

Published in The Palm Beach Post, June 22, 2012

The Palm Beach Post

## GHETTO IN THE HOOD

Derived from the Venetian *gheto* or *ghet*, “ghetto” originally meant slag or waste. Americans now associate the term with inner-city neighborhoods afflicted by decades of grinding poverty and crime. But with the recent real estate crash a new species has emerged: The Pocket Ghetto.

Unlike the stereotypical slum, Pocket Ghettos are of very recent vintage, in many cases abandoned almost as quickly as they were built – if they were even completed. The abruptness and severity of the real estate implosion in Florida is plainly evident in the proximity of abandoned properties to prosperous enclaves. View the Google satellite maps of boomburgs anywhere in Florida and you’ll see it; developments like Channing Park in Tampa, staring forlorn and nearly empty at the manicured homes of FishHawk Ranch not even 400 feet away. One can see the same phenomenon closer to home in places like Greenacres and Palm Beach Gardens.

But those abandoned dwellings and developments west of 95 aren’t blighted; they’re just empty. And however persistent, the neglect these aborted properties have experienced is much easier to reverse than the severe, embedded social ills of places like Detroit. These Pocket Ghettos may not be prime beachfront, and some are eerily empty or dilapidated. But they’re ghettos that people *want* to move to. Their lawns, garages and spacious family rooms remain the stuff of the American Dream. As long as the US continues to expand, most should develop and dissolve into their surroundings.

The demand dynamics could be worse. Household formation continues to outpace new housing starts by a wide margin – almost one million new households vs. housing starts of just over 700,000 in April. Compared to a peak of 1.3 million homes in 2005, new home sales hit a 51-year low of 307,000 last year. Until the new home builders ramp back up, opportunism as well as necessity will drive bargain hunters into the Pocket Ghettos dotting the landscape, arresting their decay by exploiting it.

Logic dictates that things will get worse before they begin to recover in earnest. Over 30% of all borrowers remain underwater on their mortgages; some will inevitably default. And the banks are sitting on hundreds of thousands of foreclosed homes they have delayed selling because, among other reasons, they lack the capital reserves to absorb the losses. But even with extremely poor net interest margins, US banks earned profits of \$35.3 billion in the first quarter of 2012. It’s only a matter of time before they’ve generated reserves sufficient to offset their latent losses. And when they do, the banks will sell the real estate they never wanted to own to begin with and move on.

As that process gathers steam, low interest rates and low prices are already enticing profit-seeking investors to buy up vacant homes by the bundle. With location still the driving criterion, Pocket Ghettos have become the new low-hanging fruit. It makes sense. However many pipes and cabinets have been ripped out of the walls, renovating a home is a process and a cost one can control. Reversing decades of crime and decline is not. However lamentable, *rentrifying* is infinitely easier than *gentrifying*.

Some areas will of course resist recovery. Regions like Florida, where real estate speculation played an outsized role in the local economy, will face the most difficulty. Absent an alternative economic engine, what’s left to stimulate jobs and catalyze a recovery? Perhaps this is a silly question for a cyclical economy that runs on consumer spending and credit to begin with. Money made one place travels easily to another, and our demographic destiny is clear. Credit

may currently be hard to come by. But increasing numbers of baby boomers will be seeking a place in the sun to retire. And few new families aspire to apartment living; most continue to equate a house with *home*. Many will find their Avalon on a tree-lined street that was once, however implausible in retrospect, a strip of slag in a Pocket Ghetto.

*Steven Grey is managing principal of Grey Value Management, LLC, on Singer Island, FL ([www.greyvm.com](http://www.greyvm.com))*

[This article was published in the Palm Beach Post under the title "Pocket Ghettos' the new American dream" – see <http://www.palmbeachpost.com/news/news/commentary-pocket-ghettos-could-be-part-of-the-ame/nPbmB/>]

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