(Photo: Chris Sweda/*Chicago Tribune*)

There Are Two Housing Recoveries Going On in Chicago

By Dennis Rodkin

The latest data about the Chicago-area housing market underscores two things about our market's recovery: (1) Recovery is happening. (2) There are actually two different recoveries going on here, behaving in two different ways.

When DePaul's Institute for Housing Studies released its look at the third quarter 2013 data for Cook County on December 12, the headline figure was the almost 13 percent spike in the sale prices of houses (condos and townhouses not included) since the same period in 2012.

It's very good news, but in my usual way, I want to point out that this silver lining has a dark cloud. The IHS's study shows that the biggest price increases were in areas that have had a high rate of foreclosure during the housing crisis. In those neighborhoods, prices were up 13.4 percent, third quarter 2012 to third quarter 2013. Areas with a low foreclosure rate—typically, these are affluent neighborhoods or suburbs—had a significantly smaller bump in their home values: up 9 percent.

Nine percent is great, considering the doldrums we were in for several years prior. But the point here is the different speeds at which low-priced and high-priced neighborhoods are moving.

Because the thing you need to know after that is the one that is moving fastest is still the one that's farther behind.

Even with a year of double-digit recovery, IHS's report notes, home values in high-foreclosure neighborhoods have only climbed back to about where they were in early 1997. Their prices are more than 50 percent below where they were at the peak. Meanwhile prices in low-foreclosure neighborhoods are back to the level of 2004. Here, prices are about 15 percent off the peak.

"If you live in those stronger neighborhoods, there's been much more price stability and they're closer to being at full recovery," says Geoff Smith, IHS's director. In the other areas, "there's still a long way to go."

IHS's report covers the third quarter and Cook County only; more recent data for a larger geographical arrived last week from Midwest Real Estate Data. It showed a similar pattern: sale prices on foreclosures in the entire Chicago region in the month of November were up 6.8 percent from a year before, while prices on what MRED calls "traditional" or non-distressed homes were up 2.5 percent.

A big spur for foreclosure prices has been the influx of money from large institutional investors. The *Tribune*'s Mary Ellen Podmolik reported earlier this month that eight deep-pockets firms have bought about 3,200 houses in the Chicago area so far this year. Smith says that these homes aren't usually the bottom-of-the-barrel foreclosures but those that are slightly better in quality and located in neighborhoods where they can be made desirable for renters.

Buying by institutional investors spiked this year—in the first half of 2013, it accounted for 20 percent of sales in Cook County, up from 14 percent the year before, Smith says—but remember, investors only go where the deals look good. That's why they've been less attracted to saturated Phoenix and Las Vegas recently, and it could happen here.

And if it does, the repercussions could be severe. "If you see investors pull back, then you're going to see price [growth] slow down," Smith says. That could widen the gap between moderate and affluent neighborhoods even more.

Meanwhile, back in those affluent neighborhoods, there's the threat of rising interest rates in the wake of the Federal Reserve's decision last week to taper its stimulus program. That could put a kink in the steady recent improvement in home prices. But either way—whether prices get hurt or don't—it's pretty clear that the housing recovery will be two different animals for a while longer.