



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).

Subprime loans

- 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

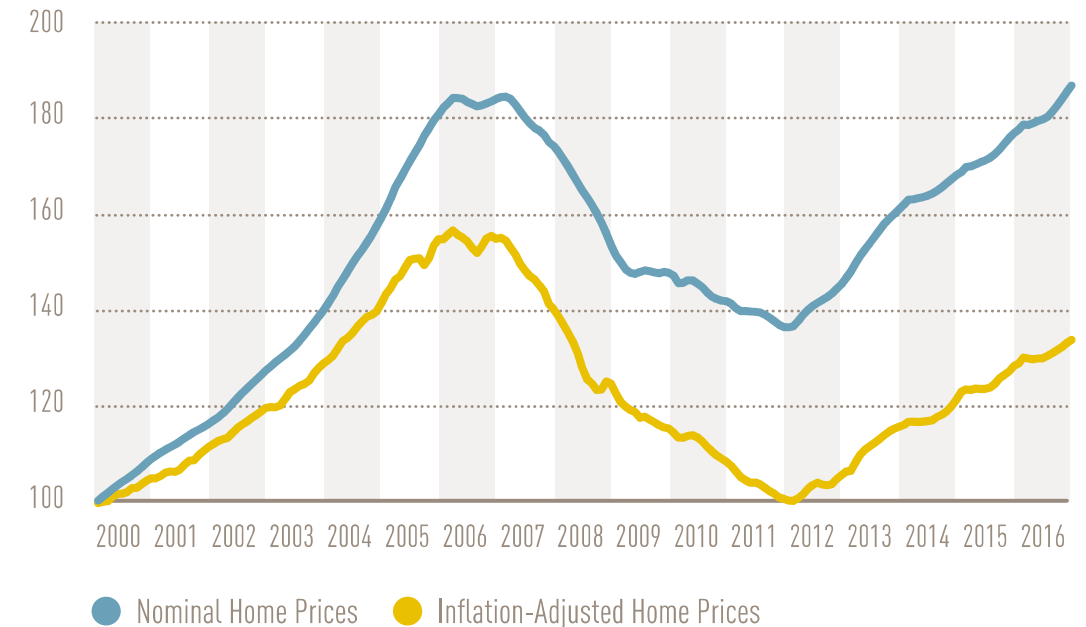
- Using Cleveland as a Case Study

Housing Market Recovery

- Recovery to pre-Recession peak (in nominal terms)
- Real home prices rose by 32 percent nationally between 2000 and 2016

National Home Prices Now Exceed Their Previous Peak in Nominal Terms, But Not in Real Dollars

U.S. National Home Price Index



Note: Prices are adjusted for inflation using the CPI-U for All Items less shelter.

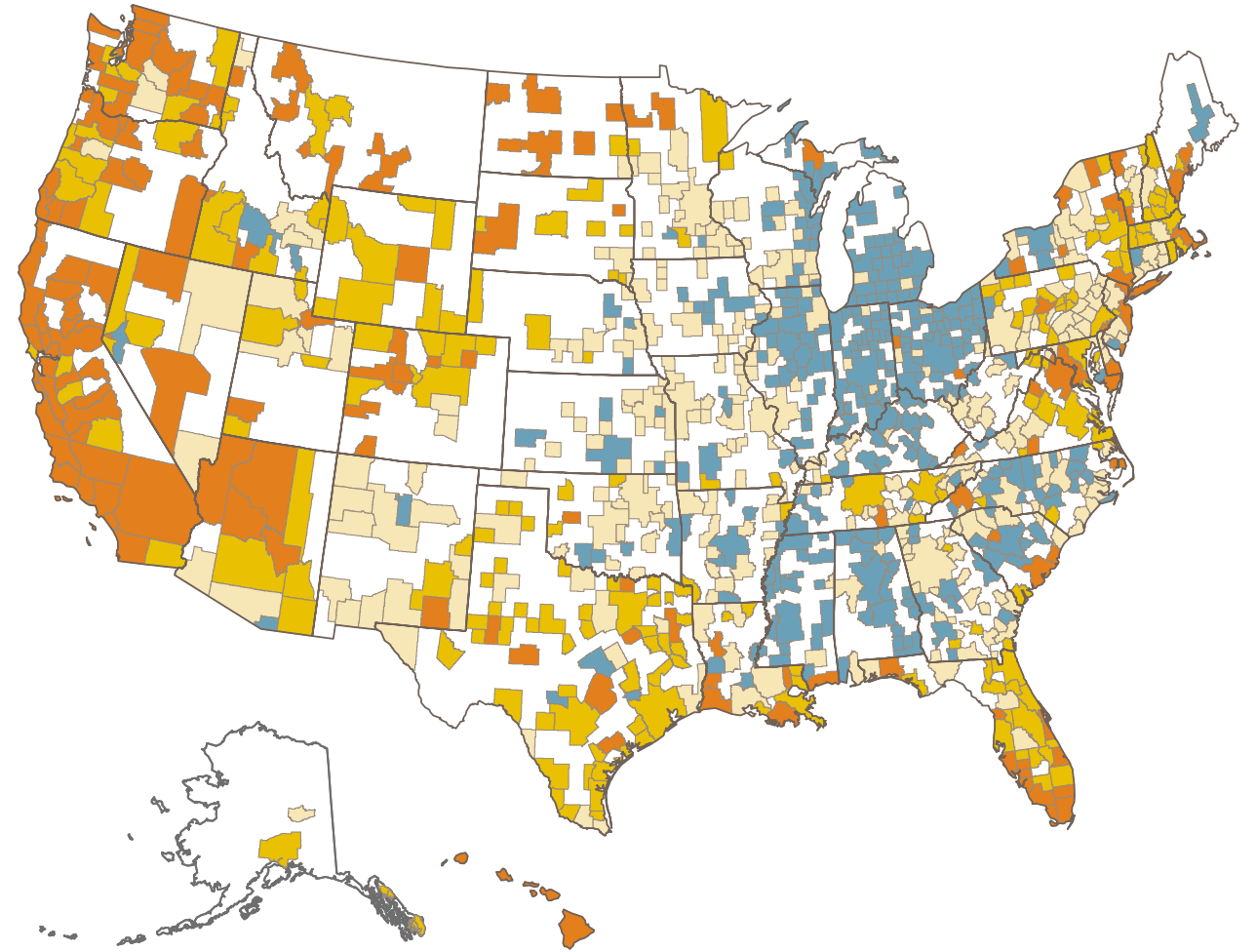
Source: JCHS tabulations of S&P CoreLogic Case-Shiller U.S. National Home Price Index.

MetroArea Home Prices Have Diverged Widely Since 2000

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



Change in Real Metro Area Home Price, January 2000–December 2016 (Percent)

● Over 40 (Up to 177.0) ● 20.0–39.9 ● 0–19.9 ● Negative (Down to -46.0)

Note: Prices are adjusted for inflation using the CPI-U for All Items less shelter.

Source: JCHS tabulations of CoreLogic Home Price Indices.

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**

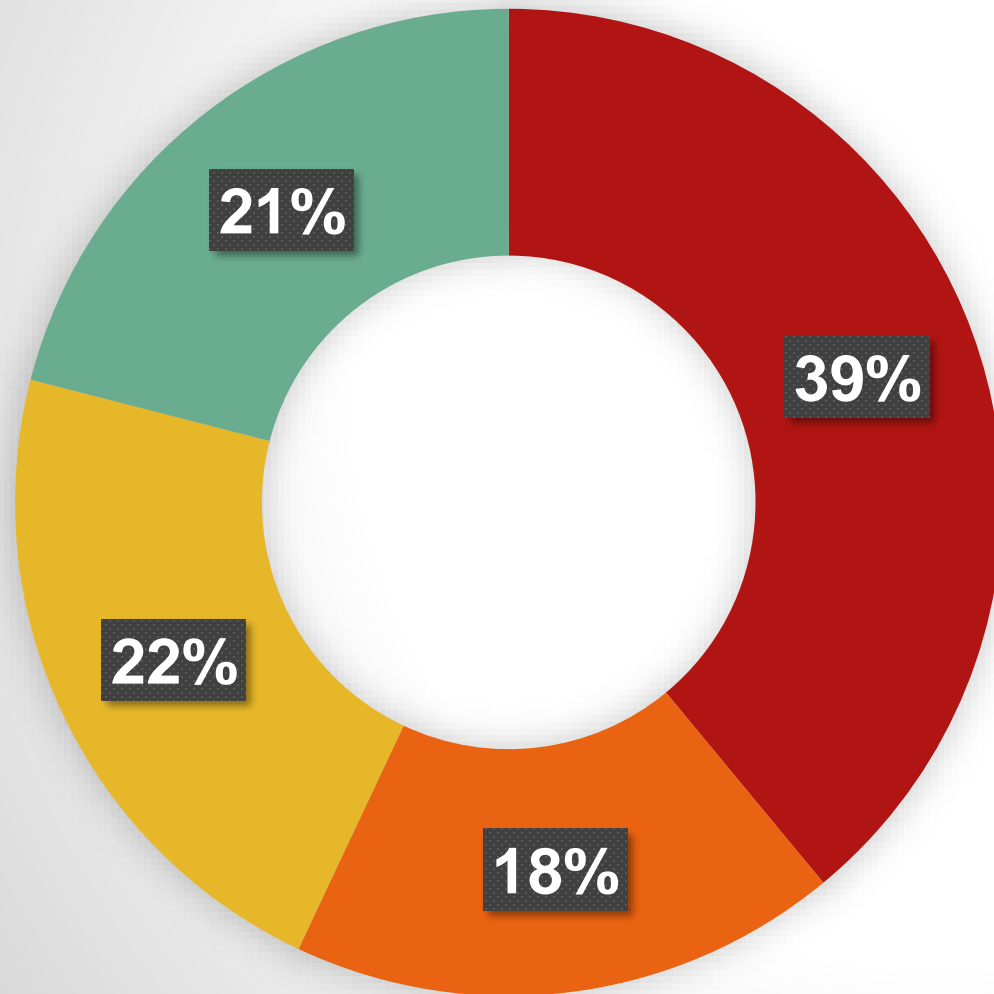
Investment Activity

- ▶ 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)

Demand for Single Family Rental (SFR)

- ▶ 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

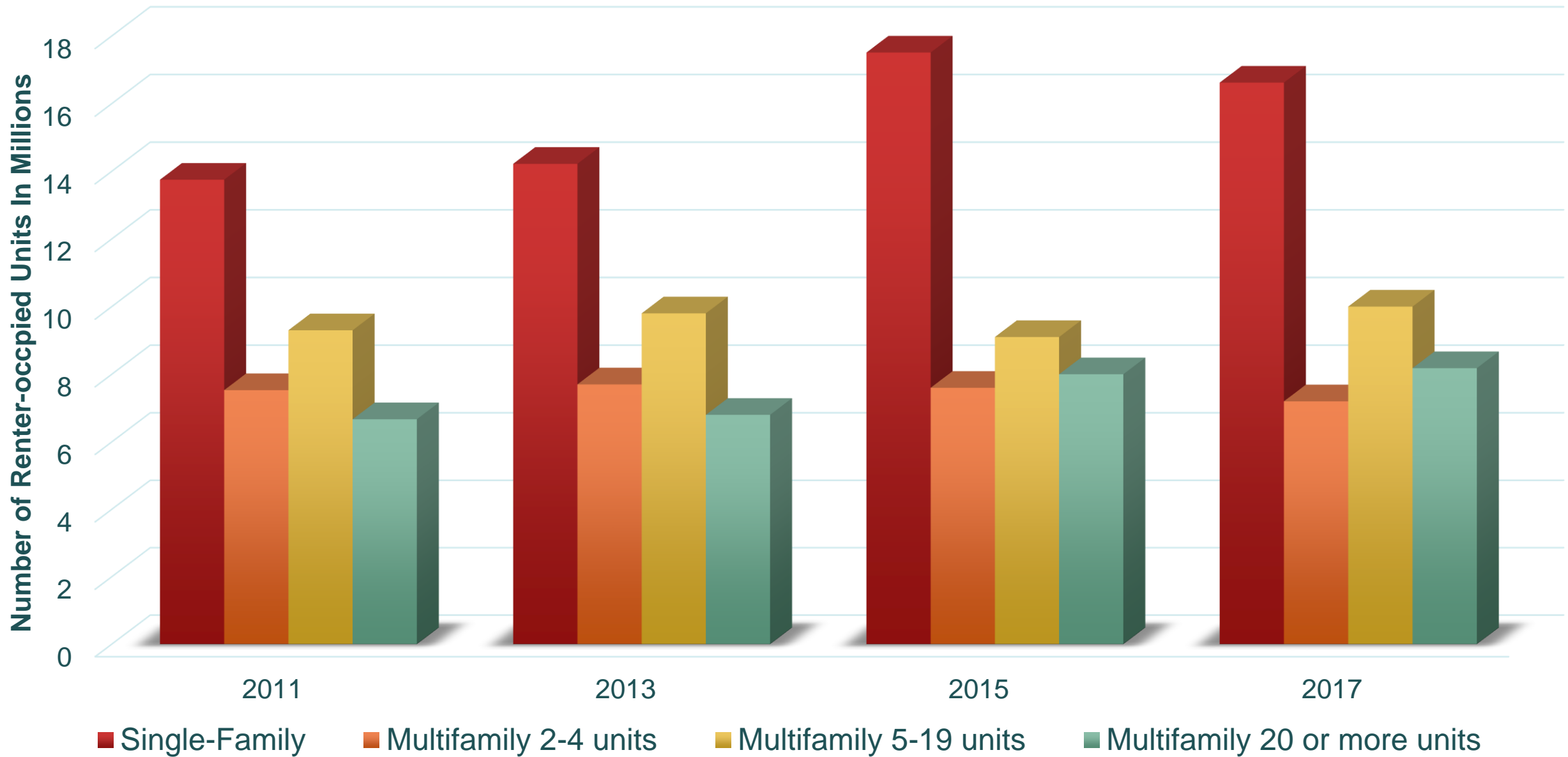
Over One-Third of the 47 Million Rental Housing Units are Single Family Homes



- Single Family Homes
- Multifamily with 2-4 units
- Multifamily with 5-19 units
- Multifamily with 20 or more units

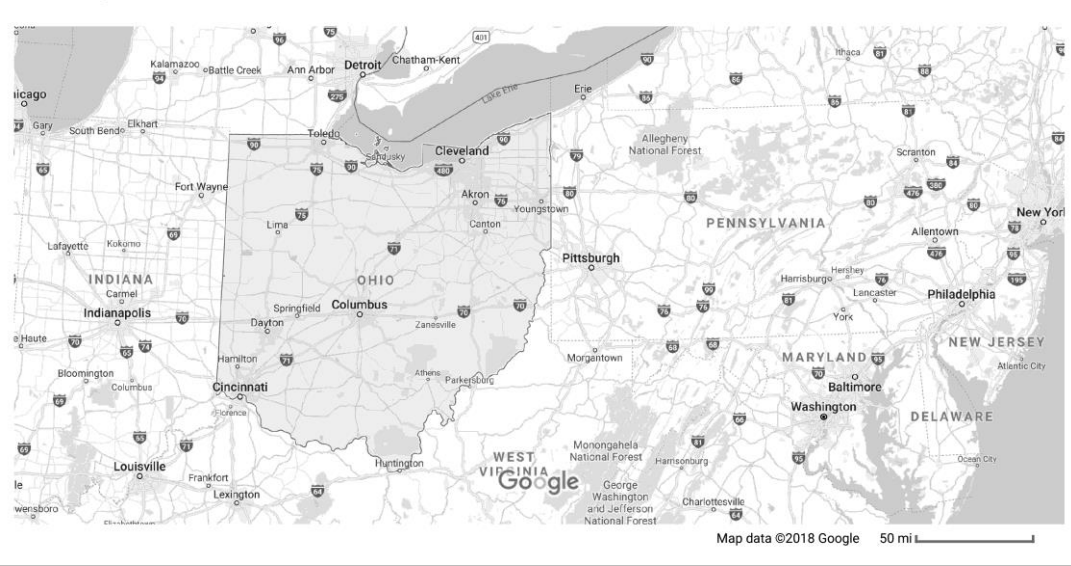
Tabulations of Census Data by Joint Center for Housing Studies, American Community Survey 2016 1-year estimates

Renter-Occupied Housing Units 2011 to 2017



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.



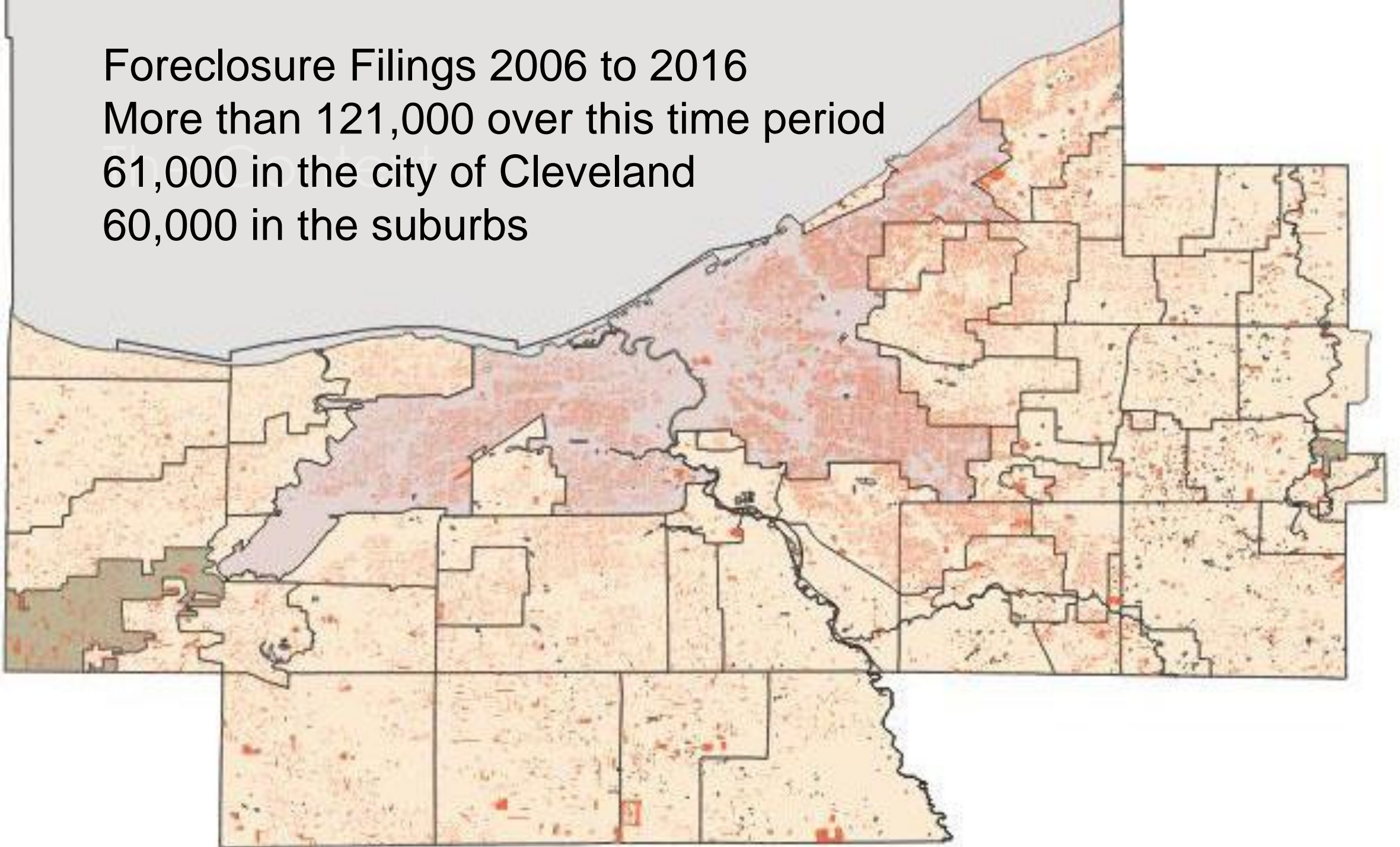
Map data ©2018 Google 2 mi

Cleveland

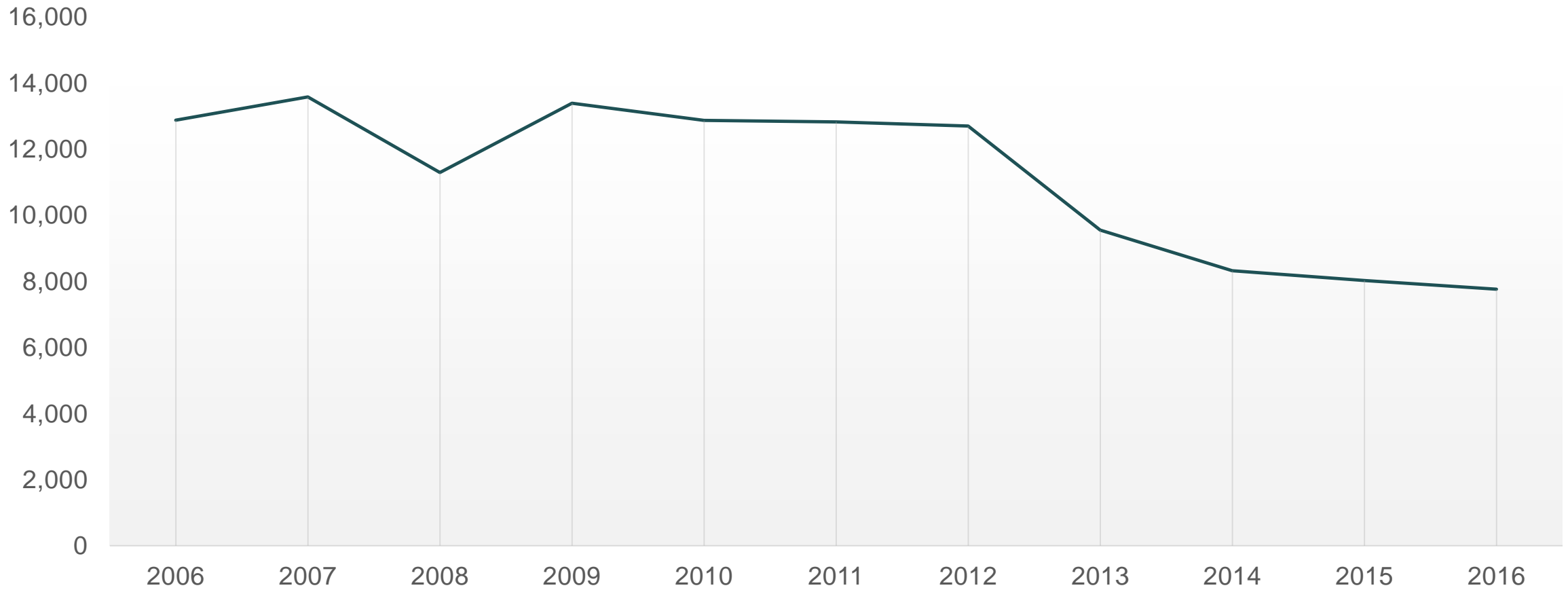


Home in Slavic Village, epicenter of the foreclosure crisis

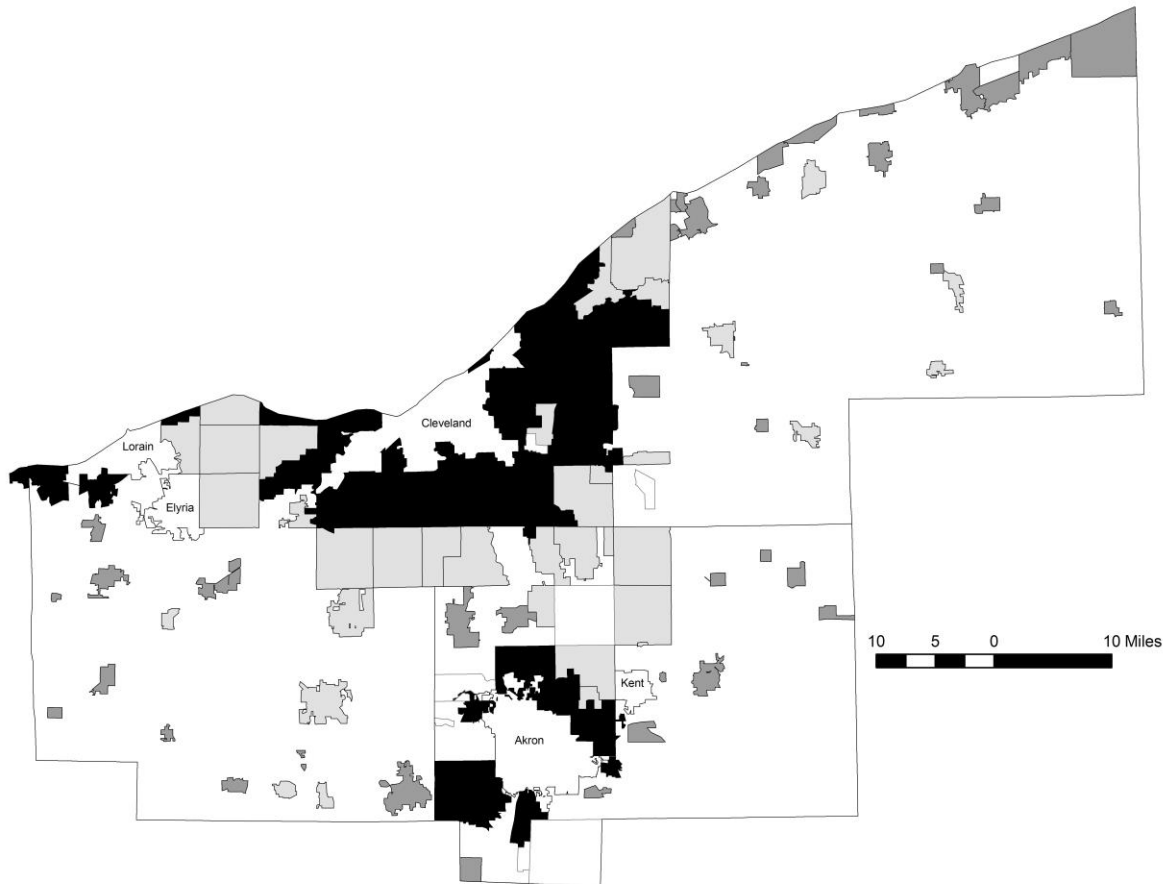
Foreclosure Filings 2006 to 2016
More than 121,000 over this time period
61,000 in the city of Cleveland
60,000 in the suburbs



Foreclosure Filings Cuyahoga County, 2006 to 2016



Cleveland Suburbs

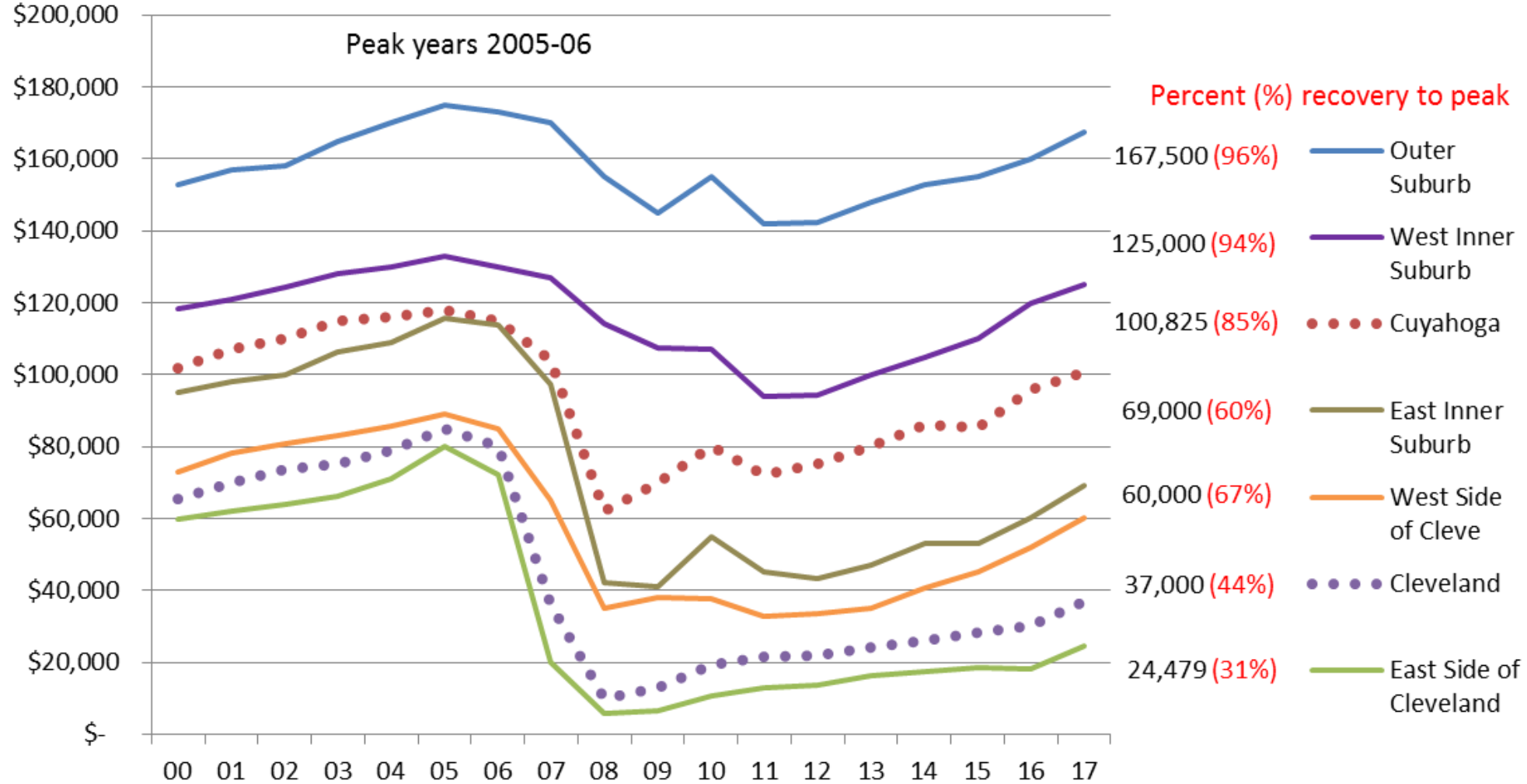


East side inner-ring suburbs have large African American

Property values lower in the inner-ring suburbs on the east-side rather than west-side

- Outer Suburbs
- Inner-ring Suburbs
- Older, outer suburbs

Median Price - Residential Arms Length Sales Cuyahoga Regions 2000 - 2017



Source: NEO CANDU at Case Western Reserve University.

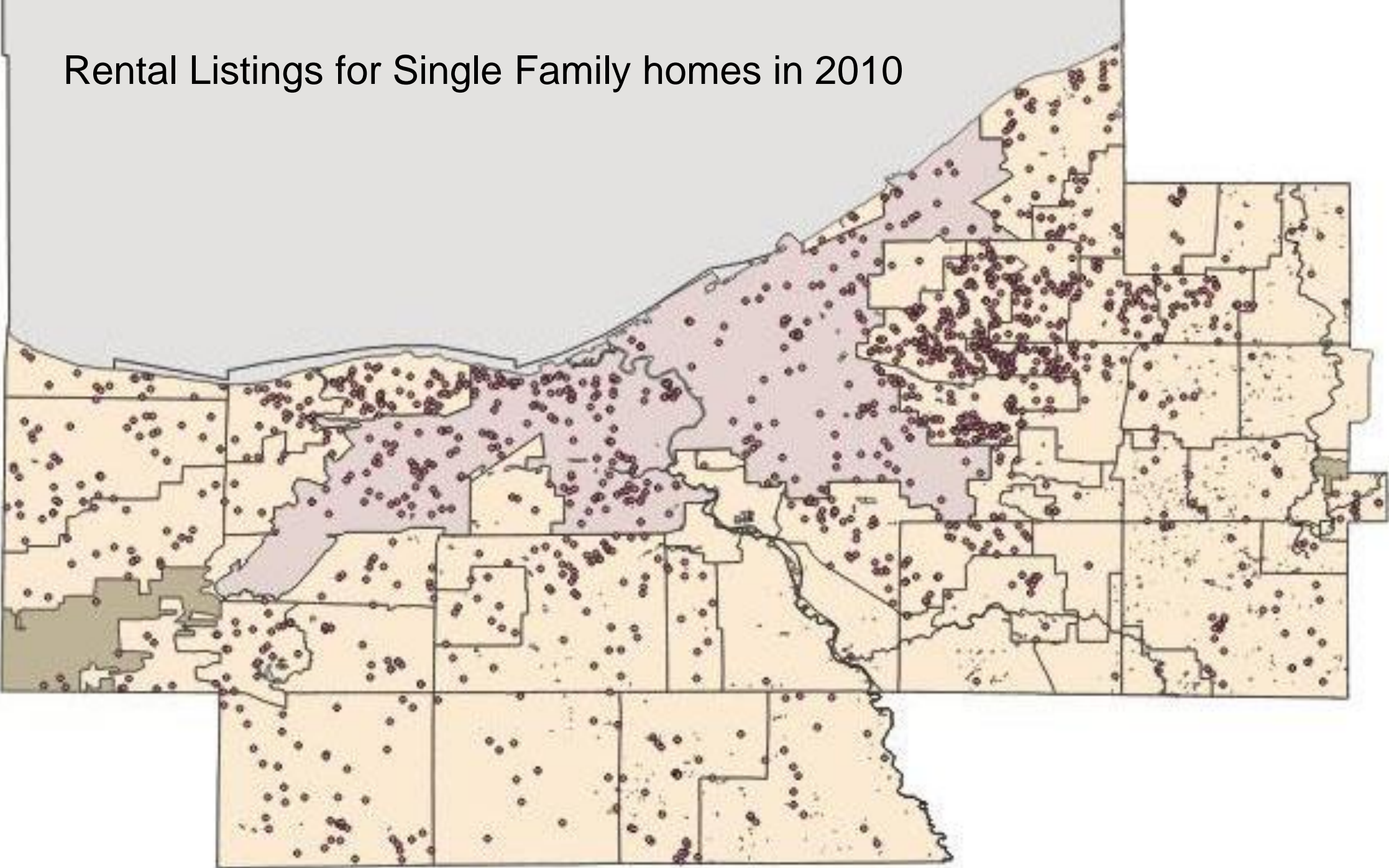
Arms Length Sales = sales on 1-3 family residential property that exclude: 1) transfers at a Shf Sale, 2) \$0 transfers and 3) transfers to a bank or Federal agency. 1-3 family includes condominiums; includes vacant lots >\$100K.

Western Reserve
Land Conservancy

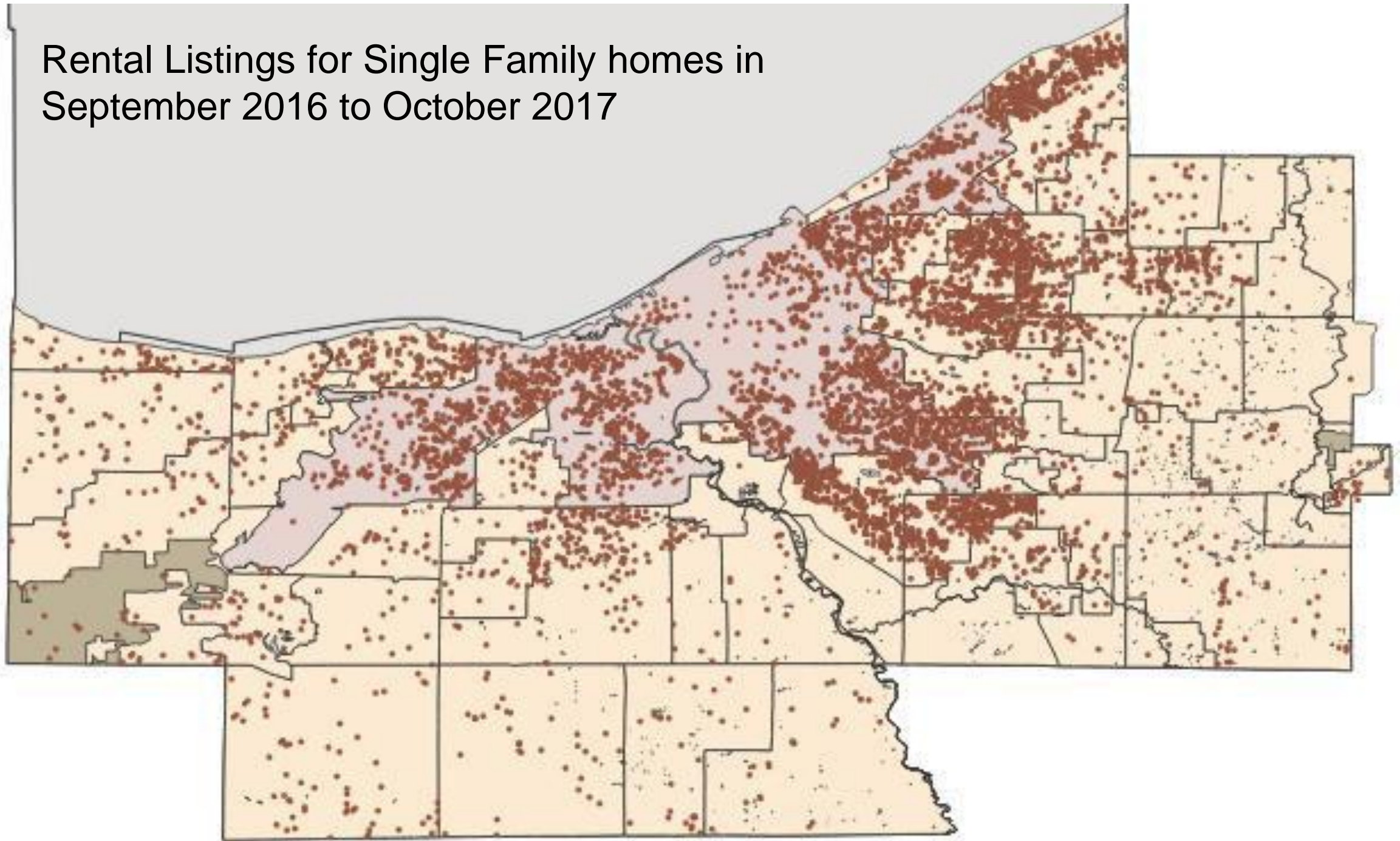
Two “Clevelands”

- ▶ 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						
Outer Suburbs	2010	Average Rent	Average Number of Bedrooms	2017	Average Rent	Average Number of Bedrooms	Change from 2010 to 2017
North Royalton	14	\$1,375	3	3	\$958	3	-11
Middleburg Heights	20	\$1,409	3	15	\$1,395	3	-5
Broadview Heights	30	\$1,680	3	28	\$1,676	3	-2
Bratenahl	6	\$2,758	3	6	\$2,133	3	0
Gates Mills	6	\$2,500	4	6	\$3,183	4	0
Hunting Valley	1	\$2,500	4	1	\$2,750	4	0
Pepper Pike	12	\$2,642	4	22	\$2,887	3	10
Rocky River	28	\$1,880	3	38	\$1,886	3	10
Chagrin Falls	10	\$1,623	3	21	\$1,906	3	11
Newburgh Heights	1	\$750	3	13	\$861	3	12
Highland Heights	12	\$2,483	4	25	\$1,974	4	13
Parma Heights	10	\$1,003	3	24	\$1,109	3	14
Independence	1	\$1,600	3	17	\$4,281	4	16
Brook Park	15	\$951	3	33	\$1,102	3	18
Westlake	42	\$1,707	3	60	\$2,828	3	18

Rental Listing for Section of Inner-Ring suburbs

Suburb	2010	Average Rent	Average bedrooms	2017	Average Rent	Average Number of Bedrooms	Change
Shaker Heights	81	\$1,590	4	130	\$1,616	3	49
Lyndhurst	35	\$1,254	3	93	\$1,496	3	58
University Heights	52	\$1,147	3	112	\$1,548	3	60
Warrensville Heights	13	\$859	3	77	\$941	3	64
Mayfield Heights	32	\$1,276	3	97	\$1,297	3	65
Bedford	11	\$874	3	82	\$958	3	71
East Cleveland	3	\$966	3	86	\$896	3	83
Lakewood	58	\$887	3	153	\$1,219	3	95
Parma	50	\$989	3	197	\$1,066	3	147
South Euclid	50	\$1,083	3	257	\$1,296	3	207
Garfield Heights	32	\$925	3	332	\$932	3	300
Maple Heights	28	\$913	3	356	\$944	3	328
Cleveland Heights	140	\$1,221	3	472	\$1,202	3	332
Euclid	44	\$935	3	510	\$1,059	3	466

Next Steps

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