Housing markets across the United States are showing signs of real stability. From prices to new construction to sales—all are improving from their recessionary lows. That's good news for the economic recovery.

But fallout from the housing crisis remains. Many communities bear scars, which won't easily fade, from rampant foreclosures and vacant properties. Fortunately, efforts to restore the health of the housing sector remain as well. Ohio is one state that is watching these efforts closely. Some of its older industrial cities are struggling with housing troubles whose roots predate the recent crisis. These weak markets require policies tailored to fit their specific needs.

At the heart of Ohio's housing woes are two long-running trends: decades of population loss and economic stagnation in many of Ohio's older industrial cities. These have given rise to a supply of housing in excess of local demand, too much of which stand vacant and abandoned, and to spillover effects from a foreclosure rate that was elevated long before the recent recession. Together, these developments make Ohio a special case that does not fit neatly into the more familiar boom–bust narrative observed on a national scale.

In a new report, my colleagues and I lay out some of the main findings from the Federal Reserve Bank of Cleveland’s years of research and outreach with Ohio bankers, community development practitioners, and other market participants. Our white paper is an Ohio-centric companion to the nationally focused housing market report issued by the Federal Reserve Board of Governors in January 2012, and we offer it in the same spirit—as providing a framework for weighing the pros and cons of programs aimed at stabilizing the housing sector. Over the winter and spring, we sought feedback from policymakers and housing market experts. With their help in refining some particulars, we hope that our analysis can help inform more effective housing policies for Ohioans.

The Cleveland Reserve Bank’s research and outreach have pointed to five policy areas that merit careful consideration in Ohio:

1. Foreclosure fast track for vacant and abandoned properties: It takes too long—an average of one to two years—for mortgage loans to go from delinquency through the foreclosure process in Ohio. When the home is vacant and abandoned, efforts to protect homeowners with lengthy foreclosure processes may unintentionally create costs with no corresponding benefits. These “deadweight losses” resulting from a drawn-out process include legal costs, physical damage to properties, crime, and downward pressure on neighboring property prices. Many states have moved to speed up the mortgage foreclosure process in cases where the owner has abandoned the home.

2. Elimination of minimum-bid requirements: Ohio law currently requires minimum bids of at least two-thirds of a foreclosed property’s appraised value at the first auction. Although this may tamp down some unhealthy speculation at foreclosure auctions, it may also price some well-meaning property rehabbers out of the market. There are ways to offset the tradeoff between opening auctions to more investors and inadvertently encouraging unhealthy speculation. Eliminating the minimum-bid requirements could also enhance market efficiency by lowering transaction costs and reducing the amount of time properties sit empty.

3. Addressing harmful speculation: In extremely low-value housing markets, some entities engage in “harmful speculation”—the purchase of distressed property with no intent to invest in improvements or paying property taxes. Two features of Ohio law help this business model to persist: the ability to become the new owner of property through a corporation without being registered to do business in this state, which hampers the ability of code enforcement officials to pursue the owner for violations; and the ability to transfer the property without paying back
taxes or correcting code violations. Requiring registration with the Secretary of State or the payment of back taxes or code violations before low-value properties could transfer to new owners could go a long way to empowering local governments to tackle this problem, and carefully crafted exemptions could prevent it from unduly delaying property transfers.

4. Expanded access to land banks: Nonprofit land banks have done significant work since the 2009 legislation that established their missions of acquiring, remediating, and putting into productive use vacant and abandoned properties. Demolition by land banks can help restore the balance between housing supply and demand. Our research shows that the high supply of housing relative to demand is the underlying cause of vacancy and abandonment. By expanding access, land banks could be available to any Ohio county that can make good use of them.

5. Improved data collection and access: Good data help inform decisions made in the public, private, and nonprofit sectors. Understanding Ohio's housing markets is especially difficult because of the dearth of standardized, electronically stored data. Across Ohio counties, data storage practices are determined by inertia and budget constraints. With reliable data, policymakers, businesses, and community development practitioners can better identify what works and what doesn't, allowing them to allocate resources more efficiently. The payoff from a small investment in housing data standardization could be substantial.

Numerous and interconnected, housing issues can be addressed only through sustained and carefully considered programs. Understanding the tradeoffs inherent in any policy is a good first step.

Recommended reading

Read the full paper, “Policy Considerations for Improving Ohio's Housing Markets,” at www.clevelandfed.org/community_development/publications/special_reports/20130522_index.cfm