance of neighborhood socioeconomic characteristics to investment patterns and the highly diverse market of REO properties in 2008 and 2009 in the region, these findings suggest that the dual housing market has persisted and perhaps worsened during the Great Recession.

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ENDNOTES

- 1 For a larger discussion of the “dual housing market,” see Stearns and Logan (1986).
- 2 In 2010, the FHA relaxed this policy and now insures mortgages taken out on properties regardless of the length of time of previous ownership. It prohibits conflicts of interest and limits price run ups to 20%, and requires participating lenders to produce documentation of rehabilitation activities to justify price increases beyond 20% (Harney, 2010).
- 3 2000 Census data were used because the foreclosure crisis likely had an effect on neighborhood demographics, making measures from 2005–2010 less reliable. Foreclosures and neighborhood demographics were mutually influential during this period and thus would likely cause bias in the estimates of statistical models.
- 4 A full list of terms used to identify investors in the buyer field was based on a similar method used in Pfeiffer and Molina (2013) and is available upon request.
- 5 The majority of properties were built before 1960 in urban tracts, between 1960 and 1979 in suburban tracts, and from 1980 on in exurban tracts.
- 6 Percent white was included in the final models after fitting models that parsed out effects for percent black, percent Latino, and percent Asian. The effects were relatively similar among neighborhoods with more nonwhite residents.
- 7 Maps of investor and owner-occupant purchases are available upon request.
- 8 Models were estimated parsing out the effects of the proportion of black, Latino, and Asian residents. The effects were remarkably similar. The proportion of whites is used for the sake of parsimony and to avoid collinearity.

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