Depressed property values show need to fix school funding system

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A new report about Chicago-area home values says something about income inequality in the region and underscores the need to fix a school funding system that is overly reliant on property taxes.

The report says while home values continue to rebound from the crash following the 2008 peak, values in the south suburbs lag behind those up north that have fully recovered.

Eight years after the bubble burst, many homeowners in the Southland are still underwater, holding mortgages for more than their homes are currently worth.

Homeowners who have no intention of moving any time soon might see a silver lining in the data. If their property values are significantly lower than what they once were, their assessments are lower and theoretically they're paying less in property taxes.

But that also would mean local public schools are being challenged to maintain a level of services with less local funding.

Data released Thursday by the Institute for Housing Studies at DePaul University looked at fourth-quarter 2015 home prices in Chicago and Cook County suburbs. No values are reported for individual towns, but the suburbs are divided into 17 submarkets with a half dozen covering the Southland.

If you're into numbers, you can find percentage changes from peak 2008 prices to current values, the change since 2000, the recovery from the post-crash low point and the change from the previous year.

Analysis shows that no area in the Southland has fully recovered from the crash, but the Orland Park/Lemont sector has rebounded the most. Homes in that part of Cook County have recovered about 80 percent of their peak values, on average.

In three other sectors — Oak Lawn/Blue Island, Oak Forest/Country Club Hills and the Beverly/Morgan Park area of Chicago — home values are about two-thirds of what they were when Barack Obama was first elected president.

Homes in the furthest south and east sectors — including Chicago Heights/Park Forest and Calumet City/Harvey — are worth about half as much as they were at their peak eight years ago.

"The south suburban area of Chicago Heights/Park Forest has seen the weakest recovery with prices increasing by less than 10 percent from its price bottom," the report says.

By contrast, homes in places like Winnetka/Northbrook, Palatine/Barrington and Schaumburg are much closer to fully recovering their peak values.

My wife and I have owned three homes in Will County over the past 24 years. The first two significantly increased in value, and we were able to "buy up" to bigger and better properties. That was back in the days when home values steadily increased 7 to 10 percent every year.

Each of our first two homes appreciated in value enough that we were able to take out home-equity loans to pay for new vehicles. That was a good way to finance the purchases because interest on home loans can be deducted on federal income tax returns, while interest on car loans cannot.

We felt good knowing that our home was like a savings account that gained significant value year after year. At least that's how it was during our first 16 years as homeowners.

The last eight have been an entirely different story. The financial crisis happened right after we moved into our current home, and the following year the annual property tax bill indicated our house lost half its value. It has rebounded some since then, to about 75 percent of what we paid for it.

The good news, according to the DePaul report, is that at the end of 2015 home values in every Southland sector increased 3 to 6 percent from 2014. However, other parts of the Chicago area experienced much greater increases.

In Oak Park/Cicero, for examples, prices were up 10.5 percent from the previous year. In the Austin/Belmont Cragin neighborhoods of Chicago, the increase was 15 percent. The highest year-to-year increase was in Chicago's Bridgeport/Brighton Park area, where prices shot up 22 percent in one year.

Authors of the DePaul report note that housing price trends are a strong indicator of a neighborhood's economic health, and the disparity in home prices across the region says something about income inequality.

"(T)he uneven nature of house price declines and recovery across neighborhoods is a stark illustration of the growing divide between thriving and struggling communities and households," the report says.

The DePaul report says many residential properties in the Southland are worth significantly less than they were 16 years ago. Compared to 2000, home values in the Chicago Heights/Park Forest sector have declined 9.8 percent, while in the Calumet City/Harvey area they're down 18.6 percent.

I imagine this leaves many Southland homeowners feeling trapped. Those who want to move might have to take a steep loss compared to what they paid for their homes. Many could not pay off their mortgages for what they could get for their home. I wonder how many homeowners feel stuck, hoping for a rebound in prices that may never happen.

Many others are being forced from their homes due to foreclosure or inability to pay property taxes. I think there is a correlation between depressed home values, the over-reliance on property taxes to fund schools, and the population losses in Chicago and Cook County.

Areas where home prices have fully recovered have a greater tax base to generate revenue for public education. Where home prices are more depressed, the region's overall value of property is lower, which strains revenue for local public schools.

The Illinois system of funding education has been unfair for decades. As long as housing values steadily increased fairly consistently throughout the region, we didn't notice the inequity as much. The housing crash and uneven recovery illustrate the need to fix the state's broken system of funding education is greater than ever.

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