Research

One Year Later: An Updated Look at the Housing Recovery in Ohio

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INTRODUCTION

One year ago, experts at the American Action Forum wrote a paper on how Ohio fared in the housing crisis. It was also the second stop in a national tour of housing events to discuss the features of several local markets in the context of a nation in recovery. We found that prices in Ohio did not follow the same speculative boom and bust typical of states like Nevada and Florida. Instead, its falling home prices and high rate of foreclosure were more singularly the result of a depressed economy. While areas around the state have seen house prices stabilize and begin to increase, price growth this year has been uneven. Ohio's lengthy judicial foreclosure process has impeded price recovery by lengthening the time it takes distressed properties to clear the market. The recovery has been held back further by unemployment, which has actually risen in recent months. While it is too soon to describe the economic situation as deteriorating, both the economic and housing recoveries continue to face headwinds. This paper will serve as an update on housing and the economy in Ohio since last year and detail what remains to be done to spur growth.

HOUSE PRICE TRAJECTORY AND CONSTRUCTION

House prices in Ohio did not rise as high or fall as hard as states like Nevada and Florida, which now typify the boom and bust of the housing crisis. For example, in Nevada prices fell by 62 percent from the peak of the market in 2006 to the trough in 2012. Since then, prices there have risen 30 percent. However, this may be deceiving because while prices have improved, they have done so off of very low levels. Home values in Nevada are now only about half of what they were at the market peak. In comparison, home values in Ohio fell 18.5 percent and have since recovered to 85 percent of peak value, increasing about 5 percent since the market trough in January 2012. While prices are rising more slowly than states similarly hit by the foreclosure crisis, Ohio's markets were also not characterized by the same extreme boom and bust.

TABLE 1. OHIO HOME VALUES BY METRO AREA (% CHANGE) AS OF JUNE 2013

	Ohio	Akron	Cincinnati	Cleveland	Columbus	Dayton	Toledo
M-o-M %	0.5%	0.4%	0.3%	0.5%	0.5%	0.8%	0.8%
Y-o-Y %	3.1%	1.0%	1.0%	2.8%	3.6%	1.2%	-1.2%

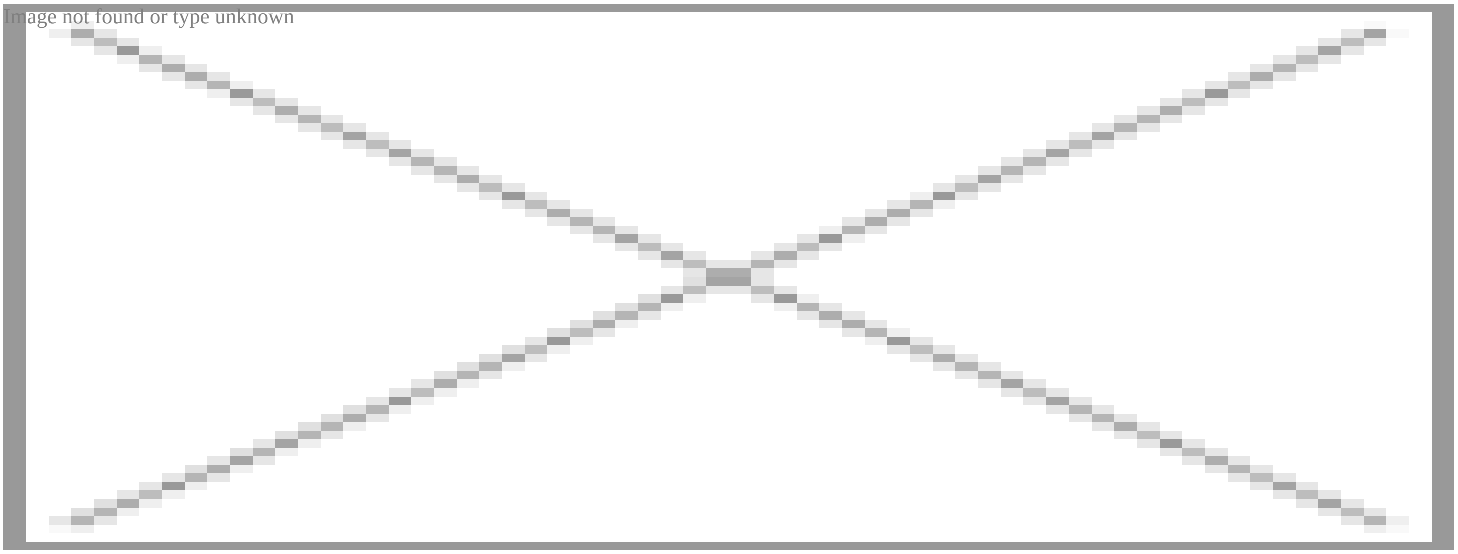
Peak to Trough %	-18.5%	-18.1%	-13.1%	-22.8%	-15.5%	-21.2%	-28.1%
Trough to Current %	4.9%	2.1%	2.4%	3.7%	5.8%	2.0%	1.5%
YTD %	0.9%	1.2%	1.2%	2.6%	1.5%	-0.1%	-0.8%
Unemployment Rate	7.2	7.1*	7.4*	7.0	6.4*	7.8*	8.3*
SOURCE: Zillow; BLS					*Not Seasonally Adjusted		

When looking at how prices have improved in Ohio, it is also important to remember that there is no single housing market in Ohio, but many. Metro areas, cities, towns, and neighborhoods can, and have, all charted different courses on the road to recovery. One general trend, however, is fairly pervasive; cities with stronger job markets and higher levels of employment, have typically seen stronger price stabilization. This was true in 2012 and remains true today. Columbus is a prime example. With its unemployment rate almost a percentage point lower than the state average, Columbus has seen homes recover to about 90 percent of their value at the peak of the market in early 2007. Prices in Columbus did not fall as much as comparably sized cities in Ohio and have actually risen higher, more quickly since hitting the bottom. In comparison, Toledo, with an unemployment rate more than a percentage point above the statewide average, has seen house prices fall this year.

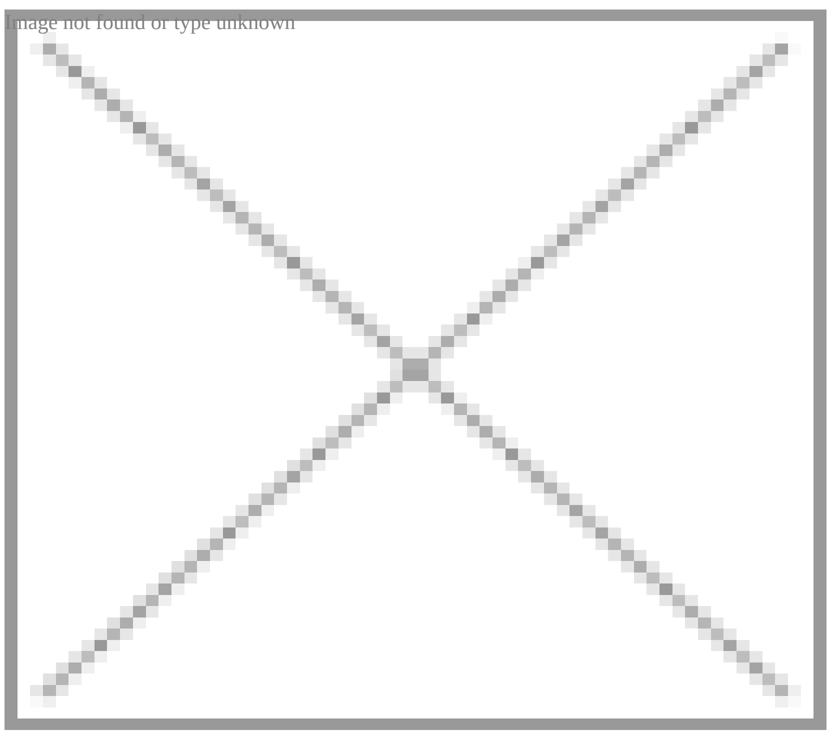
Ohio has lower unemployment than the U.S. on average and rising prices may be less directly caused by resurgent demand driven by jobs and higher wages than other factors. According to the latest beige book report by the Federal Reserve Bank of Cleveland, “List prices of new homes increased by as much as 5 percent in certain markets this year primarily due to rising costs for land, building materials, and to a lesser extent, labor.” An increase in home prices will help underwater borrowers build equity, however, a lack of employment opportunities or wage growth will ultimately stifle demand in the long run. While restricted supply has helped boost prices, in the long term concerns over the cost of building materials or shortages of skilled labor may ultimately put a damper on the pickup of home construction unless the economic outlook brightens. On the demand side, rising interest rates may encourage a pick up in purchasing in the short term, but affect home sales in the long term depending on job and economic growth.

JOBS AND OHIO

About 26,500 jobs have been added in Ohio this year, bringing the total number of jobs added since the end of the recession in June 2009 to 158,300 jobs (See Figure 1). While Ohio’s economy has been slowly improving over the past few years, job growth has not yet surpassed the 378,300 jobs lost in the recession. In fact, in June 2013 there were still 216,700 fewer workers in the labor force than when the recession began in December 2007. The latest report from the Bureau of Labor Statistics showed an increase in the unemployment rate from 7.0 percent in May to 7.2 percent in June with a loss of 12,500 jobs. While subject to revision, these losses are indicative of uneven, sluggish job and economic growth reflected not just in Ohio but also across the country. Ohio’s employment situation has not fundamentally improved since our last report; the unemployment rate is unchanged from one year ago.

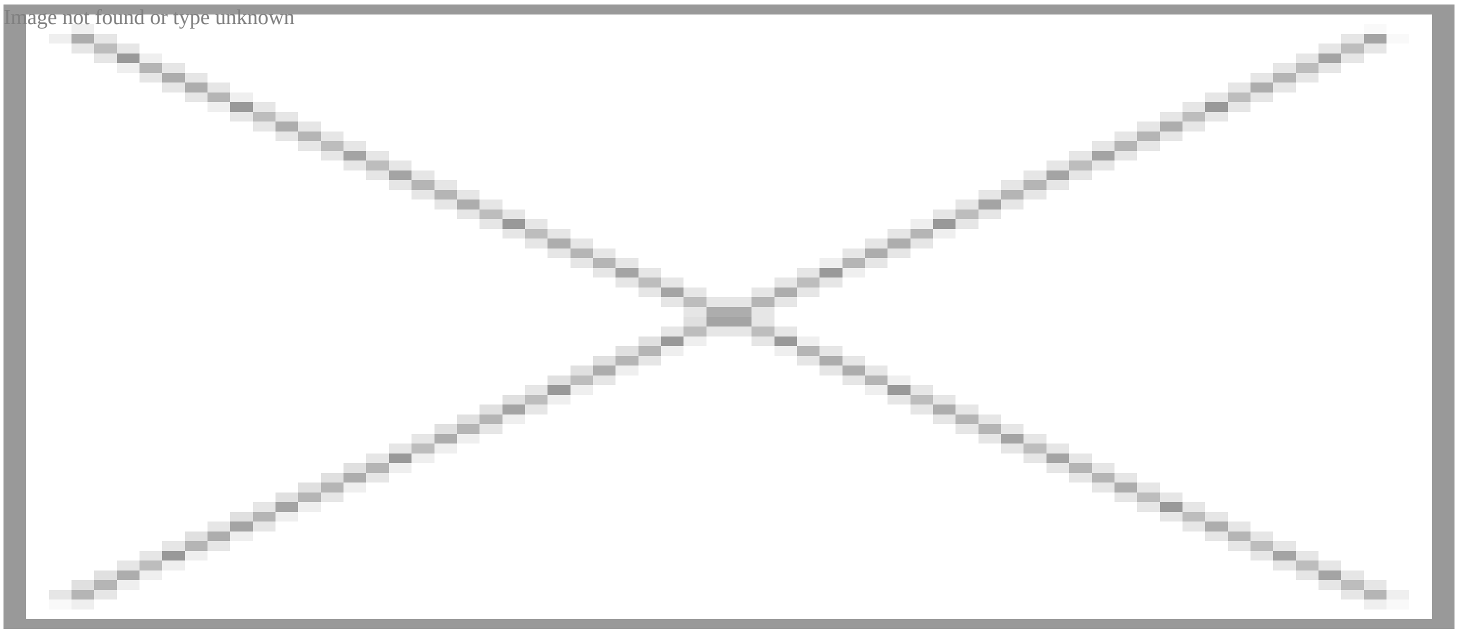


Construction employment in Ohio has been particularly weak. In June 2013, construction employment in Ohio was only about 6 percent higher than it was at its lowest post-recession point (June 2010). For the past 11 months, construction employment growth has been lower on a year over year basis. According to the Cleveland Federal Reserve Bank, “General contractors are concerned about the availability of qualified subcontractors if demand in the construction sector begins growing at a robust pace.” Similar concerns over labor shortages were reported in Arizona elsewhere on our tour of housing events. Yet the return of construction and construction jobs will herald a true recovery in housing and will signal a time when housing can more fully contribute to GDP growth (See Figure 2).



FORECLOSURES & MITIGATION EFFORTS

Following the onslaught of the housing crisis, a host of programs, on both federal and state levels, have been implemented to stop prices from plummeting and to assist borrowers threatened by foreclosure. On the federal level, the President and Congress devised a slew of housing programs and initiatives, with a portion of the funding coming from the Troubled Asset Relief Program (TARP) and the remainder coming from the Government Sponsored Enterprises (GSEs, or Fannie Mae and Freddie Mac). Numerous changes to the programs have been made over the past few years following repeated criticisms of the programs' weaknesses.



Through May 2013, 114,387 borrowers in Ohio have received assistance through HAMP (Home Affordable Mortgage Program), HARP [PDF] (Home Affordable Refinance Program), and the Save the Dream Ohio Initiative, programs meant to help borrowers bring mortgage payments to an affordable level and stay in their homes (See Figure 3). This represents an increase of 63 percent from last year, driven mostly by increased HARP refinances (See Figure 4). 38,074 HARP refinances were made from the first quarter of 2012 to the first quarter of 2013 in Ohio and have been increasingly helping borrowers with negative equity in their homes (i.e. have high loan to value ratios or high LTVs) following changes made to the program. Also, the number of borrowers aided by the Save the Dream Ohio Initiative notably doubled, though far fewer borrowers were aided overall when compared to HARP.