Chicago unemployment meets lower home prices and higher apartment rents

ILLINOIS UNEMPLOYMENT RATE | AUGUST 7, 2012 | BY: DARRYL GRANT

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With the recent news from the latest U.S. Department of Treasury job report – 163,000 jobs created last month – economists and employers, as well as the unemployed, felt no sense of relief, or even hope, since the news gave only the slightest increase in jobs; one of the country's biggest woes, and the most significant plank in the upcoming platforms of the presidential candidates, Barack Obama and Mitt Romney.

The U.S. unemployment rate rose from 8.2 percent to the abysmal 8.3.

For the unemployed – all 12.8 million of them – jobless as of last month, the numbers reflected both their hope, and continued desperation.

The numbers, of course, don't reflect those that simply gave up, and stopped looking: 8.8 percent, according to the Department of Treasury.

Illinois' largest county, Cook, shows a 9.8 percent unemployment rate, an improvement from 11.3, a year ago, according to the Illinois Department of Employment Security, Economic Information and Analysis report.

Illinois has a total population of 12,814,300 people, and, statewide, the unemployment rate is 8.7 percent, versus 9.9 from last year, showing an improvement, but one that is still less than economists would want to see.

One significant area of progress, perhaps puzzling, considering these numbers is the uptick in Illinois home sales, with figures from May, according to data released by the Illinois Association of Realtors, showing "their best May performances since 2007 when 14,493 homes were sold in Illinois."

While this is encouraging news, many economic observers, and residents have wondered how this has happened, with unemployment being so low: was it blind faith in the housing market, savvy consumers, or simply deep pockets?

To help answer this question, we spoke with Jon Broadbooks, spokesperson for the IAR, who told us in an emailed statement:

> ***"The reasons are various, but chief among them would be the once-in-a-lifetime lows buyers are seeing with interest rates. Couple that with guarded optimism about the economy and houses that are still very much attractively priced and you have a recipe for getting buyers off the sidelines."***

Broadbooks assertions have been supported by the Case-Shiller reports who reported an overall jump in U.S. home prices, with the second month in gains, with a 4.5 percent increase in overall gains for single family home prices from March through May of this year, including a corresponding rise in condo prices of 4.7, the largest increase in al of the 20 metropolitan areas that Case-Shiller reported on.

While a year-over-year analysis have showed that new home prices have steadily declined, they have not risen over the pervious years since May 2007, returning instead to prices at the peak of the housing bubble.

The S&P/Case-Shiller indices are deigned to measure, changes "in the total value of all existing single-family housing stock," and 'are based on observed changes in home prices . . . measuring "increases or decreases in the market value of residential real estate," according to their report materials.

As the Chicago Tribune reported, "On an annualized basis, sales prices of homes in the Chicago area were down 6.9 percent," with 1 2.5 percent reduction in February; in addition to a 1.9 percent January decline.

Chicago joins Atlanta, Charlotte, N.C. Cleveland, Las Vegas, and New York, among others with post-bubble lows.

But, with the good-times about to roll, we were still hard-pressed to see why, after looking at the contrast between the dim news of unemployment, and the luster in the home real estate numbers; so we turned once again to Broadbooks who remarked:

> ***"For at least three years (and more in some areas) people held off on big purchases such as a home. Now that the economy is better, people are willing to take a shot at getting back in the market. After all, there are a lot of bargains out there as the median prices are still quite low as opposed to where they were five years ago."***

He also counted among the reasons for the declines, low interest rates, and he noted, especially, the "guarded optimism about the economy and houses that are still very much attractively priced, and you have a recipe for getting buyers off the sidelines."

But, one other conundrum despite the good news in the residential home reports is that apartment rentals are increasing, with many potential buyers still reluctant to take the plunge.

Add to that a lack of affordable apartments – with the definition of being no more than 30 percent of income, a special challenge for those that have been laid-off, or simply are low-income earners, then the challenge is even greater; especially since landlords have capitalized on the poor economy, and doubts about home ownership, by increasing the rent of their units.

As the Chicago Red Eye reported, the increase is as real as the economy is troubled; they noted:

"Net rent prices increased 14 percent from 2005 to 2010—the latest data available. Meanwhile, about 40 percent of Cook County residents are renters, according to a 2011 study released by the DePaul University Institute for Housing Studies. The percentage of people renting is the highest it's been in a decade, said the institute's executive director, Geoff Smith."

However, this is a nationwide trend, and one that goes beyond the fashionable and hip local neighborhoods such as Wicker Park, Lakeview, or Lincoln Park, and according to Reuters, "Renting an apartment in the U.S. became even more expensive during the second quarter, as vacancies set a new 10-year low and rents rose at a pace not seen since before the **financial (http://articles.chicagotribune.com/2012-07-04/business/chi-apartment-rents-rise-at-highest-rate-since-2007-20120704_1_apartment-rents-rise-effective-rent-ryan-severino)** crisis, according to real estate research firm Reis Inc."

The average vacancy rate is 4.7 percent across the country, even in areas such as Rhode Island and Tennessee, according to Reis.

Even with the confidence that Broadbooks noted, many of the young and the affluent, who can afford to buy, are not moving into the suburbs, and want to remain close to their jobs, places of entertainment, and their friends, thus helping to increase the demand – a landlord's dream.

But, even two years ago, landlords pushed through rent hikes of 7 percent; and combined with the slight bump in employment, many are still choosing to rent.

For those who are buying, the age range tends to be older, with most between 30 and 39 years old, according to **whyibuy.org (http://whyibuy.org/)** , a website sponsored by the IAR; and with most of them childless, and those that do have children, the average number is two.

Most, as to be expected, are married, and earnings are averaging $100,000 per year.

So, the “ying-yang” in real estate sales versus apartment rentals may continue, but the tug-of-war is still set against a still struggling economy, and a bleak jobs outlook.

And, for Illinois’ favorite son, Barack Obama, the stakes are high as he attempts to frame both the issue, and the answers, in November.

Darryl Grant, Chicago Political Buzz Examiner
Darryl Grant admits to being the son of an armchair politician. A new frontiersman, he believes in a pragmatic, yet classical idealism that allows for the betterment of both government and citizens. He cut his political teeth after ten years in Washington, DC, where he burnished his love of...