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### Chicago Luxury Homes Rebound as Foreclosures Plague South Side

By Brian Louis on November 13, 2012

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Belgravia Group Ltd., which started construction about a month ago on a Chicago row-house development, is charging almost \$1 million for each of the 14 Lincoln Park homes as buyer demand surges in the neighborhood.

The three-story properties will have high-end features such as granite countertops, Sub-Zero refrigerators, Wolf ovens and Bosch dishwashers. The first floors of the 3,200-square-foot (300-square-meter) homes in the development, known as Montana Row, will have 10-foot (3-meter) ceilings and red-oak flooring in the kitchens and living and dining rooms.

“In the good neighborhoods in the city, there’s pent-up demand,” Alan Lev, chief executive officer of Chicago-based Belgravia, said in a telephone interview. “It’s like the stock market and the investment arena -- it’s a flight to quality.”

A rebound in residential construction is taking hold in such Chicago areas as West Loop and the upscale Lincoln Park, driven by a supply shortage and slowly improving economy, even as the third-largest U.S. metropolitan area remains plagued by foreclosures and a surge in homicides that’s hurting home sales in some neighborhoods.

Developers began construction on 90 units of for-sale housing in Chicago this year through September, and the total for all of 2012 will probably be about 150, said Chris Huecksteadt, a director at housing-research firm Metrostudy in Elgin, Illinois. That’s more non-rental housing starts than in the past two years combined.

“It has started to pick up a little bit,” he said. “It’s just going to be a long, slow recovery.”

For-sale housing starts in the city of 2.7 million fell last year to 38 units, the lowest in data going back to 2004, according to Huecksteadt. In 2006, construction starts on single-family homes, townhouses and condominium units totaled 11,485, the highest for years tracked by Huecksteadt.

#### Prices Decline

Home prices in the Chicago area dropped 1.6 percent in August from a year earlier, and are 30 percent below the peak reached in September 2006, according to the Standard & Poor’s/Case-Shiller indexes. Nationally, prices are improving, gaining 2 percent in August in the 20 largest U.S. cities.

In the third quarter, the Chicago area had the most foreclosure filings -- 38,667 -- of the 212 largest metro regions followed by RealtyTrac Inc., and had the ninth-highest rate of foreclosures per household.

Including distressed sales, single-family home prices in the Chicago region decreased 2.9 percent in September, placing it last among the 10 largest U.S. metro areas, CoreLogic Inc. (CLGX), an Irvine, California-based data provider, said on Nov. 6.

### 'Growing Disparities'

"We've seen, over a number of years, growing disparities in wealth, in income, and I think what's happened is accelerating and exacerbating the situation," said Spencer Cowan, vice president of research at Woodstock Institute, a Chicago-based nonprofit group that researches fair lending, foreclosures and wealth creation. In some neighborhoods, "the market is rebounding fairly nicely. There are areas in this region that aren't doing as well. It's very uneven."

The disparity between Chicago neighborhoods where foreclosures are dragging down property values and areas that are thriving can be seen in Lincoln Park, where Montana Row is being built. The neighborhood is home to billionaire businesswoman Penny Pritzker, a co-chairman of President Barack Obama's re-election campaign and part of the family that built Hyatt Hotels Corp. (H), where she's a board member.

### Holding Value

David DeAngelis, 48, plans to move to the city from Mountain Lakes, New Jersey. DeAngelis, who had lived for 16 years in Glen Ellyn, a Chicago suburb, has a contract to buy a home in Montana Row.

He and his wife, Karen, had been looking at properties for several months in neighborhoods in the city and "we kept coming back to the Lincoln Park area," DeAngelis, an account executive for a specialty-packaging company, said in a telephone interview.

"We saw that there were pockets that always seemed to hold on to their value a little more than other neighborhoods," said DeAngelis, who agreed to buy a four-bedroom, 3,200-square-foot home for \$977,900. "Lincoln Park was one of those."

This year through Sept. 15, 258 Chicago condominiums sold for \$1 million or more, a 34 percent increase from a year earlier, boosted by sales at Lincoln Park 2550, a tower that opened earlier in 2012, said Jim Kinney, a broker at Baird & Warner Real Estate in Chicago.

The development is the first high-density condo project in the neighborhood in more than 40 years, said John Murphy, president of MB Real Estate in Chicago, who teamed with Peter Ricker, the company's chairman and chief executive officer, to build it.

### Private Theater

Units in the building, which has a 1.25-acre (0.5-hectare) garden, full-service fitness center, indoor pool and locker rooms, are priced from \$590,000 for a one-bedroom to \$14 million for a penthouse. The property, with 233 units, also has a private movie theater, a billiards and game room, valet parking and concierge service.

The starting price for a one-bedroom in the project is more than three times the \$188,900 median Chicago transaction price in September, according to data from the Illinois Association of Realtors.

"It's one of the largest residential projects Chicago has seen in years," Murphy said. "We're doing very well," he said, declining to disclose how many units have sold in the building.

### Foreclosure Rate

The rest of the region hasn't fared as well. The foreclosure rate for the Chicago metro area was 5.9 percent in July, compared with a 3.3 percent national rate, according to a Sept. 25 report by CoreLogic. The rate measures the percentage of loans in some stage of the foreclosure process.

The Chicago area's unemployment rate was 8 percent in September, the most recent figure available, down from 8.8 percent the previous month. The U.S. unemployment rate was 7.8 percent in September, according to the Bureau of Labor Statistics.

Almost 10 percent of housing units in Cook County, which includes Chicago, are vacant, Toni Preckwinkle, the county's president,

said in June. Cook County has formed a Land Bank Advisory Committee to advise the president's office on dealing with foreclosures and reducing blight.

Foreclosure filings rose 59 percent in the first half of 2012 from a year earlier in West Pullman, and 24 percent in Englewood, two neighborhoods on the city's south side, according to the Woodstock Institute.

### Murders Rise

West Pullman is in a part of the city with 32 murders through Nov. 4, up 39 percent from a year earlier, according to data from the Chicago Police Department. The city has had 446 homicides, a 21 percent increase and higher than the total for all of last year, according to department data.

Crime has cut into housing demand in some Chicago neighborhoods. Should residents be able to get a mortgage and make a down payment, they may seek to move to lower-crime areas in the city, according to Geoff Smith, executive director of DePaul University's Institute for Housing Studies in Chicago.

"This year has been a really rough year for the city, especially in the south and west sides of the city, especially for crime," he said.

The ZIP code that includes the Ashburn neighborhood on the south side had the highest foreclosure rate in Chicago, with one in 14 mortgages in default or bank-owned in September, according to RealtyTrac.

Neighborhoods on the city's south and west sides and in southern suburbs have home prices that are below values from 2000, Smith said.

### Condos Struggle

Single-family house prices in Cook County were at a similar level in the second quarter of 2012 as in the second half of 2000, and are down 37 percent from their peak, according to a Sept. 24 report from the DePaul housing institute.

Condo values in the county also are down, DePaul data show. After reaching a record in the first quarter of 2007, condo prices are 51 percent below their peak. They fell 11 percent in the second quarter from a year earlier, declining to a pre-1997 level.

"The for-sale market is still uncertain," Smith said. "You don't know if the market has really hit a bottom yet."

Chicago's housing market isn't without positive trends. The number of homes sold climbed 23 percent in September from a year earlier, according to the Illinois Association of Realtors. CA23, a 24-unit condo building west of downtown in the West Loop, which was developed by Belgravia and was the only project to begin marketing last year, has sold all its units, according to Kinney.

"Nothing got built for several years," said Lev of Belgravia. "If you're out there looking for new or newer, there's slim pickings."

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