

BRIEFING ON HOUSING AND MARKET CONDITIONS FOR CUYAHOGA COUNTY COUNCIL JUNE 10, 2014

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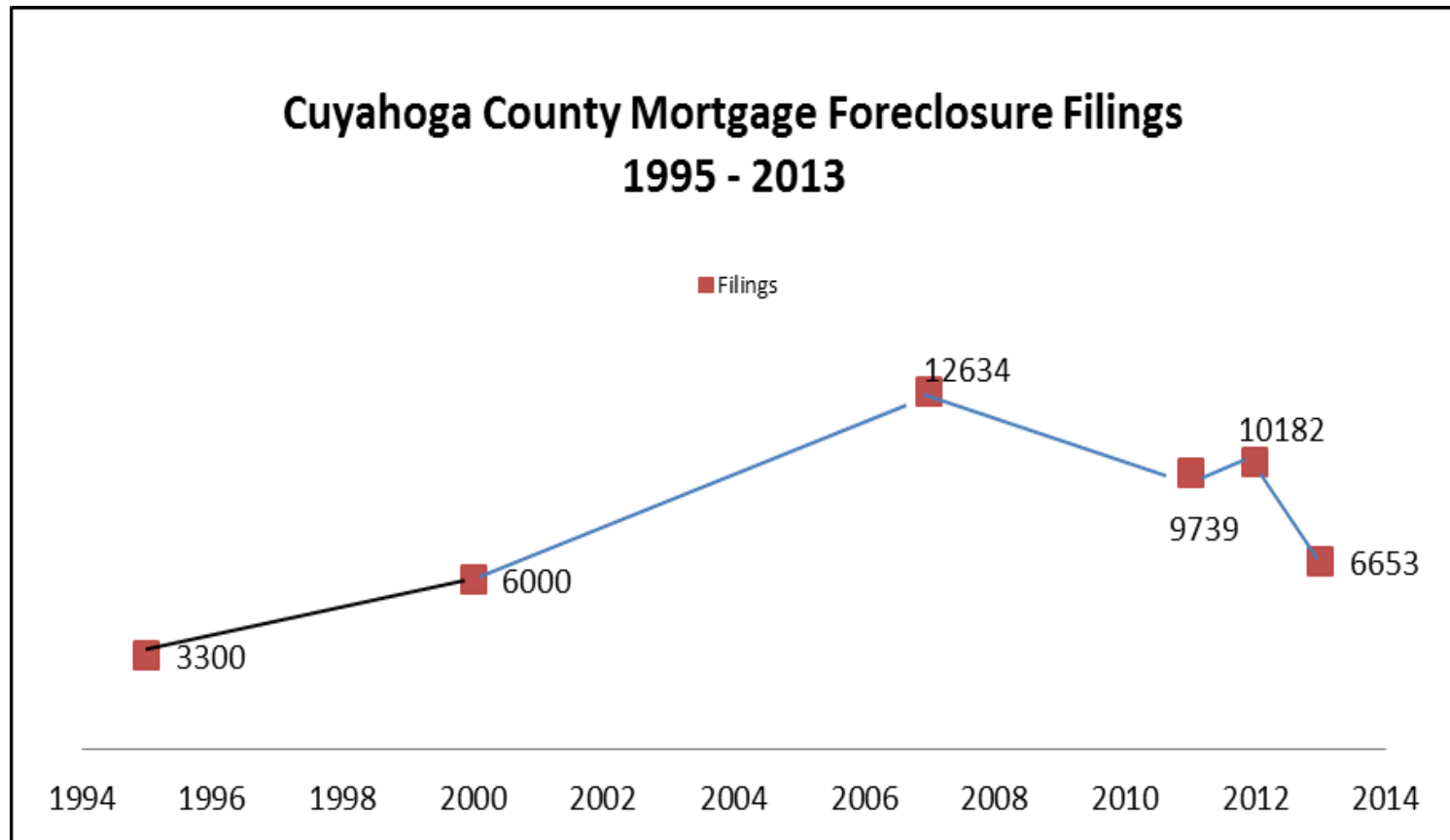
Thriving Communities Institute

Overview

- Background on the housing “landscape” in Cuyahoga County
 - Foreclosure
 - Vacancy and Abandonment
 - Home Sale Price Trends
 - Consequences of Market Decline
 - Tools for Market Stabilization and Recovery

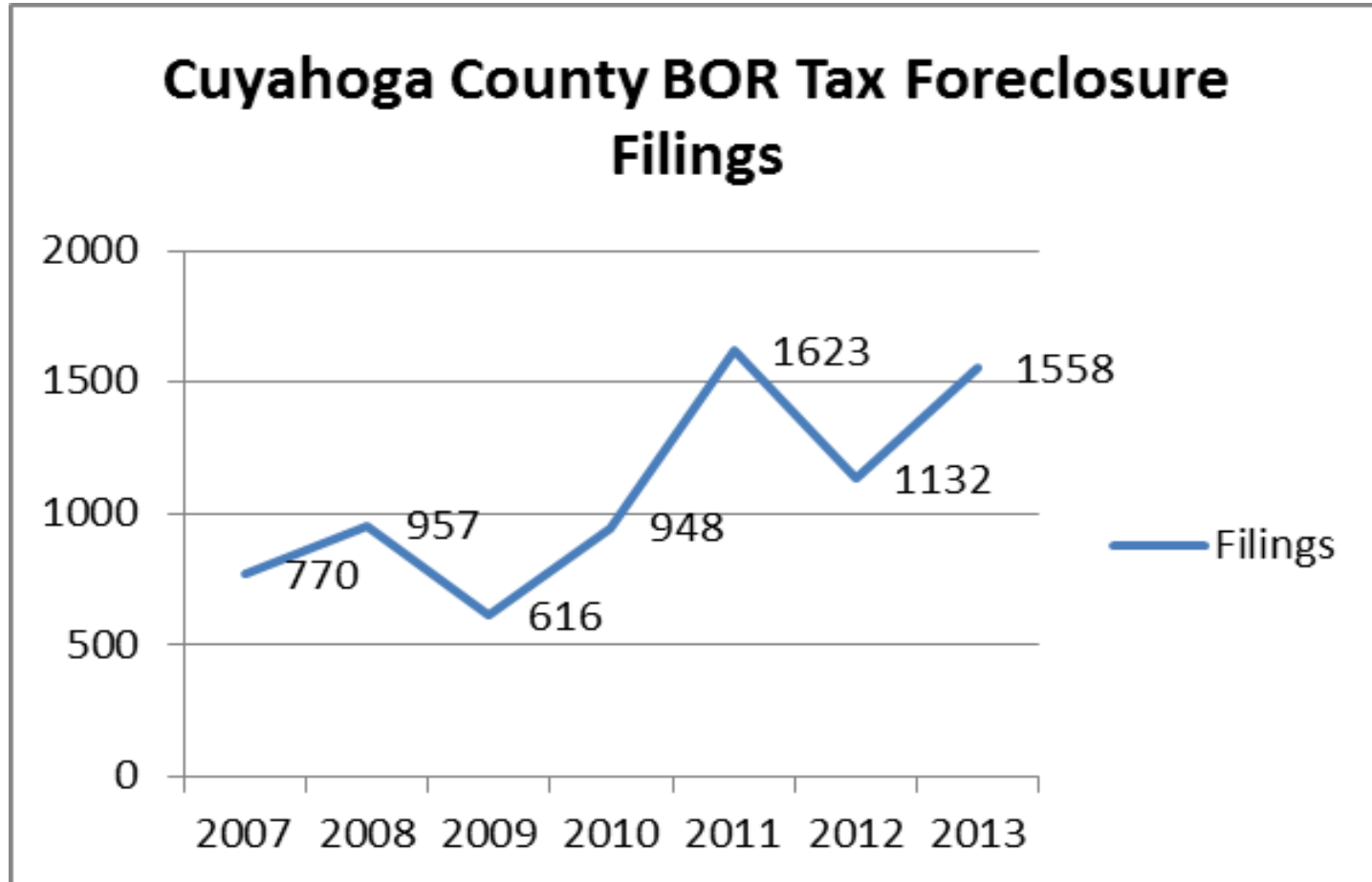
Foreclosure

Cuyahoga County Mortgage Foreclosure



**Cuyahoga mortgage foreclosure filings are down 47% from their peak in 2007.
But they are still double what they were before the foreclosure crisis began.**

Tax Foreclosure – Board of Revision



BOR - a critical tool for combatting blight - becomes more effective when the Cuyahoga Land Bank begins operation in 2009. The drop in 2012 is due to a loss of staff capacity in the Prosecutor's Office.

Impact of Foreclosure

51,791 Sheriff Sales (since 2000)



24,000 Vacant Homes in Cuyahoga County



Home Sale Prices Down



A Corresponding Loss of Homeowner Equity



Uncollected Property Tax (Residential)



Cost of Blight Removal

Vacancy and Abandonment

Foreclosures Are Down But They've Left Us With An Epidemic of Market-Crippling Blight

Cleveland City	October 2012	May 2013	October 2013
Distressed/Condemnable	6,974	7,761	8,297
Demolition Estimate	\$69,740,000	\$77,610,000	\$82,970,000

City of Cleveland Distressed Property Estimates

Sample Properties – Clear Cases of Obvious Distress

3593 E. 113



674 E. 97



9107 Harris



Sample Properties – Hidden Damage

6800 Fleet



6800 Fleet - rear



8821 Bessemer



8821
Bessemer
through rear
entrance



3402 E. 103



3402 E. 103 - basement



3402 E. 103 - interior



9816 Cudell



9816 Cudell - interior



9816 Cudell – standing water in basement



The Problem is Compounded by Banks “Walking Away”

- Irresponsible bank lending and foreclosure practices have resulted in high foreclosures, high abandonment, and low home sale prices.
- In response to the conditions they themselves created, banks have begun to “walk-away” from foreclosures they file.

Norm/Expected

Foreclosure Filed



Foreclosure Judgment



Bank Requests Shf Sale



Bank Bids at Shf Sale



Bank Takes Title



Bank Responsible For
Property Tax & Code
Violations

Charge-off/walkaway

Foreclosure Filed



Foreclosure Judgment



Bank Doesn't Request Shf
Sale

or

Bank Doesn't Bid at Shf Sale

and/or

Moves For Dismissal



Taxpayers Absorb cost of
Unpaid Tax and Demolition

The Problem is Further Compounded by Vulture Investors Who Trade In Blight

The flood of vacant blighted homes has spawned a corresponding increase in opportunistic investors.

“If we had to bring these properties up to code, our business model wouldn’t work”. – Texas investor.

From “The Role of Investors in the One-To-Three Family REO Market: The Case of Cleveland”. The Harvard Joint Center for Housing Studies (January 2014).

Harvard Investor Study (2014)

- 13 years of data: 2000 – 2012
- Over 50,000 Sheriff Sales to Bank REO Inventories
- 38,931 unduplicated properties
- 72,954 subsequent post-REO transfers through March 2013

Frank Ford, et al. “The Role of Investors in the One-To-Three Family REO Market: The Case of Cleveland”. The Harvard Joint Center for Housing Studies (January 2014).

Harvard Investor Study - Findings

- 30% of the 38,931 REO properties experienced “failure”. Defined as:
 - Vacant
 - Condemned
 - Demolished, or
 - Tax delinquent
- The impact fell disproportionately on African American neighborhoods

Harvard Study - Outcome By Investor Type

- The **failure** rate for properties acquired by **out-of-state investors was double** that for Ohio investors.
- Properties acquired by large investors (100+ properties) were 5 times more likely to **fail** than those acquired by small investors.
- Properties acquired by non-profits, land banks or government were three times more likely to **succeed** than those acquired by small investors.

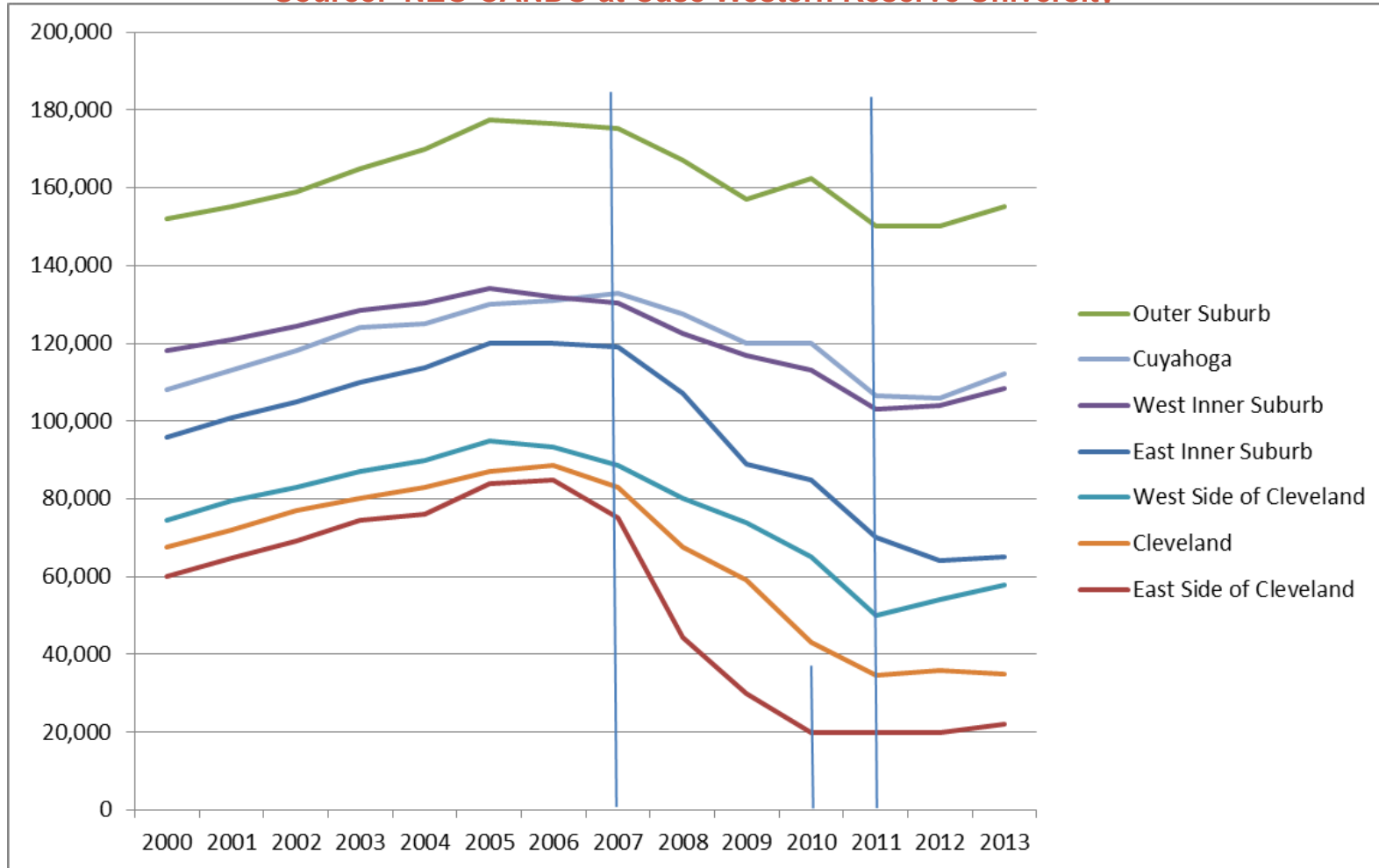
Home Sale Price Trends

**Blight Has Devalued Property In
Cuyahoga County**

Cuyahoga Median Home Prices 2000 – 2013

Residential 1-3 Family properties with no Sheriff Sale in the chain of title since 1995.

Source: NEO CANDO at Case Western Reserve University



The Consequences Of Housing Market Decline

Decreased Home Sale Prices = Lost Homeowner Equity

Cuyahoga	High - 2007	2013	
	\$ 133,000	\$ 112,000	-16%
Cleveland	High - 2006	2013	
	\$ 88,500	\$ 35,000	-60%
Cleveland East Side	High - 2006	2013	
	\$ 85,000	\$ 22,000	-74%

Source: NEO CANDO at Case Western Reserve University.

Shift of Tax Burden to Outer Suburbs

- Blighted property in distressed Cleveland neighborhoods and inner-ring suburbs has caused property owners in the rest of the county to pay a larger share of property tax.
- \$45 Million in tax burden has shifted to other suburbs.

Thomas and Gillespie. "The Cost of Vacancy - Everyone Pays".
Thriving Communities Institute (March 2014).

Tale of Two Houses

2620 E. 114th – foreclosed by Wells Fargo then sold to an investor who did nothing. Eventually condemned by the City of Cleveland.

2616 E. 114th Street - New home built by Buckeye Area Development Corporation in 2004. Cost - \$141,000. Appraised value in 2014 is \$71,900.



2008 3 13

Tools For Market Stabilization and Recovery

NEO CANDO Data System

- The NEO CANDO data system at Case Western Reserve University is widely recognized as the premier property data system in the United States.
- Used by Municipal, County, and Federal offices as well as non-profit community development organizations.
 - Track housing trends
 - Plan new programs
 - Strategic interventions
 - Individual property investigation

Cuyahoga Land Bank

- Since its inception in 2009 the County Land Bank has emerged as the primary tool for housing market stabilization and recovery in Cuyahoga County.
- Acquire problem properties, assess them, and steer them to beneficial outcomes that support market stabilization and recovery.
 - 2500 blighted homes removed
 - 819 blighted homes renovated

Board of Revision Tax Foreclosure

- Exclusively for vacant abandoned property
- More efficient and faster foreclosure – lessens harmful impact of abandoned property
- Effectiveness greatly enhanced when the Cuyahoga Land Bank came into existence in 2009.

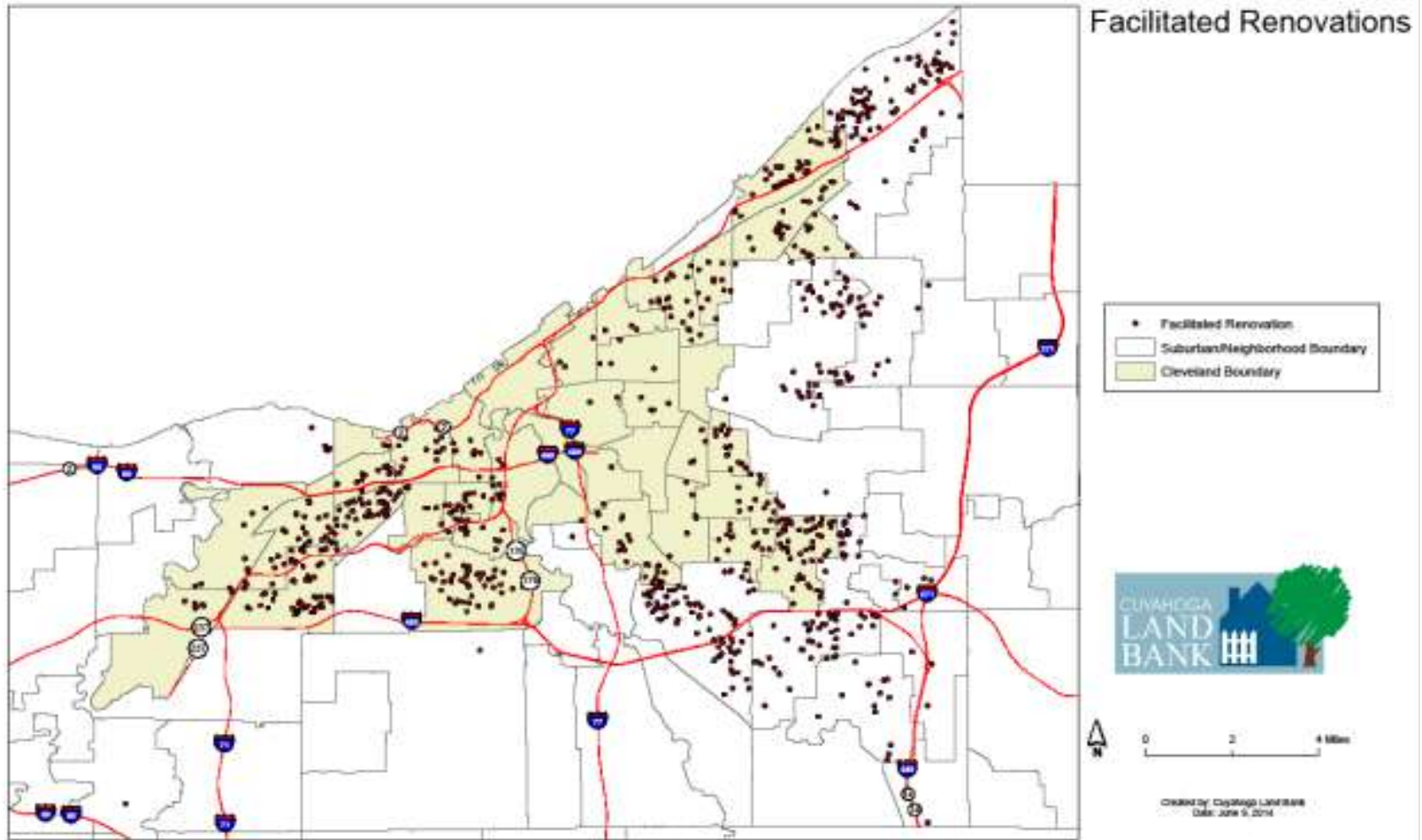
Fraud and Code Enforcement Prosecution

- Frontline tools for combatting irresponsible trading and flipping of blighted property.
- Aggressive code enforcement has been used effectively by inner ring suburbs - Shaker Hts., South Euclid, Parma and others.
- The Cleveland Housing Court is considered one of the most effective in the United States.
- Cuyahoga Prosecutors and the Cleveland Building & Housing Department have aggressively pursued illegal investors.
 - *“The word is out among our investor colleagues – stay out of Cleveland.” Harvard study interview with out-of-state investor.*

Housing Renovation

- Housing renovation is challenged by depressed home sale prices.
- Still, home renovation has continued as noted below.
- Housing Production 2009 – 2013
 - 1,093 City of Cleveland Single Family
 - 2,227 City of Cleveland Multifamily
 - 819 Cuyahoga Land Bank Single Family

Land Bank Renovations Map



Demolition

- In markets with depressed home sale prices, demolition is the most cost effective means of removing market-crippling blight and combatting “blight flight”.
- *“Estimating the Effect of Demolishing Distressed Structures in Cleveland, 2009-2013”*, Nigel Griswold (2014). Key findings include:
 - Distressed properties negatively impact property values and homeowner equity.
 - Turning distressed structures into vacant lots provides a hedge against loss of equity and value.
 - Demolition activity is beneficial in lowering mortgage foreclosure rates.

For further information contact

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