Zoning restrictions also a key factor in foreclosure crisis, scholar says

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Urban and regional planning professor Arnab Chakraborty, left, and graduate students Robert Boyer, center, and Dustin Allred collaborated on a study of foreclosures from 2005 through 2008. Credit: L. Brian Stauffer

The causes of the foreclosure crisis seem obvious: Buyers purchased homes they couldn't afford, lured in part by lenders pushing subprime mortgages. Real estate values escalated, and when the bubble burst, buyers were left owing more than their homes were worth.

Arnab Chakraborty, a professor of urban and regional planning at the University of Illinois, has identified another factor in the crisis – neighborhood zoning. According to a study published in the journal *Housing Policy Debate*, communities that zoned too strictly for the development of large, single-family homes have a higher risk for foreclosure when compared to areas that accommodate a broader spectrum of housing options.

"It intuitively makes sense," Chakraborty said. "If you push too much housing in the high-price sector, then people who would otherwise buy cheaper housing would either be forced to buy more expensive housing or move elsewhere. It is, ultimately, a question of choice for the homebuyers."

Chakraborty and two doctoral students, Dustin Allred and Robert H. Boyer, focused on mortgages that had entered the foreclosure process from 2005 through 2008, the period of the housing bubble. The study used data from six metropolitan areas across the United States – Baltimore-Washington, D.C.; Boston; Miami; Minneapolis-St. Paul; Portland, Ore.; and Sacramento, Calif. – chosen to represent a variety of real estate markets and regulatory approaches.

These six metro areas included 129 municipalities and a wide range of zoning types. To determine what proportion of land each community reserved for large homes, the researchers created four broad zoning classifications based on the maximum number of households allowed per acre, ranging from a high of more than eight units per acre down to the least dense category – less than one unit per acre.

The researchers adopted a similarly broad definition of foreclosure risk, counting any mortgage that entered the foreclosure process, regardless of the ultimate outcome. "We did that for a very specific reason, which is that foreclosure regulations vary a great deal state to state," Chakraborty said. "The fact that the mortgage loan entered foreclosure was an indicator that the homeowner was under some vulnerability."

They also had to take into account a host of factors already associated with foreclosure, including the number of high-cost or subprime mortgages, the percentage of Hispanic and African-American residents, foreclosure rates in surrounding municipalities, and the type of rampant market speculation seen in cities such as Phoenix and Miami.

"What we were trying to see was, whether after controlling for those factors, if there is a structural link, or a connection between the restrictiveness of the zoning and the risk of foreclosure," Chakraborty said. "We found that the higher the proportion of single-family detached housing, the more mortgages are entering foreclosure."

The journal has asked several experts to write detailed commentaries to be published as a result of Chakraborty's study – an indication that the findings might generate debate. And Chakraborty acknowledges that his study contradicts the conventional advice of some city planners.

"The general tendencies of local governments is to want to build more housing that brings tax revenues and (commercial) development," he said. "But they might go too far. If you over-expose your development capacity in a specific market segment such as higher-price single-family housing, then people who would otherwise buy cheaper housing in your community have little choice but to spend too much or move elsewhere."

With a grant from the National Science Foundation, Chakraborty and his team are already expanding this research to include 20 more metropolitan areas, and to home in on more exact foreclosure data. "This way, we can see whether someone who bought a home in the 1980s or '90s had the same level of risk as somebody who bought in what are called the 'go-go years' – 2000 through 2005," he said.

These findings could interest municipalities and potential homebuyers alike. Municipal governments might use the study to support development plans offering a broader range of housing choices; homebuyers might focus on the odds of protecting their investments.

"What we're trying to show is the connection between local policy and its impact on foreclosure rates of these communities," Chakraborty said. "They might be over-exposing themselves to a lot of foreclosed homes when these people leave, and households might be over-exposing themselves by buying in communities that are predisposed to these risks."

Provided by University of Illinois at Urbana-Champaign

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