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The Sky isn’t Falling Everywhere

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The Sky Isn’t Falling Everywhere

The emergence and analysis of housing submarkets in a post-foreclosure world:
Cuyahoga County, Ohio
The Sky Isn’t Falling Everywhere

The emergence and analysis of housing submarkets in a post-foreclosure world: Cuyahoga County, Ohio

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Summary

We present data that support the existence of two distinct housing markets operating within Cuyahoga County. One of these submarkets is dominated by foreclosure activity and its after effects. Sales volume in this market is up and prices are down. The second submarket, which until now hasn’t received its due attention, is comprised of sales that have not been involved in the foreclosure process. While sales volume in this submarket is decreasing, prices in this market are stable at the county level. Houses in this submarket are holding their value.

Thus, while there are a great many reasons to be concerned about the county’s housing market, we don’t find values to be universally declining across the county. We would be wise, especially as we think through the tax revenue implications of the foreclosure crisis, to more carefully consider these distinct submarkets operating within the county. The consequence of continuing to treat our housing market as if it were only “one market” could be severe for local municipal budgets.
Introduction

Does the onslaught of recent housing news have you yearning for the “good old days” of Cuyahoga County’s housing market? The pervasiveness of the coverage and the severity of the content might tempt us to think back, even to the beginning of the decade, with rose-colored classes – “If only we could get back to days before the foreclosure boom!” Keep in mind, though, that the foreclosure explosion in the City of Cleveland and some of the inner suburbs comes on top of regional housing dynamics that have for decades been undermining the city – and, more recently, older suburbs. Public policy that has strongly favored development of new, outer communities over maintenance and redevelopment of the urban core has encouraged middle-class residents to move out, followed by those with lesser incomes.

Constant outward movement, coupled with scant regional population growth and major regional oversupply of housing has resulted in inescapable decline and abandonment in Cleveland, which is now spreading to the inner suburbs. The foreclosure crisis adds high-octane fuel to these underlying destructive dynamics by giving people who can afford to move out and away from the crisis added reason to do so.

Certainly these are trying times for the county’s housing market. The Center for Housing Research and Policy has been tracking and analyzing regional housing trends for over 25 years, and the addition of the foreclosure crisis to the region’s long-standing housing challenges has been, in our view, a “game-changer.” Going forward, our market may well be fundamentally different from what it has been in the past.

If that is the case, it raises the question as to whether the tools and indicators we’ve been using to monitor the housing market are still appropriate yardsticks for the job. Our Center, and others like it, both in the region and beyond, have often used sales volume and price data to make sense of the housing market. When you look at these indicators currently, the picture of housing isn’t a pretty one.

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1 These numbers reflect those that we typically use for “arms-length” transactions.
The Big (and by now, familiar) Picture

Key findings:

- **Total foreclosure filings in the county are currently running at about 1,300 per month.**
- **Median sales prices in the City of Cleveland and Cuyahoga County decreased in both 2005 and 2006.**
- **Sales volume has been stagnant in the city for the last several years, and decreased in the county for the last two years.**

The number of foreclosure filings in Cuyahoga County since 2000 is shown in Figure 1. There is a clear cyclical pattern present, where filings typically peak over the winter months, and recede a bit during the summer months, only to peak again, and generally at a higher level, once winter returns. To date, December of 2006 witnessed the highest number of filings, at 1,455. The winter peak of 2007/2008 topped out below 1,400 filings a month. “Good” news?

![Figure 1: Number of Foreclosure Filings, Cuyahoga County, 2000-2008 (Mar)](image-url)
Hardly. These numbers appear to have taken their toll in terms of housing values and housing sales volume, two traditional indicators of the health of the housing market. Figure 2 shows the annual median sales price for single family homes in the County since 1976. 2005-2006 was the first time in this data series that median prices declined from one year to the next. County-wide, 2002-2003 was the last year in which the median sales price increased. Looking at the city and the suburbs separately reveals that median price peaks in both locations occurred in 2005 – it was the larger proportion of city sales from 2003 to 2005 that kept the county median stable over that time period. Prices declined in 2006. Prices declined again in 2007.

![Fig. 2: Standard Median Sale Price Analysis (Single-Family), Cuyahoga County, Cleveland, Suburbs, 1976-2007](image)

The aggregate picture of sales volume is also troublesome. Figure 3 shows the Cuyahoga County sales slow down, fueled by a stagnant Cleveland market and a suburban market that hasn’t seen a meaningful increase in sales volume since 2003-2004.

"Draft, The Sky Isn’t Falling Everywhere"
We argue that the nature of these recent changes necessitates a finer detailed look at the way we monitor the market. Looking beyond the aggregate numbers reveals some nuance to the current market, and also indicators that will be more helpful in tracking the County housing market's emergence from the challenges that face it.

**Foreclosure analysis**

**Key findings:**

- **Total foreclosure filings, although high, seem to be leveling off.**
- **Despite being considered a primarily urban crisis in the past, foreclosure filings in the suburbs have exceeded those in the city since December of 2007.**
- **In the east and the west suburbs, as well as the west side of Cleveland, foreclosures filings are on the increase. On the east side of Cleveland, however, foreclosure filings have been decreasing, and substantially so.**
Since foreclosure news appears almost daily through the variety of news media available to us, it is first critical to distinguish between national and local trends. For example, you might have seen the article “Foreclosures Keep Rising” in the Plain Dealer recently. It reported that nationally the first quarter of 2008 saw the highest rate of foreclosure since 1979. Bloomberg News reported that nationally foreclosure filings in March of 2008 were 57% higher than they were during March of 2007. Yet looking back at Figure 1, foreclosure filings here have been relatively stable, if not slightly declining, since September of 2007. In fact, we’ve been seeing approximately 100 fewer filings a month since the peak in December of 2006.

We don’t posit that the crisis is over, and we’re not glossing over the fact that 1,300 foreclosures per month is still indicative of a severe condition, but the dramatic increases that other parts of the country are experiencing – and that the news media is exhaustively covering – we’ve struggled through those already. Maybe more are in store, but much of the dramatic numbers appearing in the news refer to the rest of the country, as they experience their own dramatic increases in foreclosure filings, the likes of which we have already seen, as shown in Figure 1.

The number of foreclosure filings has increased from about 500 a month in January 2000, to between 1,000 and 1,500 over the last few years. The county’s monthly filings are hovering at over 250% of their 2000 level.

To better understand the dynamics of the foreclosure patterns, it is useful to look at their sub-county distribution. However, given the nature of the detail available in the data, our focus begins with November of 2005. Starting with filings at this time, we’re able to (in an automated fashion) match the foreclosure filing to its street address. This allows us a deeper look into the geography of the data.

This report details the residential properties that have foreclosure filings since November of 2005, and we present numbers in a “3-month moving average” format.

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other words, for any specific month, we average the month before and the month after in order to smooth out any abnormalities in the data. Our residential foreclosure numbers include single-family, two-family, three-family, condominiums and vacant residential properties. Single-family homes were the largest component across all geographic areas of the county, while two-family homes were only significant in Cleveland, and the condos were mostly relevant only in the suburbs. For convenience, we start the trend in 2006, and the foreclosure peak during the winter of 2006-2007 is still evident, although due to the smoothing, slightly less dramatic (See Figure 4). Still, a rate of over 1200 units foreclosed per month is extreme, even for a county with slightly more than 600,000 residential units. However, unlike the widely reported national trends, we found that foreclosure filings appear to have peaked, and that they are, at worst, staying just below the 1,200 units per month level.

Fig. 4: Foreclosure Filings, Residential Properties, Cuyahoga County, 2006-2008(Mar)
Distinguishing city from suburban foreclosure filings, Figure 5 reveals several interesting patterns. First, until recently many had been thinking of residential foreclosure as an *urban* problem – something plaguing our cities – something escapable by moving to the suburbs. Yet as far back as the beginning of 2006, the number of foreclosure filings in Cleveland was only about 20% higher than the number in the suburbs, and with the exception of only two months, this was roughly the case through most of 2007.

![Fig. 5: Foreclosure Filings, Residential Properties, Cleveland, Suburbs, 2006-2008(Mar)](image)

It should be noted, though, that despite the general rise of foreclosure filings in the suburbs, they have not evenly distributed. For example, in 2007, 55% of the foreclosure filings in the suburbs have been concentrated in just four suburbs: Euclid, Maple Heights, Cleveland Heights and Garfield Heights. Figure 6 shows the

Fig. 6: Foreclosure Filings by Cleveland Neighborhood and Cuyahoga County Suburb

<table>
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<th>Place</th>
<th>City/Suburb</th>
<th>2006</th>
<th>2007</th>
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The second point of interest is that since December of 2007, suburban filings have outpaced city filings, and by March of 2008, the gap between suburban and city filings mirrors that by which city filings used to exceed those of the suburbs. The final point to draw from Figure 5 is that of the potential trend. Suburban filings have been on a general increase since May of 2007. Filings in the City of Cleveland, however, have been on the decline since last September, declining about 15% since that time, and are currently down over 20% from their peak level in November of 2006. In other words, it appears that Cleveland may have reached a peak, but suburbs have not.
Figure 7 reveals that the foreclosure crisis is not impacting the East and West sides of the county equally⁴. Foreclosure has been much more pervasive on the east side of the County. In particular, Cleveland East was the only area that had over 400 foreclosure filings in any particular month, during 2006 and 2007. Until 2008 Suburbs West and Cleveland West did not have a single month with over 200 foreclosure filings⁵.

Mirroring the city-suburb relationship in Figure 5, filings in the Suburbs East overtook Cleveland East during the winter of 2007-2008. This is both good and bad news. The good news is that the area with historically the largest number of

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⁴ We use the Cuyahoga River to distinguish East from West.
⁵ We use Cleveland East and Cleveland West to refer to the east and west sides of the city, delineated by the Cuyahoga River. We use Suburbs East and Suburbs West in the same manner.
foreclosures has seen a decrease over the last 6 months or so. The bad news is that the eastern suburbs, the area with historically the second largest number of filings, has been experiencing a steady increase in filings over the past year. The relationship between the Suburbs West and Cleveland West is less clear, although each has been on a general increase since the middle of 2007 (with the notable exception of March, 2008 for Cleveland West).

The pattern between the two suburban categories is similar, although the level of filings on the east side is typically about twice that of the west side. The east-west comparison within the city however, shows this gap to be narrowing – filings are decreasing in Cleveland East, but increasing in Cleveland West.

On balance, there remain more indicators of concern than of optimism. If there are any silver linings, they are that (1) the level of monthly filings has leveled off over the past several months, (2) at a level below their 2006 peak, and (3) that the filings on the east side of Cleveland have actually declined.

We should be concerned that the filings in the Suburbs East are now at levels comparable to Cleveland East and that they’ve been on a steady increase. The west side, both the city and suburbs, are also seeing increases in their monthly filings, although the absolute numbers there have typically been much lower than their east side counterparts. Unfortunately, that gap is narrowing.

Finally, the fact that the monthly count of residential foreclosures continues to hover between 1,000 and 1,200 for the County is a telling indicator of the continued pervasiveness of the crisis. Three of the four geographic segments we identified are on the increase, and it is becoming evident that less and less, this is something you can avoid by living in, or moving to, the suburbs.

**Sales Analysis**

As we gear up for another presidential election, we’re already hearing discussion of red states and blue states. On election day, regardless of the margin of victory, it all
comes back to that simple question – will a state be red or will it be blue? The margin of victory doesn’t matter. The spatial configuration or patterns of voting behavior don’t matter. All that matters is that aggregate state result.

Unfortunately, many analyses of the single-family housing market, both in and beyond Cuyahoga County have been of this same aggregate variety. In these analyses, all sales are grouped and analyzed as one market, and the housing market for the entire geographic area being considered is then classified, for example, as being in decline. While figures 2 and 3 are examples of that kind of aggregate analysis, looking at these numbers tells only part of the story. In the election case, that red or blue designation tells the end result of the story, and with the housing analyses it gives you only an overview of the situation. But in both cases, to truly understand the process, one has to look at the disaggregate picture.

In the Cuyahoga County housing market, one dimension along which to dissect the market is to look at the different types of sales, as these have been dramatically changing over time. In what follows, we consider these sub-categories of all sales:

- Sheriff sales
- Sales which were not sheriff sales but:
  - That house was the subject of a sheriff sale within the past two years, or;
  - That house had a foreclosing filing within the past two years.

Sheriff sales clearly take place in a different sort of market context– the sheriff auction\(^6\). In addition, the vast majority of properties which had sold at sheriff auctions in the recent past, or for which there were foreclosure filings, also sell at reduced prices. Again, these properties are more than likely facing different market forces than the traditional housing transaction. Together, these properties can be considered to have been “directly impacted” by foreclosure proceedings\(^7\). The presence, and more importantly, the increasing presence of this distinct foreclosure-

\(^6\) Over the past several years, we’ve found the median sale price for sheriff sales to be around 40 percent of the sale price for non-sheriff sales.
\(^7\) In this analysis, we don’t consider indirect impacts on nearby properties. Separate ongoing research at the Center is addressing this issue through a spatial econometric framework.
related submarket suggests the need to analyze these markets separately. One portion of the market has been directly impacted by foreclosures (the “directly-impacted market”, for short), and the rest of the market has not (“not impacted market”, for short).

The County Picture

Key findings:

- The two-market phenomenon is a relatively recent one, since approximately 2004/2005.
- By the beginning of 2008, more than 80% of sales in the city, and approximately 50% of those in the county, were directly-impacted by the foreclosure process.
- This increase of directly-impacted sales and the declining number of not impacted sales has brought about a decline in the overall median price.
- The median price in the not-impacted market, however, has remained fairly stable.

For many years the assumption that the county consisted of one market was an accurate one. Looking only at sheriff sales (our longest time series) versus all other sales, Figure 8 shows that between 1976 and 2000, the percent of total single-family sales which were sheriff sales was never higher than 3.0 percent for the county as a whole, 5.7 percent for the City of Cleveland, and 2.0 percent for the suburbs. From 2000-2004 there was a fairly gradual rise to about 4.5 percent for the county, 9.0 percent for the city, and 2.9 percent for the suburbs. From 2004-2005 there was a substantial jump, followed by even bigger increases in each year through 2007, reaching 27.6 percent for the county, 48.9 percent for the city, and 18.6 percent for the suburbs. Clearly, the rise of foreclosures in the county has created a distinct submarket that should be recognized in analyzing the county housing market.
The percent of directly-impacted sales for 2004-April 2008, by month, is shown in Figure 9. Comparing January 2004 to January 2008, for the City of Cleveland, the percent of directly-impacted sales rose from 39 percent, to 85 percent. There were also substantial increases for the county (from 23 to 68 percent) and the suburbs (from 15 to 58 percent). This is a substantial and troubling finding. By 2008 more than 8 out of every 10 sales in Cleveland fell into the directly impacted category, as did 5 out of every 10 in the suburbs.

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8 Due to the same data restrictions outlined above, and because the biggest changes occurred since 2004, from this point on, our analysis will focus on the period 2004-April 2008, and will discriminate between the directly-impacted and not-impacted markets.
The “All” sales line in Figure 10 should look familiar – it is similar to the tail end of the data presented in Figure 2, and it shows the trend many have probably seen or heard of – that median house prices in the county are falling, and the decline is not subtle. However, the “directly impacted” trend tells the story – that over the time period while the proportion of directly-impacted sales was rising substantially, the median sale price for directly-impacted sales was falling, also substantially. This had the effect of pulling down the median sale prices for all single-family sales (the sum of directly-impacted and not impacted sales).
Perhaps surprisingly, when only the not impacted sales are considered for this period, the pattern of prices is fairly stable, reflecting primarily seasonal fluctuations. This would call into question the idea that the foreclosure boom is pulling down the value of all houses. For houses that have sold over the last four years, that have managed to stay out of the foreclosure process, prices have been stable. This (bordering on positive) news, however, is tempered by Figure 11, which shows that not only have the directly-impacted sales increased in number, but their proportion of total sales has also been increasing, as the not impacted sales volume has been declining.
Sub-county Volume

Key findings:

- **Sales directly impacted by foreclosure outnumber those not impacted on both sides of the city and in the eastern suburbs.**
- **In the western suburbs sales not impacted by foreclosure are still more numerous, although the gap is smaller now than it has been in the past.**

Thus far, the discussion has been of county level trends. However, just as with the foreclosure filings themselves, there were variations in the trends taking place at different geographic sublevels of the county during the 2004-April 2008 time period. On Cleveland’s east side, the number of directly-impacted sales started at about 0.9 times the number of not impacted sales for the first six months of 2004, but the ratio grew to over nine-to-one by the last six months of the period (See Figure 12). By April 2008, the directly-impacted sales represented almost the entire complement of sales in Cleveland East. For Cleveland West, shown in Figure 13, the number of not-impacted sales remained above the number of directly-impacted sales until the end of 2006. Even though the number of directly-impacted sales was higher in 2008, the ratio of
directly-impacted to not impacted sales in Cleveland West was around two for the last six months of the period (compared to eleven in Cleveland East).

Fig. 12: Number of Single-Family Sales, Cleveland East, 2004-April 2008, by month

Fig. 13: Number of Single-Family Sales, Cleveland West, 2004-April 2008, by month
In the Suburbs East, the pattern is similar to Cleveland West, except that the number of directly-impacted sales doesn’t pass the number of not-impacted sales for good until late in 2007 (See Figure 14). Finally, for the Suburbs West, the pattern is very different: Figure 15 shows that for the first six months of 2004, the ratio of not-impacted to directly-impacted averaged about twenty-one to one, and the number of not-impacted sales is greater than the number of directly-impacted sales for the entire four-plus years, even though the average ratio for the last six months is down to under two.

Fig. 14: Number of Single-Family Sales, Suburbs East, 2004-April 2008, by month
Sub-county Prices

Key findings:

- The dramatic price decreases in the Cuyahoga County market are primarily concentrated in the directly impacted submarket.
- Prices in the not impacted submarket are largely stable, with the possible exception of the east side of Cleveland, where the not-impacted volumes are quite low, making it tough to judge definitively.

Turning to the patterns of median sale prices, Cleveland East clearly exhibits the effects of the growing predominance of the directly-impacted sales (See Figure 16). The median value for directly-impacted sales fell fairly steadily over the past two years, and since so many of the total sales are directly-impacted, the median price for all sales closely mirrors the trend line for the directly-impacted sales. At the same time, the median price for the not impacted sales remained fairly steady, especially prior to 2007. For Cleveland West, shown in Figure 17, the slower increase in the proportion of directly-affected sales allowed the median sale price for all sales to remain flatter for a longer time and to decline less steeply in 2007. Median sale prices for the not-impacted sales were fairly flat over the period, until the end of 2007.
Fig. 16: Cleveland East Single-Family Median Sale Prices, 2004-April 2008, by month

Fig. 17: Cleveland West Single-Family Median Sale Prices, 2004-April 2008, by month
For the Suburbs East, shown in Figure 18, the gradual increase in the number of directly-impacted sales, plus the fairly-flat trend in median sale prices for directly-impacted sales until about late 2006 allowed the median price for all sales to stay fairly flat until late 2006. The median sale price for the not impacted sales actually rose during 2007, pulling up the median sale price for all sales for a while. This is another case where there is remaining stability in the non-impacted market.

![Fig. 18: Suburbs East Single-Family Median Sale Prices, 2004-April 2008, by month](chart)

The same holds true for the Suburbs West, where the median sale price for non impacted sales also remained relatively flat. In fact, the median prices of all sales even remained fairly flat for the entire period, due to the relatively low number of impacted sales, even though impacted sales prices did decrease (See Figure 19).
Other Market Considerations

We offer two other insights into recent market activity that could prove useful in monitoring progress and explaining recent price changes. First, we present sales values as they relate to auditor generated estimated market values. This could help evaluate whether houses are selling at substantial discounts, or if it is simply the case that lower valued houses are selling at logically lower prices. Second, we again use the auditor market value information to investigate the degree to which higher or lower valued homes are being sold.

Sales, Prices, and Values

Key findings

- *In 2006 and 2007 median sales in all four subareas have been at a discount, compared to their estimated market values.*

The relationship between sale price and estimated market value, as assessed by the auditor, provides more insight into the timing of the increase in foreclosures and
trends in sale prices. The median ratio of sale price to estimated market value for the four subareas is shown in Figure 20. A ratio of one would indicate that the median house in that subarea sold for the exact value that the county auditor estimated the house to be worth. Ratios less than one would indicate houses selling at a “discount” compared to the auditor value, and ratios greater than one would indicate houses selling at a “premium” compared to the auditor’s value. The years 1994, 2000, and 2006 were years of major reappraisals, and the years 1997 and 2003 were years of minor reappraisals. Because the auditor’s estimated market values for most properties do not change between these reappraisals, and because the expected pattern for prices over time is a slight increase each year, we would expect the ratios to rise slightly between reappraisal years, and fall in the reappraisal year. This is because the general adjustment in estimated market value in a reappraisal year is upward, and so the estimated market values for most properties will be higher than in the previous year, thus lowering the ratio. This pattern, basically trending between ratios of 1.0 and 1.2, holds consistently through 2005.

![Fig. 20: Median Ratio of Sale Price to Estimated Market Value, 1993-2007, by year, Cleveland East and West, Suburbs East and West](image-url)
In 2006, a major reappraisal year, the ratios drop much more than previously, with Cleveland’s ratios falling below 1.0, to .86 in the East, and .99 in the West. In 2007, a year in which we would normally expect to see an increase in the median ratios, the ratios in all four areas fell even more dramatically, with the ratio for Cleveland East falling to .56, Cleveland West to .73, Suburbs East to .86, and Suburbs West to .99. These changes are likely driven by the continued drop in prices in the directly-impacted segment of the market.

Which Houses Sell?

A final research question concerns whether or not owners of higher-valued properties might be relatively less likely than lower-valued property owners to sell when the general market is in decline. To answer this, we divided the range of estimated market values into four categories of properties (“quartiles”). Then we took the sales for each year and found which quartile of estimated market value each sale was in. By looking at the number of sales in each value quartile for each year, we can see whether or not the proportion of sales coming from each value quartile has changed substantially over time. We show just the east side results for the city and the suburbs to demonstrate how the changing composition of sales could further influence median price trends.

If sales came from each quartile in approximately equal proportions, we would see each line in Figure 21 hover around the 25% mark. The trend line rising above the 25% line indicates that sales from that value quartile are prevalent. Trend lines below the 25% line indicate an under-representation from that quartile. Figure 21 appears to confirm the hypothesis for Suburbs East that over time increasing proportions of sales were lower-value properties, decreasing proportions were coming from the top of the value chain, while the middle of the market remained relatively stable. In 1993, the number of sales coming from each quartile was about the same, but by 2007, about 32 percent came from the lowest-valued quartile, while only about 20 percent came from the highest-valued quartile. It is also the case for the Suburbs East that the median ratios of sale price to estimated market value are about the same for each quartile in both 1993 and 2005 (between 1.12 and 1.18). However, in 2006, the price-
value ratio for the lowest quartile was .99, 1.03 for the next quartile, 1.02 for the next, and 1.04 for the highest quartile. In 2007, these ratios had dropped to .63 for the lowest quartile, .80 for the next, .92 for the next, and 1.00 for the highest quartile. This suggests that by 2007, the lower the property value quartile the higher the proportion of sales, and the lower the value quartile the deeper the discount at which these properties were selling. This provides additional context for Figure 18 that showed a decline in overall median prices – the fact is that over time, the stock of houses that were selling were made up of a higher proportion of lower valued homes9.

![Fig. 21: Suburbs East Sales: Percents by Estimated Market Value Quartile, 1993-2007, by year](image)

The story for Cleveland East is somewhat different, shown in Figure 22. The number of sales coming from each quartile was about the same in 1993, but after a long period during which the largest proportion of sales came from the lowest-valued quartile, at the end of the period the smallest proportion of sales came from the lowest-valued quartile, and the proportion which was coming from the highest-valued quartile was climbing. Adding details about the sales price to estimated market value ratios for

9 Consider for example, if one year automobiles that sold were made up of a mix of all varieties of vehicles. If in the next year, say due to a weak economy and high gas prices, sales of all vehicles were down, but among remaining sales large trucks and SUVs declined, while sales of high-mileage econocars increased. This change in the composition of the market would have similar price implications.
each quartile helps to explain this. In the early 1990s, the ratios were approximately equal across all quartiles. Starting around 1997, the ratio for the lowest-valued quartile was substantially higher than for the other quartiles (1.27 vs. 1.09, 1.01, 1.05, respectively). By 2005, these values were 2.31, 1.16, .90, and .99. This was also a year in which the proportion coming from the lowest quartile dropped from 30 to 24 percent of the total. One possible explanation is that Cleveland East experienced a great deal of flipping in this lower quartile – houses were selling at a substantial premium above the auditor’s value. It is also possible that only the “very best of the very lowest-valued” properties were selling. By 2007 this activity had cooled, as the ratios declined to .85, .55, .50, and .52. The proportion of sales which came from the lowest-valued quartile dropped even more, down to about 20 percent of the total. For the other three quartiles, it is clear that the typical property was selling for a deep discount.

**Conclusions**

As cities contemplate what actions to take in an attempt to guide their housing market in the wake of the foreclosure crisis, it is critically important that we understand the
market at an appropriate level of detail. We have provided here the first layer of such an effort, by detailing a temporal accounting of foreclosure filings across four geographic segments of the county. While the aggregate number of filings has recently stabilized (at a rate that is much too high), the spatial composition of those filings is in flux. This would likely continue to be the case if we were to dig even deeper geographically, say by city, or even by neighborhood within cities.

If the aggregate foreclosure trend continues, it is possible that the county resources for dealing with foreclosure filings might not be stretched any further than they currently are. The key will be to refocus resources to the areas newly experiencing increases in foreclosure filings, while mobilizing recovery efforts to areas where new filings are waning.

It’s clear to us, that the broad indicators that have been so commonly used to monitor and comment on the market in the past are not very representative of the market now. We find that there are two distinct submarkets in the county, defined by whether a property has been subject to the foreclosure process. For the submarket that has been directly impacted, the market is as we might expect – values are down. For the submarket that has not been directly impacted, values on a whole are stable – that is the part of the market that we have not been hearing about. It is the part that homeowners have not been hearing about. If homeowners are able to weather the slow economy and keep their house out of the foreclosure process, it seems that those houses have been retaining their value.

“Well, maybe in the suburbs,” you’re thinking? Yes, but also in the city. The steep decline in median prices we’ve all been reading about nearly disappears when you analyze the foreclosure-impacted submarket separately. The trouble is that transactions in that not-impacted segment are becoming increasingly rare. It is our view that this non-impacted portion of the market is “on hold”. Those that have the luxury of choice are simply choosing not to put their houses on the market now, while the housing market news tends to be so negative.
This could have serious implications for the market’s eventual recovery. It could provide yet another wave of over-supply when the market is judged stable enough for all of this delayed supply to enter the market. This would be on top of the over supply that is currently building as units return to the market out of foreclosure in increasing numbers, while tighter lending requirements shrink the buyer market. And both of these forces of over-supply would be but additional layers on top of the already severe over-supply problem faced by our core communities before the current crisis set in.

Further, the composition of what is currently selling is also changing. In the east side suburbs, for example, lower-valued houses have been selling more than higher valued houses, which also works to pull down median values.

This segmented look at the market helps to sort out what is actually occurring. Contrary to popular belief, housing values are not in a county-wide free-fall. They may not be increasing, and this could well be due to the indirect impacts of the crisis, but aggregate reports that prices are universally plunging across the county gloss over important detail as to how the market is newly operating.

There is a positive message for homeowners who are nervously on the sidelines of this whole process, but are sitting back thinking they better sell before their equity completely erodes. If they haven’t been part of the foreclosure problem, there is not overwhelming evidence at the analyzed levels of geography that they are rapidly losing equity. There is a solid chance that equity isn’t building as a result of price increases, but that likely isn’t unique to any part of the region – none of the four areas investigated here are really experiencing price increases. Keep in mind also, that equity is the difference between what the house is worth and what is owed, so if prices are stable, households can still build equity by simply continuing to make their mortgage payments.

Naturally, there will be geographic variations beyond what has been presented here. Just as this report highlights differences among the four primary areas studied, cities and neighborhoods would also show additional variation. We typically analyze the
value of a house as being derived from the structure itself and from its neighborhood. Thus, neighborhoods devastated by processes discussed here will face deeper challenges in the recovery process.

However, we find that the county’s housing market is not in universal despair and leaders and homeowners acting like it is will only deepen the crisis. As data about our housing market become increasingly available it will be critically important that we watch the right data, and perhaps no other indicator will signal the market’s return better than a sustained shift in the balance between these two sub-markets. To be sure though, the traditional measures of local market activity that we’ve all come to rely on are no longer the right data, at least not on their own.

Renewed efforts are necessary to make sure that we are analyzing and presenting the data that best represent the current state of the market so that both policy makers and homeowners can make the best choices available to them. To that end, the Center for Housing Research and Policy has been working both with Cleveland’s City Council and Cuyahoga County’s Department of Community Development on further developing market indicators that will be of use to decision-makers in understanding the complexities of today’s housing market. It is through this deeper understanding of the market that informed policy solutions will emerge.