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Real estate on brink: reviving the faith

By Andrew Schroedter · October 26, 2009

Susan Osada often wonders what she'd do if she had to sell her condo, part of the 154-unit Buffalo Grove Condominiums complex in the northwest suburb, anytime soon.
Less than a year after she paid $141,500 for her two-bedroom unit, one of only eight people who bought a condo in the converted apartment building, Harris Bank filed a foreclosure lawsuit against the developer. The property, at 70 S. Buffalo Grove Road, is now in receivership.

"Who knows if I would even get what I paid for it?" says Ms. Osada, 55, who closed on her unit in October 2008.

Stories such as Ms. Osada's are a common hangover symptom from the heady days of Chicago's real estate boom, when even those who waited out the worst of the excess ended up burned. Now, with the area's housing market finally showing signs of improvement, the question is what, if anything, developers and real estate agents can do to win back the trust of the newly sober public. If they fail, observers warn, the nascent recovery may lose momentum.

The problem: Not everyone can agree on how to fix what's broken. And some are still debating whether the market really has hit bottom.

There is good news. Now that financing for new housing developments is neither cheap nor easy to obtain, many of the inexperienced or unscrupulous developers who have left new-home buyers stranded in half-completed subdivisions and condos have been weeded out. Another factor: the $8,000 tax credit for first-time home buyers. The National Assn. of Realtors says an extension of the federal credit could help fill empty homes and keep the recovery going.

But Chris Eigel, CEO of Chicago-based residential brokerage Prudential Rubloff, argues that the biggest unknown may still rest with the buyers themselves, who must adjust their mindset and abandon hope of timing the bottom.

"People can't just look at their houses as an investment — it's where you live," he says.

RECOVERY SIGNS

For the first time in more than three years, the area's home sales halted their free fall and posted modest year-over-year monthly increases in July and August. In the nine-county Chicago region, there were 7,009 homes sold in August, a 1.3% increase from August 2008. Sales in July rose 0.3% to 7,427, according to the Illinois Assn. of Realtors.

Credited for nudging sales higher was a combination of factors, including low mortgage interest rates, aggressive price cuts at many new condominium and townhouse projects and the federal tax credit. Nationally, as many as 1.2 million buyers have taken advantage of that tax break, according to data from the Realtors association. But the credit ends Nov. 30.

“If that tax credit expires, we’re going to see fewer sales,” says Michael Onorato, president of the association.

To be sure, the credit’s sunset is a big hurdle in the market’s path to recovery, but it is not the only one. Scads of homeowners want to move but can’t sell their homes because of competition from cheaper distressed or short-sale properties. Others are underwater, meaning they owe more on their mortgages than their homes are worth, or they’re hesitant to plunk down money on a new residence because their net worth has tanked, or they’re fearful of losing their jobs.

Developer James Hanson says the economy has to get better before the market does.

“We’re looking for a recovery in confidence,” says Mr. Hanson, a principal at Chicago-based Mesa Development LLC. “We need people to feel good about their life and the economy and spending their money on real estate.”

Mr. Hanson is preaching patience, even though he has no plans to halt sales or cut prices at his 72-story Legacy at Millennium Park high-rise, near Monroe Street and Wabash Avenue.

About 90% of the tower’s 356 units are under contract, and the first wave of closings began in September. As that process continues, Mesa expects to lose a few sales to would-be buyers who fail to obtain financing amid tighter credit markets or who lose their jobs and find they can’t afford a new condo.

Still, he is optimistic that the housing market is slowly crawling out of its hole and expects to sell out the Legacy by next summer, an ambitious but achievable goal if the market keeps improving.

SEASONAL SLOWDOWN

The final months of the year are usually a slow time for real estate sales. That’s why the industry is holding its breath until first-quarter 2010, when observers will have a clearer idea whether the recent uptick was an anomaly or a small step in what’s expected to be a slow and winding recovery, says James Kinney, vice-president of luxury home sales at Chicago-based residential brokerage Baird & Warner Inc.

The recovery is threatening to leave behind the high end of the market, where the government stimulus has had little effect because buyers typically aren’t purchasing their first homes.

That’s one reason sales of new downtown homes — often more expensive than those in other neighborhoods — have shown scant improvement.

Even after a recent spike, downtown new-home sales this year will finish well below the 5,783 units sold in 2006 or the roughly 4,000 units in 2007, according to data from Chicago-based consulting firm Appraisal Research Counselors.

As a result, many downtown projects have cut their pricing, boosting sales.

The developer of the East Loop’s Metropolitan Tower credits discounts of at least 25% on selected units with boosting sales at the 30-story project. Buyers have now purchased about 80% of the 242 condos at the two-year-old development at 310 S. Michigan Ave., says Louis D’Angelo, president of Metropolitan Properties of Chicago LLC.

While Mr. D’Angelo is still trying to sell about a dozen discounted units, he may opt to take all of the tower’s unsold condos, even the discounted ones, off the market if the economy doesn’t improve.

“It’s not an easy decision to make,” he says. But by mothballing sales, “you’re betting on where the market will be in 12 to 18 months.”

AN UPSIDE

While buyers’ newfound circumspection might stall a recovery in the short term, it may turn out to be a positive trend in the long term. During the housing boom, many people were caught up in the frenzy and purchased without first reviewing developers’ track records. As a result, many buyers were burned.

Keith Forshaw estimates that he and other residents at his 23-unit Edgewater condominium complex, completed four years ago, have collectively paid about $165,000 for a new roof, sewer system and other improvements that the developer promised to complete but didn’t.

Mr. Forshaw’s development isn’t the only misfire from Chicago-based developer Venter & Associates Inc. Earlier this year, Libertyville Bank & Trust Co. repossessed a 64-unit apartment building at 4860 N. Rockwell Ave. that Venter also planned to convert to condos. Attempts to reach Ilie Venter, the company’s president, were unsuccessful.

Mr. Forshaw, 36, says he’s invested too much time and energy to go someplace else. But if he does ever decide to sell, he vows to do things differently.

“I would never move into a new place where I couldn’t talk to the people who lived there or find out the building’s issues,” says Mr. Forshaw, who paid $310,000 in March 2005 for a two-bedroom unit at 5059 N. Kenmore Ave.

“You’re making one of the largest purchases of your life, and there should be a lot more scrutiny.”