HOUSE FLIPPING IN NYC:

HOW REAL ESTATE SPECULATORS ARE **TARGETING** NEW YORK CITY'S **MOST AFFORDABLE NEIGHBORHOODS**

By Leo Goldberg and John Baker

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In neighborhoods across New York City, real estate investors are knocking on doors and calling up homeowners, seeking to convince them to sell their properties at low prices so that the homes can be resold for substantial profits. Commonly referred to as "housing flipping," this practice can uproot residents in gentrifying neighborhoods and reduce the stock of affordable homes in a city where homeownership is increasingly out of reach for most.

Not since 2006, when property speculators played a significant role in spurring the mortgage crisis that triggered the Great Recession, has so much house flipping been recorded in the city.¹ The practice is often lucrative for investors but can involve unwanted and sometimes deceptive solicitations of homeowners. And the profitability of house flipping creates an incentive for scammers seeking to dislodge vulnerable — and often older — homeowners from their properties.²

In more economically depressed parts of the country, flipping is sometimes considered a boon because it puts dilapidated homes back on the market. However, in New York City, where prices are sky-high and demand for homes far exceeds supply, flipping contributes to gentrification and displacement. The practice not only affects homeowners, but also renters who live in 1-4 unit homes and often pay some of the most affordable rents in the city. Once an investor swoops in, these renters can find they've lost their leases as the property gets flipped.

This report builds on our previous research on the effects of flipping on affordability and displacement by analyzing the connection between foreclosure and property speculation.³ Our analysis of flipped homes from 2010 to 2017 shows that investors sourced over one third of their properties from homeowners who are in foreclosure.

¹A new paper from the National Bureau of Economic Research finds that borrowers with poor credit had a much smaller role in the wave of mortgage defaults that began in 2006 than commonly believed. Instead, it was investors who began rapidly defaulting in that year, creating ripple effects in the mortgage industry and, ultimately. the economy at large. Albanesi, De Giorgi, and Nosal, Credit Growth and the Financial Crisis: A New Narrative, NBER Working Paper No. 23740, August 2017. Available at: http://papers. nber.org/tmp/85065-w23740.pdf

² "11 People, 2 Companies Accused Of Tricking Homeowners Into Signing Over Deeds In Queens," CBS New York. March 1, 2017. Available at http://newyork.cbslocal.com/2017/03/01/queens-deed-fraud/

³ "The Impact of Property Flipping on Homeowners and Renters in Small Buildings," available at http://cnycn.org/wp-content/uploads/2016/04/CNYCN-NYC-Flipping-Analysis.pdf

This practice allows investors to access properties not listed on the open real estate market, depriving non-professional buyers of the opportunity to bid on them.

Additionally, by comparing the sales prices of flipped homes to non-flipped homes in the same neighborhood, we can distinguish between price increases caused by housing market trends and price inflation generated by property speculation.

FINDINGS

1. In 2017, investors purchased over one-third (38%) of the homes that sold at prices within reach of middle- and working-class families in New York City, dramatically diminishing the supply of homes affordable to those households.

2. Flipping is fueled by foreclosures: Twelve percent of all homes sold in 2017 had been in foreclosure at the time of sale while the same is true of 34% of the homes flipped in 2017. That means that a flipped home was almost three times more likely to have been in foreclosure than a home that sold without being flipped.

3. Flipping makes it more difficult for prospective buyers to find affordable homes by inflating prices beyond similar properties in the neighborhood. For example, flipped homes in Jamaica, Queens, sell for 33% more than similar properties not purchased by investors.

FINDING 1

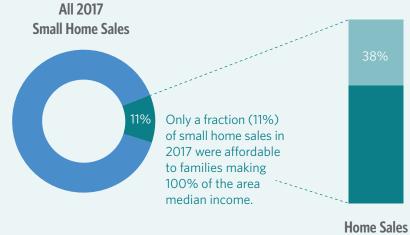
Home flipping significantly diminished the supply of affordable homes in 2017

Very few home sales in New York City can be considered affordable to first-time homebuyers. Flippers have captured many of those homes, further limiting the already constrained options for families looking to buy.

In 2017, 24,344 1-4 unit homes were sold in New York City. Of those, only 2,705 (11%) were affordable to families making the area median income for a family of three — \$85,900.⁴ Of those sales, 1,026 (38%) were flipped in the following months by investors — almost always at much higher prices. That means that over one third of homes on the market affordable to families at the area median income (100% of AMI) were purchased by investors and subsequently resold at less affordable prices.⁵ Another way to understand the phenomenon: even though the vast majority of sales were at higher price points, the majority of flips (51%) were of homes sold at prices affordable to families at the area median income.

⁴ This calculation assumed the median 2016 loan-to-income ratio of 3.74 (as indicated by Home Mortgage Disclosure Act data) and a 5% downpayment (most low and moderate income homebuyers in New York City use low-downpayment mortgages from the FHA or other sources). Assuming a 20% downpayment and thus a higher affordable sales price, does not make a significant change to this analysis, dropping the percentage of affordable sales that were flipped only 1%.

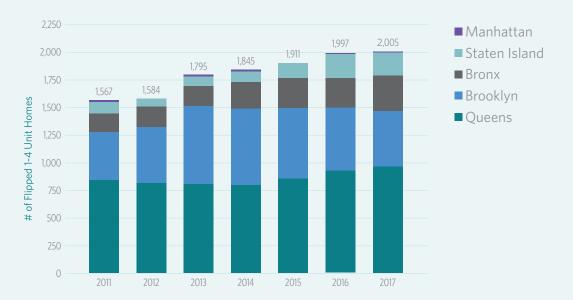
⁵ This analysis does not include co-ops and condos. There are just under 200,000 condos and co-ops in New York City; 636,000 lots contain 1-3 family homes.



Of these homes-sold at prices affordable to a median family-more than a third (38%) were picked up by flippers rather than homeowners.

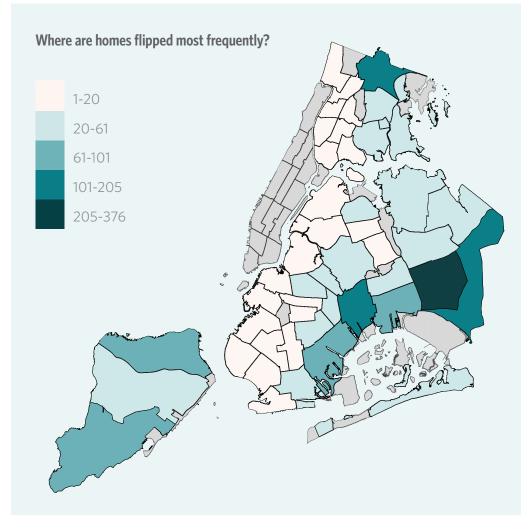
Home Sales Affordable to Families Making 100% AMI

Neighborhood trends reveal how flipping is taking affordable homes off the market in the city's working-class neighborhoods as investors travel further away from Manhattan in search of profits:



Small Home Flips 2011-2017

- The most intense speculative activity continues to be in southeast Queens and eastern Brooklyn. In Jamaica, Queens, more than one out of every five home sales (22%) is to a flipper. This is significantly higher than the borough-wide figure for Queens, which is 10%.⁶
- Cambria Heights, Queens and Queens Village have seen steep year-over-year increases in flipping — as have the northern Bronx, and Brooklyn neighborhoods like Flatbush, Canarsie, and Flatlands.
- Meanwhile, flipping has slowed in Bedford-Stuyvesant and other central and western Brooklyn neighborhoods. Bedford-Stuyvesant saw the number of flips diminish from 171 in 2013 to 46 in 2017. As property prices have surged in the area, investors have likely found bargain prices harder to come by and have turned their attention to neighborhoods farther east or outside the borough.
- Flipping activity has picked up on Staten Island but is still relatively low compared to the general volume of home sales. In some city neighborhoods, flipping makes up as much as 22% of the market for small homes. On Staten Island, flipping has made up no more than 5% of home sales in any year since 2010.



FINDING 2

Flipping is Fueled By Foreclosures

While new foreclosure filings are lower than they were at the peak of the economic crisis, there are still roughly 20,000 households making their way through the foreclosure process in New York City.⁷ Many households that fell behind on their mortgage three, four or five years ago are still struggling to maintain their homes today. ⁸ These properties are valuable targets for flippers who can arrange offmarket short sales, scooping up homes for prices that families hoping to buy will never see for sale in real estate listings.

Short Sales

A short sale occurs when a bank permits a homeowner who is underwater on their mortgage to sell their home for less than the current value of their mortgage.⁹ The bank takes a loss on their loan but can write the bad debt off their books, freeing up that capital for other investments. Meanwhile, the homeowner can walk away from their home without owing additional debt – though also without profiting on the sale.

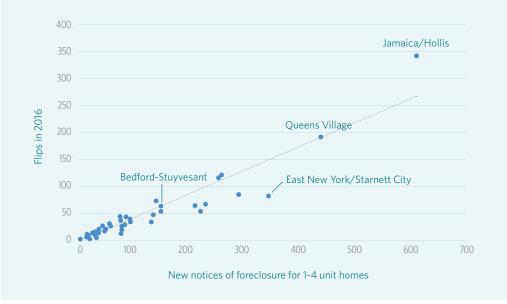


While a short sale can present a win-win resolution in a difficult situation, the short sale process is also vulnerable to manipulation. The Center's staff and network of legal services providers have identified a common strategy among flippers: ostensibly neutral brokers or lawyers approach homeowners threatened by foreclosure offering help but ultimately steer them into sales to the broker's or lawyer's own associates, who are professional flippers.¹⁰ In doing so, they create a sale below market prices, which loan servicers often sign off on as a short sale. This arrangement is problematic when the homeowners could have stayed in their homes — through a mortgage modification and/or by participating in the New York State Mortgage Assistance Program – if they had received unbiased advice from professional attorneys or housing counselors.

⁷ Determined from data from the Federal Reserve Bank of New York's Regional Household Debt and Credit Snapshots

⁸New York State's judicial foreclosure process moves homes through the foreclosure process slower than most states. Foreclosure proceedings are also often drawn out when servicers fail to provide correct documentation or move cases forward for other reasons. ⁹A homeowner is underwater when they owe more principal on their mortgage than their home could sell for.

¹⁰ For a in-depth look into speculative investors who target Brooklyn homes in foreclosure, see "Their Home Was In Foreclosure. Then It Was Sold On Reality TV" published by BuzzFeed News in December 2017. https://www.buzzfeed.com/lisariordanseville/ they-lost-their-homes-now-a-reality-tv-star-is-selling-them The chart below plots the relationship between the number of foreclosures and property flips in the city's 59 community districts, indicating a strong correlation. It is no coincidence that the two community districts with the most flips in 2017 (Jamaica/Hollis and Queens Village) also had far and away the most new foreclosure filings in 2017. ¹¹



Flips versus new notices of foreclosure, by community district

Twelve percent of all homes sold in 2017 had been in foreclosure at the time of sale while the same is true of 34% of all homes flipped in 2017. That means that a flipped home was almost three times more likely to have been in foreclosure than a home that sold without being flipped.¹² In some neighborhoods, nearly half of the homes flipped in 2017 started with a foreclosure: in East Flatbush, Brooklyn, Queens Village and Kew Gardens/Woodhaven, Queens, over 40% of flips originated with a home in foreclosure.

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Foreclosure need not fuel speculation — free housing counseling, legal counsel, and zero-interest loans are available to homeowners with mortgage distress and, in many cases, prevent foreclosure.¹³ Housing counseling can also help homeowners whose financial situation makes staying in their homes infeasible by ensuring that they are aware of their options. For example, homeowners who wish to sell their homes can often sell them for higher prices by working with a real estate agent and by listing the property publicly.

¹¹ See Appendix C for a breakdown of flipping and foreclosure filings for all community districts; the source for foreclosure data is the NYU Furman Center's CoreData portal accessible at coredata.nyc

¹² A flipped home is considered to have been in foreclosure if a lis pendens was filed against the property (same owner) in the three years before the home was sold to an investor-flipper.

¹³ The Center for NYC Neighborhoods connects homeowners to help through its Homeowner Hub and assists homeowners directly through the New York Mortgage Assistance Program.

Profile of a Typical Flip:

Home on Murdock Ave in the Wakefield section of the Bronx

- In 2007, at the height of the pre-recession property bubble, Ms. C purchased the property for \$510,000.
- In 2013, Ms. C went into foreclosure.
- In November 2015, she sold her home to an LLC, likely in a short sale, for \$220,000.
- In August 2016, the LLC resold the property for \$470,000, a price increase of \$250,000 or a 114% gross profit.



FINDING 3

Flipping makes it harder for prospective buyers to find affordable homes

Flippers typically purchase homes at bargain prices that are considerably lower than comparable sales prices in the area and then sell them at significantly higher prices. In 2017, flippers were able to purchase homes at a median price per square foot of \$212, while similar homes sold on the open market for a median price of \$368 per square foot.¹⁴ Across the city, flippers purchased homes for 20% to 50% less than the sales prices of comparable properties in the neighborhood.

Cypress Hills and East New York (Brooklyn Community District 5) lead Brooklyn in flipping because investors are able to buy homes at much lower prices than other buyers. While the neighborhood's median sale price for non-flip 1-4 family sales was \$261/sqft, investors looking to flip bought similar homes for a median price of \$186/sqft in 2017. That difference means that investors are able to beat out first-time homebuyers for whom East New York and Cypress Hills' modest two-story houses have traditionally been entry points to homeownership.

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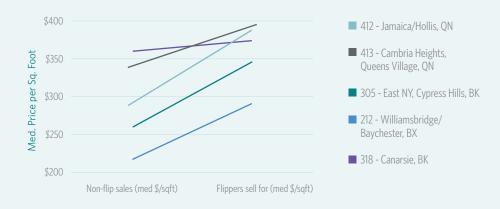
Flippers Buy At Below Market Prices (2017)

Borough	Flippers buy for (med \$/sqft)	Non-flippers buy for (med \$/sqft)
Bronx	\$160	\$235
Brooklyn	\$230	\$425
Queens	\$230	\$400
Staten Island	\$220	\$330

On aggregate, flippers sell homes at prices up to 50% higher than similar non-flip sales in the neighborhood. The difference in sales prices suggests that the sales prices of flipped properties are not just reflections of the general rise in property values in a neighborhood, but that the act of flipping itself is pushing prices up for these homes. Investors reach higher sales prices by renovating homes and by using more sophisticated marketing strategies than the average homeowner. Rising prices among flipped homes can also have implications for the whole community: typically, inflated home prices will have an upward pressure on neighboring properties, even those that are not subject to flipping.

Community District	# flips in 2017	Flippers sell for (med \$/sqft)	Non-flippers sell for (med \$/sqft)	Percent Difference
412 - Jamaica/Hollis, QN	376	\$388	\$292	33%
413 - Cambria Heights/ Queens Village, QN	205	\$393	\$340	16%
212 - Williamsbridge/ Baychester, BX	136	\$294	\$217	35%
305 - East NY/Cypress Hills, BK	126	\$348	\$261	33%
318 - Canarsie/Flatlands, BK	101	\$374	\$360	4%

Comparing Flip Prices to Market Prices - 5 Community Disctricts with the most Flips in 2017



Unlike neighborhoods with high flipping activity, neighborhoods with relatively little flipping activity do not see a significant impact on prices. For example, southern and western Brooklyn, and western Queens, show median market sales prices higher than those of flipped properties. This may be because the flipping in those areas is not conducted by experienced investors who specialize in maximizing value from their flips. The same is true for two of the three community districts of Staten Island. Another possible explanation is that the homes flipped in these neighborhoods are less valuable than other homes because of factors beyond the scope of this analysis (such as building age).

As explored in the Center for NYC Neighborhoods' 2016 report, "The Impact of Property Flipping on Homeowners and Renters in Small Buildings," inflated home prices mean fewer opportunities for first-time homebuyers. In eastern Brooklyn, the median price that investors purchased homes for would have been accessible to a family making about \$94,000 a year. At the median price that investors sold for, only families making at least \$182,000 would have a realistic chance of affording to buy.

Before Flip		After Flip			
Price	\$350,000	\$680,000			
Income to afford	\$94K (110% of AMI for family of 3)	\$182k (210% of AMI for family of 3)			

The Impact of flipping on affordability in Brooklyn Community District 5 (Ea
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Inflated home prices can also affect renters as well. That's because most small homes in New York City contain at least one rental unit (the city has over 230,000 two-family homes). These units tend to be available at rents below those of other market rate units and make up the predominant form of rental housing in low-rise outer-borough neighborhoods.¹⁵

In the most recent five-year period, the 9,000 flipped homes represent 15,000 individual housing units. If every home had one unit inhabited by the owners, then at least 6,000 of these units were rentals, though the actual number is likely higher.

Total housing units in flipped homes including rentals

2011	2012	2013	2014	2015	2016	2017
2,679	2,733	3,158	3,256	3,298	3,318	3,179

The impact of flipping on rents is evident in a sample from East New York where we found that longtime residents are charging a median of \$1,530 (affordable to a family making about \$56k) for a three-bedroom apartment in their 1-4 unit home. Meanwhile in recently flipped homes, the median rent is \$2,200 (affordable to a family making about \$80k).¹⁶

Tenants in flipped homes are extremely vulnerable to displacement. Unprotected by rent stabilization laws and predominantly middle- and working-class, renters in small homes are unlikely to be able to withstand rent spikes that are likely when a new buyer seeks revenue to offset their new investment.

Recommendations for limiting small homes speculation and preserving affordability

Anti-Speculation Tax

One way to limit house flipping is to tax speculative transactions at a higher rate. A bill introduced into the New York State Assembly (bill **#7406**) and Senate (bill **#6488**) in 2017 modifies the existing Real Property Transfer Tax (RPTT) by taxing sales that occur in rapid succession at higher rates than those that follow long periods of ownership. The proposal includes exemptions so that average homeowners who have to sell shortly after buying because of a change in circumstances will not be punished.

Cease-and-Desist Zones

A cease and desist zone creates a mechanism for homeowners to protect themselves from real estate professionals who scour neighborhoods by mail, phone and on foot in search of homes to buy. In a cease and desist zone, homeowners can opt-in to a no-solicitation registry to stop harassment from brokers and scammers seeking to pressure them into selling their homes. If solicitors persist, the homeowner can report them to an enforcement agency that can punish violators through fines and license revocation. Since 1989, the New York Secretary of State has had the authority to create cease and desist zones.

Awareness of Homeowner Assistance Resources

It is very likely that the hundreds of homeowners who sell to investors each year while they are in foreclosure are unaware of their full set of options for stabilizing their housing situation. Too many homeowners who sell in such transactions are not getting the housing counseling and legal services support they need to pursue loan modifications or other mortgage workouts. Since stabilizing distressed homeowners also means stabilizing renters in those properties, foreclosure prevention services are an important investment in housing affordability and stability for whole neighborhoods. Even if homeowners are unable to avoid foreclosure and/or wish to sell, consulting with an attorney or housing counselor can help them take steps to ensure they are not being taken advantage of or participating in a fraudulent scheme.

Strengthen Pathways to Non-Speculative Ownership: Community Land Trusts and Downpayment Assistance

In the community land trust model (CLT), a nonprofit organization retains ownership of land and sells or rents housing to lower-income households. To ensure would-be homeowners and renters benefit from the arrangement for years to come, the trust caps the resale prices and rents of the housing, maintaining affordability in perpetuity. In New York City's housing market, where both foreign and domestic financial inflows fuel speculation, removing some land from the market entirely is a powerful way to shield housing units from the cycles of foreclosures and flips that we have seen over the last ten years.

It is also important to give first time homebuyers a boost as they compete with investors for market-rate homes. Since downpayment is the biggest obstacle for many LMI families, expanding downpayment assistance options is critical to keeping neighborhoods accessible. Today New York City and State lag behind other high-cost regions in the scope and availability of downpayment assistance offerings.

METHODOLOGY

In this analysis, a flip is defined as a home that is bought and sold in arm's-length transactions within a 12-month period.¹⁷ The analysis is focused on 1-4 unit properties and excludes condominium and co-op sales in order to maintain data consistency. We define non-flip sales as arm's-length transactions involving 1-4 unit homes where there is not a resale within 12 months.

Information on home prices is drawn from the City Department of Finance's annualized sales data. We normalized sales prices by gross building square footage at the community district level in order to control for factors that could make the inventory of flipped properties different from that of non-flip sales. Using sales price/built square feet gives results that are not skewed by home size. By comparing sales within Community Districts we were able to focus on relatively homogeneous housing stocks.

We corroborated these results by differentiating between building class groups (A, B, and C) at the community district level. This allowed us to compare flips of single family homes to other single family homes, two family homes to other two family homes, etc. The results mirrored our analysis with normalized (by gross square feet) figures.

Flips-to-sales ratio: This is calculated by dividing the number of flipped properties in a given geography by the total number of arm's-length 1-4 unit property sales in a year-long period. This measure indicates the intensity of speculative activity by normalizing for the size of the 1-4 unit housing market in a given area.

We use medians rather than averages to dampen the influence of outliers in the data and give more accurate comparisons between neighborhoods and years.

The year of the flip is defined as the year in which the resale occurred. So if a property was purchased in December 2014 and sold again in February 2015, it is described as a 2015 flip.

¹⁷ At a price determined by the market and not subject to special deals. We also applied filters to exclude sales and flips that are not arm's-length. We excluded sales of less than \$100,000 which are frequently transfers between business partners or family members and flips in which the sales occurred within 5 days of each other.

Appendix A

1-4 unit flipping trends 2011-17

	2011	2012	2013	2014	2015	2016	2017	2011-17
Bronx	172	172	187	236	269	296	318	1,650
Brooklyn	438	519	708	691	640	565	506	4,067
Manhat- tan	8	2	6	11	6	4	3	40
Queens	847	817	805	802	864	940	961	6,036
Staten Island	102	74	89	105	132	192	217	911
Total	1,567	1,584	1,795	1,845	1,911	1,997	2,005	12,704

Appendix B

The ratio of flips to all 1-4 family sales gives a picture of the intensity of flipping in a given area.

Ratio of flips to all 1-4 family sales in 2017

Borough	Pct of flips out of all sales
Bronx	11%
Brooklyn	8%
Queens	10%
Staten Island	5%

Top Neighborhoods for flips-to-sales ratio in 2017

Rank	Community District	Pct of flips out of all sales
1	Jamaica/Hollis, Queens (QNs 12)	22%
2	East NY/Cypress Hills, Brooklyn (BK 5)	17%
3	Williamsbridge/Baychester, Bronx (BX 12)	17%
4	Brownsville, Brooklyn (BK 16)	15%
5	Queens Village, Brooklyn (QN 13)	14%

Appendix C Flipping, housing market indicators and foreclosures by Community District in 2017

Community District	# flips 2016-17	Res units impacted 2016-17	Change in Sales Price index, 2-4 unit homes; 2011- 2016	Notices of fore- closure per 1000 1-4s, 2016	New notices of fore- closure - 1-4s, 2016
QN 12 - Jamaica/Hollis	718	966	55	36	610
QN 13 - Queens Village	395	501	58	22	435
BX 12 - Williamsbridge/Baychester	252	441	30	32	251
BK 05 - East New York/Starrett City	246	490	41	34	256
SI 01 - St. George/Stapleton	184	262	59	20	288
BK 18 - Flatlands/Canarsie	182	286	32	23	341
QN 10 - South Ozone Park/Howard Beach	154	212	64	19	208
QN 09 - Kew Gardens/Woodhaven	134	214	80	17	138
SI 03 - Tottenville/Great Kills	126	152	25	11	219
BK 17 - East Flatbush	119	223	60	31	228
BK 03 - Bedford Stuyvesant	109	244	214	22	146
SI 02 - South Beach/Willowbrook	99	120	47	10	148
QN 14 - Rockaway/Broad Channel	93	158	47	25	134
BX 09 - Parkchester/Soundview	82	167	34	14	129
QN 03 - Jackson Heights	80	139	78	16	86
QN 05 - Ridgewood/Maspeth	75	146	105	6	73
BK 16 - Brownsville	73	151	117	36	92
BX 10 - Throgs Neck/Co-op City	72	109	45	15	81
BX 11 - Morris Park/Bronxdale	68	126	46	15	84
QN 07 - Flushing/Whitestone	67	111	88	5	91

Community District	# flips 2016-17	Res units impacted 2016-17	Change in Sales Price index, 2-4 unit homes; 2011- 2016	Notices of fore- closure per 1000 1-4s, 2016	New notices of fore- closure - 1-4s, 2016
BK 04 - Bushwick	60	133	222	24	74
QN 11 - Bayside/Little Neck	51	67	57	4	56
QN 08 - Hillcrest/Fresh Meadows	51	65	79	7	77
BK 08 - Crown Heights/Prospect Heights	50	104	186	20	54
BK 15 - Sheepshead Bay	43	59	62	8	76
QN 04 - Elmhurst/Corona	39	88	97	10	41
BK 14 - Flatbush/Midwood	38	58	141	14	48
BK 11 - Bensonhurst	30	61	88	4	34
BX 06 - Belmont/East Tremont	29	58	49	27	31
BK 09 - S. Crown Heights/Lefferts Gardens	27	49	125	21	46
BK 12 - Borough Park	24	54	130	11	74
BX 04 - Highbridge/Concourse	20	43	34	47	28
BX 05 - Fordham/University Heights	20	36	31	27	21
BX 03 - Morrisania/Crotona	19	40	42	29	27
QN 02 - Woodside/Sunnyside	19	46	82	7	29
BK 07 - Sunset Park	18	38	130	5	27
BK 10 - Bay Ridge/Dyker Heights	16	30	85	4	27
BX 01 - Mott Haven/Melrose	15	22	23	13	14
BX 07 - Kingsbridge Heights/Bedford	15	29	73	27	24
BK 13 - Coney Island	13	26	44	11	30
QN 01 - Astoria	13	23	112	5	26
BX 02 - Hunts Point/Longwood	13	35	34	31	22

Community District	# flips 2016-17	Res units impacted 2016-17	Change in Sales Price index, 2-4 unit homes; 2011- 2016	Notices of fore- closure per 1000 1-4s, 2016	New notices of fore- closure - 1-4s, 2016
QN 06 - Rego Park/Forest Hills	12	14	37	4	19
BK 06 - Park Slope/Carroll Gardens	12	35	192	2	17
BX 08 - Riverdale/Fieldston	10	19	-1	8	13
BK 01 - Greenpoint/Williamsburg	6	12	255	4	29
BK 02 - Fort Greene/Brooklyn Heights	5	10	225	4	23
MN 10 - Central Harlem	3	8	528	6	18
MN 09 - Morningside Heights/Hamilton	2	0	408	8	2
MN 08 - Upper East Side	1	2	58	2	20
MN 02 - Greenwich Village/Soho	0	0	28	1	3
MN 03 - Lower East Side/Chinatown	0	0	426	2	2
MN 11 - East Harlem	0	0	268	6	5
MN 12 - Washington Heights/Inwood	0	0	805	5	2



