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Police Cutbacks Can Be Terrible For Home Values

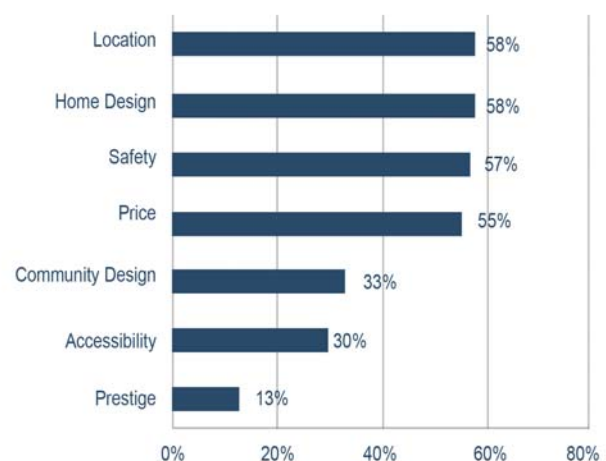
by Sean Fergus | **May. 11, 2013, 9:12 AM** | **902**

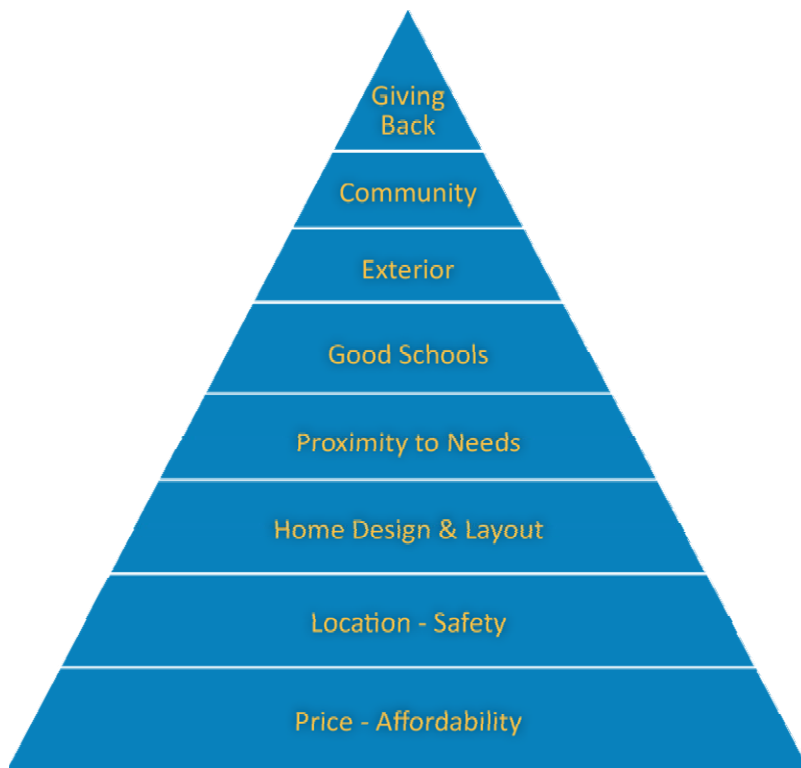
It should not be a surprise that safety is a primary consideration in home buying. In fact, in our survey of almost 20,000 home shoppers, safety ranked above price when asked what were the most important characteristics when purchasing their next home.

So, what happens when a city cuts back on services such as police officers? Our consulting team is finding numerous instances all over the country where demand is declining in certain cities and rising in neighboring cities, and we believe the change is largely attributable to deteriorating services such as police, fire and school quality.

To provide the best feasibility analysis for our land buying clients, and to determine the best cities for our single-family rental landlord clients, we set out to identify which cities are in the most severe financial distress. We found the task somewhat overwhelming and even downright misleading, as many cities that are well-known to be in dire straits had highly rated bonds. The best data we found is on the total number of police and crime. While simplistic, it goes to reason that cities who are cutting back on police are likely to be more amenable to criminals.

Most Important Characteristics
When Purchasing Their Next Home





California Example

Look at the results in the City of San Bernardino, which is currently in bankruptcy. The number of police officers has steadily declined, while crime has risen. We counsel our clients away from investing in cities such as this, unless their investment thesis fully incorporates the negative changes we believe are occurring and will continue to occur.

City of San Bernardino

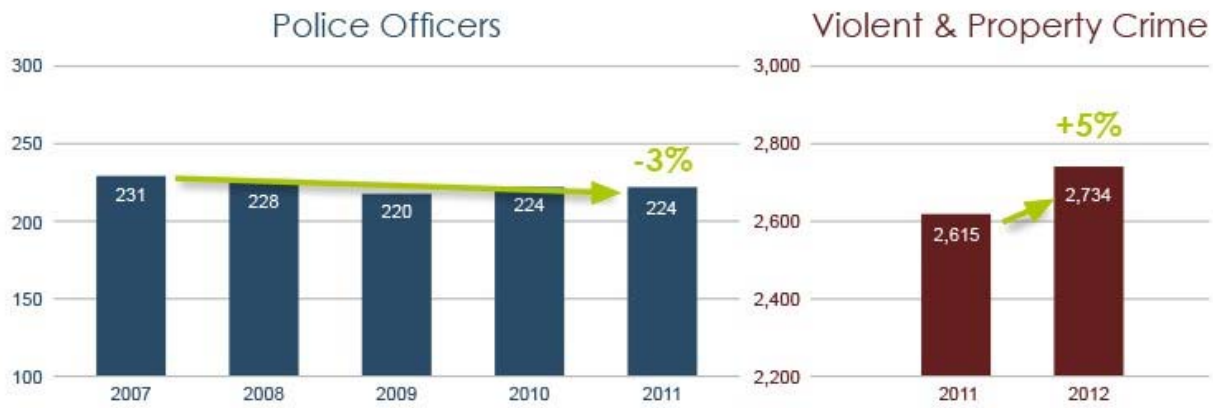


Sources: John Bums Real Estate Consulting; FBI Uniform Crime Reports

One city's pain is another city's gain. Compare San Bernardino's experience to the neighboring

City of Ontario, which only cut police forces 3% from 231 to 224 over the same time period. Crime has only increased marginally from 2011 to 2012, climbing just 5%.

City of Ontario

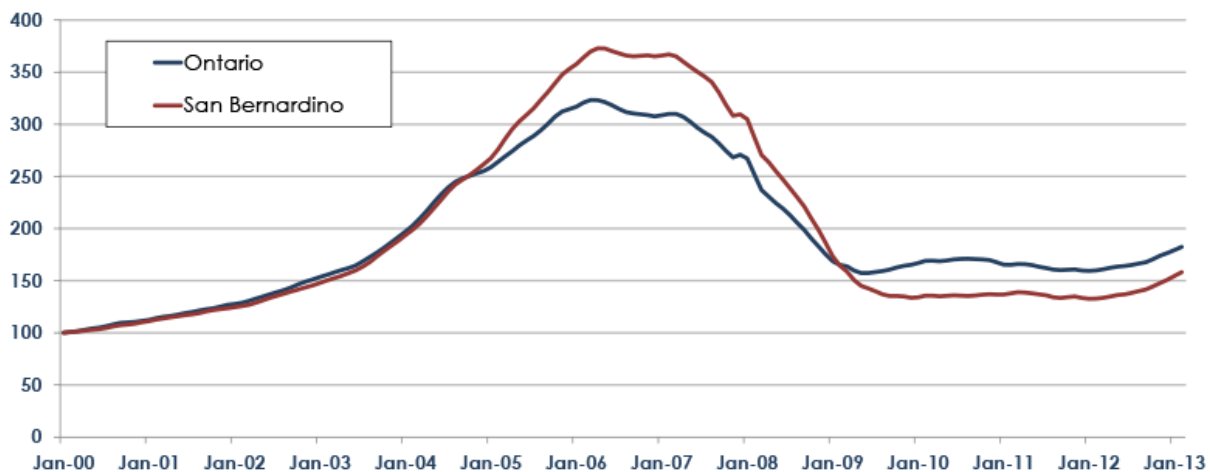


Sources: John Burns Real Estate Consulting; FBI Uniform Crime Reports

San Bernardino residents probably don't know the stats, but they will sense the crime, and many will move next door to Ontario in coming years. While a 5% increase in crime is nothing to brag about, Ontario is likely to experience in-migration from their neighbors whose cities are less safe. We expect more price and rent appreciation in Ontario than in San Bernardino, which has already started to occur as illustrated in the chart below.

Ontario & San Bernardino Single-Family Home Values

Zillow Home Value Index (Jan-00 = 100)

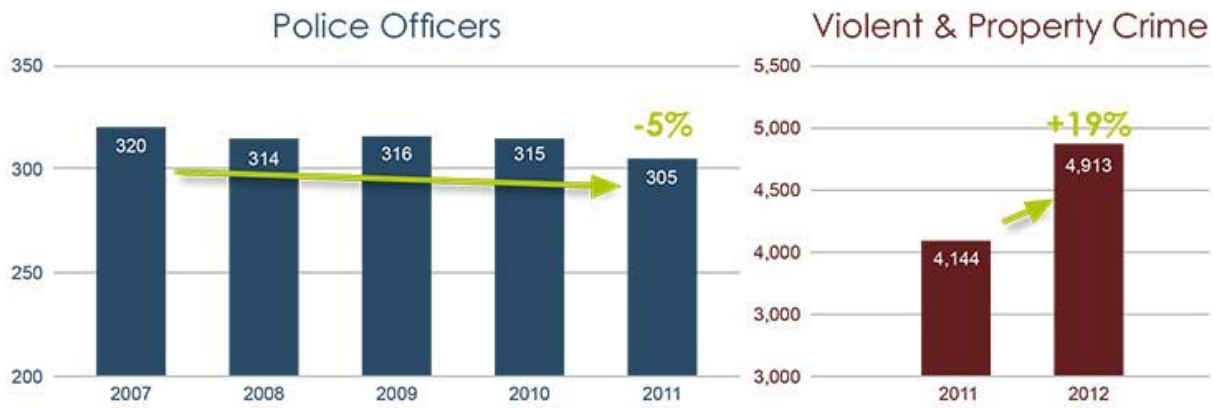


Sources: John Burns Real Estate Consulting; Zillow.com

Florida Example

In Florida, the City of Hollywood cut its police force from 320 officers in 2007 to 305 in 2011, and violent & property crime increased from 2011 to 2012 as illustrated in the charts below.

City of Hollywood



Sources: John Burns Real Estate Consulting; FBI Uniform Crime Reports

The nearby City of Fort Lauderdale actually increased police forces from 459 to 505 in the same time period, and experienced a 2% decline in total crime in the city. If these trends continue, we would also expect to see greater demand for homes in the Fort Lauderdale area, and declining demand in Hollywood. We expect more price and rent appreciation in Fort Lauderdale than in Hollywood.

City of Fort Lauderdale

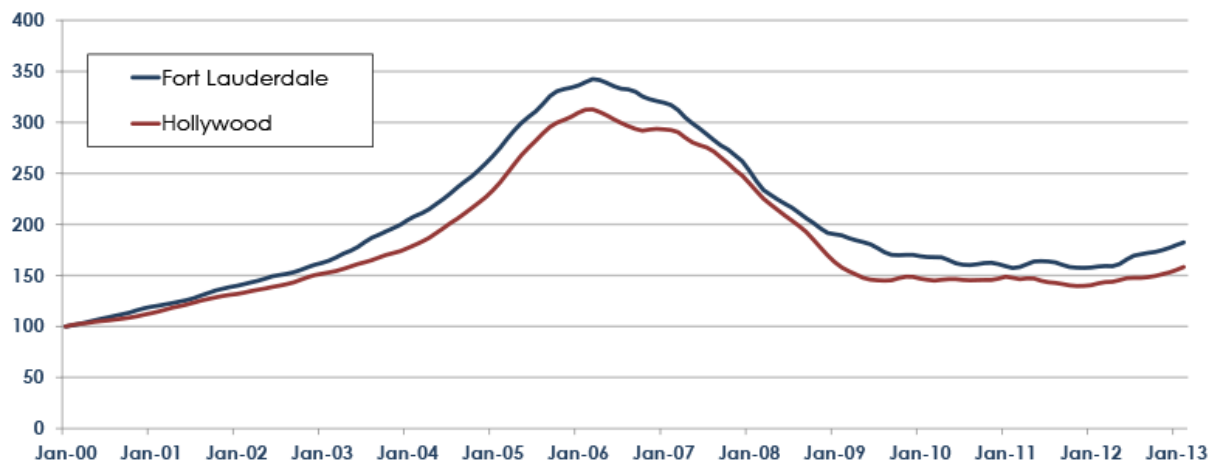


Sources: John Burns Real Estate Consulting; FBI Uniform Crime Reports

While the trend is more subtle than the Ontario and San Bernardino example, Fort Lauderdale has gradually started to experience more price appreciation compared to Hollywood.

Fort Lauderdale & Hollywood Single-Family Home Values

Zillow Home Value Index (Jan-00 = 100)



Sources: John Burns Real Estate Consulting; Zillow.com

Due Diligence

City desirability changes over time, and changes in crime (and even perceived crime) play a huge role in those changes. For years, we have tracked crime statistics as part of our feasibility studies. However, we are now paying more attention to projected changes in crime. Builders and developers need to stay well informed of these police force and crime trends and should make them a part of any market research or feasibility study. Increased crime in a particular city will result in clear winners and losers for cities in a metro area, and builders and developers need to be well-informed on which cities these will be.

We are searching for a way to accurately project changes in school quality too, based on the same issues. School district balance sheets are not created equally!

Methodology

We have detailed police force data for 10,000 cities and crime metrics for all large cities across the country, which is available to our clients. The data should not be strictly interpreted, as the data can be misleading (such as a city's decline in police to be due to outsourcing of police services to the County, or a change in methodology for what constitutes a violent crime). To the best of our ability, we verified the data for all 4 cities mentioned above - either through phone conversations with the police department or reviewing the city budgets and websites - to ensure that the conclusions were accurate.

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