Foreclosure Investors in Suffolk County

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This report reviews foreclosure investor activity in Boston and the rest of Suffolk County, Massachusetts. Using data from 2007 to 2012, I find that 44% of the properties in the sample were purchased by buyers who appeared to be investors. Most investors purchased one to six properties. Only 1% (four investors) purchased 50 or more properties. Over the course of the foreclosure crisis, investors purchased an increasing share of foreclosed properties in Suffolk County. The data also indicate that investors are less reliant than other buyers on mortgage financing to purchase foreclosed properties.

Introduction

While home prices have increased in many parts of the United States, housing markets across the country continue to respond to the current mortgage foreclosure crisis. A challenge in some communities is how to put foreclosed properties back into productive use, either through resale to homeowners or investors. While homeowners are fairly well understood as a demographic, less is known about the investors who purchase foreclosed properties: who they are, how often they purchase such properties, what they do with the properties, and how their activities affect neighborhoods and area housing markets. This report focuses on investor activity in Boston and the rest of Suffolk County, Massachusetts. It discusses investor purchases over time and typical characteristics of the investors' business models.

Like prospective occupant-owners, investors can purchase foreclosed properties either at foreclosure auctions or later, when the properties are owned by the foreclosing lender. Although mortgage foreclosure processes differ across states, in most places a foreclosure concludes with the lender or a public official auctioning off the property that secures the mortgage. Properties can be sold at foreclosure auction to third-party buyers or can be "bought back" by the lender, becoming real estate owned (REO).[1] The lender then sells the REO properties at a later date, typically with the help of a local real estate agent.

Foreclosure Investors in Suffolk County, Massachusetts

Foreclosure investors have been active in Suffolk County, which includes Boston, Chelsea, Revere, and Winthrop. This report focuses on 4,702 single-family, two-family, three-family, and condo properties that were sold out of foreclosure between 2007 and 2012.[2] Of these, 3,832 (81%) were purchased out of REO, while the remaining 870 were purchased directly by third-party buyers at foreclosure auction, and thus never became REO.

For the purposes of this report, a buyer is considered to be an investor if the buyer purchased two or more foreclosed properties in Suffolk County or if the buyer was identified as purchased foreclosed properties through a

[1] In Massachusetts, the foreclosure auction typically occurs anywhere from six months to over two years after the borrower stops making mortgage payments. The auction takes place outside the foreclosed property and is carried out by a private auctioneer hired by the lender's attorney. Prospective buyers are not permitted to enter or inspect the home before the auction takes place. The lender sells the property to the third-party buyer (an investor or intended occupant-owner) placing the highest bid, so long as that bid exceeds the lender's reservation price, which is typically known only to the lender.

[2] The sample includes foreclosures completed (i.e., foreclosure auctions took place) between 2007 and 2012. This analysis focuses only on foreclosures sold to third-party buyers; in other words, properties still in REO as of the beginning of 2013 are excluded.

corporate entity rather than an individual.[3] From 2007 to 2012, 2,063 properties in the sample (44%) were purchased by buyers who appeared to be investors using these classification methods. These properties were purchased by 437 unique sets of investors, who were either individual investors, pairs of individuals, or corporate entities. Efforts were taken to link together corporate entities held by the same individuals rather than considering these to be separate entities.

As shown in Table 1 below, 60% of these investors purchased 1 or 2 properties. Only 1% (4 investors) purchased 50 or more REOs or properties at foreclosure auction. However, that 1% amounted to 20% of all investor-owned properties. Three of these investors are based in the Boston area, while the fourth is based in Pennsylvania.

appropriate to classify those who purchased 10 or more foreclosures as "large investors." If we look at investor activity across cities (Table 2), we can see that investors have purchased a larger share of foreclosures in Boston than in the other cities in Suffolk County. Large investors are particularly active in Boston. For example, while large investors purchased 25% of the foreclosures in Boston, they purchased just 11% of the foreclosures in Revere. All but 1 of the 33 large investors purchased at least one property within the city of Boston. Among these 32 investors, 18 were based in Suffolk County, 12 were based elsewhere in Massachusetts (typically in the greater Boston area), and 2 were located out of state. No internationally based investors were identified in this sample of transactions.

Table 1. Investors by Number of Properties Purchased

Number of Properties Purchased	Number of Investors	Percentage of Investors	Number of Properties	Percentage of Investor-owned Properties*
1	117	27%	117	6%
2	146	33%	292	14%
3	61	14%	183	9%
4	33	8%	132	6%
5–9	47	11%	295	14%
10–19	15	3%	210	10%
20–49	14	3%	418	20%
50 or more	4	1%	416	20%
Total	437	100%	2,063	100%

*Note: values do not sum to 100 due to rounding
Source: Author's calculations from Warren Group data.

Including these 4 largest investors, 33 investors purchased 10 or more properties, accounting for half the investor-purchased properties and 22% of all properties sold out of foreclosure in Suffolk County during this time. It might be

Table 2. Investor Activity by City

City	All Investors	Large Investors	Total Purchases
Boston	48%	25%	3,591
Chelsea	41%	17%	377
Revere	25%	11%	620
Winthrop	39%	15%	114
Total	44%	22%	4,702

Source: Author's calculations from Warren Group data.

[3] This is a conservative method for identifying investors, so it likely results in underestimating the number of foreclosed properties purchased by investors. See the note at the end of this document for details on how the buyers were classified.

It also appears that over the course of the foreclosure crisis, from 2007 to 2012, investors purchased greater and greater shares of the foreclosed properties sold at auction or out of REO in Suffolk County. While investors purchased only 20% of foreclosures sold in 2007, in recent years they have bought half of those sold. Similarly, while large investors purchased 9% of the foreclosures in 2007, large investors have captured over one-quarter of recent sales (see Table 3).

Table 3. Investor Activity by Year

Purchase Year	All Investors	Large Investors	Total Purchases
2007	20%	9%	290
2008	34%	14%	1,118
2009	50%	28%	1,185
2010	50%	25%	915
2011	48%	26%	625
2012	49%	26%	569
Total	44%	22%	4,702

Source: Author's calculations from Warren Group data.

Auction vs. REO

As explained above, properties sold at foreclosure auction are either bought by third-party buyers (investors or intended occupant-owners) or become bank owned (REO). In Suffolk County the vast majority (81%) of foreclosures did not sell to a third party at the foreclosure auction and thus became REO. However, sales at foreclosure auction—to either type of buyer—became more common during this time: about 10% of properties were sold to third-party buyers at foreclosure auctions held at the beginning of the crisis, but that figure increased to about 25% in recent years. In sum, larger shares of foreclosures each year are bought at auction by third-party buyers, though the overall volume of foreclosures has been on the decline.

Investors bought over 75% of those properties sold in 2007-2012 at foreclosure auction, as opposed to 37% of the properties sold out of REO during this time. Investors are often better equipped to purchase properties at auction, due to the cash deposits required (usually $5,000–$10,000) and the risk involved in purchasing foreclosed properties without conducting inspections. Buyers at foreclosure auctions also assume any existing liens on the properties that supersede the mortgage. As the mortgage crisis has gone on, investors have captured more and more of the properties sold at auction. For example, while only 45% of auction sales in 2007 were to investors, 79% of properties sold at auction in 2012 were bought by investors.

Business Models

Little is known about how investors finance their purchases or their disposition strategies. The data show that investors are less reliant than other buyers on mortgage financing to purchase foreclosed properties. In this sample, 47% of likely investor purchases were financed with mortgages, as opposed to 73% of noninvestor purchases.[4] Investors also paid less for foreclosures, on average. After controlling for the time of the sale, zip code, and whether the property was sold at auction or out of REO, investors paid, on average, more than $46,000 less than noninvestors.[5] Investors may pay less because they buy lower-quality houses, or because they are more likely to pay cash and may require fewer inspections. Investors were also more likely to resell their properties: 40% of investor-purchased properties had been resold by January 2013, as opposed to 14% of properties purchased by likely noninvestors.[6] However, investors who have resold their properties have done so very quickly: the median

[4] Because investors are more likely to purchase foreclosed properties at auction and since mortgage financing is more difficult to obtain for properties bought at auction (due to the fast closing timelines and difficulties conducting inspections prior to closing), it is not surprising that investors are less likely to use mortgage financing. However, even when looking solely at REO purchases, it is clear that investors are more likely to purchase with cash (only 49% use mortgages, as opposed to 75% of noninvestors).

[5] This finding is based on a simple ordinary least squares regression. Full results available upon request.

[6] Over 82% of government-purchased properties and 76% of those purchased by nonprofits were resold by the end of 2012.

time to resale for investors is just 180 days. About 13% of investors who resold did so in less than 30 days, though this accounts for only 111 properties. Based solely on purchase and resale prices (not taking into account any other factors, such as costs of building improvements), 92% of investors who resold made a profit. Sales prices exceeded purchase prices by $94,000 at the median. As a point of comparison, the median price investors paid for foreclosed properties was $145,000.

Summary

Investors are active in Suffolk County, particularly in Boston. Almost all the investors are locally based, though their sources of capital may not be. Increasing shares of properties sold at foreclosure auction are avoiding REO and being sold directly to third-party buyers, who are usually investors. However, the overall number of foreclosures completed each year has decreased dramatically.

These findings about investor purchases of foreclosed properties raise several questions. First, why are investors more active in Boston than in Chelsea, Revere, and Winthrop? Strength of the rental markets in the different neighborhoods, housing characteristics, or other neighborhood factors may be at play, influencing the rate of return investors expect to receive. Without knowing how share of nonforeclosed properties investors are purchasing, it may not be accurate to argue that foreclosure investors disproportionately target Boston. Second, what are the different financing mechanisms investors use to purchase foreclosed properties? Specifically, among those investors who borrow, who finances their investments, and are these lenders or equity holders locally based? Finally, what do investors do with foreclosed properties, and how do their actions impact neighborhoods and the local housing market?

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Note on the Classification of Investors

I cleaned and standardized the buyers' names and attempted to identify buyers who purchased multiple foreclosures. Several issues complicate matching the buyers. First, sometimes the same buyer's name is formatted or spelled slightly differently. Second, sometimes two or more unique buyers share the same first and last name. Finally, buyers purchasing properties through corporations or real estate trusts can be hard to link together, since the buyers usually set up several of these entities, often even just one for each transaction. In order to overcome these obstacles, I wrote a basic program to clean the names, and then I manually inspected and edited the cleaned and raw lists. I used the buyers' addresses (and in the case of LLCs, the officers) from the Secretary of the Commonwealth's Massachusetts Corporate Database and the Registry of Deeds to distinguish between – and link– buyers. On the rare occasions that address information was missing or ambiguous, I was able to determine if John Doe A and John Doe B were the same person by looking up their address information in the City of Boston Assessor's database and comparing their signatures on Registry documents. For simplicity, I consider buyers who purchased 2 or more foreclosed properties to be investors. This should offer a lower bound on investor activity.

I identified 320 unique individuals or groups of investors who have purchased 2 or more foreclosed properties in Suffolk County.[7] These buyers purchased a total of 1,946 properties, 41% of the sample. An additional 117 properties were purchased by owners with only 1 foreclosure purchase but who appeared to be corporate entities, based on a keyword search of the grantee names including the terms "LLC," "Corp.," "Inc.," etc. So in total, 2,063 properties in the sample (44%) were purchased by 437 unique likely investors.

[7] This total excludes government and nonprofit organizations, which purchased a total of 149 of the properties in the sample (about 3%).