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Cover story

Home spikes leave some vulnerable

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Al Rosser is searching for a house that, frankly, might not exist anymore in Cincinnati. A 20-year residential real estate veteran who's sold homes from the city of Harrison to Adams County, Rosser currently is working with a couple looking to spend $120,000 to $130,000, but unless the buyers are willing to do major rehab work, there's a problem.

CORRIE SCHAFFELD | CINCINNATI BUSINESS COURIER

Prices are jumping fastest in our most affordable neighborhoods, which could leave many vulnerable Cincinnatians with fewer options.

"I'm not going to be able to find anything," said the ERA Real Solutions Realty agent.

The reason? Rosser's clients are shopping in a market segment that is contracting as values surge.

Over 12 months, from June 2020 to June 2021, the Tri-State has seen a staggering 16% rise in average home prices, according to data provided to the Business Courier by Zillow Group, the most visited real estate website in the U.S. For perspective, home price increases here historically average about 4%.

Cincinnati isn't alone. Across the U.S., annual property value growth was up 15%, the highest Zillow has seen going back to 1996.

And while increases are occurring almost entirely across the board, 116 of 131 local ZIP codes are up 10% or more. What's most striking is where values are rising fastest: They're all inner ring Cincinnati neighborhoods (with a few exceptions), which have traditionally provided housing options for low-income residents.

Rising prices in those areas could mean the difference between owning a home and renting one, or even being able to stay in the neighborhood at all.

What's driving the increases?

Sellers have had the upper hand in Greater Cincinnati for years. In a balanced market here there should be a six-month supply of homes. But that hasn't happened locally since 2015. In fact, there hasn't been more than a one-month supply since January 2021.

This kind of extreme seller's market leads to price increases (see chart), simply because of supply and demand. Historically low interest rates, a large segment of millennials entering the homebuying stage, and an increase in investment real estate. Nationwide, investors or second-home buyers accounted for 14% of purchases in June, according to the National Association of Realtors.

More price drivers: Worries over Covid-19 has led some older homeowners to stay put, rather than move into senior living facilities, as well as pushing apartment dwellers to the suburbs.

Investors enter

Slocomb Reed, director of investment services with the Chabris Group at Keller Williams Seven Hills Realty, said the increases in the local top 10 ZIPS are related to investor demand. Reed specializes in working with local and out-of-town real estate investors, and has seen a number of native Cincinnatians who were in cities like New York or San Francisco move back to the region. As their big-city salaries haven't changed, they're looking to invest additional disposable income into real estate. He's also seen more East and West Coast investors interested in Cincinnati's market.

"The ones who want cash flow come to the Midwest," he said.

Reed classifies investment neighborhoods as belonging to one of three groups:

Neighborhoods where redevelopment has already happened, such as the southern portion of Over-the-Rhine and Oakley. It's easier to assume what those neighborhoods will look like in five, 10 or even 20 years.
Neighborhoods where development is happening now, such as College Hill or Northside
Neighborhoods where development is just starting, such as Camp Washington.

"If I wanted a neighborhood that would be like buying in Northside 10 years ago, where is it? The answer is going to be Camp Washington, and maybe Price Hill, because they have all the characteristics that urban millennials and Gen Zers are looking for, but they haven't popped yet," Reed said. "Camp Washington feels like Northside for people who now can't afford to live in Northside."

Around Price Hill, Rachel Hastings sees neighborhoods that have been undervalued "to pretty extreme levels" for years. Hastings is executive director of Price Hill Will, the nonprofit community development corporation serving those neighborhoods.

"The values have been so low for so long, any increase feels shocking," she said.

Real estate investment trusts and other out-of-town investors have purchased a lot of properties in East and West Price for what she calls "outlandish" prices. She worries investors are snapping up properties that are perceived to be cheap compared with home prices on the coasts, but the investors don't know what they are getting into.

Hastings argues that neighborhoods like Price Hill, which saw a 34% increase in value, are still relatively affordable, with the average home value at $109,000. But recently, she's heard young couples struggling to purchase because they keep getting outbid by cash buyers, who are almost always investors.

Kristen Baker, executive director of Local Initiatives Support Corp. (LISC) Greater Cincinnati, believes the Zillow data shows the impact had by real estate investment trusts (REITs) buying up homes in first-ring suburbs. LISC provides financial and technical assistance to nonprofit groups working to provide affordable housing, child care centers and jobs in distressed areas.

“People are getting priced out of neighborhoods that were once more reachable for homeownership,” Baker said.

A different view

Inner ring neighborhoods are also seeing more demand than before because millennials and Generation Z value urban density, Reed said. They like walkability, proximity to job centers, and being close to amenities.

They also don’t need as much space. “Almost all of our entertainment fits in our pockets; it’s all phone-driven,” Reed said.

Millennial homebuyers are also much less concerned with being surrounded by neighbors who are just like them. Reed said he’d like to say there is a social justice aspect to the decision, but to him, it’s just that millennials are not as neighbor-driven when making decisions on their homes.

Last year, Oakley’s home values rose 11%, while Northside saw a 15% jump. That pushed the average home values in those areas to and $328,000 and $180,000, respectively.

“The supply shortage is pushing investors into new neighborhoods to find deals,” Reed said.

This supply shortage is also eating into areas that have what is called “naturally affordable housing.” That means there are no subsidies helping to pay for the homes and no income level restrictions. There are just fewer, more expensive housing options.

Rosser wonders, “where do low-to-moderate income folks live?”

Most local areas with the highest level of home value increases are filled with renters. Overall, the city of Cincinnati has just 38% of housing units occupied by owners. That likely means rent increases will be coming, both because landlords now have to pay higher taxes and demand for housing is greater.

Reed said these types of value increases show the power of homeownership. Once a buyer locks in a 30-year, fixed-rate mortgage, the principal and interest amount can't change for 30 years.

"But renting doesn't work that way," Reed said.

The old rule for buying a home was that the purchase price should be three times your annual income. For a family making $45,000 a year, that's $135,000.

"If you're not qualified for $175,000 to $200,000, it's really rough because of competition," Rosser said.

He said those approved for a $200,000 loan need to be looking at homes priced at $175,000 to $180,000, so they can compete over list price.

What happens next?

In July, the Cincinnati USA Regional Chamber released a housing report that outlined principles that should guide the region as it tries to address an affordable housing shortage. They include embracing growth in market-rate, affordable and low-income housing, ramping up housing production, embracing density in urban and suburban parts of the region, and reforming zoning and development policies to promote growth.

"We're not producing new housing at the pace we need in order to grow, yet prices continue to increase," Baker said.

Nicole Bachaud, economist with Zillow, said new construction would be a great way to increase supply and help the situation, but in many places, it is difficult to get permits and higher density homes are not permitted.

Some of the solutions the chamber presented include a need for:

governments to continue to offer funding to cover project financing gaps
regulatory reform to allow for denser development
steering housing development to locations accessible by transit

Zillow predicts another year of high appreciation, but “eventually prices are going to have to moderate,” Bachaud said.

Baker hopes we’re near the home value increase peak, if not there already. She wants to see the rate of increase return to normal levels.

As for Rosser, he and his partners are rehabbing a two-bedroom ranch in Roselawn (19% increase). A few years ago, a similar home might have sold for $80,000. Two recent comparable sales in the neighborhood went for $150,000 and $160,000.

“There’s no major development yet. There’s no popular hangout,” Rosser said.

And when that changes, local values are bound to see another boost.

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