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Chicago's Midrange Homeowners Taking the Hardest Hits

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When Zillow announced last week that Chicago is the country's number one market for homebuyers, I snarkily replied on Twitter that, by the same token, Chicago is the number one place where sellers are taking it in the shorts. Two reports out that same week backed me up, offering further detail on how hard Chicago's prolonged housing stupor is impacting local homeowners—whether they're hoping to sell or just monitoring the value of their largest investment.

Released by DePaul University's Institute for Housing Studies, the Cook County House Price Index for the third quarter of 2012 found that prices for midrange single-family homes and condos took the biggest hit. Houses in the middle tier were down 10 percent from a year earlier, while those in the lowest price tier were down 2 percent and those in the highest were up less than 1 percent. Middle-priced condos were down 13 percent; the lowest-priced were down 11 percent, the highest, 2 percent.

(The institute groups properties into tiers using calculations that are too complex to lay out here. Its director, Geoff Smith, says that the best way to picture the tiers is this: Low-value homes have a median price of \$74,000; middle-value have a median of \$165,000; and high-value homes have a median of \$438,500.)

And from FNC, a mortgage technology company, came a report that said Chicagoans have the least liquidity of homeowners in any major U.S. city. In other words, they have such low equity that selling to move is harder than in any other city.

"It's more difficult to get out of their homes without losing money, and their inability to [move] makes the Chicago economy slower to recover than others," says Robert Dorsey, a founder of FNC and its chief of data and analytics. His report also noted that Chicago sellers, when they do sell, take the biggest price cuts: 13.9 percent, on average.

Together, the two reports paint a gloomy picture for Chicago's middle-class homeowners: Their home values are still slipping, and they can least afford to sell. Each probably pushes the other. "Middle-class folks are going to have most of their wealth tied up in home equity, which in many cases has evaporated," says Smith. "So you have a lot of folks who are trapped."

Owners of higher-value properties typically bought their homes with a larger equity stake than middle-class owners, Dorsey notes. Smith adds that, given their comfortable financial footing, those wealthier homeowners may also have been less pressed to refinance and pull equity out of the home during the boom years. At the lower end, both analysts say, the stronger prices are largely the result of investors buying up foreclosed properties in large numbers.

Solutions? "There is no doubt that unless there is a big influx of jobs in the Chicago area, your recovery will stay slow," Dorsey says. "A lot of [housing's] recovery will be driven by the unemployment rate, and Chicago is still one of the high unemployment cities." For the middle-class homeowner in particular, Smith says, "there needs to be bigger consideration of short sales and principal forbearance so people can afford to move."