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Foreclosures hit suburban condo market

By Mary Ellen Podmolik, Tribune reporter

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Some of the most recent **Chicago**-area homes to enter foreclosure are hard to spot. There are no weedy front yards or plywood-covered windows.

That's because they are condos.

While single-family homes continue to represent the bulk of initial foreclosure filings in the Chicago area, the rate at which condominiums are entering the foreclosure process, particularly in parts of suburban Cook County, is startling, according to a study to be released Wednesday.

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Condo foreclosure filings within the city of Chicago rose 37.5 percent during the year's first half, but add in suburban condo foreclosures, particularly in northwestern Cook County, and regional condo foreclosures have swelled 53.8 percent compared with 2009's first half, the Woodstock Institute study found.

Lingering empty, foreclosed units within a condo development could jeopardize the stability of buildings, their homeowner associations and remaining residents, particularly in buildings where investors bought multiple units.

"A condo is isolated in a building, so the building is the neighborhood," said Geoff Smith, senior vice president of the Woodstock Institute, a Chicago-based research and advocacy group. "It challenges the economic viability of that building."

The problem appears to be most acute in northwestern Cook County, where 44.2 percent of the initial foreclosure filings made during the first half of the year were on condo units. In 2009's first half, condo foreclosures accounted for 39 percent of total foreclosure volume in that area.

Digging deeper into the numbers shows that of the 225 foreclosure filings in Wheeling during the year's first six months, 164 were on condo units. In Schaumburg, 176 of 322 new foreclosure actions involved condos. And in Palatine, 305 of the 432 overall filings, or 70 percent, involved condo units.

Officials in Palatine and other communities trace most of the increases to condo conversion projects caught in the housing market's bust.

"It's not the young couple being foreclosed upon. It was people buying four, five, six, seven units; who

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bought units right before the market tanked," said Palatine Village Manager Reid Ottesen.

Various mortgage-modification programs established by individual loan servicers and the federal government's Home Affordable Modification Program only apply to owner-occupied homes, not investment properties.

For individual owners living in the buildings, the fallout can be multifaceted.

Mallory Aiello's \$211,790 purchase of a two-bedroom, two-bathroom condo at the Woods of Countryside in October 2007 wasn't just an investment. It was her first home purchase. Earlier this year, a friend of Aiello's purchased a similar unsold unit at auction for less than \$100,000.

Aiello, 26, doesn't think much anymore about how upside down she is on her mortgage. Nor does she worry about the renters, as opposed to owners, who occupy the units near hers.

"A year ago we had some really bad renters," she said. "Police were around; we had some people evicted, but it's gotten better in the past year."

What has the schoolteacher vexed is a \$900 monthly increase in her mortgage payment to cover higher property taxes. In order for the condo conversion project to receive Palatine's approval, some 200 of the 700-plus units had to be kept as rentals, and Aiello knew she had to pay a special fee of no more than \$600 a year for 30 years. However, in November she was notified that since many units remained unsold, the annual fee would be \$2,200, ending her original plans for the extra money she makes tutoring and as a waitress.

"It was in savings, and now it's spent. It's going into escrow," she said.

"A lot of the complexes already had tenants in them, so the investors simply thought they knew what their rental income would be and they knew what their mortgage payments would be, and at the end of their [ownership] they'd make some money," said Ron DeVries, a vice president at Appraisal Research Counselors in Chicago. "Obviously, none of that panned out."

Investor-owned condos within the city of Chicago are a problem, too, but because of higher prices it is less likely that investors purchased multiple units within a development.

If the outside common areas are maintained, the run-up in condo foreclosures isn't apparent to outsiders, including local government.

In Prospect Heights, village officials keep tabs on eight to 12 single-family homes in foreclosure at any one time, but most of their knowledge of multifamily units comes through real estate listings.

"As far as municipal intervention, it's good, because we don't get involved directly with multifamily foreclosures," said building and zoning director Steve Skiber.

According to the Woodstock Institute, 82 of the 97 foreclosures initiated in Prospect Heights in the year's first half were condo units.

Overall, the report shows that for the first half of the year, foreclosure proceedings were initiated against 39,212 homes in the six-county Chicago area, a 37.5 percent increase from 2009's first six months.

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