Urban League of Essex County | Empowering Communities. Changing Lives.

Article from NJ.com

Housing prices were already too high for many Newark residents. Then the investors came.

Published: Sep. 24, 2021, 7:30 a.m.

Three houses on Fairmont Avenue in Newark's West Ward that have been renovated by the Urban League of Essex County.

By Payton Guion | NJ Advance Media for NJ.com

Standing on Fairmont Avenue, Vivian Fraser can look in any direction and see a house her organization renovated.

One of those homes is 231 Fairmont, a two-family house in Newark's West Ward that sold earlier this year for $240,000 — well below market value, even though it has four bedrooms, stone countertops and upgraded appliances. A large picture window looks east from the living room toward downtown.

Fraser's organization, the Urban League of Essex County, paid $118,000 for the house and another $280,000 to fix it up. The group did similar projects on the two houses north of 231 and four others on the block. It is set to develop 28 houses a few streets over next year as part of a larger mixed-use project.

The Urban League is one of many groups working to maintain a supply of affordable housing in Newark, a city where home prices and rents easily outstrip most residents' ability to pay. That disparity has recently led to dire warnings if more affordable housing is not made available. Newark is short more than 16,000 affordable units, according to one report this year from Rutgers University.

And now a new obstacle has emerged.

A red-hot COVID-19 housing market and heavy investor activity has driven up prices to previously inconceivable levels in Brick City.

Fraser said she's seen more and more investors turning to Newark real estate with eye-opening cash offers, which she said complicates her efforts to develop and preserve affordable housing.

"They're targeting long-term residents, people who have lived in Newark for decades," said Fraser, the Urban League's president and CEO, of the investors. "You can hear the sucking sound of the wealth coming out of those neighborhoods ... because of those predatory buyers. There's no regulation around that.

"There's a lot of that going on. Not just here, but in gentrifying neighborhoods all over."

Some investors buy homes and renovate them for rental income. Others remodel them and resell them at a profit. And still others "flip" them, making a few cosmetic fixes before quickly putting them back on the market at a markup.

Newark has seen all kinds of real estate investment lately, but Dave Corsi said the hot market has been very good to a certain type of investor.

"If you're talking about house flipping ... for them it's been a great year," said Corsi, president of the Metro Real Estate Investors Association. "For long-term hold guys, it's been tough the last three years. When they have multiple bids coming in, that doesn't really suit (those) investors."

Corsi said house flippers should aim to build homes that fit in neighborhoods, not fancier digs with the intention of jacking up prices.

"I want it to stay that way so people can afford that house," Corsi said.

But it appears to be going the other way in Newark.

Typical home prices in the city have jumped 20% — from $310,000 in August 2020 to $373,000 last month — according to Zillow. That's slightly higher than the 19% increase seen across all of New Jersey in the same time frame. Prices were up about 18% across the country from August to August, Zillow's stats show.

But zoom out a bit and the increase in Newark home prices is even sharper.

Prices have spiked 113% from a low of $175,000 in early 2014. During that same period, the typical price of houses in New Jersey rose about 40%.

"When you have groups that come into Newark with bags of cash and you have a municipality that they're looking for developers ... you also want to preserve affordability," Fraser said. "We can't compete as a nonprofit developer with a cash buyer."

Newark's real estate records support Fraser's observation of heavy investor activity.

Of the 3,833 property buyers recorded in Newark so far this year, at least 1,225 of them — nearly one-third — were listed as a limited liability company, corporation or limited partnership, all of which are business structures often used in real estate investment.

Of course, real estate investors may not be behind every one of those companies as LLCs can be used to protect the identities of the people running them. But business formation documents show many of them are connected with real estate firms in New Jersey, New York and elsewhere.

Morris Davis, academic director of the Center for Real Estate Studies at Rutgers University, said there are multiple reasons why home prices have spiked recently — and investors are definitely playing a role.

"Investors have figured out that single-family rentals can provide a decent return (at least for now)," Davis said in an email. "This is helping to push up prices on the bottom end of the market."

And in Newark, pushing up the bottom end of the market has a disproportionate impact. Many residents already cannot afford housing in the city.

Nearly two-thirds of Newark tenants are rent-burdened, which means they spend more than 30% of their income on housing — the federal standard of affordability — according to a report this year from the Rutgers Law School Center for Law, Inequality and Metropolitan Equity. Nearly one-third of residents spend half their income on rent.

The median rent in Newark is about $1,100 a month, the Rutgers report found. That is far more than the $763 mark that would satisfy the 30% affordability threshold, based on the city's average household income of $30,000.

David Troutt, one of the researchers who authored the Rutgers report, said when home prices rise, the effects on affordability are manifold. First, landlords can charge higher rents. Second, the possibility of homeownership slips away for people on the bottom end of the market. Third, affordable housing providers, like the Urban League, start getting priced out.

“They’re just buying and buying and buying it up,” Troutt said of investors in Newark. “What does it mean for a city? What does it mean for eviction filings? ... What does it mean for displacement?

“What makes them so pernicious is (they’re) betting on the gentrification of the neighborhood or it would make no sense. They come to Newark ... then the next thing you know they’re in the West Ward.”

The Urban League spent nearly $400,000 on 231 Fairmont Ave. — $118,000 to buy it and $280,000 to renovate it. Yet they sold it for $240,000. How?

Subsidies, Fraser said. The Urban League takes advantage of local, state and federal programs to facilitate homeownership in these communities. But there’s not enough, she said, particularly as the Urban League has to pay more to buy the properties.

“We want to push to improve these neighborhoods so people start to see the value that’s here,” Fraser said. “I want people to feel like they own Newark, and the priority is for people already here.”

Julio Colon, the Urban League of Essex County’s director of real estate, was driving around the West Ward last week in his silver Nissan SUV, showing off the houses built by the organization.

“To build affordable housing is not cheap,” he said. “We’re chipping away, block by block. That’s what revitalization is, block by block.”

Toward the end of the tour, Colon pulled the car over to look up Fairmont Avenue and take in the work recently completed on several houses there. Seven in total, all of which were either under contract or had already been sold.

Just then, a man walked up to Colon’s window and asked for money. Colon, seeming like he knew the man, happily pulled out some cash and handed him a bill. As the man walked away, Colon pointed up Fairmont and asked the man to make sure trash didn’t accumulate in front of the Urban League’s houses.

As he rolled the window back up, Colon bemoaned that some real estate investors come into new neighborhoods without considering the people who already live there. They don’t think about the streets, he said.

“Newark is the new area of interest. It’s hitting, and it will continue hitting,” Colon said. “There are going to be casualties. People are going to be displaced.

“We need (investment), but at the same time, how do we continue to preserve whatever little bit of community we have left?”

Our journalism needs your support. Please [subscribe today]() to [NJ.com]().
[Payton Guion]() may be reached at [pguion@njadvancemedia.com]().