Business

Seven years after the Great Recession, some Chicago suburbs may never recover

Loria and Mitchell Versher bought their home in Markham for nearly $140,000 in 2007. Almost a decade later, it's up for a bank ordered short sale for $29,500. (Zbigniew Bzdak / Chicago Tribune)

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Mitchell and Loria Versher say they were looking for one thing when they bought their first home in South suburban Markham: "Stability."

They might have been better off buying swampland in Florida.

In retrospect, July 31, 2007, was a bad day to go shopping for property anywhere.

But the modest 900-square-foot Cape Cod-style home the Vershers bought that day for $137,000, on the eve of the worldwide credit crunch, has fared especially badly, by any standard.

Despite being well-kept, with a neatly trimmed lawn and hedges, four bedrooms and a two-car garage, it sits across the street from an abandoned home and was listed for sale in January for just $29,500.

"After serving in Vietnam and working all my life, this just seems like a failure of justice," said Mitchell Versher, 68, an Army vet and security guard. "We thought we were getting the American Dream and a measure of stability at this stage in our lives."

Instead, the Vershers find themselves not so much underwater as buried in a cave beneath the ocean floor. Loria Versher was laid off from her job, and court filings associated with their two-year-old foreclosure case show that, with late fees and a 2013 loan modification, they owe Nationstar Mortgage $180,000.

Their situation represents only an extreme version of a financial trap in which homeowners across predominantly African-American parts of the south suburbs and in pockets of mainly Latino and white ethnic suburbs just south of O'Hare International Airport continue to struggle, almost seven years after the official end of the Great Recession.

The housing crash might seem like old news, but for families left behind by the recovery it remains a defining economic reality, with negative equity preventing moves and limiting choices in life.

At the end of 2010, almost 31 percent of Chicago-area homeowners with a mortgage were underwater, owing more on their loans than the properties were worth, according to housing analytics firm CoreLogic. Five years later, in 2015's fourth quarter, the percentage of underwater local homeowners was nearly 17 percent, topped only by the 22 percent of homeowners in Miami and 21 percent in Las Vegas-Henderson, Nev.

While the median prices of homes in suburbs across the Chicago region continue to be below the inflation-adjusted prices they commanded pre-crash — even in tony Winnetka, the median home sold for 29 percent less last year than in 2005 — a map of house price changes over the last decade tracks closely with racial boundaries and shows that residents of blue-collar suburbs who were less well-equipped to absorb such a huge hit to their wealth are worst affected.

The question for many in these towns is no longer when they will recover, but if they ever will.

In a broad swath of 37 south suburbs from Burbank to Steger, median prices for existing single-family homes and condominiums last year remained at least 40 percent below where they were in 2005, after inflation, according to data collected by housing research firm Metrostudy. In Markham, the south suburbs' worst affected town, the median price has fallen 68 percent over the last decade to just $44,000, while in Calumet City, Blue Island, Riverdale and Steger the median price has fallen by more than 60 percent. The median price means half the homes were sold for more and half for less.

Though median sales prices don't always result in a reliable like-for-like comparison, since the type of homes sold in a town can vary over time, or be so small in number that they are statistically insignificant, the monumental drops in home values in these towns are replicated in studies that control for home size and condition.

For the calculations used in this story, the Tribune minimized the volatility in the quarterly data by taking the average of each town's quarterly median sales prices in both 2005 and 2015.

Cook County's top 10 towns for foreclosures are all in the south suburbs, according to data compiled by the Institute for Housing Studies at DePaul University. Residents on a typical block in middle-class towns like Matteson, Country Club Hills and Richton Park can expect one of their neighbors to be in foreclosure, because about one in 30 homes was in foreclosure as recently as 2014.

In a handful of the poorest towns — Harvey, Ford Heights, Phoenix, Riverdale, Robbins and Sauk Village — more homeowners are foreclosed upon than obtain new mortgages, a surefire recipe for vacant homes, declining tax bases and blight.

But you didn't have to buy at or near the fall 2006 peak of the Chicago area's housing market, or in the worst affected town, to be hurt: prices stubbornly remain below where they were 20 years ago across much of the region.

A smaller slice of the near western suburbs is similarly suffering. In Stone Park, the region's worst-hit town, the median home sold last year for 69 percent less than it did in 2005. In Melrose Park, the median price was down 57 percent; in Schiller Park, it was down 51 percent, and in Franklin Park prices fell 55 percent.

Only in one Chicago-area town, Lisle, have inflation-adjusted prices risen modestly back above their pre-recession prices, to $261,000.

"The housing market is a good reflection of the uneven recovery of the economy, overall," and may help explain why consumer confidence lags so far behind other economic indicators, said Geoff Smith, executive director of the Institute for Housing Studies at DePaul University.

The disparity is evident in Chicago neighborhoods as well. Compared with a year ago, February median prices of nondistressed single-family homes were down 14.5 percent in McKinley Park, down 11.8 percent in Chatham, flat in Beverly, up 4.6 percent in Forest Glen and up 5.3 percent in Logan Square, according to Midwest Real Estate.

While boom times may have returned to a handful of hip Chicago neighborhoods, and well-to-do suburbs were not so badly affected, "a good half to two-thirds of the housing market is still trying to get back to where it was, and a third is still at pre-2000 prices," Smith said.

Given how much of most homeowners' wealth is tied up in their homes, that's a serious brake on the Illinois economy. But without some widespread principal reduction program for underwater homeowners of the type being considered in a more limited form by Fannie Mae and Freddie Mac, Smith said, recovery will take a "a lot of patience" and "is not necessarily realistic for a lot of neighborhoods."

John Petruszak, executive director of the South Suburban Housing Center, which helps homeowners with distressed mortgages, agreed that recovery in largely African-American south suburbs "is going to take a long time," and that some form of debt forgiveness or other assistance for struggling homeowners is needed.

"Everybody seems to think we've recovered from the housing crisis, but for many communities of color that's not the case," Petruszak said.

Predatory lending practices in predominantly black neighborhoods and towns where residents were sold "exotic and garbage mortgages" that could quickly be packaged up and sold as securities on Wall Street led to a huge number of foreclosures between 2008 and 2011, he said.

The number of lender-mediated sales in the Chicago area — short sales and foreclosures — accounted for 26 percent of existing home sales in February, compared with more than 50 percent just two years ago, according to Midwest Real Estate Data, the local multiple listing provider. But the long-term snowball effect of so many vacant, foreclosed properties in mainly black neighborhoods was exacerbated because banks took less care of the properties they owned there than they did in largely white communities, said Petruszak, who has helped bring national discrimination cases against six lenders.

But some observers go further. Urban planner Pete Saunders, a Naperville resident who has written on suburban issues, believes that languishing house prices are one sign that we may have passed "peak suburbia."

Pointing to increasingly empty and outdated suburban office parks as white-collar jobs move downtown to attract younger and cheaper workers (14-22 percent of U.S. suburban office space is obsolete, according to real estate services firm Newmark Grubb Knight Frank), Saunders argues that suburbs today that fail to adapt may be at the point that cities were at in the 1940s, just before white flight stripped them of wealth.

One of the concerns, Saunders said, is that as younger white workers move downtown in a reverse of the journey their grandparents took to the suburbs, "increasing black suburbanization is moving black Americans against the tide, away from the areas of greatest opportunity."

For the Vershers, who were born and raised in the south suburbs, that is a secondary problem.

They bought their home in a racially diverse part of Markham just west of Interstate 57, the highway that divides the largely white suburbs to the west from the mostly black suburbs to the east, for the normal reasons: the chance to call a place their own and a better high school for their teenage son, Benjamin, who was at an age where gangs might have been a problem in a rougher neighborhood.

Even in the waning days of the boom, it was easy for them to get a $137,000 mortgage at 7.5 percent with no money down, for a home that sold for $87,000 in 2004 and $115,000 in 2005. "It took a few minutes," Loria Versher said. "Everyone was talking about buying property at church — it was a time where people just felt like, 'I qualify — let's do this.' "

On the other end of the transaction with the Vershers was a seller who arranged two mortgages totaling $114,900 to buy the house, and had a foreclosure case filed against him a year later.

Although they're bitter about their experience with a series of lenders that have bought and sold their debt over the years, and with a political system that bailed out the bankers who profited from the housing bubble, the Vershers don't regret moving into the two-story home on Millard Avenue.

"It's a great community," said Loria Versher. "We never thought we would have the chance to own a home."

The couple have friends who walked away from mortgages that no longer made sense, but Mitchell Versher said that wasn't his style, and that if his wife hadn't suffered a couple of layoffs, or if they were able to renegotiate their debt again, he'd have liked to stay put.

"I come from the old school," he said. "My grandchildren visited me in this house. It was supposed to be our home for the rest of our lives."

Still, he and his wife expect ultimately to be forced from their home. And any hope Mitchell Versher had of retiring is gone.

"I'm gonna have to work till I die," he said. "Don't get me wrong, Vietnam taught me that I'm blessed for every moment that I have. But the majority of us who are living paycheck to paycheck are being held hostage by an indifferent political class."

He's looking online, for a rental, he said.

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