

## **Urban Fringe**

# **Espacios Sub-Prime: La Perdida de Sueños Hipotecados en el Sur de California**

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### **Resumen**

Los condados de San Bernardino y Riverside en el sur de California, conocidos como el "Inland Empire", han sido particularmente afectados por la actual crisis hipotecaria. Esta crisis no sucedió por accidente sino más bien fue el resultado de la "geografía de la especulación". Ahora es turno de que las mismas industrias y agentes gubernamentales que ayudaron a crear este problema ayuden a solucionarlo.

# **Subprime Spaces: Foreclosed Dreams in Southern California**

Juan De Lara

### **Abstract**

San Bernadino and Riverside counties, Southern California's "Inland Empire," have been particularly hard hit by the foreclosure crisis. This crisis did not happen here by accident, but rather was driven by a "geography of speculation." Now the same industries and officials who helped create the mess must clean it up.

Southern California's Inland Empire was once touted as the last great hope for middle class housing.<sup>1</sup> The region provided working class coastal families with an opportunity to own a piece of the American Dream, a dream which is quickly turning into a nightmare for thousands of families living through subprime dispossession. As the current housing crisis devastates the region disproportionately, we can see all too clearly how the mortgage industry, homebuilders, and policy makers were complicit in making the Inland Empire into an unstable geography of speculation built on finance and consumption.

The two counties that make up the Inland Empire, Riverside and San Bernadino, were one of the fastest growing regions in the country during the past decade. Approximately 771,000 new residents moved into the region between 2000 - 2006, which accounted for 52 percent of all new homes sold in Southern California during 2005.<sup>2</sup> An ample supply of detached single-family homes was a powerful enticement for homebuyers faced with staggering house prices in Orange and Los Angeles Counties. Wide access to finance capital transformed many of these individual choices into a landscape of growth and development that had enormous territorial consequences, producing a new regional geography driven by the housing and goods movement industries. Local jurisdictions embraced a pro-growth agenda that allowed homebuilders and business investors to shape large swaths of land into a booming geography of big houses and gigantic distribution centers. New landscapes popped up virtually overnight.

This dynamic growth brought new challenges to the region. Traffic and pollution skyrocketed as population levels and trade corridors expanded. A recent report by the South Coast Air Quality Management District (AQMD) named one Inland Empire city, Fontana, as Southern California's greatest risk for air pollution-induced cancer<sup>3</sup>. A recent study made direct links between diesel exhaust, a problem exacerbated by the new need to stock shelves in far flung places, and Inland Empire death rates.<sup>4</sup>

Growth related environmental impacts have also lead to a major political fight over future development. On April 13, 2007, California Attorney General Jerry Brown filed suit against San Bernardino County, linking

<sup>1</sup> Joel Kotkin and William H. Frey, "The Third California: The Golden State's New Frontier" Research Brief, The Brookings Institution, March 2007.

<sup>2</sup> John Husing, "Inland empire 2006: Strong but slower than 2004-2005" Technical Report, Economics and Politics, Inc. <http://johnhusing.com>.

<sup>3</sup> "Cancer Risk is Higher in Local Area Because of Air Pollution," *Fontana Herald News*, January 9, 2008.

<sup>4</sup> Randall A. Bluffstone and Brad Ouderkirk. 2007. Warehouses, Trucks, and PM<sub>2.5</sub>: Human Health and Logistics Industry Growth in the Eastern Inland Empire, *Contemporary Economic Policy* 25: 79-91.

poor regional planning to global warming. Brown charged county supervisors for approving a General Plan that failed to mitigate the negative environmental impacts of future growth, a violation of the state's pioneering 2006 anti-global warming mandate.

As the human toll begins to mount alongside the environmental one, the development models of cities and counties in the urban hinterland require more critical examination. Skewed towards high-end retail and upscale housing, the policies used were marketing campaigns that sold the region to prospective residents, retailers, and commercial investors. Site selection firms were hired to produce psychographic profiles<sup>5</sup> that served as new upscale cognitive maps of the Inland Empire. The resulting upgrade in consumer-resident was then deployed as a magnet for white-collar employers and lifestyle service providers. Growing cities tried to cash in on the mortgage sweepstakes by capturing more high-end commercial and residential developments - one Inland Empire city manager openly admitted that higher-priced developments would allow his city to upgrade its demographic profile.

This boosterism was coupled with the growing dominance of finance capital to create a landscape of consumption and debt unlike earlier waves of local economic and regional growth. Free flowing credit allowed many working class families to play in the rarified air of upper middle class mobility. The availability of larger mortgage packages made it possible for marginal borrowers to purchase bigger and more expensive homes, and builders created new business models that focused on luxurious value-added features. Million dollar tract homes blossomed in cities like Norco, Corona, and Rancho Cucamonga, raising equity and housing valuations while simultaneously forcing young working families to take out bigger and bigger loans in order to play the booming housing game. Speculation drove many into unrealistic purchases and tenuous refinancing schemes as families used their houses as collateral in order to fill those homes with new furniture and fancy gadgets. The neoliberal dream of pushing the market into every facet of our lives had managed to conquer another basic human need.

Yet the irrational exuberance that made so much financial sense in the heady days of the housing boom has now exposed the inability of markets to provide basic human needs to all segments of society. The nearly 5,000 Inland Empire homes put up for auction in January, 2008 are just a fraction of the estimated two million families nationally will lose their homes to foreclosure in the next two years.<sup>6</sup> And it is a pain that is

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<sup>5</sup> Amanda Covarrubias and Ashley Powers. Far-flung Suburbs Want Good Life Too, *The Los Angeles Times*, February 19, 2007.

<sup>6</sup> Matt Woolsey, America's Hardest-Hit Foreclosure Spots, *Forbes.com*, January 28, 2008.

not being spread equally throughout society - the Center for Responsible Lending has reported that African American and Latino homebuyers are being disproportionately impacted by subprime loan failures.<sup>7</sup> Many African American and Latino buyers were funneled into unfavorable subprime loans even when they were eligible for better mortgages. This is especially relevant to the Inland Empire, where over 80 percent of all new residents between 1990 and 2004 were Latinos.

The impending housing crisis has hopefully brought us down to earth. Many of these families who took out subprime loans were worthy candidates for affordable housing. Low cost housing development was scarce in an era when market incentives drove builders into the high-priced housing sector. Several builders expanded their luxury divisions and downsized entry-level home offerings, while the working poor, who drive much of the region's economy, had to survive soaring housing prices. In recent months, many families have been forced into substandard and overcrowded living conditions, and local service agencies have been swamped by calls for housing assistance. More than 400 people have made a makeshift tent city in Ontario into a refuge from the region's economic and housing woes,<sup>8</sup> and city and county officials, who failed to meet local affordable housing needs during the market's heyday and helped foment the crisis with pro-growth policies, are now scrambling to deal with the negative consequences of the housing bubble. The boom made it seem as if anyone could buy a house, and investors, builders, and speculators threw a wild party in the Inland Empire. Now it's time for someone to clean up the mess.

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<sup>7</sup> Debbie Gruenstein Bocian, Keith S. Ernst and Wei Li, *Unfair Lending: The Effect of Race and Ethnicity on the Price of Subprime Mortgages*, May 31, 2006, [www.responsiblelending.org](http://www.responsiblelending.org).

<sup>8</sup> Andrew Edwards, *Helping Homeless: County's Total Likely Growing*, *The San Bernardino Sun*, March 22, 2008.