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Chicago homes get less affordable for more people

By Dennis Rodkin

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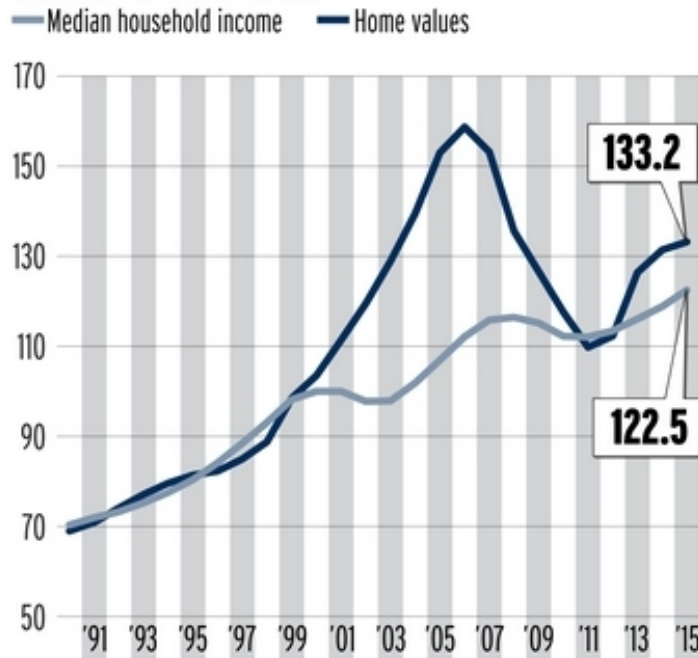
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AFFORDABILITY GAP

Although home prices have been recovering slowly in Chicago compared to other cities, they're rising faster than incomes. The spread between the two has erased the 2011-12 heyday of home affordability.

INCOME VS. HOME VALUE



Note: Incomes are indexed to the year 2000, but Case-Shiller's data are indexed to the month of January 2000, so the annual figure used here is not 100. The Case-Shiller data refer to single-family homes only. Neither figure is seasonally adjusted or adjusted for inflation.

Sources: Moody's Analytics, S&P/Case-Shiller Home Price Indices

Although home prices are rising slower in Chicago than in almost every other big city, there's at least one measure they're outpacing, and it's gloomy news for the region's homebuyers.

In the past three years, the region's home prices have grown faster than median household incomes, opening an affordability gap.

spent a few years far higher, during the boom—while the median household income for the Chicago area has risen 22.5 percent over the same period, to \$62,695.

So far in the 21st century, the heyday of affordability was 2011 and 2012, when home values and household incomes were in alignment for the first time since the 1990s, according to a Crain's analysis.

What at the time looked like a return to 1990s-style normalcy turned out to be an aberration.

"We have 10 to 15 years now where home prices have been out of whack with incomes," said Geoff Smith, executive director of the Institute for Housing Studies at DePaul University.

Interest rates that have stayed near historic lows for several years have softened the effect of slow income growth. Low borrowing costs mean buyers can afford more house than they could otherwise, all other factors being equal. But now, as the gap between incomes and prices widens, interest rates seem likely to start rising in the near future, raising borrowing costs and making homes less affordable.

Meanwhile, one group of buyers is benefiting from the gap, said Diane Swonk, an economist who heads Chicago firm DS Economics. Property flippers "are finding opportunity in the dilapidated inventory, the homes that people didn't keep up because they couldn't afford to, and turning them around at high prices," she said.

But for the family looking to buy a house for its own use, shrinking affordability will rapidly "price people out of the market," Swonk said, "like in San Francisco and other markets that we considered healthier than Chicago."

Nationwide, home prices have been speeding ahead of income growth since 2013, [Bloomberg reported last week](#). The national data include cities like Portland,

Seattle and Denver, where home prices have been rising at about 10 times the rate of Chicago's increases.

"Incomes can't keep up with that," Swonk said.

In Chicago, the widening gap in affordability is another sign that this housing market can't catch a break.

Last week, the S&P/Case-Shiller Home Price Indices reported that Chicago's single-family home prices **grew by 1.9 percent in March** from the year before, lagging behind 18 major cities and ahead of only one, Washington, D.C.

Following that came yesterday's news that among the nation's 35 biggest metro areas, Chicago **now has the highest proportion of homeowners who owe more on their mortgage than their home is worth.** In the first quarter of the year, Chicago took that spot from Las Vegas, which had held it for four and a half years.

The increase in Chicago home values is a broad measure of price growth across the entire metropolitan area. Recovery has varied widely within the region. **A handful of hot areas on or near the city's lakefront are booming,** but home values in about nine-tenths of the Chicago area's ZIP codes are in the doldrums.

For buyers looking in the slower-moving neighborhoods and suburbs, Smith said, affordability is still good. "When you're making a decision to buy a house, it's very local," he said.

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Gary Lucido · 11 hours ago

This is the problem with averages. Homes are always affordable otherwise people couldn't buy them. It's just that the distribution of home prices is out of synch with the distribution of incomes but for each price point there are plenty of people who can afford them.

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chris · 16 hours ago

Sounds like more of an issue with stagnant incomes than home prices.

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