

The Cost of Vacancy – Everybody Pays

Findings on Real Estate Tax Shift in Cuyahoga County as a Result of Housing Abandonment and Foreclosures

SUMMARY OF FINDINGS

As the result of foreclosures and abandonment, falling property values in Cleveland and five inner-ring suburbs have caused a shift of nearly \$45 million in real property taxes to Cuyahoga County's other 53 communities.

This shift will likely become more pronounced if forceful action, primarily wide-scale demolition, is not taken to address and eliminate blight in the county's most challenged communities.

This study illustrates:

- Abandoned and foreclosed property in distressed neighborhoods of Cleveland and inner-ring suburbs have caused residential property owners in the rest of the county to pay a larger share of the tax burden on countywide levies.
- A recently released study on the effect of vacancy, abandonment and demolition in Cuyahoga County, "Estimating the Effect of Demolishing Distressed Structures in Cleveland OH, 2009-2013: Impacts on Real Estate Equity and Mortgage Foreclosure," demonstrated that demolition has a positive effect on surrounding property values in neighborhoods with moderate and strong housing markets. Demolition lowers foreclosure rates in all neighborhoods.
- Funding large-scale demolition will begin to stabilize the shift of the real property tax burden to the county's outer-ring suburbs.
- Forgoing demolition and allowing values in distressed communities to fall further will place an even larger burden on property owners in outer-ring suburbs as countywide agencies are forced to seek larger levies on a dollar basis to support their activities.

The study, initiated by the non-profit Thriving Communities Institute with support from Cleveland City Council, Cleveland Neighborhood Progress and the Cuyahoga Land Bank, analyzed assessed valuations on residential property and, to a lesser extent, residential property transfer data from 2000 through 2013.

The purpose of this study was to measure how much of the real property tax burden has shifted from communities hurt by blight and abandonment to communities with housing stocks less affected by the foreclosure crisis and its deleterious consequences.

Property tax values were obtained for the tax years 2000 through 2012 and values for every third year were reviewed, based on the county reappraisal schedule. The county conducted a full reappraisal of all property values in 2000, 2006 and 2012 and updated values in 2003 and 2009. Property tax rates were extracted for each of the same years.

The county was divided into two distinct groups for the study. Cleveland and five contiguous inner-ring suburbs were selected for the residential "distressed" group because each saw median prices of residential property drop more than 50 percent from 2006 to 2013. A conservative median price calculation was used in this study and excluded various deed types – sheriff's sales, quit claims, forfeitures and deeds in lieu – because they are not considered to be normal, "arm's length" transactions. The comparison only included properties that sold for \$5,000 or more.

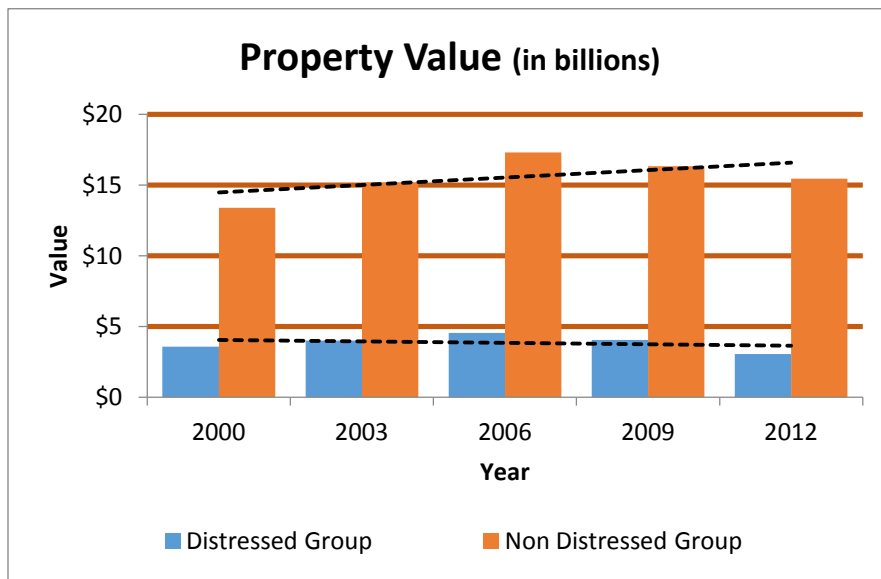
The communities in the distressed group are Cleveland, East Cleveland, Maple Heights, Garfield Heights, Euclid and Newburgh Heights. (See Table 1). The non-distressed group consists of the remaining 53 cities, villages and townships in Cuyahoga County. A full listing of sale prices for all communities can be found in the Appendix.

Table 1: Median Sale Prices of Communities Included in Distressed Group

| | <u>2006</u> | | <u>2012</u> | | <u>2013</u> | | change 2006 to 2013 |
|------------------|---------------|-------------------------|---------------|-------------------------|---------------|-------------------------|---------------------------|
| | # of sales | median sale price | # of sales | median sale price | # of sales | median sale price | |
| EAST CLEVELAND | 392 | 73,000 | 56 | 15,025 | 50 | 13,950 | -80.9% |
| MAPLE HEIGHTS | 632 | 99,900 | 294 | 23,500 | 318 | 32,500 | -67.5% |
| GARFIELD HEIGHTS | 659 | 107,000 | 454 | 33,950 | 487 | 35,000 | -67.3% |
| CLEVELAND | 7,430 | 82,000 | 3,044 | 28,715 | 3,477 | 30,000 | -63.4% |
| EUCLID | 909 | 112,000 | 656 | 35,000 | 688 | 42,250 | -62.3% |
| NEWBURGH HEIGHTS | 38 | 87,750 | 24 | 27,750 | 23 | 36,050 | -58.9% |

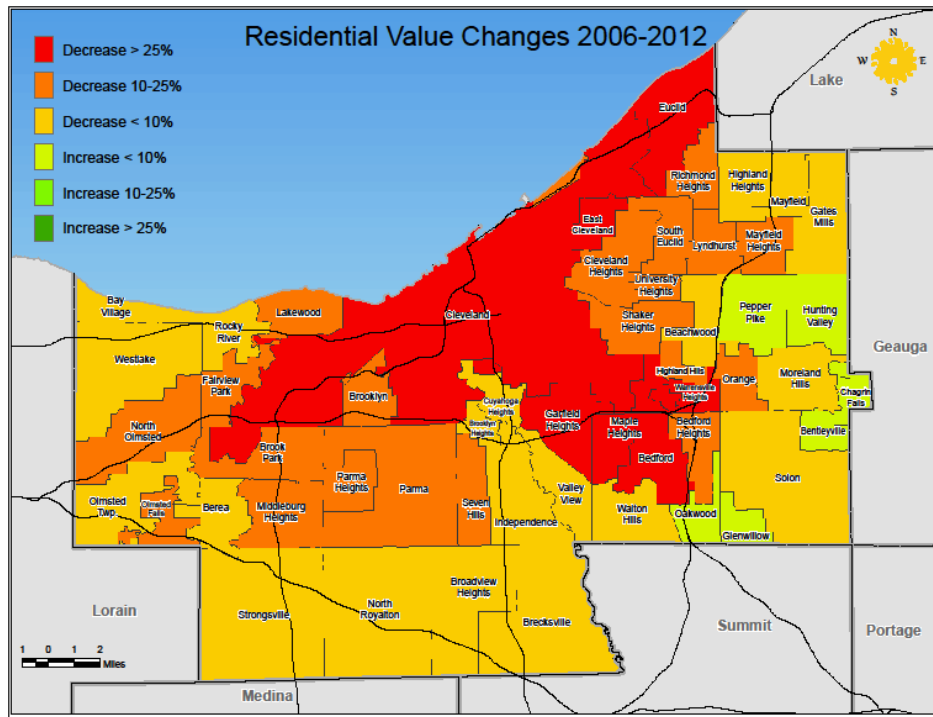
Using data from the Ohio Department of Taxation, this study found that the total assessed value for residential property in Cleveland and the five inner-ring suburbs fell 33 percent between the full appraisal years of 2006 and 2012. Assessed values in the remainder of Cuyahoga County also dropped, but the resulting decline was only 12 percent. (See Figure 1).

Figure 1: Property Values by Group



The unprecedented lowering of assessed values first occurred in tax year 2009 largely because of plummeting sale prices for residential property. The reappraisal of 2012 reflected even lower assessed values, especially in cities with the most distressed housing markets. (See Figure 2)

Figure 2: Residential Value Changes 2006 - 2012



One reason for the disparity in how far property values fell speaks volumes about why demolition is so badly needed in blight-ravaged neighborhoods. The worst-hit neighborhoods and communities were ravaged by subprime lending, a business practice that saw residential mortgage companies sell high-cost loans with little or no regard for borrowers’ ability to pay them back. Subprime lending created a speculative market for real estate in low-value neighborhoods, pushing prices far beyond what homes were actually worth. Much of this activity was based on fraudulent representations by the various actors involved in these transactions, many of whom were astutely aware that loan originators would do little if any underwriting or due diligence in verifying borrowers’ credit-worthiness..

Outer-ring suburbs, on the other hand, experienced more modest price increases. It’s hardly coincidental that subprime loans made up a far smaller percentage of loan originations in those communities compared with Cleveland and its inner rings. Home prices in the outer rings fell – as they did throughout the country during the Great Recession – but at a much smaller rate than in low-value neighborhoods.

To show the marked difference, using the same median price calculation, property transfer data shows that in the distressed group – Cleveland, East Cleveland, Maple Heights, Garfield Heights, Euclid and Newburgh Heights, the median price for residential property in those communities dropped 62 percent from 2006 to 2013 (\$86,000 to \$33,000). The price drop for the remainder of the county was 21 percent from 2006 to 2013 (\$154,000 to \$121,000).

IMPACT ON COUNTY LEVIES

Using Ohio Department of Taxation tax rate data, the study examined countywide levies for the general fund, bond issues and social programs, along with Cleveland Metroparks, Cuyahoga Community College and the Cleveland-Cuyahoga Port Authority. The review used data representing three-year increments starting in 2000. The years of primary interest are 2006, a reappraisal year that occurred near the peak of the Cuyahoga County housing market; 2009, which is when the Cuyahoga County Auditor’s Office, for

the first time, lowered residential assessed values countywide; and 2012, when assessed values were lowered again.

As property values rose from 2000 to 2006, revenue from countywide levies rose 63 percent. Both the distressed and non-distressed groups saw similar rate increases relative to their assessed values. With values dropping between 2006 and 2012, charges from countywide levies dropped 4 percent. But charges from Cleveland and the five inner-ring suburbs in the distressed group dropped 24 percent while non-distressed communities experienced a 1 percent increase. This provides a clear example of how the tax burden has shifted because of foreclosure and blight in the hardest-hit communities. (Data showed there was no property tax shift for commercial and industrial properties in the county.)

The numbers are telling in regard to how much more outer rings are being charged and will continue to pay without strong intervention by the county as a whole.

In 2006, the outer rings accounted for 79.2 percent of the property tax charges billed for countywide levies and bond issues. It rose to 80.2 percent in 2009 and stands at 83.5 percent for tax year 2012. (See Table 2).

That shift, which totals more than \$44 million, explains why it is in the best interest of the entire county to stabilize property values by addressing blight and abandonment in distressed neighborhoods.

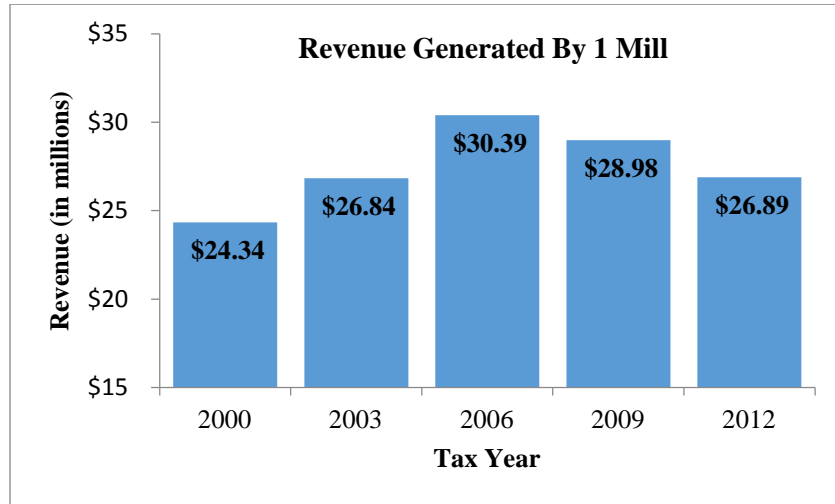
Table 2: Share of County Taxes Charged by Group

| | Cleveland and Inner Ring | Outer Ring |
|------|---------------------------------|-------------------------|
| 2000 | \$45.4 million (21.2%) | \$169.7 million (78.9%) |
| 2003 | \$58.3 million (20.8%) | \$221.8 million (79.2%) |
| 2006 | \$73.0 million (20.8%) | \$277.4 million (79.2%) |
| 2009 | \$71.4 million (19.8%) | \$289.0 million (80.2%) |
| 2012 | \$55.2 million (16.5%) | \$280.2 million (83.5%) |

Without drastic, cooperative action to demolish thousands of blighted structures, it is likely that burden will continue to shift to the outer-ring suburbs as the condition of the housing stock in Cleveland and its inner rings deteriorate further and assessed values continue to drop.

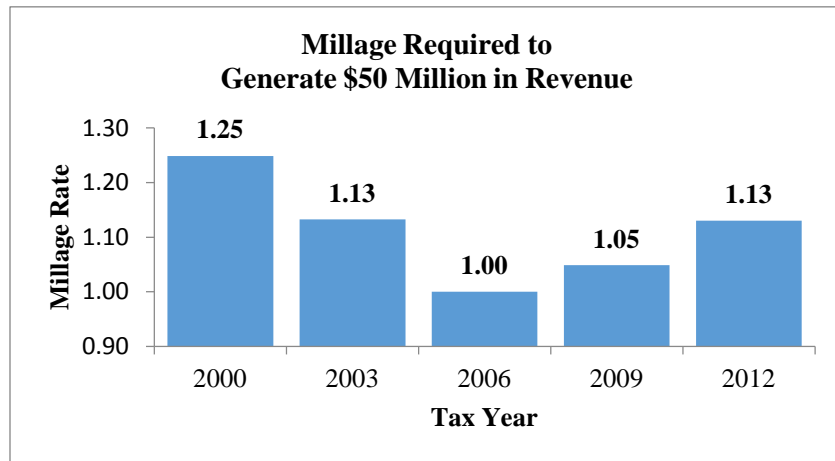
Not only is the burden of existing levies shifting outward, but future requests for new countywide levies will likely be at higher rates, as 1 mill no longer generates the same revenue as in prior years. For example, in tax year 2000, a 1-mill levy raised \$24.34 million. As property values increased through 2006, a new 1-mill levy generated \$30.39 million. In 2012, 1 mill generated \$26.89 million, a decrease of 11.5 percent in six years (See Figure 3).

Figure 3: Revenue Generated by 1 Mill (Residential Properties)



Currently, it would take a 1.13-mill levy to bring in the same tax revenue generated by 1 mill in 2006, the high point of assessed residential property values in Cuyahoga County (See Figure 4).

Figure 4: Millage Required to Generate \$50 Million (Residential Properties)



WHAT ARE THE SOLUTIONS?

Thriving Communities recently released the results of a groundbreaking study of the effect of blight, vacancy and empty lots on property values in Cleveland and its inner-ring suburbs. The study demonstrated the positive impact of demolition on the value of nearby properties and on reducing foreclosure rates within the community.

The city of Cleveland under Mayor Frank Jackson and City Council has understandably made demolition a priority. While Cleveland has managed to meet its required mandate of balanced budgets, there is little money available for much-needed demolition in its 2014 budget.

Since 2006, nearly \$59 million has been spent in the city to demolish nearly 6,000 abandoned and condemned residential structures. The funding sources for that work included a mix of federal funds from various programs, money leveraged from lawsuit settlements with banks and a small percentage of

delinquent property taxes specifically set aside for demolition. In addition, \$27 million has been spent by the Cuyahoga Land Bank to demolish over 2,400 residential structures in Cleveland, East Cleveland and other communities.

But these efforts have not come close to meeting the demands for demolition in hard-hit neighborhoods. There are an estimated 8,300 residential properties in Cleveland, 2,000 in East Cleveland and hundreds more in other suburbs that have been identified as potential candidates for demolition.

Experience has shown that the average cost of demolishing a single-family home is \$10,000. If it were logistically possible, the price tag for tearing down every blighted structure in Cuyahoga County could exceed \$100 million.

There is not much consolation in the fact that Cleveland is not Detroit, which has 80,000 to 100,000 structures that need to be razed. Detroit, which is under the control of an outside fiscal manager overseeing the nation's largest-ever municipal bankruptcy, has committed to spending \$500 million over the next 10 years to demolish vacant structures.

Cleveland's problem might seem small in comparison, but its housing stock suffers many of the same woes and the need for demolition here is no less acute.

Detroit has a housing inventory based on a peak population of 1.8 million people. Its current population is 700,000.

Cleveland's population peaked at 915,000 in 1950, according to U.S. Census data. Its estimated population in 2012 was just 391,000, an 18.3 percent decline since 2000. Today, it could be argued that distressed communities in Cuyahoga County are suffering from "blight flight."

Without wide-scale demolition to remove blight, it is likely that the hardest-hit neighborhoods of Cleveland, East Cleveland and other inner-ring suburbs will continue to experience population loss and abandonment of residential property, creating further economic distress to communities struggling with high rates of poverty and unemployment.

The foreclosure crisis, largely triggered by mortgage fraud and unscrupulous subprime lending, has harmed distressed Cuyahoga County communities significantly. But experts believe the crisis also served to accelerate the degradation of housing stocks that had been declining for decades.

A large percentage of Cleveland and East Cleveland's homes were constructed in the early 1900s. Some were built for the larger families of the day, but in certain neighborhoods, factories sponsored construction of small, poorly built homes to accommodate their labor force.

Most of the homes cited above are wood-framed and, over the years, have gone without basic maintenance such as new roofs and mechanical systems, much less modern upgrades. Many of these dwellings have become markedly obsolete. The expense of gutting and renovating these structures make poor economic sense.

We acknowledge there are vacant homes of architectural or historic significance that make preservation and renovation worth considering. Any efforts to raise money for wide-scale demolition should set aside dollars to bring some of these homes back to life.

Through the advocacy of former Cuyahoga County Treasurer Jim Rokakis, director of Thriving Communities Institute, Ohio Attorney General Mike DeWine set aside \$75 million from a national bank settlement for demolition throughout Ohio. A study commissioned by Thriving Communities, Cleveland City Council and Cleveland Neighborhood Progress, Inc. convinced the U.S. Department of the Treasury that demolition of vacant and abandoned houses would result in a decrease in foreclosure activity, resulting in the reallocation of \$60 million from the Hardest Hit Fund for demolition.

Cities, the state and the federal government have each played a role in funding blight removal through demolition. It is time for Cuyahoga County to step up and address the issue of blighted properties by issuing bonds to fund demolition programs in our most distressed neighborhoods.

Sources:

Ohio Department of Taxation: Real Property Abstract by Taxing District; Tax Years 2000, 2003, 2006, 2009, 2012

Ohio Department of Taxation: Property Tax Rate Abstract by Taxing District; Tax Years 2000, 2003, 2006, 2009, 2012

Cuyahoga County Fiscal Office: Property Transfers 2000 to 2013

Estimating the Effect of Demolishing Distressed Structures in Cleveland, OH, 2009-2013: Impacts on Real Estate Equity and Mortgage-foreclosure

Appendix 1

| Municipality | <u>2006</u> | | <u>2012</u> | | <u>2013</u> | | Difference 2006 to 2013 |
|-------------------|---------------|-----------------|---------------|-----------------|---------------|-----------------|-------------------------------|
| | # of Sales | Median Price | # of Sales | Median Price | # of Sales | Median Price | |
| BAY VILLAGE | 345 | \$ 180,000 | 310 | \$ 187,000 | 301 | \$ 185,000 | 2.78% |
| BEACHWOOD | 150 | \$ 261,000 | 132 | \$ 215,000 | 168 | \$ 228,250 | -12.55% |
| BEDFORD | 235 | \$ 109,500 | 147 | \$ 40,000 | 187 | \$ 55,000 | -49.77% |
| BEDFORD HEIGHTS | 113 | \$ 125,000 | 94 | \$ 80,000 | 82 | \$ 72,750 | -41.80% |
| BENTLEYVILLE | 23 | \$ 715,000 | 10 | \$ 481,500 | 15 | \$ 502,500 | -29.72% |
| BEREA | 312 | \$ 129,750 | 184 | \$ 101,950 | 237 | \$ 109,500 | -15.61% |
| BRATENAHL | 50 | \$ 257,500 | 29 | \$ 205,000 | 56 | \$ 186,500 | -27.57% |
| BRECKSVILLE | 253 | \$ 232,000 | 193 | \$ 203,000 | 219 | \$ 221,900 | -4.35% |
| BROADVIEW HEIGHTS | 380 | \$ 215,000 | 255 | \$ 190,000 | 309 | \$ 183,500 | -14.65% |
| BROOK PARK | 269 | \$ 128,900 | 175 | \$ 84,500 | 214 | \$ 90,750 | -29.60% |
| BROOKLYN | 152 | \$ 125,000 | 97 | \$ 75,000 | 108 | \$ 76,500 | -38.80% |
| BROOKLYN HEIGHTS | 24 | \$ 147,250 | 10 | \$ 133,875 | 12 | \$ 116,750 | -20.71% |
| CHAGRIN FALLS | 98 | \$ 232,750 | 76 | \$ 257,000 | 111 | \$ 280,000 | 20.30% |
| CHAGRIN TOWNSHIP | 3 | \$ 1,000,000 | 1 | \$ 705,000 | 2 | \$ 470,775 | -52.92% |
| CLEVELAND | 7,471 | \$ 82,000 | 3,101 | \$ 28,900 | 3,653 | \$ 31,000 | -62.20% |
| CLEVELAND HEIGHTS | 911 | \$ 145,000 | 642 | \$ 68,000 | 724 | \$ 80,000 | -44.83% |
| CUYAHOGA HEIGHTS | 8 | \$ 145,000 | 8 | \$ 120,500 | 3 | \$ 105,000 | -27.59% |
| EAST CLEVELAND | 393 | \$ 73,000 | 57 | \$ 15,050 | 50 | \$ 13,950 | -80.89% |
| EUCLID | 910 | \$ 112,000 | 665 | \$ 35,000 | 738 | \$ 40,000 | -64.29% |
| FAIRVIEW PARK | 287 | \$ 143,000 | 244 | \$ 128,800 | 278 | \$ 125,250 | -12.41% |
| GARFIELD HEIGHTS | 660 | \$ 107,000 | 455 | \$ 33,900 | 487 | \$ 35,000 | -67.29% |
| GATES MILLS | 44 | \$ 480,700 | 42 | \$ 344,000 | 57 | \$ 335,000 | -30.31% |
| GLENWILLOW | 20 | \$ 327,778 | 7 | \$ 188,000 | 8 | \$ 246,500 | -24.80% |

| Municipality | <u>2006</u> | | <u>2012</u> | | <u>2013</u> | | Difference 2006 to 2013 |
|--------------------|---------------|-----------------|---------------|-----------------|---------------|-----------------|-------------------------------|
| | # of Sales | Median Price | # of Sales | Median Price | # of Sales | Median Price | |
| HIGHLAND HEIGHTS | 143 | \$ 290,000 | 119 | \$ 204,000 | 133 | \$ 200,000 | -31.03% |
| HIGHLAND HILLS | 4 | \$ 61,500 | 6 | \$ 13,300 | 5 | \$ 37,500 | -39.02% |
| HUNTING VALLEY | 8 | \$ 1,750,000 | 10 | \$ 1,375,000 | 7 | \$ 1,042,500 | -40.43% |
| INDEPENDENCE | 104 | \$ 224,500 | 84 | \$ 179,500 | 85 | \$ 187,000 | -16.70% |
| LAKWOOD | 894 | \$ 130,225 | 684 | \$ 92,500 | 750 | \$ 104,525 | -19.74% |
| LINNDALE | | | | | 1 | \$ 12,000 | |
| LYNDHURST | 330 | \$ 147,000 | 268 | \$ 104,500 | 334 | \$ 106,000 | -27.89% |
| MAPLE HEIGHTS | 632 | \$ 99,900 | 299 | \$ 23,500 | 329 | \$ 32,000 | -67.97% |
| MAYFIELD | 38 | \$ 245,750 | 32 | \$ 172,000 | 44 | \$ 191,000 | -22.28% |
| MAYFIELD HEIGHTS | 306 | \$ 153,700 | 216 | \$ 113,500 | 253 | \$ 112,000 | -27.13% |
| MIDDLEBURG HEIGHTS | 281 | \$ 157,000 | 201 | \$ 131,700 | 260 | \$ 125,000 | -20.38% |
| MORELAND HILLS | 63 | \$ 407,500 | 53 | \$ 380,000 | 73 | \$ 337,500 | -17.18% |
| NEWBURGH HEIGHTS | 38 | \$ 87,750 | 24 | \$ 27,750 | 23 | \$ 36,050 | -58.92% |
| NORTH OLMSTED | 533 | \$ 151,500 | 421 | \$ 109,900 | 526 | \$ 118,825 | -21.57% |
| NORTH RANDALL | 4 | \$ 110,000 | | | 2 | \$ 52,000 | -52.73% |
| NORTH ROYALTON | 462 | \$ 182,000 | 326 | \$ 152,500 | 405 | \$ 139,900 | -23.13% |
| OAKWOOD | 62 | \$ 153,450 | 32 | \$ 87,500 | 35 | \$ 70,000 | -54.38% |
| OLMSTED FALLS | 177 | \$ 140,000 | 122 | \$ 118,600 | 153 | \$ 126,500 | -9.64% |
| OLMSTED TOWNSHIP | 186 | \$ 200,533 | 127 | \$ 155,000 | 154 | \$ 162,950 | -18.74% |
| ORANGE | 57 | \$ 315,900 | 51 | \$ 300,000 | 63 | \$ 294,000 | -6.93% |
| PARMA | 1,406 | \$ 125,000 | 969 | \$ 80,000 | 1,091 | \$ 85,000 | -32.00% |
| PARMA HEIGHTS | 261 | \$ 120,000 | 164 | \$ 82,700 | 283 | \$ 86,500 | -27.92% |
| PEPPER PIKE | 107 | \$ 410,000 | 99 | \$ 343,000 | 92 | \$ 379,500 | -7.44% |

| Municipality | <u>2006</u> | | <u>2012</u> | | <u>2013</u> | | Difference 2006 to 2013 |
|-------------------------|---------------|-----------------|---------------|-----------------|---------------|-----------------|-------------------------------|
| | # of Sales | Median Price | # of Sales | Median Price | # of Sales | Median Price | |
| RICHMOND HEIGHTS | 165 | \$ 169,900 | 136 | \$ 100,000 | 157 | \$ 119,900 | -29.43% |
| ROCKY RIVER | 419 | \$ 189,900 | 388 | \$ 184,500 | 459 | \$ 189,000 | -0.47% |
| SEVEN HILLS | 226 | \$ 186,700 | 146 | \$ 137,250 | 176 | \$ 145,950 | -21.83% |
| SHAKER HEIGHTS | 507 | \$ 202,000 | 434 | \$ 165,000 | 492 | \$ 167,000 | -17.33% |
| SOLON | 367 | \$ 315,000 | 308 | \$ 225,000 | 354 | \$ 235,000 | -25.40% |
| SOUTH EUCLID | 555 | \$ 127,000 | 393 | \$ 56,500 | 444 | \$ 63,875 | -49.70% |
| STRONGSVILLE | 705 | \$ 206,900 | 557 | \$ 161,000 | 621 | \$ 171,500 | -17.11% |
| UNIVERSITY HEIGHTS | 249 | \$ 168,000 | 199 | \$ 109,000 | 259 | \$ 127,000 | -24.40% |
| VALLEY VIEW | 24 | \$ 269,750 | 13 | \$ 163,000 | 20 | \$ 217,000 | -19.56% |
| WALTON HILLS | 19 | \$ 190,000 | 22 | \$ 137,000 | 29 | \$ 140,000 | -26.32% |
| WARRENSVILLE HEIGHTS | 199 | \$ 85,000 | 146 | \$ 49,600 | 193 | \$ 50,500 | -40.59% |
| WESTLAKE | 605 | \$ 205,000 | 393 | \$ 187,500 | 509 | \$ 190,000 | -7.32% |
| WOODMERE | 3 | \$ 181,500 | 5 | \$ 40,000 | 2 | \$ 68,000 | -62.53% |