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Sales of distressed homes fall to 6-year low

By Dennis Rodkin

This Naperville foreclosure got new paint inside and out, new carpet and appliances before going on the market.

PHOTO BY FROM THE LISTING

The rising residential real estate market has eliminated a big worry for many home sellers: competition from a cut-rate foreclosure down the block.

Distressed homes now account for the smallest share of Chicago-area sales in at least six years, diminishing a drag on the market that built up after the housing bust pushed thousands of local homes into foreclosure.

In June, 16.3 percent of all homes sold in the Chicago area were distressed, according to figures compiled by Midwest Real Estate Data, the multiple-listing service for northern Illinois. That's the lowest since at least January 2009, when MRED first started calculating separate totals for distressed and non-distressed sales. The distressed group includes foreclosures and short sales.

"The market is increasingly getting back to normal," said Geoff Smith, executive director of the Institute for Housing Studies at DePaul University. "It's good news for sellers that homes are primarily market-priced," instead of being unloaded at discounts by lenders and others who were willing to sell low just to get the property off their books.

Distressed homes' share of the Chicago market peaked in early 2013, at almost 60 percent of all sales in the area. At that time of year, distressed sales' share is exaggerated, because homeowners are less likely to be out house-hunting in winter while investors, who are among the biggest buyers of foreclosures, stay busy.

Distressed sales include repossessed properties or short sales, when a homeowner, with a lender's permission, sells a property for less than its debt.

The summertime peak in distressed sales came in 2011, when they accounted for more than 40 percent of all sales for three months running, according to MRED's data. Distressed sales have taken a progressively smaller share in each summer since. In summer 2014, July was the lowest month, with 20.6 percent of all sales.

UNEVEN IMPROVEMENT

Before the housing bust, distressed sales were roughly 5 to 9 percent of all sales in the Chicago area, Smith said.

The foreclosure problem isn't healing consistently throughout the Chicago region. More than half the June sales were distressed in city neighborhoods New City, East Garfield Park and Chicago Lawn and in suburbs Richton Park and Dolton.

In all those locations except New City, at least 40 percent of what was on the market at the end of June was distressed, according to MRED. That's compared with less than 16 percent of listed homes in June in the Chicago area being distressed.

Foreclosures and short sales "aren't gone and won't be for years," said Naomi Campbell, a Coldwell Banker agent in Libertyville who has focused on foreclosure sales, "but they're not making the big headache for the neighbors that they used to."

A major reason, Campbell said, is that a few years back, distressed sales sometimes were the majority of the “comps,” or comparable sales, that an agent or appraiser could call up to compare with a conventional property, resulting in a lower estimate of value. Many homeowners couldn't afford to sell or refinance at those lower appraised values.

Now, "there are a lot more regular sales on the books" at the reset levels the market has established, she said.

Distressed homes' piece of the market has dwindled both because fewer of them are selling and because there are more conventional sales. In June, 2,277 homes sold in distress, down from 2,872 a year earlier. Meanwhile, June's tally of 11,719 conventional sales was up from 9,290 in June 2014.

HIGHER PRICES

Distressed homes also are selling for more. The median price of the 1,793 Chicago-area foreclosure sales in June was $109,945, or 5.2 percent above June 2014's price, $104,500. Short sales, considerably fewer in number, at 484 sales in June, went for a median price of $135,000, up 8 percent from June 2014.

New foreclosures are still coming into the pipeline, but at a far slower rate. In June, 26 percent fewer homes in the Chicago area were in some stage of foreclosure than in June 2014, according to RealtyTrac data released last week.

Because of the dropoff in foreclosures, "big investors have pulled back," Smith said. While institutional buyers like the Blackstone Group have **moved on,** Campbell said smaller investors haven't lost the appetite and are vying against one another to snap up the deals. A well-priced foreclosure “gets three to 12 offers in the first week," she said.

Agents who specialize in distressed properties say the increase in foreclosure prices is almost entirely the result of lenders' recent turn toward cleaning up the homes before putting them on the market.

"You don't see them come on the market as yucky as they used to," Campbell said. In the early days of the foreclosure crisis, lenders most commonly offered their foreclosures in whatever condition they got them, stripped kitchens, moldy basements and all.

"They've learned that their return is better if they make a small investment in making the home look better," said Kevin Rampersad, an agent with Re/Max Professionals Select in Naperville who lists many foreclosures for lenders and other sellers.

Not all foreclosures get cleaned up. "It depends on whether you can do it but still come in at or under the market prices," Rampersad said.

Even when cleaned up, foreclosures aren't quite head-on competitors for the conventional homes in the neighborhood. Both Rampersad and Campbell said foreclosures generally get only cosmetic repairs and are still sold in as-is condition, with no warranty.

"You still have to take it with its problems," Campbell said.