Single Family Housing Market in the Cleveland Suburbs

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Foreclosures in the US

➢ Between September 2008 and September 2012 almost four million households lost their homes to foreclosure (Schmidt et al, 2013).

➢ Almost three-quarters of all foreclosures nationally occurred in suburbs, and it was those suburbs with higher rates of poverty that were likely to experience higher rates of foreclosure (Schmidt et al, 2013).
Minority populations more than three times as likely as whites to have subprime mortgages and that high-cost loans account for 55 percent of loans to African-Americans and Latinos.

Minority populations were more than 30 percent more likely to receive a higher-interest rate loan than white borrowers, even after accounting for differences in risk.

Studies estimate that up to 35% of subprime borrowers could qualify for prime mortgage loans.

56% of all subprime loans originated in 2006 were subprime refinance loans.

Refinance loans and subprime loans were disproportionately marketed to African American neighborhoods via predatory lending.
Foreclosure and House Price

- **Foreclosure and Sales Price of Homes**
  - Foreclosures reduce sales prices of foreclosed home and neighboring homes (Immergluck and Smith, 2005; Cotterman, 2001; Lin et al, 2009)
  - **Sale of REO homes** amounted to average decline of $48,827 per non-REO property

- **Four Reasons**
  - Foreclosed homes are often sold at a **significant discount**, impacting the **appraisal value** of neighboring properties
  - When a foreclosure happens or is in process the owner of the property **has little incentive to maintain or upgrade the home**
  - Foreclosures **increased supply** of housing on the market, increased supply reduces price
  - After a foreclosure, the property can be **vacant** for some time that further exacerbates blight and can lead to increased crime and vandalism; One study found an additional foreclosure on a neighborhood block results in a 1 percent increase in crime
Two Processes

- Housing Market Recovery Since Foreclosure Crisis
- Single Family Rental

- Using Cleveland as a Case Study
➢ Recovery to pre-Recession peak (in nominal terms)
➢ Real home prices rose by 32 percent nationally between 2000 and 2016
Uneven Recovery Between Metros

Home prices increased by 40 percent or more in 153 metros (16 percent), including twelve metros where home prices doubled.

In contrast, real prices declined in about 280 metros.
Uneven Recovery within Metros

- Many **black neighborhoods** in Atlanta exhibited steep rates of price decline with only little recovery following the crisis. Many predominantly white, middle- and upper-income neighborhoods generally more than recovered from any housing price declines (Raymond et al., 2016)

- Examining REO properties, Pfeiffer and Molina (2013) found properties in inner-city and exurban Latino neighborhoods with larger black population shares were **less likely to sell and more likely to sell to investors**
Investment Activity

► Investors purchase of REO and other mortgage-distressed properties (Coulton, Mikelbank, & Schramm, 2008; Mallach, 2010; Urban Strategies Council, 2012).

► Immergluck (2012) found majority low-value properties (defined as selling for less than $30,000) in Atlanta in 2008 and 2009 were purchased by investors, and 39% of REO properties overall were purchased by investors.

► Larger investors—sometimes fueled by private equity funding—have increasingly entered this market to rent single family homes (Dill, 2012).

► Formerly owner-occupied single-family homes that experienced foreclosure purchased by private investors and converted into rental properties (Dill, 2012; Gopal & Gittleson, 2012; Whelan, 2012).
Decreases in **access to homebuying credit** may continue to restrain the options of certain households, forcing them into the rental market.

**Student debt** is a challenge to homeownership:
- 31 percent of 30 year-olds owning a home in 2004 compared to 21 percent in 2016
- Average American at age 30, home mortgage debt, auto debt and credit card debt were all down while student loan debt was up by 174 percent

Life cycle factors family decisions such as marriage and parenthood
Over One-Third of the 47 Million Rental Housing Units are Single Family Homes

- Single Family Homes: 39%
- Multifamily with 2-4 units: 22%
- Multifamily with 5-19 units: 18%
- Multifamily with 20 or more units: 21%

Tabulations of Census Data by Joint Center for Housing Studies, American Community Survey 2016 1-year estimates
Background on Single Family Rental

- Single Family Rentals are an affordable housing option (Urban Institute, 2015)
- Offer access to opportunity
- Diversify the suburbs

- Study of Sun Belt found that it is areas with higher Asian, Latino and black populations that saw an increase in SFR (Immergluck, 2018)
- Same study found neighborhoods with lower property values, more foreclosures during the crisis were associated with sizeable increases in SFRs.
Cleveland

Home in Slavic Village, epicenter of the foreclosure crisis
Foreclosure Filings 2006 to 2016
More than 121,000 over this time period
61,000 in the city of Cleveland
60,000 in the suburbs
Foreclosure Filings Cuyahoga County, 2006 to 2016
Cleveland Suburbs

East side inner-ring suburbs have large African American property values lower in the inner-ring suburbs on the east-side rather than west-side.
At least with respect to housing price, the foreclosure crisis is over in the Outer Suburbs and the housing market recovery in Cleveland neighborhoods stands...

Source: NEO CANDO at Case Western Reserve University.

Arms Length Sales = sales on 1-3 family residential property that exclude: 1) transfers at a Shf Sale, 2) $0 transfers and 3) transfers to a bank or Federal agency. 1-3 family includes condominiums; includes vacant lots >$100K.
Two “Clevelands”

- In the majority white Outer Suburbs and Western Suburbs, where fewer foreclosures occurred, the housing market has nearly fully recovered.
- In the majority African American East Side of Cleveland and East Inner Suburbs, housing prices have recovered only 31% and 60% respectively.
- Study by Western Reserve Land Conservancy
Rental Listings for Single Family homes in 2010
Rental Listings for Single Family homes in September 2016 to October 2017
## Rental Listings for a Selection of Outer Suburbs

<table>
<thead>
<tr>
<th>Outer Suburbs</th>
<th>2010</th>
<th>Average Rent</th>
<th>Average Number of Bedrooms</th>
<th>2017</th>
<th>Average Rent</th>
<th>Average Number of Bedrooms</th>
<th>Change from 2010 to 2017</th>
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<td>Average Rent</td>
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Next Steps

- Determine more specifically the factors that impact the rise of SFR
- Model future SFR growth?
- Difference between home mortgage and rental