

Arizona Republic:

Arizona immigration law may increase Phoenix foreclosures

By Catherine Reagor

June 14, 2010

The impact of Arizona's tough new immigration law is rippling through the state, six weeks before the law is scheduled to go into effect.

One area where SB 1070 could hurt Arizona, but take many months to manifest, is metropolitan Phoenix's housing market.

An exodus of people - both legal and illegal residents - could be one more drag on a housing-market recovery. Departures from a state where growth is the economic foundation could add to the number of foreclosures and vacant houses and apartments, all of which will hurt the housing industry just as signs of recovery are starting to appear.

Driving illegal immigrants out of Arizona is one stated purpose of the new immigration law. But the law, experts say, could also drive out legal residents and deter potential new residents - people who are afraid of what might happen to them or who simply object to the law.

Real-estate analysts and economists are watching for signs that both illegal and legal residents are moving from the state, while also tracking the number of newcomers to Arizona. After the immigration law goes into effect July 29, it may become one more factor in real-estate forecasts for the region.

"Estimates are that there are several hundred thousand undocumented aliens residing in Arizona," said Phoenix housing analyst Mike Orr, publisher of the Cromford Report, a daily housing-research report. "If the law has the intended effect and these people do leave, then both population and demand for housing will probably decline."

Homeowners

There's a misconception among some Arizona residents that illegal immigrants don't own homes in the state. Housing advocates say thousands if not tens of thousands of people who are not legal residents have purchased houses here.

Before the real-estate crash, it was much easier for everyone, including illegal immigrants, to obtain mortgages to buy Phoenix-area homes.

In some cases, lenders eager to make loans did not check for documentation. In others, there may have been fake documentation.

"Many people in real estate operated with a 'don't ask, don't tell' policy when it came to certain homebuyers and borrowers. We didn't feel like it was our job to be an enforcement agency," said Margie O'Campo de Castillo, a Phoenix real-estate agent. "I always tell people if they aren't legally here, it may not be in their best interest to buy a home. But it's not my decision."

She is trying to help a friend who owns a small business and who had a Phoenix home but is not a legal U.S. resident.

"He never missed a payment, but his business has slowed down," O'Campo said. "He found a buyer to do a short sale on his home, but his lender wouldn't work with him because he isn't here legally. He lost his house to foreclosure."

Since the state's employer-sanctions law passed in 2007, O'Campo said she's seen many undocumented homeowners lose homes to foreclosure, either because their lenders won't work with them or because they can't sell and want to leave the state. The 2007 law makes it illegal to knowingly hire undocumented workers in the state.

Housing experts believe the employer-sanctions law did have a negative effect on the housing market, though by how much is difficult to say because of the overall recession.

A report from the Department of Homeland Security found that more than 100,000 illegal immigrants left Arizona in 2008, more than any other state. Metro Phoenix foreclosures and apartment vacancies both jumped that year.

Vacant homes

Signs of SB 1070 putting more pressure on the housing market would emerge in several places.

The most obvious and immediate sign would likely be more empty homes and apartments in areas of metro Phoenix heavily populated by Hispanics.

Housing experts say the employer-sanctions law had a negative effect in south and west Phoenix, Maryvale and Avondale. Those areas still have some of the highest foreclosure rates in the region.

During the past few months, the overall number of foreclosures in the Phoenix area has dropped. So any significant increases in foreclosures within communities with high Hispanic populations could be attributed to SB 1070.

Another place where signs of damage to the housing market might appear, housing analysts say, is in foreclosure filings. Large numbers of homes falling into foreclosure, with owners who have Hispanic last names, could also be a sign SB 1070 has pushed more homeowners out of the state. Within days of Gov. Jan Brewer signing SB 1070 into law on April 23, owners of small apartment complexes in parts of metro Phoenix that were home to large Hispanic populations started seeing tenants move out. The same thing happened after the employer-sanctions law.

Metro Phoenix apartment vacancies dropped last month. An increase in specific neighborhoods could be attributed to the new law.

"The immigration law creates a difficult situation for both legal and illegal residents," said Jay Butler, director of realty studies at Arizona State University. "Some illegal residents may have planned on leaving the Valley anyway because they can't find jobs. But I have talked to young Hispanics who are residents and so are their parents and grandparents. And those Hispanics plan on moving to other states because they don't want to be perceived as second-class citizens."

Homebuyers

The immigration law's impact on homebuyers is the biggest unknown.

Butler said it is hard to project how the law will impact the decisions of people from out of state who had planned to move to Arizona or buy investment, second or retirement homes here.

A loss of Hispanic homeowners and renters could be offset if more people who support the immigration law, or don't care about it, move to the Phoenix area and buy and fill the empty homes.

Despite the many boycotts of Arizona by major cities and organizations because of the immigration law, some recent polls show residents of other states, including Nevada, would back similar legislation.

Arizona housing analyst RL Brown said the main issue for some homebuyers is to feel safe, and the immigration law appeals to some of those people.

"I talk to a lot of potential homebuyers from around the country. So far, no one is really foaming at the mouth about Arizona's immigration law," he said. "But we'll see. If home sales fall off the cliff, then we have to look at the law as a factor."

Some market watchers see the immigration law as one more problem that Phoenix's economy and housing market don't need now.

"The immigration law just piles onto our problems," said Brett Barry, a Phoenix real-estate agent with HomeSmart. "We are already struggling to find the jobs and keep the schools open to entice new residents."

Orr, the housing analyst, said people from outside Arizona considering buying a vacation or investment home here may change their minds, not to boycott the state but out of concern the law will negatively impact the housing market and home values.

Out-of-state buyers can be tracked through property records. A significant drop or increase in homebuyers from outside Arizona during the next few months would be another indicator of how people are reacting to the state's immigration law and how it's going to impact the housing market.