

What Foreclosed Homes Should a Municipality Purchase to Stabilize Vulnerable Neighborhoods?

Michael P. Johnson*, David Turcotte**, Felicia M. Sullivan***

*University of Massachusetts
Boston
Boston, MA 02125
michael.johnson@umb.edu;
corresponding author

**University of Massachusetts
Lowell
Lowell, MA 01854
david_turcotte@uml.edu

***University of Massachusetts
Boston
Boston, MA 02125
felicia.sullivan@umb.edu

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Abstract:

Over the past two years, increased rates of mortgage foreclosures in the U.S. have resulted in bankruptcies of over 100 mortgage lenders, losses to banks, hedge funds, pension systems and other investors in the range of \$400 billion. The housing market effects of the foreclosure crisis, and the wider credit crunch that has resulted, are severe. The effects have been especially pronounced in economically troubled regions.

In response, municipalities, often with aid of state and federal agencies, provide a variety of services to mitigate the effects of foreclosures. Purchases of foreclosed properties represent a particularly attractive strategy because they have the potential to minimize blight, reduce unanticipated housing mobility, and to provide affordable homeownership opportunities to lower-income families. However, the cost of all such purchases far exceeds the resources available in most urban centers. Thus, not-for-profit managers must solve the following decision problem: What subset of a large number of available foreclosed properties should be acquired for neighborhood stabilization and revitalization?

In this paper, we present a multiobjective facility location model to select foreclosed multifamily housing units for redevelopment to jointly optimize objectives of social benefits and costs and equity, while accounting for limited public funds. We apply our model to data from the economically struggling Massachusetts city of Lowell, which has faced sharp increases in foreclosures since 2006. We generate Pareto-optimal solutions that show policy-relevant variation over space and objective values and develop measures based on objective function values that may inform policy discussions and generate rules-of-thumb for use by practitioners.