Hot neighborhoods poised to see growth among modest home price forecast

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Chicago homeowners who have been waiting for real estate values to bounce back to the levels they were at before the housing crash probably will continue to be frustrated in 2017, although a couple of hot neighborhoods are poised to see appreciation.

On average, home prices in the Chicago area will climb just 1.95 percent this year, according to economists with Realtor.com, the official website of the National Association of Realtors. That contrasts with a projected national average of 3.9 percent, and leaves Chicago far behind cities like Seattle and Denver, where home prices have recovered completely and hit new highs last year.

Nationally, home prices returned to 2006 levels in 2016, meaning the country's housing market is back to its pre-crash health. But home values in the Chicago area remain about 19 percent below where they were before the crash, according to the S&P CoreLogic Case-Shiller home price index.

Chicago's housing market will be the weakest of the country's 100 largest metro areas in 2017, said economist Jonathan Smoke of Realtor.com.

Further, the Chicago area is one of the nation's worst for homeowners in serious financial pain. About 12.2 percent of homeowners are underwater on their mortgages, meaning they owe more on the mortgage than the house is worth, according to CoreLogic. Among the nation's largest cities, Chicago is less troubled than only Miami and Las Vegas, which were hotbeds of investor speculation in the housing mania that preceded the crash.

The cure is rising prices, but the Chicago area's prices are moving so slowly the wait is long. People are holding on to their homes, waiting for a better day to sell if they have the luxury of waiting, according to real estate agents. If they must move for a job or sell due to an issue like a divorce, they must swallow hard and take what the depressed market will give them.

Based on recent trends, Geoffrey Hewings predicts it will take 1.2 to 2 more years for Chicago-area homes to reach their peak 2006 values again. As the director of the Regional Economics Applications Laboratory at the University of Illinois, he analyzes the area's home sales and prices each month.

The problem, he and other analysts say, is the sluggish local economy.

Unemployment is higher in Illinois than in the nation and with limited job growth, new residents aren't moving into the Chicago area and buying homes, Smoke said. There is also angst about the inability of the state and some local governments to deal with pension problems and gloomy long-term budget projections.

The uncertainty holding back homebuyers is especially evident in the luxury market and suburbs, said Jim Kinney, a real estate agent with Baird & Warner. "People are concerned about the state not being able to solve its problems, and they figure it will lead to higher state taxes and property taxes too," he said.

Still, there are pockets where prices have rebounded, and then some.

Homes on Chicago's historically stable North Side are now 3 percent above their peak, but aren't likely to appreciate sharply from current levels, said Geoffrey Smith, executive director of the Institute for Housing Studies at DePaul University.

The Loop generally is doing well too, and the West Loop around Fulton Market has been on a tear.

Average home prices in Lincoln Park, one of the stable areas north of the Loop, didn't decline as much after the crash, and then climbed 30 percent — bringing the median price of a single-family home up to $1.9 million in the third quarter, according to data from the Chicago Association of Realtors. That compared with a pre-crash 2006 peak of $1.4 million.

But home price gains among Lincoln Park's single-family homes and condominiums have slowed. In 2016 they climbed just 2.5 percent, and Smith expects slow, steady growth in Lincoln Park and other North Side neighborhoods, among them Lakeview, North Center, Logan Square and Avondale.

Logan Square home prices, for example, have climbed 61 percent since 2012. The median single-family home price there is now about 3 percent above its prior 2006 peak, Smith said. But in the last year, the average Logan Square home appreciated just 6 percent. The recent slowdown in price appreciation is typical after huge periods of sharply escalating prices, Smith said.

"You can only grow so quickly so long," he said.

Areas of the city that now are hot and seem primed for more appreciation are the Bridgeport/Brighton Park and Humboldt/Garfield Park areas, Smith said. Prices have climbed more than 50 percent in Bridgeport/Brighton Park during the last 10 years but are still about 30 percent below the 2006 peak, Smith said.

Humboldt/Garfield Park prices bottomed out in 2012, and have since seen double-digit increases of about 15 percent a year. During the last year they continued with 15.5 percent gains, Smith said. Still, despite sharply rising prices, the recovery seems far off. Prices are still down about 48 percent from the 2006 peak.

Smith notes that people should not assume that home prices will return to peak levels simply because they were there once. The Humboldt area was very inflated at the peak and consequently crashed hard and rebounded strongly.

Bridgeport was popular pre-crash and experienced a substantial plunge because its surge had been driven by investors using subprime financing. When that funding dried up, people couldn't access the loans they needed, and prices dropped dramatically. Prices didn't rise quickly after prices bottomed out in 2012, but in 2015 Bridgeport started to experience strong price increases.

Most of the areas that have escalated quickly and are likely to remain popular have a couple of characteristics in common, Smith said. They have quick access to downtown via public transit. They also are often next to areas that have appreciated greatly and have become established popular areas.

Humboldt Park, said Smith, is attracting interest as potential buyers who don't want to pay the high prices of Logan Square and West Town look at the area next door.

Still, Smith said, people can't assume areas like Garfield Park will be the next Logan Square. "You will pay less and you might eventually get a better return on your investment (than a more established area) but you need to tolerate risk. For Garfield Park a lot still needs to happen for it to transition."

Some areas of Chicago are so challenged, prices may never return to 2006 peak levels, added Smith. For example, he noted prices in South Chicago/West Pullman remain 50 percent below the peak, and said the area has lost old employers that used to serve the people living nearby.

Distance from downtown Chicago is turning into a drag on suburbs. Major corporations have been moving their headquarters into the city's core, and suburban areas that once attracted homeowners are considered less desirable as young adults prefer downtown living and renting.

"The suburbs are having trouble recovering," said Smith, noting the move up in price has been slow and areas ranging from Palatine/Barrington to Orland Park/Lemont, Park Ridge, Oak Park and Winnetka/Northbrook are all below 2006 highs.

The suburban North Shore has come up 19 percent from the bottom in 2012, but the median price is still 9.5 percent from the peak, noted Smith.

"That involves really expensive houses," he said. "That's not a struggling area, but you do see yellow warning lights on demand."

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