

## Upon Closer Inspection Specs Kept In Check Locally

### *NO GLUT OF EXCESS NEW HOME INVENTORY IN CHICAGOLAND MARKET, SAY AREA EXPERTS*

CHICAGO - Mark Twain once famously said, "rumors of my demise have been greatly exaggerated." The same can be expressed of the Chicago housing market, according to local builders and industry experts. They're cautioning home shoppers to be wary of pessimistic national analysts and gloomy newspaper articles that would have you believe Chicagoland is suffering the same fate as other markets being weighed down by slow sales and excess new housing inventory.

In fact, the latter is one indicator that the greater Windy City is on better footing than many areas of the country when it comes to new home sales and general optimism among builders and buyers alike. Unlike the East and West Coasts and other markets oversaturated with new home inventory units (often called "spec" homes, which are unsold finished or soon-to-be-completed residences), Chicagoland isn't relatively overstocked and undersold, said Chris Huecksteadt, Director of the Chicago office of Metrostudy—a residential marketing research firm that tracks housing starts nationwide.

"In the greater Chicago market in 2006, there were 33,000 new home closings compared to 28,000 new home starts over the same period," Huecksteadt noted. "In fact, over the last six quarters, new home closings have outpaced new home starts, which indicates that unsold new home inventory locally is being kept in check."

As of last December—the last tally Metrostudy Chicago had conducted—approximately 5,200 unsold new homes existed in Chicago and its suburbs, which equates to a 2.1-month supply, said Huecksteadt.

"That's a very reasonable, manageable number when you put it into perspective," he added. "Typically, you don't get concerned until the supply exceeds three months or more. Consider that back in 2003 through 2005, when the local housing market was at its strongest, you usually had a 1.8- to 2-month supply of unsold inventory at any given time. And compare our current 2.2-month supply to a 4.5-month supply in a market like Minnesota's Twin Cities. That tells you that Chicago-area builders have their heads on straight. They're not overbuilding supply that exceeds the demand."

Huecksteadt said that it's unfortunate that many area newspapers and local broadcast media persist in reporting national numbers on building permits, housing starts, sales and inventories without going into greater detail about Chicago's unique stats.

"No doubt about it, this is a slower housing market right now both locally and nationally. However, our market often gets lumped into the nationwide statistics, which can offer a bleaker picture than what may be actually happening right here in our neck of the woods," he said. "For example, new Commerce Department data that was widely published in late March indicated that the inventory of unsold new homes nationwide was up to 8.1 months. By comparison, our 2.2-month supply looks mighty favorable."

A high backlog of inventory homes can create problems for any market, Huecksteadt said. It forces builders to slash prices—which, of course, is a boon to buyers—and cut back on future construction and development,

putting a strain on the local economy. Excessive unsold new homes can also dilute the existing homes-for-sale market, driving overall asking prices down even further.

“But Chicagoland is not as big of a spec home market as other metropolitan areas, and that’s one of our overall strengths” said Huecksteadt. “Most Chicago-area builders start selling units before construction begins, which can be a smarter business approach. While many of our single-family home builders may produce a handful of spec homes to cater to that small portion of the market that requires or prefers early delivery—such as job relocation shoppers—these builders aren’t putting all their eggs in the inventory home basket.” Curtis Perlman, vice-president of Empeco Custom Builders, a Vernon Hills-based luxury custom home builder, agrees.

“We’re an unusual market in that we’re fairly constant and steady in terms of production and meeting demand,” said Perlman, who has seen eight of nine inventory homes sold in the past 90 days at Prairie Trails of Long Grove, one of the communities where his firm is currently building. “I think part of our level-headedness can be attributed to a more sensible, down-to-earth Midwestern mentality. We don’t overextend our resources and rely so heavily on speculation buyers like Florida and California builders do.”

Perlman said that Chicago’s weather plays a part in this practical strategy, too.

“Sales and construction slow down during the colder winter months here, pure and simple,” he said. “And then there’s the natural slowdown during summer when people are out vacationing and getting away from the heat. But we’re prepared for that as an industry. Maybe that helps keep the urge to overbuild in check.”

The Chicago housing industry also benefits from a “diverse economic base that, historically, has kept us fairly well insulated against major fluctuations in any one business sector,” said Christopher Coleman, President of Dearborn/Buckingham Group, Inc.—a Northfield-headquartered builder that is currently offering townhomes at Buckingham Orchard in Lombard and Buckingham Pointe in Des Plaines. “Thanks to positive factors like good schools, great transportation and a strong work ethic, we’re a desirable metropolitan market that really appeals to buyers.”

Despite continued pessimism about housing sales and construction being reported in the media, Chicagoland builders and consumers alike “have a lot more confidence and optimism right now,” said Alan Lev, President of Belgravia Group, Ltd.—a homebuilding firm based in Chicago that is currently selling 241 entry-level condominiums at its 565 W. Quincy property in the city. “That’s because they realize that this is a terrific time to purchase a home. Interest rates remain near historical lows, unemployment is down, the overall economy is strong, and there are tremendous values to be found on new construction.”

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