
Chicago-area home vacancy down in second quarter

By David Lee Matthews August 07, 2012

(Crain's) — Buyers are chipping at the glut of vacant homes in the area, but swelling foreclosure filings continue to cloud the residential market's recovery.

The Chicago-area home vacancy rate dropped to 2.6 percent in the second quarter, down from 2.8 percent in the first quarter and 3.6 percent in the year-earlier period, according to the U.S. Census Bureau. Vacancies are at their lowest level since the third quarter of 2009.

The shrinking vacancy rate is an encouraging sign as home sales **pick up throughout the area**.

In another small sign of hope, homeownership in the Chicago area rose to 67.1 percent in the second quarter, up slightly from 66.9 percent in the first quarter but down from a year ago. The Chicago-area home ownership rate peaked a 71.2 percent during 2006, fueled by the surge in subprime lending. The rate is the proportion of owner-occupied housing units.

More renters see value in owning their own home, and lenders are increasingly opting for short sales, where homes trade for less than their debt, rather than being dragged into lengthy foreclosure proceedings, says Mabel Guzman, a broker with @properties.

"Right now, there are so many things happening," she says.

Investors are playing their part, scooping up distressed properties and renting them out. The homeowner vacancy rate does not include single-family properties already on the rental market.

Yet foreclosure filings are rising as loan servicers dust off cases that had been on hold until a \$25 billion nationwide mortgage settlement was reached in February over alleged irregularities by lenders.

Local foreclosure activity **jumped 28 percent in the first half of the year from the prior six months**, the third-biggest increase in the country, according to Irvine, Calif.-based RealtyTrac Inc., an online listing firm for distressed properties.

"A lot of stuff sitting on hold is going to move through the pipeline again," says Ed Jacob, executive director of Neighborhood Housing Services of Chicago Inc. "To the extent that people think we got through this, I don't see it."

Like other market indicators, the vacancy rate differs from neighborhood to neighborhood as well, with some **still reeling from the last housing bust**.

"There's a couple neighborhoods on the South Side where quite honestly there isn't homeowner demand and there isn't renter demand," Mr. Jacob says. "What's the strategy for a vacant unit there?"

Homeowner vacancy still has a long way to go before it reaches 0.8 percent, the lowest level in nearly a dozen years, reached in the fourth quarter of 2000.

Vacant properties can drag down prices in a neighborhood, potentially subjecting more homeowners to distress if their home values dip below the mortgage balance.

With foreclosure cases now taking nearly two years in Illinois, the so-called "shadow inventory" of homes in foreclosure limbo could continue to dampen a housing recovery.

"We still have a lot of underwater homes and that's a real X-factor in how that's going to affect the supply and demand effects of the market," says Geoff Smith, executive director of the Institute for Housing Studies at DePaul University. "It holds back the supply, holds back the demand."

The changes in Chicago-area homeowner vacancy mirrored the national trend.

Nationwide, the vacancy rate was 2.1 percent in the second quarter, down from 2.2 percent in the first quarter and 2.5 percent in the second quarter of 2011.

The national homeownership rate was 65.5 percent in the second quarter, up slightly from 65.4 percent in the first quarter but down from 65.9 percent the second quarter of last year.

Now, tighter credit and the weak economy are forcing some prospective homebuyers to the sidelines.

For the next several years the homeownership rate is likely to stay in the mid-60 percent range, where it hovered during the late 1990s, as would-be home buyers rent instead, Mr. Smith says.

However, he says, "Over time, that will balance."
