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Good news for housing market: Fewer foreclosures and short sales

By Dennis Rodkin June 14, 2018

Sales of foreclosures and short-sale homes have shrunk to a smaller piece of the Chicago-area real estate market than they've been at any time since the housing crisis began.

In April, 7.5 percent of all homes sold in the Chicago area were "lender-mediated," meaning they were foreclosures or short sales (where the lender cooperates with the homeowner on a sale at less than the amount owed on the mortgage). That's according to Midwest Real Estate Data statistics reported by the Chicago Association of Realtors in May.

The figure is lower than it's been in any month going back to at least January 2008, the earliest data available. That's when the real estate groups started breaking out distressed from conventional sales, reflecting the start of a big wave of distressed properties after the housing crash.

"It's a positive indicator of the ongoing recovery of the region's real estate market," said Geoff Smith, executive director of the Institute for Housing Studies at DePaul University. Foreclosures and short sales "were a really negative component of the housing market for several years, and the faster we can get them out of the system, the sooner we have a normal real estate market again."

This report is about the eventual sale of a foreclosure or short sale, the latter end of the distressed-property pipeline. Activity at the near end of the pipeline, a foreclosure action or homeowners seeking permission to sell short on their mortgage, has been in decline for a few years as well.

In the first few months of 2008, distressed sales were at 8 percent and higher, but later in the year spiked to more than 30 percent of all the region's home sales. The figure peaked in February 2012 at more than 55 percent: More than half of all home sales were distressed that month.

It wasn't until mid-2017 that distressed properties dropped below 10 percent of sales. For a few months in the summer of 2017, the figure dipped to 8.4 percent. April's 7.5 percent was the first time it got below 8 percent since the earliest data; in the summer months it should dip further, if past years' patterns hold. The share of distressed home sales rises in the winter, when investor buyers stay busy but buyers looking for their own next home don't, and falls in the summer as more homeowner buyers complete deals in advance of the next school year.

At their peak six years ago, distressed sales were "putting a lot of pressure on the prices of everybody else's home, because they were discounted so much that you had to justify asking more for yours," said Naomi Campbell, a Coldwell Banker agent based in Libertyville who specialized in foreclosure sales for a few years at the height of the wave.

Real estate agents and appraisers working up a report on comparable properties often had no choice but to include distressed properties, as they were so numerous.

Now, with foreclosure sales diminished to pre-wave levels, Campbell said, "if there is one, the (bank or the appraiser) will usually say you can leave it out of the comps, because they're so not as relevant as they used to be."

While that's true in middle- and upper-income areas that have benefited from the economic recovery, high rates of distress still plague some struggling South Side neighborhoods and suburbs. In Englewood, distressed properties were 25 of the past 12 months' 52 home sales, nearly half the total, according to the real estate groups' data. In Avalon Park, distressed homes were 40 of 140 sales—about 29 percent.

In better-recovered areas, the infrequent appearance of a foreclosure or short sale on the market, "there's a frenzy of interest from buyers who are looking for a bargain price," said Torrey Lewis, who sells foreclosures for

Friedman Brokerage.

A four-bedroom house on Ridge Road in Highland Park came on the market as a short sale in February at $550,000, after starting on the market in early 2016 with an asking price of $975,000. The house was under contract in five weeks, and the sale closed June 12 at the full $550,000 asking price—which is $200,000 less than the sellers paid for it 18 years ago.

Lewis listed a foreclosed condo on Glenwood Avenue in Edgewater for sale at $199,000 on March 8, received multiple offers and had it under contract to a buyer eight days later. The sale closed in April at $202,000. Alex Kruser, the Fulton Grace Realty agent who represented the buyer, said his client was looking for a low-priced property he could do some work on. The buyer was an owner-occupant homeowner, not an investor or flipper, he said.

After years of hearing of friends who bought foreclosures on the cheap and watching the same happen on flipper shows on television, Kruser said, "I get a lot of people asking about buying foreclosures, but I have to tell them there's no inventory anymore."

That's not to suggest that distressed properties' now-shrunken share of the real estate market will at some point drop to zero. "As long as there's divorce and death and people losing jobs, there'll be foreclosures," Campbell said.

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