Chilly climate

Experts say the forecast is frigid when it comes to home sales

by Marcia Frellick

Colin Gilbert knows the gamble of trying to sell a home in Chicago's battered market. Finding a house he liked in the suburbs was the easy part. He was getting married within the year and was ready to trade up to a bigger place closer to the law office where he is a partner in the northwest suburb of Barrington.

But selling his one-bedroom condo in Chicago's Lincoln Square neighborhood would prove much more difficult. He started putting the plan in motion in February 2008 and was eager to make the move as his 35-mile commute was getting increasingly costly with gas prices creeping up to $4 a gallon.

He knew the housing market was already tight, and he knew he probably wouldn't get the $240,000 asking price. So after three months, he dropped the price to $230,000.

When it still didn't sell after a month at $230,000, Gilbert, 28, and his then-fiancé decided to buy a two-bedroom house in Arlington Heights and try to rent out the condo. Finding the right price point and then finding renters with good credit histories took only about a month, he says. By the time he was ready to rent, he had four good candidates.

"Charging rent didn't cover all our expenses with the mortgage, assessment and taxes, but we were still saving a lot on gas. And houses were going for so cheap in the suburbs that it was hard to pass up," Gilbert says.

"When the upturn comes, we'll do an assessment and see if it's worth keeping the property or trying to sell it," he says.

Gilbert found a way around the plunging market that is trapping homeowners throughout the United States. But for many in Illinois, the picture is bleak.

A barrage of grim headlines continues to haunt the state — home sales: down; median prices: down; jobs: down; consumer confidence: down; budget deficit: up; foreclosures: up.

And consumers looking for the bloodletting to be over soon will be sorely disappointed. Economists say they don't see any relief even a year from now, and things could get much worse.

Among the uncertainties about when a turnaround might come is what effect President Barack Obama's recently signed $787 billion economic stimulus package and $75 billion home-rescue packages will have on energizing the national economy and how that will play out in Illinois.

What is certain is the damage already inflicted.

Statewide, home sales sank 23.9 percent in January from the same month in 2008. The median sale price for single-family homes and condominiums was down 19.6 percent statewide in January, from $186,500 in 2008 to $149,900, according to the Illinois Association of Realtors. In Chicago, home sales were down 24.5 percent from last January, and the median sale price was $185,000, down 22.8 percent from $239,500 in January 2008. At the root of the crisis are massive job losses in Illinois and throughout the nation and the subsequent erosion of consumer confidence. Illinois has lost jobs for nine straight months, 100,700 total in 2008. The state's unemployment rate in January was 7.9 percent, higher than the U.S. rate of 7.6 percent. The nation lost 3.7 million jobs last year, 50 percent of those in the last three months of the year.

Job loss ate away at optimism throughout the country. In February, the national consumer confidence index continued a stunning slide to a historic low of 25, the worst since the index debuted in 1967. A year ago that number was 76.4.

When people are worried they will lose their jobs or will have to take pay cuts or reduced hours, they won't buy homes, and the gap between sales and inventories grows. Of further concern is that the number of new jobs in Illinois isn't keeping pace with the national average.

"Illinois creates jobs at about half the rate of the nation," says Geoffrey Hewings, economics professor and director of the Regional Economics Applications Laboratory at the University of Illinois. "We track everything back to 1990, and with the exception of a couple of years, the U.S. has added 24, 25 percent in jobs

Photograph by Kristy Hanlon

Statewide, home sales sank 29.3 percent in January from the same month in 2008, and the median sale price was down 19.6 percent.

since about 1992. Illinois added about 12 percent. It's one in a set of ironies — we are one of the richest states, but we put virtually no money at all into how our economy works."

Much of the state's job loss has been in the manufacturing, construction and trade, transportation and utilities sectors.

Pat Callan, president of the Illinois Association of Realtors, adds that employers have been reluctant to move their companies to the state because of the current economic conditions — state government is facing up to an $11.6 billion budget deficit by the latest estimate — and poor tax incentives. Though Illinois is losing jobs each month, other Midwestern states are faring much worse. Michigan, Indiana, Iowa, Wisconsin, Missouri and Ohio lost jobs at about twice Illinois' rate.

But Illinois is more prominent nationally in foreclosures. Nationwide, there were 3.2 million foreclosures last year, an 81 percent increase from 2007. Illinois ranked No. 6 in the nation in January foreclosure rates, which shot up 85 percent from the previous January, according to RealtyTrac, a California-based research firm that publishes a national database of foreclosure properties. Most are in the eight-county Chicago area.

The high numbers are just catching up with a trend that started much earlier, says Mabel Guzman, a director with the Chicago Association of Realtors. Many owners have known for many months that they were in trouble and called their lenders to tell them they would have difficulty paying their mortgages. But since they weren't yet behind in their payments, we're only hearing about them now, she says. Also, it has taken banks a while to figure out just what properties they have on the books and how to price them and list them as active foreclosures.

Job creation and easing credit restrictions will be key to getting the Chicago market moving, she says.

"The lending process has been tough. Right now it's 25 percent [for a down payment]. … When you have created the condition when you can buy with 5 to 10 percent down, then people get used to that. So now, 25 percent down for a good rate? People say, 'Where am I going to get that?' "

Foreclosures — often with ominous posts on the front door, boarded-up windows and signs of disrepair — are a visible sign of distress in neighborhoods and pull down the values of homes within a half-mile radius, as well as sapping neighbors' confidence.

The states hit hardest in January were Nevada, California and Arizona. In Nevada, one in 76 housing units received a foreclosure filing during the month. In California, that number was one in 173, and in Arizona it was one in 182. Illinois had one for every 363 units, according to RealtyTrac.

Amid the turmoil in Illinois, there are pockets of good news. Several areas — many in the central part of the state — have seen increases in median sales prices.

In the fourth quarter of 2008, Bloomington-Normal had the second highest single-family home price increase in the country, just behind Beaumont-Port Arthur, Texas. The area saw a median sale price of $159,300, up 9.6 percent from the fourth quarter of 2007, according to the National Association of Realtors.

And 28 of the 97 Illinois counties that reported figures saw an increase in median home prices for the fourth quarter of 2008, compared with the fourth-quarter 2007. These counties saw some of the biggest percentage increases: Jefferson, up 18.8 percent to $77,500; Whiteside, up 9.6 percent to $80,000; Menard, up 7.3 percent to $117,500; McLean, up 5.4 percent to $158,000; and Kankakee, up 3.9 percent to $128,000.

But in the past few months, Hewings says, the time it takes to sell a house has been growing all over the state and getting closer to the Chicago-area gap. In Chicago, the average time for a house to sell is about 11-13 months, Hewings says, noting that just a year ago, that number was two months.

Longer wait times also lead to more bargains, and buyers can find themselves able to buy bigger houses than they ever thought they could afford.

Callan of the Illinois Association of Realtors acknowledges Illinois is entering another tough year for the housing market but says there are still plenty of reasons to buy. He points to enticing mortgage interest rates in the low 5's, the tax credit for first-time home buyers and sellers' increasing openness for negotiation.

He gives this example: Say you have a house that you believe is worth $300,000 and the house you want to buy is listed at $400,000. The market may dictate that both come down 10 percent in price, so you could end up saving $40,000 on the price of the new house and giving up $30,000 on the sale of your own home.

"So you're making money on the deal, locking in at a low interest rate, your monthly payment won't go up significantly and you haven't increased your risk by much if you're worried about losing your job," Callan says.

Risk is at the heart of the crisis — some taking way too much, others not willing to take it on at all. But experts agree that job creation and retention will go a long way toward shoring up consumers' willingness to find a middle ground.

The American Recovery and Reinvestment Act includes $8,000 for qualifying first-time home buyers, and unlike the past $7,500 credit, buyers won't have to pay it back. The Homeowner Affordability and Stability Plan is designed to help up to 5 million borrowers refinance and gives mortgage lenders incentives to help an additional 4 million home-owners avoid foreclosure.

Putting people back to work is one of the main goals of the stimulus package. In fact, the White House says it will bring about 148,000 jobs to Illinois. The American Recovery and Reinvestment Act includes $8,000 for qualifying first-time home buyers, and unlike the past $7,500 credit, buyers won't have to pay it back. The Homeowner Affordability and Stability Plan is designed to help up to 5 million borrowers refinance and gives mortgage lenders incentives to help an additional 4 million homeowners avoid foreclosure.

Guzman is encouraged by the recent roll-out of plans, especially in their movement toward job creation. She likes the first-time homebuyer credit, and she's encouraged that Chicago is scheduled to get $55 million from the federal Neighborhood Stabilization Program, with its promise of getting homeowners into vacant properties. But she says ultimately, lenders must step up and grant more access.

"Housing is only going to move if lending gets easier. ... Are people getting loans? Sure, but they can be more difficult, and you have to work harder with the lender to get a deal in place."

She noted a trend holding up sales in Chicago's considerable condo market. Buyers are attracted to the small down payments for Federal Housing Authority loans — as low as 3.5 percent in Illinois — but when they try to use that type of financing on some properties, they run into a problem with condo declarations that include a "right of first refusal," which means the condo board can refuse a prospective buyer and decide to purchase the unit on its own. The FHA won't allow funds to be used in buildings with that language in their declarations because the agency sees it as a fair housing issue, she says.

"So a buyer says, 'Now I have to go conventional, and how am I going to find the money for a bigger down payment?'"

While the stimulus package is a step in the right direction, Guzman says, changing lending restrictions will play a bigger role in getting buyers into homes.

Hewings says he is not optimistic the stimulus plans will change his forecast for Illinois.

"We have no signal that the market will change anytime soon. The only sort of positive — if you could put it this way — is that we're seeing a little bit of a bounceback in February through the early part of the summer, but then back to lower forecasts," says Hewings.

He says the current uptick will be short and comes not from people trading up but from people who are relocating for work and have little choice but to buy and sell.

"What people don't realize is that we still haven't recovered from the recession at the early part of this decade," Hewings says. "We are somewhere around 200,000 jobs below where we were in 2000. And here we are in another downturn. Since the early 2000s, we have not had a year when we have added more than 50,000 jobs. So even if we had five very good years, we might recover, but that would put us 13 years from peak to peak. And I think five good years is very unrealistic." ❑

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