



**Cook County Assessor's Office**  
**First Quarter 2010 Residential Sales Analysis**

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### *Description of Data*

The Cook County Assessor's Office receives real estate transaction data from the Cook County Recorder of Deeds. The dataset used for this analysis consists of sales of single-family homes, townhouses, small two- to six-flat apartment buildings, and residential condominiums with valid and current parcel identification numbers. Extreme outliers were excluded based on the current practices of the Illinois Department of Revenue.<sup>1</sup>

### *Two Distinct Residential Markets in Cook County*

Research conducted by the Cook County Assessor's Office (CCAO) in 2009 showed that there are two distinct residential markets operating in the county – a market consisting of “pure market” sales and one of “foreclosure-related” sales. A pure market sale is a sale on a home that was not the subject of any foreclosure proceedings prior to the sale; such sales are treated as fair market transactions indicative of the local real estate market. A sale is considered foreclosure-related if it occurs after a foreclosure filing or a completed foreclosure; a foreclosure filing is the legal document initiating foreclosure proceedings, and a completed foreclosure is the repossession of a home by the lending institution or the sale of that home at a foreclosure auction. Statistical analyses conducted by the CCAO showed these two markets operate independently of one another, with the foreclosure-affected properties losing value to a much greater extent than normal homes.

Industry-wide assessing practices, as defined by the International Association of Assessing Officers (IAAO) require that only arm's-length transactions be used for valuing property – both buyer and seller must be willing participants and be under no undue financial or temporal duress, and arm's-length transactions cannot include related parties, financial institutions, or government entities. Foreclosure-related sales cannot generally be considered arm's-length transactions because they fail to meet all of these criteria, and are thus separated from pure market sales by the CCAO.<sup>2</sup> A sale following either type of foreclosure action involves either a homeowner who is assumed to be under financial duress (because their mortgage is in default) or a financial or government institution that has taken title to a home after a completed foreclosure. There are various other reasons that foreclosure-related sales are distinct from pure market sales, which are outlined in the Appendix.

### *Sales Volume*

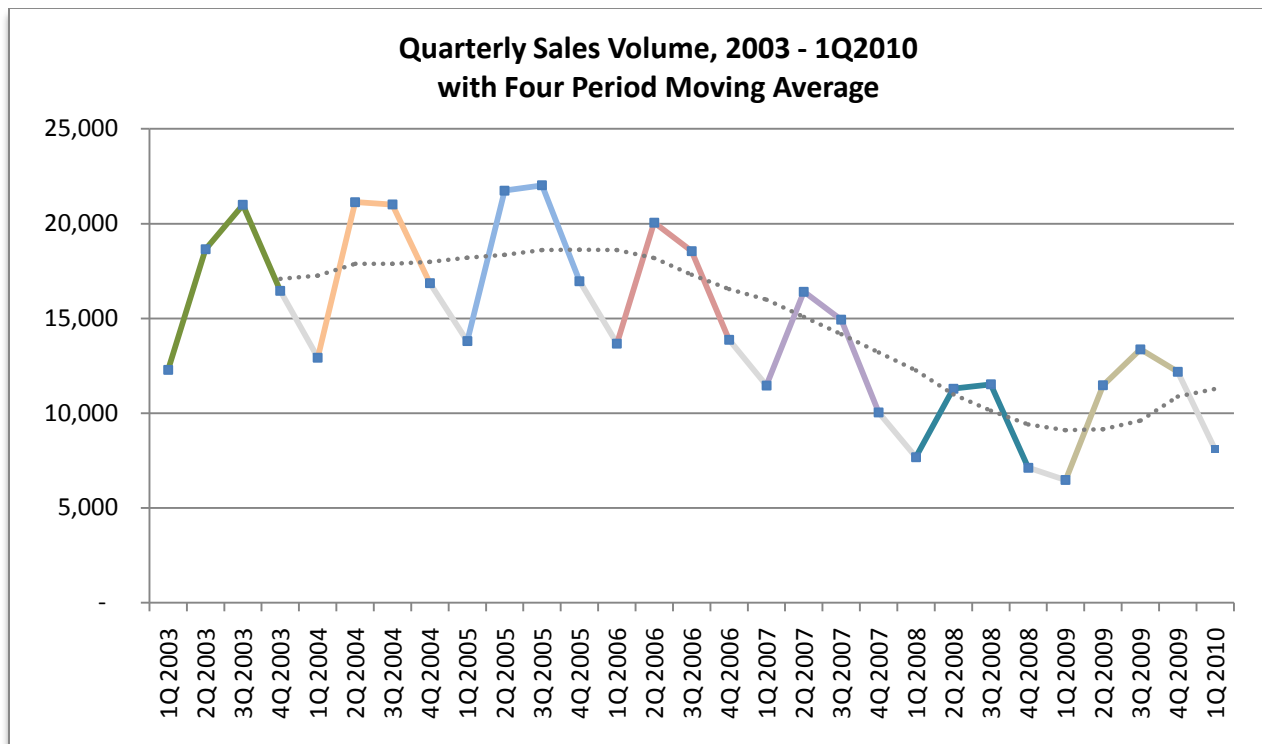
The total volume of residential sales in Cook County in the first quarter of 2010 increased by twenty-five percent over the first quarter of 2009, and by five percent from the first quarter of 2008. Due to

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<sup>1</sup> Outliers and extreme outliers are usually identified by calculating  $1.5 \times \text{IQR}$  or  $3 \times \text{IQR}$ , respectively; we used  $6 \times \text{IQR}$ , per the sale trimming methodology of the Illinois Department of Revenue.

<sup>2</sup> While the IAAO does allow for foreclosure-related sales that “represent typical stimuli” to be “evaluated as potential market value indicators,” in Cook County we continue to see two distinct markets; foreclosure-related sales are selling at marked discounts. The IAAO suggests individual verification and then adjustment of foreclosure-related sales; staff and budget limitations preclude the CCAO from individually verifying thousands of foreclosure-related sales. See: *A guide to foreclosure-related sales and verification procedures*, (2009). IAAO Research Committee. *Journal of Property Tax Assessment & Administration*, 6(4), p. 37-56.

seasonal variation in the housing market, first quarter sales volume is generally the lowest of the year (with the recent exceptions of 2007 and 2008, when fourth quarter volume was the lowest). Since sales volumes generally fall from the fourth quarter to the first quarter, comparing those changes historically can shed light on the current market in Cook County. Residential sales decreased by a third from the fourth quarter of 2009 to the first quarter of 2010, compared to a median decrease of less than twenty percent for the past six years. One reason that sales appear to have fallen off so significantly from the fourth quarter is that third and fourth quarters of 2009 had uncommonly high numbers of sales – in general, sales fall off quite dramatically in the fourth quarter, but in 2009 fourth quarter sales fell only nine percent from the third quarter, buoyed by the first-time homebuyer and long-time resident federal tax credits.

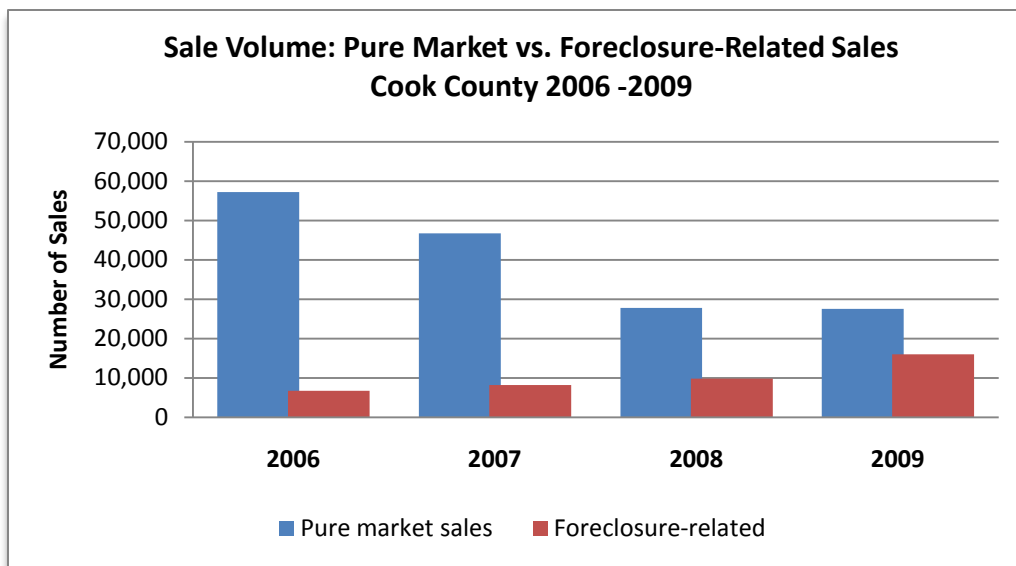


The chart above shows the quarterly sales volume in Cook County from 2003 through the first quarter of 2010.<sup>3</sup> The trend line is a four quarter moving average, which smoothes the quarterly changes to show the market trends. The moving average is a lagging average, based on the four previous quarters of sales, so rapid changes in the market are not immediately apparent, but overall trends can be determined despite wide quarterly variation. As can be seen, quarterly sales volume has been trending upward over the past year – but is still significantly lower than before the real estate market crashed. Despite the promise of increasing sales volume, this overall glimpse of the market is somewhat misleading; many sales in recent years have been foreclosure-related and so are not valid indicators of

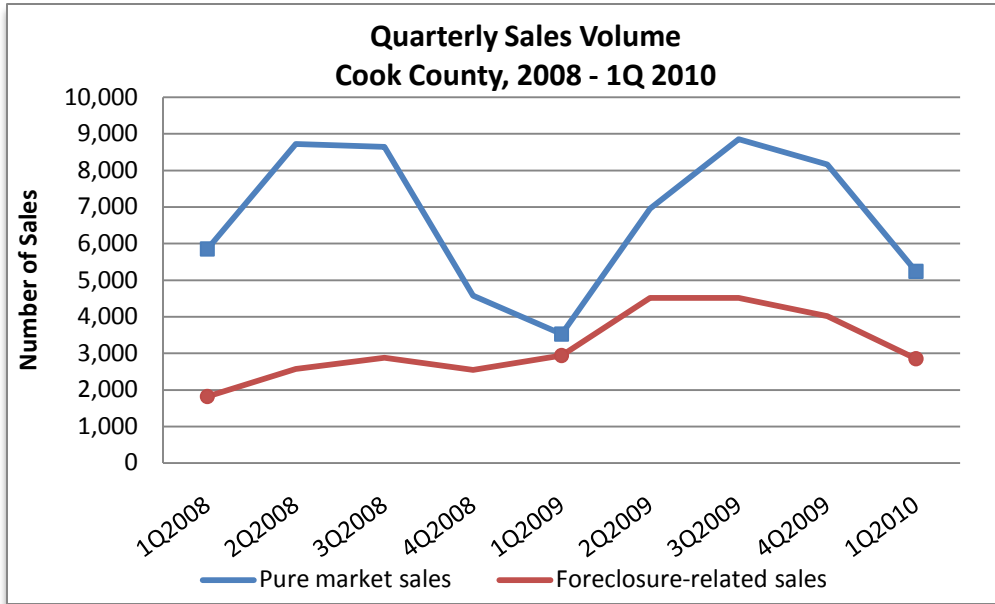
<sup>3</sup> Data in this chart for 2003 to 2007 from Illinois Association of Realtors, <http://www.illinoisrealtor.org/iar/marketstats/marketarchives.htm>, retrieved 6/15/10.

the true housing market. As will be seen in the following analysis, the number of pure market sales has been much lower than the total sales volume shown in the chart above.

The chart below shows the relative changes in sales volume between pure market sales and foreclosure-related sales from 2006 to 2009. While the total sales volume in 2009 was 15.6% higher than that in 2008, the number of pure market sales remained virtually unchanged, decreasing by one percent; the number of foreclosure-related sales increased by 62.9% over the same period. While the market may appear to be mending when overall statistics are viewed, disaggregating the two types of sales shows that the volume of distressed sales is increasing while the number of pure market sales actually fell to a new low in 2009.

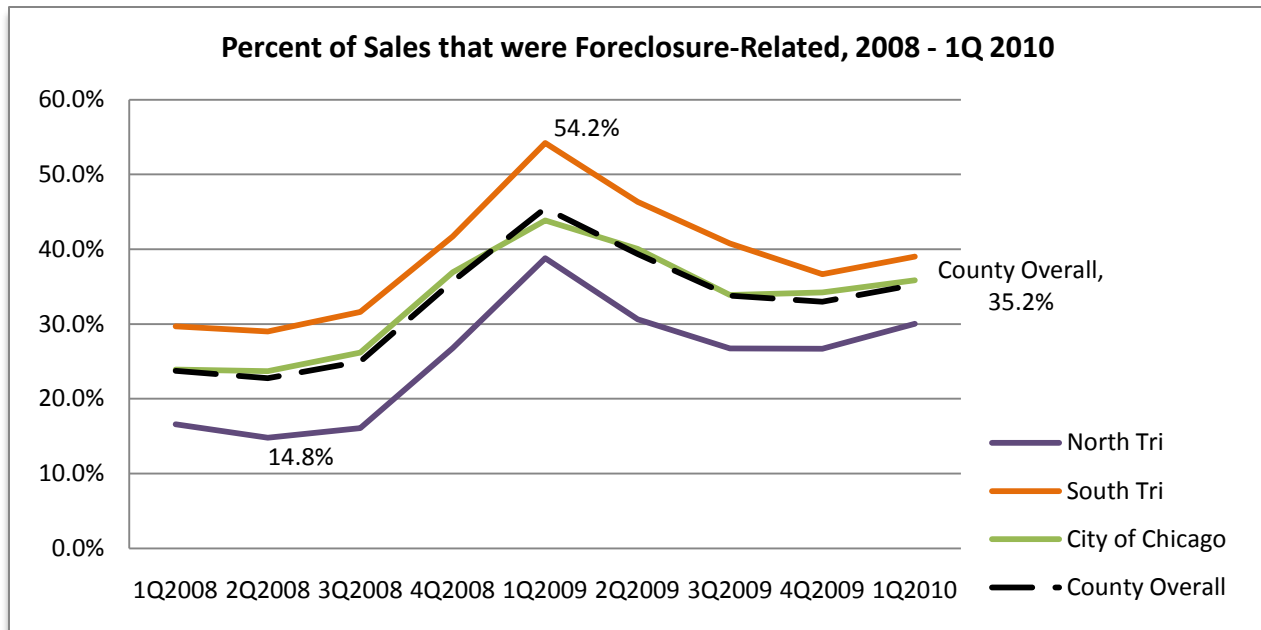


Moving forward to the first quarter of 2010, pure market sales increased an impressive fifty percent over the first quarter of 2009, but are still down 10.5% from the first quarter of 2008. Pure market sales have followed the same basic pattern as total sales, with increases in volume for the third and fourth quarters of 2009 and the first quarter of 2010 over each period a year earlier, as can be seen in the chart on the next page. What proportion of those increases in volume is attributable to the first-time homebuyer credit will become apparent by late 2010 when all sales driven by the credit have closed. Foreclosure-related sales have generally continued to trend upward in recent years, though there were 3.1% fewer foreclosure-related sales in the first quarter of 2010 than in the first quarter of 2009. Additional first quarter sales will be recorded, so revised numbers in the second quarter report may show a continued year-over-year increase in foreclosure-related sales during the first quarter.



#### *Proportion of Sales that were Foreclosure-Related*

Countywide, just over one third of the sales in the first quarter of 2010 were foreclosure-related; the percentage fell slightly to 35.2% from 36.8% in 2009. As with sales volume and the incidence of foreclosures, the proportion of sales that are foreclosure-related varies widely by township and triennial district. The chart below shows the percent of total sales that were foreclosure-related by triennial district (“Tri”) over the past two years. The proportion of foreclosure-related sales has been the highest in the South Tri, which includes the south and west suburbs, peaking at 54.2% in the first quarter of 2009 before falling back to 39.0% in the first quarter of 2010. The proportion of sales that were



foreclosure-related in the City of Chicago has closely tracked the countywide rate, peaking at 43.9% in the first quarter of 2009 and then dropping to 35.8% one year later. With thirty percent of sales foreclosure-related in the first quarter of 2010, the North Tri, which covers the north and northwest suburbs, had the lowest percentage of sales affected by foreclosure in the county. While the North Tri had a significantly lower percentage of sales that were foreclosure-related in early 2008 – less than fifteen percent of sales were foreclosure-related compared to 30% in the South Tri – the gap between the North Tri and the other triennial districts has narrowed in recent quarters as foreclosures spread into formerly stable areas of the North Tri.

### *Change in Sale Prices*

The market value of residential property has fallen considerably across much of Cook County in recent years, as is evidenced by declining sale prices. But, as with sales volume, there are significant differences between the prices on pure market sales and foreclosure-related sales. In order to make meaningful comparisons of market changes in different geographies across the county and to account for the many types of properties included in residential sales (e.g., bungalows, six-flats, condominiums, and McMansions), sale prices must be standardized.

Here, sale prices are standardized against the 2009 Assessor Market Value and presented as a percentage of value. The 2009 Assessor Market Value indicates the value of the home as of January 1, 2009, and is based on sales from previous years, as required by statute. Thus 2009 and 2010 actual sales, when compared to 2009 Assessor Market Value will reflect recent changes in the market. Two examples in the box on the right illustrate the principle.

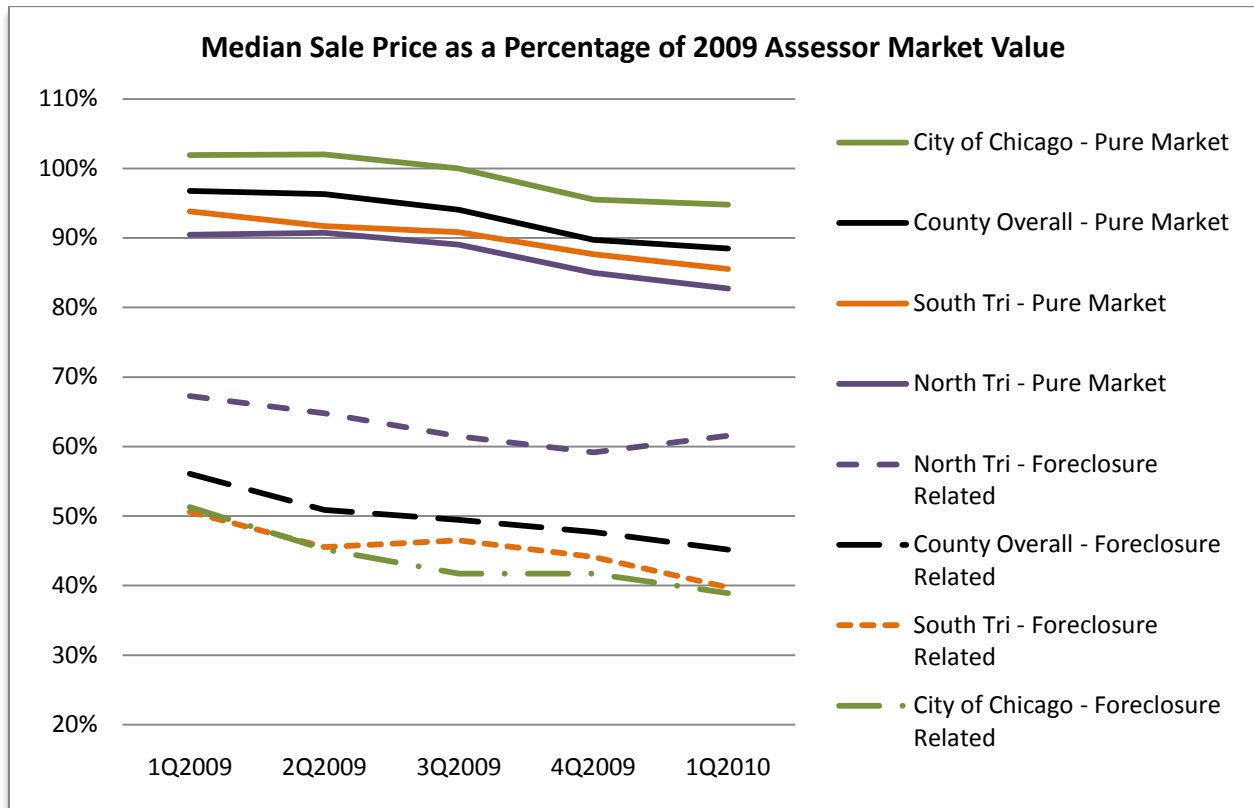
Countywide, after the 2009 City of Chicago reassessment and suburban downward adjustments, which were based on 2008 and earlier sales, the median 2009 pure market sale occurred at close to 95% of 2009 Assessor Market Value. This indicates that, at the median, pure market sale prices declined only modestly during 2009, though the countywide median hides wide variation among the triennial districts and among townships. The median 2009 percentage of value was 88.5% in the North Tri, 90.2% in the South Tri, and 100% in the City of Chicago.

In the first quarter of 2010, the median pure market sale was at less than 90% of 2009 Assessor Market Value countywide. The median percentage of value had fallen to 82.7% in the North Tri, 85.6% in the South Tri, and 94.8% in the City of Chicago, showing that pure market sales prices continued to decline in Cook County. The chart on the next page shows the quarterly changes in sale prices for each Tri and for the county overall.

#### **Sale Price as a Percentage of Value**

*Example 1:* A condominium with no recent foreclosure actions sells on January 22, 2009 for \$219,000. The 2009 Assessor Market Value of the home was \$225,000. This pure market sale occurred at 97.3% of value.

*Example 2:* A single-family home that was foreclosed upon in early 2009 was sold by the bank on November 12, 2009 for \$82,000. The 2009 Assessor Market Value of the home was \$180,000. This foreclosure-related sale occurred at 45.6% of value.



As can be seen in the chart above, foreclosure-affected homes sold at substantial discounts from 2009 market value, and from pure market sales in the same Tri. Foreclosure-related sales in 2009 sold, at the median, for only 50% of market value countywide. As with pure market sales, the percentage of value for foreclosure-affected sales varied widely by triennial district and township. The median foreclosure-related sale in the North Tri was at 63% of value, while the medians for the South Tri and the City of Chicago were near 45%. In Cicero Township, the median 2009 sale occurred at only 28.1% of market value, while median foreclosure-related sales in Lemont and North Chicago townships were at over 80% of value.

Foreclosure-related sales continued to decline relative to pure market sales during the first quarter of 2010, with the countywide median sale occurring at only 45% of 2009 Assessor Market Value. The median foreclosure-related sale in the North Tri was at just over 60% of value, while the median sales in the South Tri and the City of Chicago fell to under 40% of value, down significantly from the 2009 medians. The discounts on foreclosure-affected properties in some townships can only be described as extreme: in Hyde Park Township in the City of Chicago, foreclosed homes and condominiums sold, at the median, for just over 25% of 2009 Assessor Market Value. Median foreclosure-related sales in six other townships in the City of Chicago and South Tri occurred at or under one third of market value.

These basic numbers show the extent to which pure market and foreclosure-related sales differ. While some have speculated that foreclosure-related sales will set the tone for the entire residential market, that has not been the case thus far in Cook County. Pure market sales prices have declined, and

declined substantially in some areas of the county, but homes that have not been directly affected by foreclosure have not generally sold at similar discounts to foreclosure-affected homes. Nearby foreclosures influence pure market sale prices, but a home unaffected by foreclosure will not sell at the same level as the foreclosed home on the end of the block, all else being equal. The foreclosure-related sale discount can be attributed to a number of factors, including the condition of the home, which may have been vacant for months or even years before being sold, the stigma of foreclosure, and the desire of banks to remove foreclosed properties from their books or to avoid foreclosing on additional homes by approving short sales.

In summary, while the number of pure market sales in Cook County increased in the first quarter of 2010 from the first quarter 2009, that increase may not indicate an improving residential market. The number of pure market sales in the first quarter of 2009 was the lowest in recent history, so any improvement over that level means only that the sales volumes have possibly bottomed out. What proportion of the recent increase in volume is due to homebuyers rushing to take advantage of the first-time homebuyer's credit is unknown at this time. What is known is that the other metrics indicate continued stress on the residential market in Cook County. The percentage of sales that were foreclosure-affected in the first quarter of 2010 rose after declining for much of 2009. The discount on foreclosure-related sales also continued to increase in the first quarter of 2010, with the median sale occurring at only 45% of 2009 Assessor Market Value. Pure market sale prices continued to slide, falling to less than ninety percent of 2009 value.

**APPENDIX**

Pure Market Sale (Arm's-Length Transaction)	Foreclosure-Related Sale	
	Short Sales & Post-Filing Sale	Post-Foreclosure Sale (REO Sale)
<p><i>Characteristics of Transaction</i></p> <ul style="list-style-type: none"> <li>▪ Arm's-length transaction:               <ul style="list-style-type: none"> <li>- Buyer and seller are unrelated and knowledgeable about market</li> <li>- Sale price is market-driven, with similar properties going for comparable prices</li> <li>- Seller is under no duress, so may wait for desired offer before selling</li> <li>- Financing of transaction is typical</li> </ul> </li> </ul>	<p><i>Characteristics of Transaction</i></p> <ul style="list-style-type: none"> <li>▪ Foreclosure has been filed on property</li> <li>▪ Seller under financial and temporal duress, attempting to sell property before foreclosure is completed</li> <li>▪ In short sale, lender agrees to accept payment of less than balance of mortgage</li> <li>▪ May be sold by owner (indication of duress)</li> </ul>	<p><i>Characteristics of Transaction</i></p> <ul style="list-style-type: none"> <li>▪ Property has been foreclosed on, repossessed, and is being sold by the lending institution</li> <li>▪ Financial institution often desires to get property off balance sheet, so will accept a much lower sale price than would otherwise be required</li> <li>▪ Buyers may be speculators or investors rather than potential residents</li> <li>▪ Buyers must pay in cash at foreclosure auction (sheriff's sale)</li> </ul>
<p><i>Property Characteristics</i></p> <ul style="list-style-type: none"> <li>▪ Property is being sold under owner's own volition, so "sale ready"</li> <li>▪ Generally owner-occupied</li> </ul>	<p><i>Property Characteristics</i></p> <ul style="list-style-type: none"> <li>▪ Sale occurring under time constraints, so property may be distressed and/or sold "as is"</li> <li>▪ Homeowner in foreclosure and under financial duress, so has likely postponed regular and necessary maintenance</li> <li>▪ Probably owner-occupied</li> </ul>	<p><i>Property Characteristics</i></p> <ul style="list-style-type: none"> <li>▪ Property generally unoccupied, and may have been vacant for months or even years</li> <li>▪ Property may have boarded windows and doors</li> <li>▪ Property could be stripped of hardware, plumbing and wiring, and may have been vandalized<sup>4</sup></li> <li>▪ Property sold "as is"</li> </ul>

<sup>4</sup> The condition of foreclosed properties and their effects on neighborhoods has prompted local governments to require that all bank-owned properties be registered, secured, and maintained to prevent neighborhood blight. See [http://mayor.cityofchicago.org/mayor/en/press\\_room/press\\_releases/2010/may\\_2010/0518\\_vacant\\_property.html](http://mayor.cityofchicago.org/mayor/en/press_room/press_releases/2010/may_2010/0518_vacant_property.html), retrieved 7/8/10. Case studies from various cities around the nation report that vandalism and stripping of valuable items occurs within weeks of property becoming vacant. "Post-foreclosure community stabilization strategies: Case studies and early lessons 2008", NeighborWorks America. [http://www.nhi.org/pdf/Community\\_Stabilization\\_Case\\_Studies\\_Report\\_NWA2008\\_0.pdf](http://www.nhi.org/pdf/Community_Stabilization_Case_Studies_Report_NWA2008_0.pdf)