



PROPERTY VALUE IMPACTS OF FORECLOSED PROPERTIES IN SUBURBAN AREAS: A LITERATURE REVIEW PAPER

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Abstract

This paper is aimed to explore choosing the right type of real estate to invest in. This study is enjoined to bring into account the positive thing about real estate is that, even in a bad economy, it is still better than other forms of investment like stocks, mutual funds and other commodities. Basic accounting states that you do not depreciate land and its valuation will just be a matter of supply and demand. It reviewed articles from 2010-2021. The review focused its emphasis on the findings and conclusions of the articles reviewed. Venturing into real estate properties requires more background study since you will be transferring your liquid assets into a very illiquid asset. In the real estate marketing business, we have the end-user and the investor. With an overall knowledge about the industry, a real-estate investment may be different from your primary home so factors other than personal preferences might come into play. For an investor, when it comes to real estate, it's all about location, location, location. Be on the lookout for reputable developers who will be conducting pre-selling of previously raw lands because you will definitely have the first-mover advantage and prices are relatively lower. The potential social change benefits from the proposed study include sustained employment of the agent, real estate brokers, developer's employees, and construction team which can improve self-worth and human dignity for employed individuals and business owners. Outcomes from this paper would be helpful in hiring more employees. Also, increased business and employment may result in more tax revenues for communities, which can help citizens and in extension, the national economy.

Keywords: real estate, foreclosed, house flipping, acquired asset

INTRODUCTION

The Philippines consists of more than 7000 islands. Bounded by the Philippine Sea on the east, the South China Sea on the west, and the Celebes Sea on the southwest, the Philippines shares maritime borders with Taiwan to the north, Vietnam to the west, China to the northeast, and Malaysia and Indonesia to the south. The Republic of the Philippines is divided into three

island groups—Luzon, Visayas, and Mindanao. Luzon ranks as the Philippine's largest island. It has eight regions, one of which is the heavily populated NCR, the capital of the country. Also known as Manila, NCR is the seat of the government and composed of the country's capital city of Manila, the most populous Quezon City, and the cities of Caloocan, Las Piñas, Makati, Malabon, Mandaluyong, Marikina, Muntinlupa, Navotas, Parañaque, Pasay, Pasig, San Juan, Taguig, and Valenzuela, as well as the municipality of Pateros. Covering an area of approximately 619.6 sq. km of land, this is where most of the significant events that formed the human-environment setting of the Philippines occurred. The gated neighborhoods first appeared near the capital of the Philippines after World War II, away from war-ravaged zones, and its immediate vicinity. Large plots owned by private companies were developed and subdivided into smaller individual lots for sale. Gated communities in the Philippines were completed even before the barangay, as the smallest government unit, was made concrete.

One of the earliest was designed by Ayala Corporation and managed postwar by Alfonso Zobel and Joseph McMicking, who presented the Ayala Master Plan for Makati., as envisioned by McMicking hinges on the scheme of enviable residential districts amidst business and commercial areas. He aimed for a residential neighborhood comparable to upscale American communities, specifically those in Palo Alto. In 1949, Forbes Park, located at the fringes of the property, opened with premier amenities to entice potential buyers to this locale, mainly catering to the elite. They offered a minimum of 1000 m² of land at just Php6.00 per square meter and the success of this first privatized neighborhood led to the construction of the rest of the exclusive residential subdivisions.

Today, the Philippine's gated communities for residential use, mainly single-family housing, with inbound restrictions such as fences and walls. Considering sizable lots, common parameters for these secured villages are accessibility to major roads or streets leading to city centers, availability of utilities (water, electricity, sanitation), and amenities within the neighborhood.

DISCUSSIONS

Rationale on Foreclosed Properties

Real estate in the Philippines has become a hot commodity in recent years, but there is not a lot of real estate investment advice. While 30 years of stable governing and economic growth may not be enough to convince some investors to reap the rewards of putting their money into land that is regularly clichéd "paradise," for others, 30 years is almost a lifetime and -- to them -- the opportunity to further their financial standing and asset acquisition with some of the most beautiful property in the world simply can't be missed. Flipping properties in the Philippines can be lucrative if done correctly. Real estate investors purchase properties below the market price. Conduct a renovation to increase its value. Later on, resell it for a quick profit. Don't confuse it with development investing. The latter means you buy property under development. Your main purpose is to sell or rent the unit whenever it's ready for occupancy.

Flipping properties in the Philippines is more preferred. If you want to venture into this, do it the right way. Flipping properties is not that easy, First and foremost, research. Just like when you plan to procure a house. Consider the nearby amenities as well, leisure and relaxation activities are a great factor, community security is another consideration. However, there are some issues you should be aware of before you invest your money in the purchase of property in the Philippines. The first thing you need to find out is whether or not the property has utilities: electricity & water. Often times, the most beautiful properties you find are without utilities and the mistake of purchasing one can cost you financially. The value of a property is increased two, three, or even four times as much if it has utilities.

If you have experienced buying property in the Philippines, regardless of what kind of property it is, you may have come across 'property titles' such as a transfer certificate of title (TCT) and/or a condominium certificate of title (CCT). Property titles entail rights, ownership, and other legal ramifications. For starters, a transfer certificate of title (also known as a deed of sale or deed of absolute sale) is the property title of a given piece of land with or without a physical structure built on it.

It contains details pertaining to the geophysical elements of the land as well as its registration number and name of the owner. The transfer certificate of title authenticates the ownership of the land as well as the 'air space' in it, which is also called 'air rights', which gives the owner the right to build or develop in the air space above the property.

The Situation of Foreclosed Properties Today

Pag-IBIG is an acronym which stands for Pagtutulungan sa Kinabukasan: Ikaw, Bangko, Industria at Gobyerno. To this day, the Pag-IBIG Fund continues to harness these four sectors of the society to work together towards providing Fund members with adequate housing through an effective savings scheme. The birth of the Home Development Mutual Fund (HDMF), more popularly known as the Pag-IBIG Fund, was an answer to the need for a national savings program and an affordable shelter financing for the Filipino worker. The Fund was established on 11 June 1978 by virtue of Presidential Decree No. 1530 primarily to address these two basic yet equally important needs. Under the said law, there were two agencies that administered the Fund.

The Pag-IBIG Fund Affordable Housing Loan is designed for minimum-wage and low-income members who earn up to P15,000 a month within the National Capital Region (NCR) and earn up to P12,000 per month outside the NCR. Under the loan program, Pag-IBIG Fund offers a subsidized rate of 3% per annum for socialized home loans up to P580,000.

NCR Branch Negotiated Sale Batch 15098: Acceptance of offers on December 6-11 and includes 498 properties from Batangas, Bulacan, Cavite, Laguna, Rizal, Metro Manila NCR Branch Negotiated Sale – Memorandum of Agreement With Project Proponent (MOAPP) with 3,319 properties: Acceptance of offers until December 24, 2021. Various provincial listings / schedules with a total of 2,413 properties. We now have a total of 7,030 Pag-IBIG foreclosed properties for sale where acceptance of bids/offers is upcoming/ongoing as of December 1, 2021.

According to Chinloy, P., Hardin, W., & Wu, Z. (2016) to Assessment of lender and third-party bidder acquired properties at foreclosure auction is provided. Properties acquired at foreclosure auction by third-party bidders transact at a discount to lender dispositions of real estate owned (REO) properties. The discount reflects a reduction in costs associated with lender owned (REO) dispositions and uncertainty faced by third-party bidders. Moreover, there

is a ranking in transaction prices among initial purchases by third-party bidders at foreclosure auction, REO sales, non-distressed property sales and the subsequent sales of third-party bidder acquired properties. Third-party bidder auction prices are below REO sale prices, which are below non-distressed property sale prices, which are below the subsequent sale prices of third-party bidder acquired properties. The price spacing by cohort is logical, intuitive and economically justified in a market with rational participants. Implications are also apparent for the measurement of price changes, net sale proceeds and returns to residential real estate.

Based on research of Donner, H., Song, H.-S., & Wilhelmsson, M. (2016) Based on data of sold apartments and single-family houses in Stockholm, Sweden, during the period of 2006 through 2013, we find that forced sales of apartments and single-family houses cause a substantial price discount. The results of a hedonic spatial Durbin model show a negative impact on transaction price of 20.1% for foreclosed apartments and 24.6% for foreclosed single-family houses. Furthermore, the price discount increases when the number of attempted auctions is limited, which is the case for forced apartment sales owing to a lost membership in a housing association (forfeited). In those cases, the discount is as high as 29.1%.

According to McMillan, A., & Chakraborty, A. (2016), This study examines the trajectory of real estate-owned (REO) sales in the Chicago metropolitan statistical area from 2009 to 2013, roughly the first few years of the housing market recovery. Using a data set of property transactions, it tracks property sales to investors and owner-occupiers, and examines the neighborhood characteristics that contribute to an investor's decision to purchase an REO property. Neighborhood characteristics include social and physical variables as well as housing and transportation affordability variables. Findings are consistent with previous studies in that investor activity is high in neighborhoods with higher proportions of African American and older residents. In addition, investors are more likely to purchase homes in neighborhoods that offer more affordable transportation options. Our findings can help planners identify areas where they may need to target programs that help reduce barriers to REO sales, particularly to owner-occupiers. By understanding the neighborhood-level determinants of REO dispositions, planners can help promote an equitable recovery and affordable homeownership for low- and moderate-income families.

Based on research of Cordell, L., Geng, L., Goodman, L. S., & Yang, L. (2015). We measure the cost of foreclosure delay by estimating time-related foreclosure costs using a large national sample of residential mortgages before, during, and after the recent U.S. housing crisis. The large volume of foreclosures, coupled with an unprecedented series of government interventions in mortgage servicing practices, significantly extended foreclosure timelines during and after the crisis. Costs were especially pronounced in judicial review states, which saw average foreclosure costs go up 15 percentage points, 24 percentage points in the highest cost state. Cost increases of this magnitude are likely to have consequences for servicing practices and mortgage credit availability.

Previous research by Han, H.-S. (2013) has shown that housing abandonment contributes to neighborhood decline by depressing nearby property values. However, most past research estimated the impact of abandonment through cross-sectional analysis without controlling for nearby foreclosures or local housing market trends. Therefore, it remains unclear whether abandoned properties reduce nearby property values or whether abandonment is more common in areas with already lower-valued properties. Prior research also has not explored how the duration of abandonment influences nearby property values. Therefore, to extend the

current level of understanding of the impact of abandonment, this research examines the impact of abandoned properties on nearby property values in Baltimore, Maryland, from 1991 to 2010 using longitudinal data sets while simultaneously controlling for both nearby foreclosures and local housing market trends. This research finds that as properties are abandoned for longer periods of time, the impact on nearby property values not only increases in magnitude but also is seen increasingly farther away.

Challenges in Foreclosed Properties

Over the last several years by Gangel (2011), the United States has experienced a significant recession. During this downturn, the number of real estate foreclosures has risen drastically. Recent studies have demonstrated a reduction in property values due to neighboring foreclosures—known as the foreclosure contagion effect. This study uses an agent-based modeling approach to explore market-wide emergent behavior that results from the interconnected property-agent behavior. Specifically, we find that the magnitude of the foreclosure contagion effect is a less powerful cause of eventual market collapse than the time a foreclosed property is allowed to linger on the market. This is important because disposition time is much easier to address from a policymaker perspective than is the strength of the foreclosure contagion effect.

According to Immergluck, D. (2010), A key aspect of the U.S. subprime crisis was the accumulation of vacant, foreclosed properties in many neighborhoods and localities. This article describes zip-code-level patterns of foreclosed homes, or what are typically called “real estate owned” (REO) properties, at the peak of the subprime crisis in late 2008 and estimates a model of REO accumulation from 2006 to 2008. Three key findings emerge. First, during the peak of the subprime foreclosure crisis in late 2008, large central cities, on average, experienced higher levels of REO per mortgageable property than suburban areas. This contradicts some suggestions that the crisis was primarily centered in suburban or exurban communities. Second, the suburbanization of REO varied across two key types of metropolitan areas, with boom—bust regions experiencing more suburbanization than weak- or mixed-market metros. Finally, determinants of zip-code-level REO accumulation included high-risk lending activity and the age of housing stock. After controlling for these and other variables, neither the central city versus suburban location of a zip code nor the proportion of residents commuting over 30 minutes was significantly associated with REO growth. The intrametropolitan location of a zip code appears to have been a less important factor in REO growth than the fact that a large amount of development in newer communities was financed during the subprime boom.

Based on research of Wassmer, R. W. (2011), The United States faced an ongoing foreclosure crisis in the late 2000s. Federal and state governments responded with public policies designed to reduce foreclosures. Such policies are economically appropriate if the cost to implement them is less than the negative private and public external effects of mortgage foreclosure. A hedonic home price regression calculates the value of these external effects for

a large United States area (Sacramento, CA) hit particularly hard by the crisis over the period between January 2008 and June 2009.

According to previous studies, Rogers, W. H. (2010), residential foreclosures reduce the value of neighboring residential units and the initial negative effects decay over time and space. This study attempts to investigate the temporal path of the initial effects by following cohorts of single-family housing distressed sales (foreclosures and real estate owned sales) over time. A hedonic model estimation of single-family housing sales in Saint Louis County, Missouri, produced larger marginal impacts for new distressed sales in the year 2000 compared with the marginal impact of new distressed sales in 2007, that is, the marginal impact of new distressed sales is declining in at least one housing market. This result holds true for the distressed sale neighborhood impact, the effect of distress on the same unit's future sales price, and the discount on a distressed unit's current "liquidation sale" price.

As per Kobie, T. F., & Lee, S. (2010), the home mortgage foreclosure crisis continues to spread, few households and geographic locations in the United States remain unaffected. This has led to a great deal of research on the causes and the impacts of the foreclosure crisis. This article focuses on the latter and specifically addresses the impact that residential foreclosures have on nearby single-family residential properties. Previous research has concluded that there is a negative impact. Although the hypothesis for this article has not changed, the authors offer a change in methodology. The study analyzes foreclosures' impact based upon face blocks, not straight-line distances, and it also incorporates time and the use of spatial statistics. Findings from this study show a negative relationship between the length of time a property has been foreclosed and its effect on neighboring property values. The first negative impact is seen after one year, and sheriff sales have a greater negative impact than pre foreclosures. Therefore, policy responses need to be as swift as possible to prevent any negative impact on neighboring property values and all the while must attempt to prevent properties from going to auction.

Current and Emerging Trends

In this study, Gilderbloom, J. I., Riggs, W. W., & Meares, W. L. (2015), researchers examined 170 neighborhoods in a medium-sized city to see whether walkability influences neighborhood sustainability. Until 2008, there had not been a reliable measure of the social, health, and economic impact of walkable neighborhoods. This dramatically changed when scholars were able to quantify walkability with tools such as Walkscore™, which measures how accessible daily living activities are by foot. The researchers investigated how walkability impacts the quality and sustainability of a neighborhood. They developed models that evaluated the correlation between an area's Walkscore™ and four broad measures of urban sustainability: neighborhood housing valuation; foreclosures; and crime. Our analysis shows a positive impact not only on neighborhood housing valuation but also on neighborhood crime and foreclosure. These results provide policy opportunities for planners and citizen groups to pursue strategies to encourage the development of more walkable and sustainable neighborhoods.

With Zhang, H., & McCord, E. S. (2014), In recent years, housing foreclosure has become a national crisis in the U.S. but limited geographical research has investigated the implications of

this problem on neighborhood crime. This article adds to the existing research by investigating the impact of housing foreclosures on residential burglary using foreclosure and crime data aggregated to block groups in Louisville, the largest city in Kentucky. In particular, we explore the spillover effects of foreclosures beyond neighborhood boundaries and utilize geographically weighted regression (GWR) to tackle the spatial heterogeneity issues complicating the relationship between foreclosures and neighborhood crime. Results from the three regression models support our hypothesis that foreclosures have a statistically significant positive impact on burglary, but only in the neighborhoods in which they are located. More importantly, the relationships between foreclosures and burglary vary dramatically across neighborhoods – Foreclosure is a significant predictor of burglary for disadvantaged urban neighborhoods but not for more affluent suburban ones after accounting for other contextual variables. Implications are discussed.

CONCLUSION

We examine the contagion effect of residential foreclosures and find strong evidence of a social interaction's influence on default decisions where the interaction is based on neighbors' behavior in a previous period, in the study conducted by Towe, C., and Chad L. (2013). Using a unique spatially explicit parcel-level dataset documenting residential foreclosures in Maryland for the years 2006-2009 and a highly localized neighborhood definition, based on 13 nearest neighbors, we find that a neighbor in foreclosure increases the hazard of additional defaults by 18 percent. This feedback effect goes beyond a temporary reduction in local house prices and implies a negative social multiplier effect of foreclosures.

Wallace, D., Hedberg, E. C., & Katz, C. M. (2012) hold the opinion of the objectives of this study were to examine whether an increasing number of foreclosures in a neighborhood subsequently increase disorder and whether the temporal relationship between foreclosures and disorder is different before and during the housing crisis.

We employ longitudinal data to examine the impact of foreclosure on crime in Glendale, Arizona, a city at the epicenter of the nation's foreclosure problem. We rely on three data sources: (1) foreclosure data, (2) Computer-Aided Dispatch/Police Records Management System data, and (3) U.S. Census and census estimate data. Our findings suggest that foreclosures do have a short-term, four-month effect on overall disorder and social disorder; however, that relationship only holds during the months preceding the housing crisis. During the housing crisis, there is no effect of foreclosures on disorder.

Our results suggest that instead of the long-standing negative impact that foreclosures have on disorder in communities, their negative effect is short lived and limited. Thus, foreclosures during the housing crisis do not signal disorder and decay as expected. A number of communities across the country have enacted prevention, enforcement, and reuse policies and programs aimed at foreclosure for the purpose of reducing disorder and subsequent crime; our results suggest that some of these policies and programs require substantial resources and might not have their desired impact.

ABBREVIATIONS

CCT	-	Condominium Certificate Of Title
HDMF	-	Home Development Mutual Fund
NCR	-	National Capital Region
Pag-IBIG Gobyerno	-	Pagtutulungan sa Kinabukasan: Ikaw, Bangko, Industriya at Gobyerno
TCT	-	Transfer Certificate Of Title

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