

# REAL ESTATE UPDATE

Winter 2022



The 2021 real estate market on the west side of Cleveland came in like a lion and went out like a lion. Multiple offers, sales prices above the list price and houses selling the same day they were listed were common occurrences. The anxiety level of buyers was as high as I've ever seen; the time table for a buyer to make a decision became very compressed. If a buyer saw the right house at the right price and didn't buy it the same day, the house frequently sold to someone else, usually before the end of the day.

As the prices increased, appraisers for mortgage lenders inherited the toughest job on the planet. With current prices outstripping the prices reflected in comparable recent sales, appraisers scrambled to find objective criteria to support the prices being paid. Standard procedure for appraisers is to use comparable sales no more than 6 months old; with the quick run up in prices, a sale over 3 months old might not be relevant. If the appraisal comes in below the sales price, 1 of 3 things typically happen...the sales price remains the same requiring the buyer to increase their down payment to bridge the gap, the seller agrees to reduce the sales price to the appraised value or the buyer and seller agree to an intermediate sales price (somewhere between the original sales price and the appraised value). In consequence, many transactions were closed with an appraisal waiver which might read 'buyer agrees to complete this purchase independent of the mortgage lender's appraised value'. Adding this waiver to an offer makes the offer more attractive to the seller.

Another feature of contracts closed in 2021 was offers written with no inspection contingency. As with the appraisal contingency waiver, removing the inspection contingency makes the buyer's offer more attractive to the seller and hence, more likely to be accepted (all other things being equal). These are contingencies that were present in most real estate agreements in previous years. Buying a house without an inspection or appraisal contingency used to be very rare; now it is not uncommon. I'm told this has been a common practice in other (hot) markets for years.

With mortgage rates continuing throughout the year at/around 3% for a 30 year fixed, borrowing became almost irresistible. An offer presented in this market without a pre-approval letter from a mortgage lender (or proof of funds, if a cash offer) were routinely returned to the buyer's agent until such a letter was added to the offer.

The changes in our local market are profiled and summarized on the inside of this issue. The changes have been remarkable; among them are significant price increases and compressed days on market.

Please contact me or anyone on my team to follow up if you have questions.

Happy New Year!

*Bill Reilly*



Bringing people and houses together since 1982

# Homes Listed and Sold by The Bill Reilly Team



22827 Lake Road, Rocky River  
Listed at \$424,900



236 Plymouth Drive, Bay Village  
Listed at \$424,900



394 Apple Blossom Lane, Bay Village  
Listed at \$524,900



704 Jockeys Circle, Avon Lake  
Listed at \$339,900



31533 Winners Circle  
Listed at \$399,900



7885 Brookside Drive, Olmsted Falls  
Listed at \$164,900



30603 Winston Drive, Bay Village  
Listed at \$269,900



23918 Wolf Road, Bay Village  
Listed at \$259,900



518 Upland Road, Bay Village  
Listed at \$389,900

## Connecting Buyers to their New Home \*



31632 Forest Brook Oval, Westlake  
Listed at \$359,000



266 Vista Circle, North Olmsted  
Listed at \$199,999



2337 W 11th Street, Unit 8, Cleveland  
Listed at \$235,000



478 Oakmoor Road, Bay Village  
Listed at \$199,000



37678 Loré Boulevard, Avon  
Listed at \$179,900



4658 W Park Drive, Fairview Park  
Listed at \$299,000



654 Tournament Drive, Avon Lake  
Listed at \$525,000



508 Sherwood Drive, Bay Village  
Listed at \$385,000



475 Cahoon Road, Bay Village  
Listed at \$650,000



32955 Pineview Circle, North Ridgeville  
Listed at \$399,900



175 Beaver Court, Amherst  
Listed at \$198,900



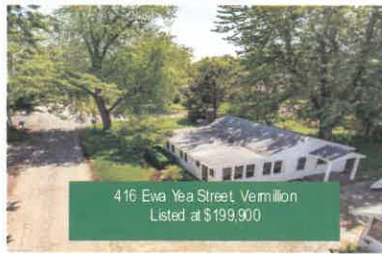
3628 Dawn Drive, North Olmsted  
Listed at \$214,500



21780 Robinhood Avenue, Fairview Park  
Listed at \$239,900



5725 Overlook Way, North Ridgeville  
Listed at \$308,900



416 Eva Yea Street, Vermilion  
Listed at \$199,900



546 Vintage Point, Avon Lake  
Listed at \$334,900

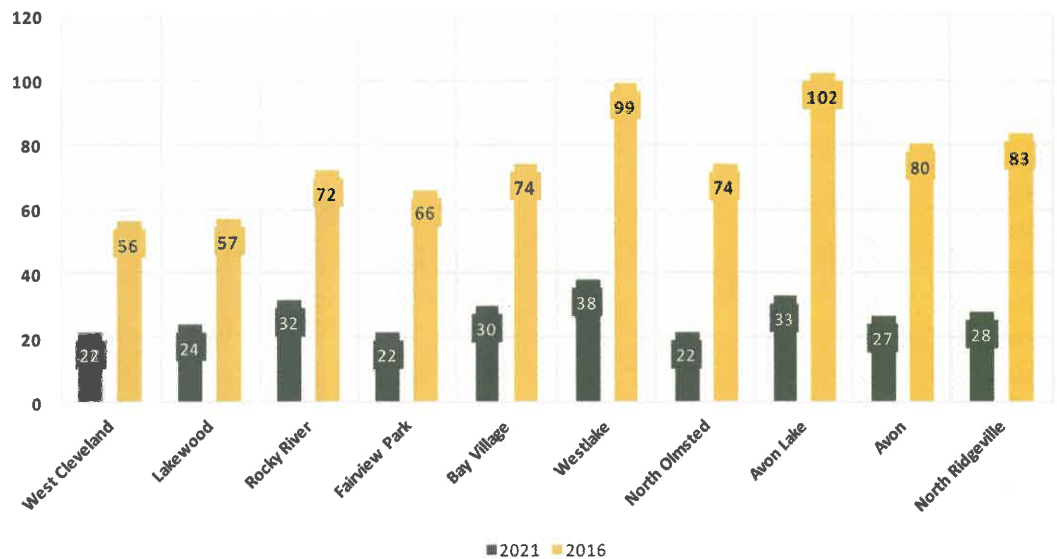
\*We represented the buyer.

These charts are summaries and comparisons of the market in 10 west side communities in 2016 and in 2021. The data gathered profiles the single family home market in west Cleveland (West 140th and west), Lakewood, Rocky River, Bay Village, Westlake, Fairview Park, North Olmsted, Avon, Avon Lake and North Ridgeville. The source for this data is the local multiple listing service.

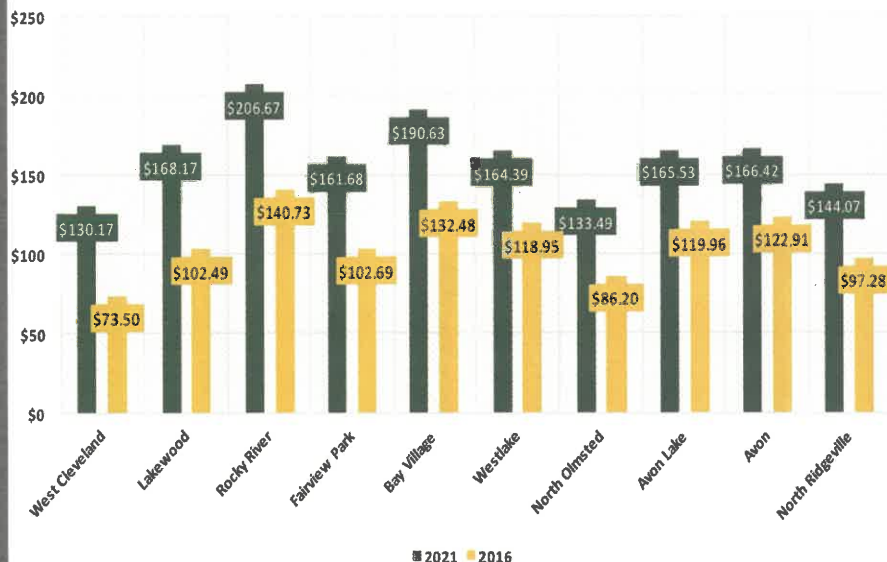
Comparing the numbers from 5 years ago to those today highlights some meaningful changes in the market. One of the most obvious changes is the amount of time it takes from list date to contract date. This days on market statistic (DOM) has changed dramatically since 2016 and is a primary aspect of our current market...if you see a house you like, you need to move quickly to secure it.

While the graph shows an average days on market of 25-30 days, the reality is much different. The recorded DOM (shown on the graphs) is longer than the actual DOM for administrative reasons, in my experience; i.e. it takes a few days (sometimes a week) for the contract to be processed and the status to be changed in the MLS. Also adding to this DOM statistic is that sometimes a house is listed as active but showings don't start immediately.

## Average Days on Market



## Average Price per SQFT

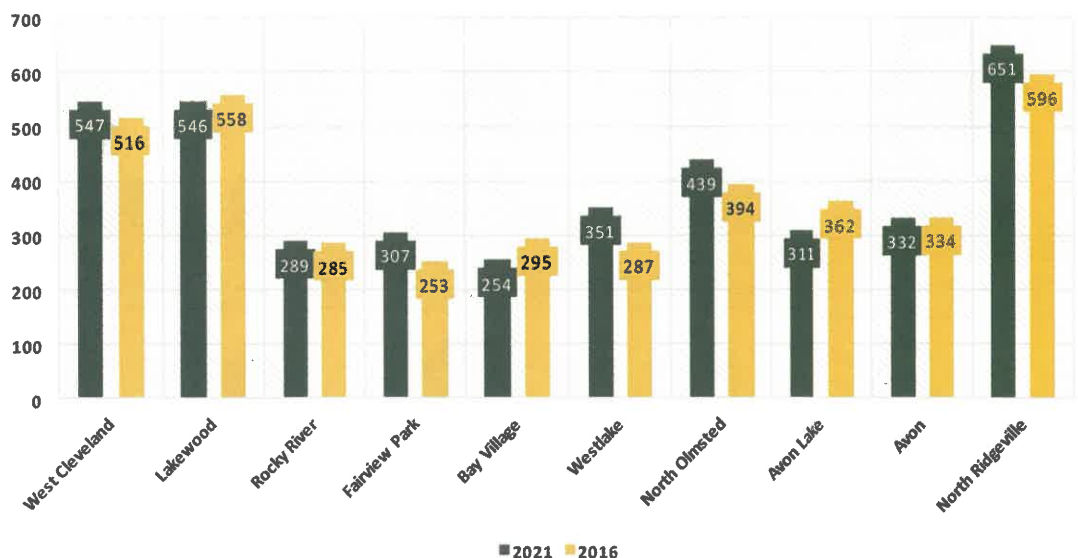


This graph shows the significant increase in the sales prices over the past 5 years. Increases range from 35% in Bay Village to 73% for the market in the west end of Cleveland. Part of the significant increase in west Cleveland is due to large numbers of flips in that market (and in Lakewood where the increase is 68%). While investors and builders were flipping houses in all markets, there were more of these in the generally older housing stock present in western Cleveland and Lakewood where the profit margins tend to be greater. Also, deferred maintenance issues were more pronounced in these markets hence the acquisition costs were lower and more accessible to more people. This return doesn't match the stock market over the same term (+15.27% per year over the past 5 years) but in a market that previously returned 1 or 2 percent price increases per year, the rate of appreciation over the past 5 years is remarkable. It is challenging to be an agent advising a seller on where to price their home; it isn't enough (as it once was) to compare the property to like-kind properties which have recently sold. As a listing agent I've needed to factor into the list price the intensity of the buyer's motivation to pay whatever it takes (within reason) to buy a particular house. The resulting sales prices are not necessarily supported by the recent sales in the market until you consider that there are frequently several buyers offering similarly high prices for the house. If I list a house for \$125,000 that 'should' be priced (based on recent sales) at \$115,000 and I get 5 offers at \$125,000+, the market for that house just increased to \$125,000+. The market is moving so quickly that as an agent, it is sometimes hard for me to get my bearings. Many times over the past few years, I have listed a house at a price higher than the numbers indicated and then sold it for more than the asking price...in multiples.

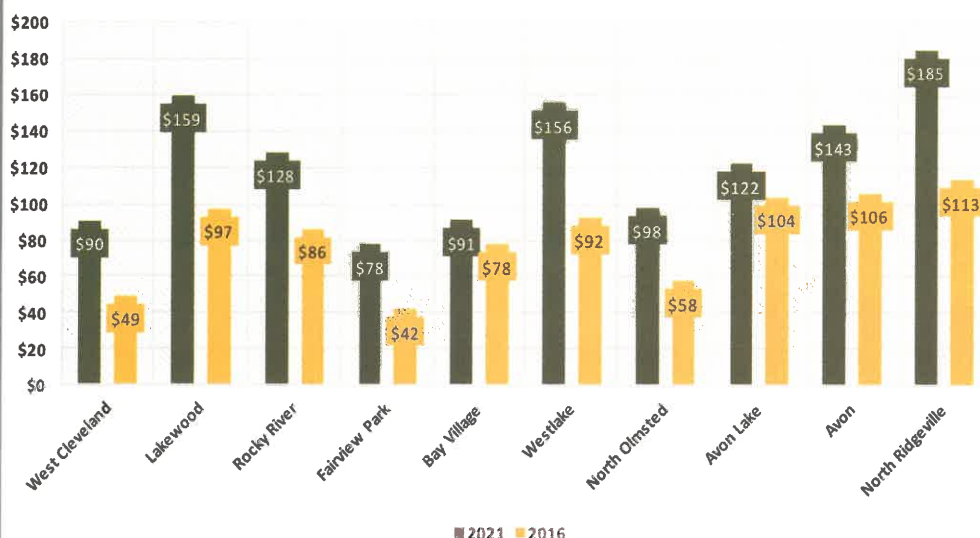
The numbers here surprised me. I would have thought that the number of sales would've increased significantly over the 5 years, but this isn't the case. While prices have moved up, the number of sales has (generally) not increased. These numbers may partially explain the run up in prices...while demand has surged, supply has not. The number of sales stayed the same or decreased in 5 of the 10 markets I studied.

The surge in demand is the key to our current market...contributing to the demand increase is interest rates but given that rates have been similarly attractive over the past 5 years, this doesn't explain all of the increase in demand. (30 year fixed rates were at 3.65% in 2016; they are at 3.22% today; better but not significantly so.) I believe that COVID has played a significant part in this price run up. Perhaps COVID's influence on demand is because it has reminded people that life is short and that if you want a bigger or smaller house, now is the time to make that change. Also...due to COVID's lifestyle restrictions, people are spending more time at home (living and working) and this amplifies the need for changes...a home office, a swimming pool, more space, first floor owner's suite, etc.

## Total Number of Sales



## Total Sales Volume (in Millions)



This chart shows how far the market in North Ridgeville has come over the years. With 651 sales and \$185 million in volume, the North Ridgeville market is by far the most active of the 10 communities I studied. A significant aspect of this market is the large number of new homes being built and sold in North Ridgeville. The target market for these new homes covers both ends of the spectrum...young people looking for more affordable family-sized homes and older buyers looking for more affordable homes with first floor master suites. Years ago, the new home capital of the west side was Westlake; as prices increased there, Avon Lake took its place; subsequent to that, it was Avon. Now it is North Ridgeville. I think much of this is price driven...the cost of land increases as the number of developments selling out increases and the migration of the buyers is to markets where their money goes the furthest. It's very hard to predict in which community this will move next but when I look at a plat map of North Ridgeville, I see hundreds of vacant lots and acres of vacant land (that is or used to be farmland) and so I think it will be years before this market has run its course. It is notable that while the number of sales in North Ridgeville has increased by 9% over the past 5 years, the average price has increased 50% to \$285,000.

## Average Sales Price (in Thousands)

This last chart confirms that Rocky River remains the most expensive suburb on the west side. The average sales price per square foot was just above \$200 in 2021; with the demand continuing to be strong and with virtually no more land to develop, this cost is likely to continue to increase. The sub-market driving much of this price is found in the beach cliff area (the area between Lake road and Lake Erie). Prices in this area (not necessarily on the lake) are routinely above \$300/square foot. Since I started in March of 1982, generally speaking, the most expensive houses on the west side were on the lake in Rocky River; this is still the case. A lakefront sold in Rocky River in 2021 for \$623 per square foot!



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