



City of Independence, Ohio

"THE HEART OF CUYAHOGA COUNTY"

6800 BRECKSVILLE ROAD

INDEPENDENCE, OHIO 44131

(216) 524-4131

MEMORANDUM

To: Mayor Gregory P. Kurtz
Members of Council

From: Finance Director Vernon Blaze

Date: Friday, April 2, 2021

Re: Finance Department Updates

Interest Rates

While this Weekly Memorandum has recently documented the commencement of a trend of increasing long-term interest rates, short-term interest rates have been fighting that trend so far due to *"lots of idle cash."*

The Effective Fed Funds Rate was 0.07% earlier this week, and the 6-Month Treasury Bill rate was pushed down to 0.03%. The 3-Month LIBOR (London Inter-Bank Offered Rate) ticked up just a bit to 0.199% off of its recent all-time low of 0.175%. (The LIBOR rate is a multi-national rate that is used to set interest rates on a number of short-term financial instruments).

The Finance Office and Financial Adviser Matt Stuczynski continue to monitor both the long and short-term interest rate markets as well as both of those markets in the tax-free municipal world so that a good decision can be made later this summer/early fall regarding the long-term bonds that will be eligible for "pre-payment" (Callable) on this year's payment due date.

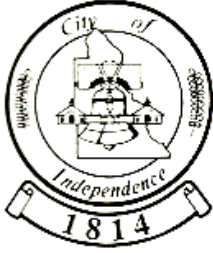
Housing Prices/Housing Market

No secret here – housing prices across the country continued to increase at the *"fastest pace in 15 years"* earlier this quarter.

An article this week from the *Wall Street Journal* notes that after bottoming out in ~2011, median existing home prices have been increasing consistently and steadily ever since then, with the pace of those increases getting even faster as noted above.

A number of dynamics are fueling this housing market frenzy:

- A generally strong economy (For people in the income ranges that allow them to be home buyers).



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Housing Prices/Housing Market Continued

- The increased cost of housing materials and the trend of less and less high school graduates going into the trades (thereby increasing wages for those in the trades since the demand for their skills and talents currently exceeds the supply of them).
- A decrease in the number of existing homes available for sale from a peak of ~4 million in 2007-2008 to barely over 1 million homes available for sale in January of this year
 - More people choosing to refinance at recent record low mortgage interest rates and remaining in their existing homes instead of moving has exacerbated this significant decline in the number of homes available for sale on the market right now.

Why write about this topic in this Weekly Update? With the City desirous of spearheading the redevelopment of city-owned and soon-to-be-city-owned property in the downtown area, and with current discussions about that redevelopment generally acknowledging the desire for a strong residential component to add some vibrancy and vitality to the downtown area, it should become increasingly clear that the City's or any builder/developer's ability to build what we might term "affordable housing" on this property is becoming more and more difficult with each passing month and year in this nine-year long trend of increasing home prices.

To demonstrate the power of compounding and how a price range that was previously thought to be affordable but has increased significantly, please see the following example. If ten years ago in 2011 it was thought that \$250,000 was an "affordable" price for a home, see how the value of that \$250,000 home has increased over the last ten years (Based on the National Freddie Mac House Price Index):

| <u>Year</u> | <u>House Price Index</u> | <u>Compounded Value</u> |
|-------------|--------------------------|-------------------------|
| 2011 | | \$250,000 |
| 2012 | 6.3% | \$265,750 |
| 2013 | 8.9% | \$289,402 |
| 2014 | 4.9% | \$303,582 |
| 2015 | 6.1% | \$322,101 |
| 2016 | 6.4% | \$342,715 |
| 2017 | 7.2% | \$367,391 |
| 2018 | 5.1% | \$386,128 |
| 2019 | 4.5% | \$403,504 |
| 2020 | 11.2% | \$448,696 |

And that's how a \$250,000 house in 2011 becomes a \$450,000 one by 2021!



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Housing Prices/Housing Market Continued

Trying to force a price range on homes in the Downtown area that is reflective of previous housing markets and not current ones could only happen by:

- Significantly reducing the size of the houses built
- Significantly reducing the quality of the houses built

While reducing the size of housing units is an option that could be considered (If the market would support the proposed sizes), reducing the quality of the houses built below what is considered at least "average and typical" quality levels currently found in Independence, is probably not a viable option for consideration.

Office-Space Subleases

As businesses across the planet continue to evaluate their office space needs going forward, one of the primary determinants of future office space needs will be how many office workers will be returning to the office on either a part-time or full-time basis.

While that dynamic currently has predictions all over the board, there is no denying that on an overall national basis, companies are already attempting to shrink their footprints and prepare for a future that requires less office space.

The *Wall Street Journal* reported this week that the national real estate firm CBRE (Formerly CB Richard Ellis) reported that there was 137 million square feet of office space available for sublease across the country at the end of 2020, 40% more than at the end of 2019.

Phil Ryan, the director of U.S. office research at JLL (Formerly Jones Lang LaSalle) recently said "*The speed at which sublet availability has been rising is astonishing.*"

This apparently is not just an urban office market phenomenon, as healthcare provider AMITA recently put up its suburban Chicago headquarters for sublease. Thor Thordarson, the COO of AMITA said "*Our associates' desire to work remotely and our ability to provide alternate work environments, in return, requires less physical office space.*"

Independence is not immune to this sublease dynamic either, as 60,000 square feet of office space in an office building in Independence was recently made available on a sublease. The rental rate per square foot? All of \$12 (Rents for direct leases with building owners in Class A office buildings in Independence routinely exceed \$20 per square foot).