How Do Foreclosures Impact Nearby Property Values?

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Introduction
There has been a significant increase in foreclosures after the housing bubble burst in 2006-2007. Foreclosures have negative impacts not just for the homeowner, but also on neighboring property values. This study investigates the impact of foreclosures over time on nearby property values through an endogeneity-controlling hedonic model.

Background
Illinois has the third highest foreclosure rate in the nation – 1 in every 147 housing units received a foreclosure filing in the first quarter of 2013.

Results
• On average, no impacts before the auction; -2% to -1% during the two years after the auction

Impacts of foreclosures at various phases

• One more foreclosed property can reduce its nearby property values: (calculated at median housing price)
  In the first year: $2,100
  In the second year: $3,000

• Geographically Weighted Regression

<table>
<thead>
<tr>
<th></th>
<th>Min</th>
<th>Mean</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ongoing</td>
<td>-0.166</td>
<td>-0.003</td>
<td>0.184</td>
</tr>
<tr>
<td>Foreclosures completed:</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Last year</td>
<td>-0.271</td>
<td>-0.025</td>
<td>0.15</td>
</tr>
<tr>
<td>One year ago</td>
<td>-0.285</td>
<td>-0.032</td>
<td>0.24</td>
</tr>
<tr>
<td>Two years ago</td>
<td>-0.331</td>
<td>-0.046</td>
<td>0.109</td>
</tr>
</tbody>
</table>

Average GWR coefficients for foreclosures completed last year

Conclusions
This study investigates the impact of foreclosures on nearby property values in the single family housing market by analyzing a foreclosure’s impact both over time, and over various neighborhood vacancy rates.