

**ASSESSING THE DAMAGE: THE EFFECTS OF RISING FORECLOSURE RATES ON CONSUMER INVESTMENT IN OWNER-OCCUPIED HOUSING**

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**ABSTRACT**

In 2008 foreclosure filings on owner-occupied homes surpassed record levels. Given the increase in foreclosures, it may be predictable that consumer attitudes about owning a home will be negatively impacted. Based on surveys of 421 owners and renters in metropolitan Chicago, and 400 renters in metropolitan San Francisco, this analysis shows consumers' perceptions of homeownership are affected by their exposure to home mortgages foreclosures including the incidence of foreclosures in their current neighborhood.

The higher the foreclosure rates are in a zip code, the more likely a consumer in that area will have higher expected probabilities homeownership will end up in foreclosure controlling for other factors. Likewise as an area's foreclosure rate increases, the willingness of a homeowner to make a major investment in their home declines. Knowing someone who has been through a foreclosure also influences perceptions, as does having trouble making rental or mortgage payments in the past. The implications of these findings are that the impacts of foreclosure extend beyond consumers directly impacted and may produce disproportionate shifts in the expected risks and benefits of owning a home depending on residential location. This may undermine community redevelopment efforts anchored in homeownership for distressed neighborhoods.