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## Illinois Foreclosures Surging Lure Investors: Mortgages

By Dan Levy on September 13, 2012

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Illinois soared to the highest foreclosure rate in the U.S. last month as job losses mounted, luring investors like Waypoint Real Estate Group LLC that scoured the state for homes priced at half of peak values.

A total of 17,781 Illinois properties received a filing of default, auction or repossession in August, up 42 percent from a year earlier and the eighth straight monthly increase on an annual basis, according to data seller RealtyTrac Inc. The rate of foreclosure filings per household in the state was one in every 298, vaulting Illinois to the nation's top spot for the first time in company records dating to January 2005.

"More Illinois homeowners are entering the foreclosure process, and more are losing their homes," Daren Blomquist, vice president at Irvine, California-based RealtyTrac, said in a phone interview. "It's going to get worse before it gets better."

Illinois is missing out as the U.S. housing market recovers from a six-year slump --attracting private-equity firms that are seeking to capitalize on a need for rental housing. While foreclosures across the country are slowing, with filings increasing 1 percent in August from the previous month, they climbed 29 percent in Illinois. The national foreclosure rate was one in 681 households, less than half the rate in Illinois.

## Job Losses

Its property woes have been compounded by Illinois' unemployment rate, which rose to 8.9 percent in July from 8.7 percent the month before, because of a shrinking manufacturing base and public-sector job losses, said Bob Tomarelli, U.S. economist at forecasting firm IHS Global Insight Inc.

Foreclosure filings in Illinois likely will increase each month in 2012 and break the record set in October 2009 as lenders release a backlog of repossessed properties, Blomquist said. The unsold distressed inventory will in turn depress homes values as buyers hold off on purchases until foreclosures clear hit the market, said Geoff Smith, director of DePaul University's Institute for Housing Studies in Chicago.

Residential property values in the Chicago area have declined every month on a year-over-year basis since May

2007, according to the S&P/Case-Shiller home-price index. Chicago prices showed a decline of 1.7 percent in June from a year earlier to 113.61, where the index was 11 years ago.

“Properties in the pipeline create uncertainty in the market and negatively affect buyer confidence,” Smith said in a telephone interview. “It’s preventing a floor from stabilizing prices in the Chicago region.”

## Slow Process

States such as Illinois, Florida, New York and New Jersey that use courts to oversee the foreclosure process tend to have lengthier dispositions of repossessed homes, and are lagging behind the housing recovery, according to Blomquist. It takes 647 days in Illinois for a bank to complete a home seizure, compared with a national average of 378 days, RealtyTrac said.

Funds operating in Illinois include New York-based GTIS Partners, which owns land for homebuilding and isn’t focused on foreclosures, Chairman Tom Shapiro wrote in an e-mail. Carrington Mortgage Holdings LLC believes it can also profit from the rental market, according to executive vice president Rick Sharga.

“We think Illinois is a very viable market for rental opportunities over the next few years, with a good chance at home-price appreciation in the longer term,” Sharga, based in Santa Ana, California, said in an e-mail.

Waypoint Real Estate began acquiring steeply discounted Chicago foreclosures two months ago after amassing about 2,000 distressed homes in California since January, 2009, Gary Beasley, managing director, said in a telephone interview. Waypoint has also been buying foreclosures in Arizona since April, and generally acquires properties that have lost half their value, he said.

## Current Returns

Current returns of as much as 8 percent follow “thorough renovations” of foreclosure homes in neighborhoods with low crime rates and “solid working-class communities,” Beasley said. Investors include Menlo Park, California-based private equity firm GI Partners LLC, on behalf of the California Public Employees Retirement System, and Columbia University’s endowment. Waypoint expects a total return of up to 20 percent over a seven-year period.

“We’re bullish on Chicago and would like to buy 75 to 100 homes a month,” said Beasley, based in Oakland, California. “We look at houses down 50 percent to 60 percent, generally in suburbs where a rental yield is easier to maintain.”

Waypoint is still investing \$200 million in equity for its rental housing fund, and its current holdings in three states are valued at \$350 million, including properties in Antioch and Vallejo, California. Beasley declined to name specific Illinois towns where Waypoint has invested.

## Sun Belt

Illinois doesn’t appeal to international and retired buyers like Sun Belt states Florida and Arizona, and so may suffer a longer housing recovery, according to Stan Humphries, chief economist of Seattle-based services firm Zillow.com. Employment in Illinois is down by 294,000 from a peak 5.99 million in 2008, and won’t return to

that level until late 2016, Tomarelli said.

“There are many more buyers interested in Florida housing stock and the climate there,” said RealtyTrac’s Blomquist.

Foreclosures in the Chicago area sold in the second quarter for an average discount of 46 percent compared with non-foreclosure properties, greater than the 32 percent U.S. discount, according to RealtyTrac. Chicago foreclosures cost \$131,562 on average, third lowest among the top 20 cities, with the national average at \$170,040, the company said.

On the south side of Chicago, neighborhoods such as West Englewood have properties that sell for less than \$20,000, all cash. Those deals accounted for a fifth of all distressed sales last year, crimping overall Chicago values, said Smith of the DePaul housing institute.

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