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Cook County home prices continue recovery

Second-quarter prices rose 11.8 percent within the city of Chicago, index shows

By Mary Ellen Podmolik, Chicago Tribune reporter

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Single-family-home prices rose strongly in Chicago and suburban Cook County during the year's second quarter, according to a local home price index, validating the sentiment that a housing recovery has taken hold in the Chicago area.

However, the pace of the recovery varies widely, depending on how hard-hit the area was by foreclosures.

Second-quarter prices of single-family homes rose 11.8 percent within the city of Chicago, compared with a year ago, and were up 8.8 percent from the first quarter, according to a Cook County home price index calculated by the Institute for Housing Studies at DePaul University.

Meanwhile, home prices in suburban Cook County rose almost 7.8 percent from a year ago and 4.7 percent from the first quarter.

"The city has always had stronger price increases over time," said Geoff Smith, the institute's executive director. "The Loop, the North Side: Some of the biggest price growth is in those areas. The suburbs are not as volatile. They're more stable so you don't see as much price change."

The methodology of DePaul's index is similar to that of the national S&P/Case-Shiller home price index that is released monthly. Instead of looking at total sales, the index looks at repeat sales of properties over time, so it is not skewed by atypically high or low sales that can affect median price changes.

Based on the index, single-family-home prices remain down 34 percent from their peak in late 2006.

On Thursday, the Illinois Association of Realtors will report August home sales. That report is expected to show another double-digit, year-over-year increase in sales and a rise in the number of homes newly listed for sale. However, the overall inventory of homes on the market last month was down by about a third or more from a year ago in some submarkets, according to data provided by Midwest Real Estate Data LLC to the Chicago Association of Realtors.

That supply-demand imbalance has driven sales volume and prices higher for months, fueling multiple-offer scenarios and some homes selling above list price. Higher mortgage interest rates also have nudged potential buyers into action; the average interest rate on a 30-year mortgage has increased by 1 percentage point since late May, to 4.57 percent last week, according to Freddie Mac.

By year's end, Fannie Mae chief economist Doug Duncan predicts home purchase mortgage originations will account for more than half of all loans written, as mortgage refinancing winds down because of the higher rates.

The outlook for mortgage rates is expected to get more direction Wednesday, following the end of the Federal Reserve Board's two-day meeting.

"There are still a lot of unusual factors in the housing market right now," Smith said. "The presence of investors and their role is different than in previous housing recoveries. The impact of underwater mortgages and people holding back on listing their properties is creating a price spike. When people start listing their properties again, it is going to slow price growth."

Economists are starting to voice concerns that the housing market is cooling. Monthly sales reports reflect homes that went under contract one to two months beforehand. Nationally, the National Association of Realtors' July measure of pending home sales decreased by a greater amount that was expected; it was the second consecutive monthly decline.

In DePaul's home price index, the second-quarter pricing gains were better in neighborhoods less affected by foreclosures. In areas in Cook County where less than 10 percent of properties went into foreclosure during the past seven years, second-quarter home prices rose 8.8 percent from a year ago, meaning they were down only 16.8 percent from late 2006's peak.

In high foreclosure areas, where at least one-quarter of the properties went into foreclosure between 2005 and 2012, single-family-home prices were down 58 percent from their peak, and rose only 5.3 percent year-over-year in the second quarter.

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