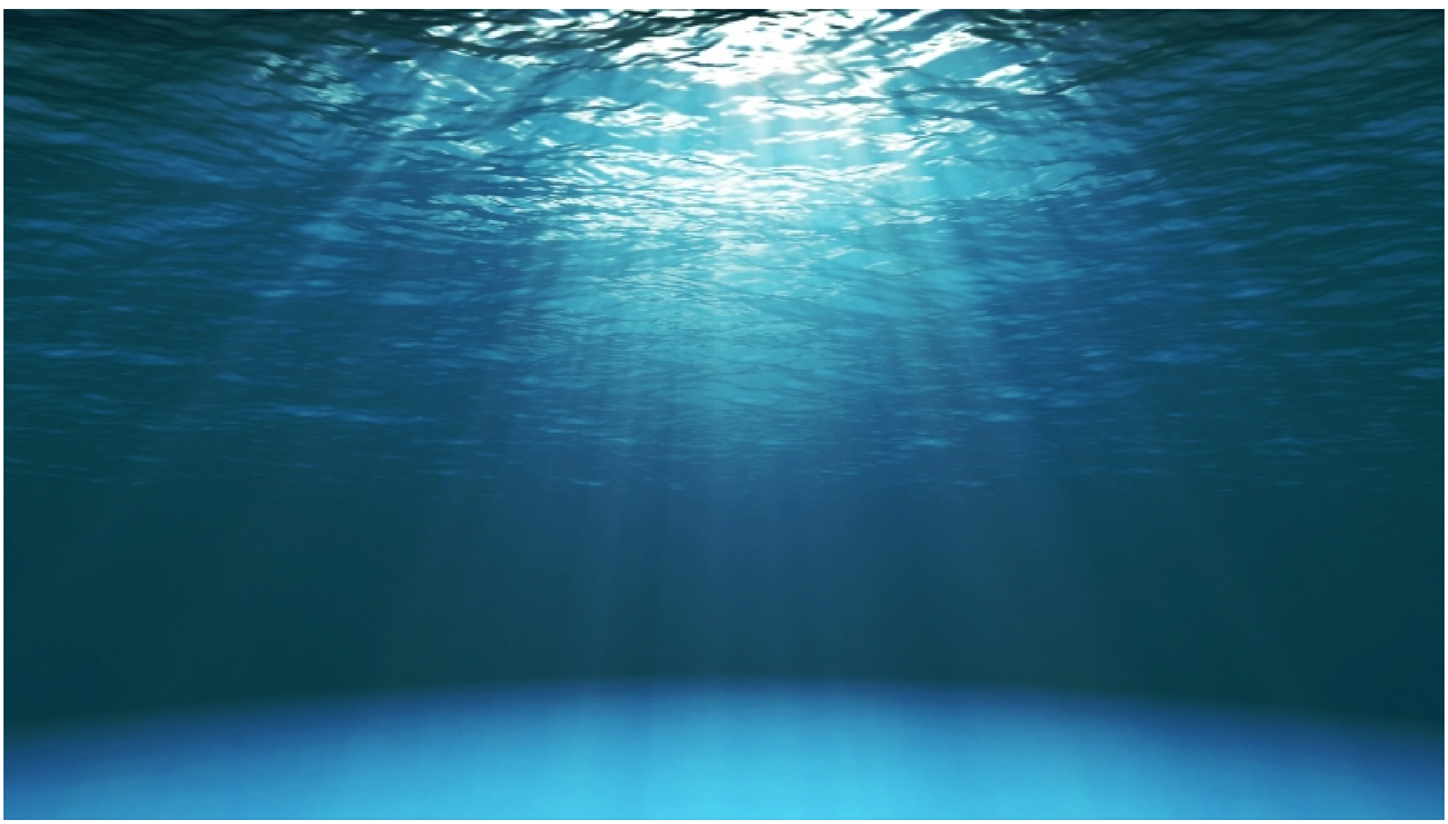
Home > Residential Real Estate

September 20, 2018 08:27 AM
UPDATED 6 HOURS AGO

Chicago's underwater mortgages more than twice the national rate

In six of the U.S.'s 10 largest metro areas, so few homeowners are underwater that those markets are "functioning normally." That's not yet true of Chicago.

DENNIS RODKIN



Getty Images

In the second quarter, 8.7 percent of Chicago-area homeowners with a mortgage owed more on it than their home was worth, according to the report released this morning by CoreLogic, a property information and analytics firm. Nationwide, 4.3 percent of homeowners were underwater.

Among the nation's 10 largest metropolitan areas, only Miami has a higher incidence of upside-down mortgages, 11.4 percent.

Yet in six of the 10 largest metro areas, the rate of underwater mortgages is below 2 percent, or less than one-quarter the size of Chicago's burden.

"They're back to functioning normally," said Frank Nothaft, CoreLogic's senior vice president and chief economist. Meanwhile, Chicago and Miami "are trying to turn around and get back to normal," he said.

The reasons for Chicago's slow process of resurfacing include slow growth in employment, particularly for African-Americans, loss of population, and a shift of homebuyers' attention from outlying suburbs toward the city and inner-ring suburbs, which has dampened the demand that might have pushed those suburbs' prices back up faster.

There remained about 116,900 Chicago-area households that were underwater six months into 2018, which, like the year-end figure for 2017, was more than there were in New York, Los Angeles and Boston combined.

"This is holding back Chicago from being a fully functioning real estate market," said Geoff Smith, executive director of the Institute for Housing Studies at DePaul University. "People who are underwater can't participate in the housing market, and that has a ripple effect," by reducing the number of homes that go up for sale as well as the number of buyers for them. There's also an unquantifiable drag on the optimism of homeowners whose ability to make the life changes that accompany a change of address is held back.

Smith and Nothaft said that at this late stage of the underwater-mortgage era, the effect is largely concentrated in slow-to-recover parts of the region—not just long-depressed lower-income neighborhoods in the city but outlying suburbs and even parts of the North Shore. "If you're in one of those affluent neighborhoods in Chicago," Nothaft said, few if any people are underwater anymore, "and you're benefiting from home price gains, even if they aren't as big as they are in cities out west."

The average Chicago-area homeowner's gain in home equity for the year was about $10,165, CoreLogic reported. That's second-lowest of a selected group of 10 very large metro areas (not the same as a list of the 10 largest). Only Houston's figure, $10,118, was smaller.

The average gain in super-expensive San Francisco was $145,070, more than 14 times the average in Chicago. Less than one-half of 1 percent of all mortgages in San Francisco were underwater in the second quarter of 2018.