

# Housing Price Forecasts

## Illinois and Chicago PMSA, February 2017

Presented To

**Illinois Realtors®**

From

R | E | A | L

Regional Economics Applications Laboratory,  
Institute of Government and Public Affairs  
University of Illinois

February 22, 2017

Contact: Geoffrey Hewings 217-333-4740 ([hewings@illinois.edu](mailto:hewings@illinois.edu))  
Jiyoung Chae 217-244-7226 ([jchae3@illinois.edu](mailto:jchae3@illinois.edu))

## **Housing Price Forecast: Illinois and Chicago PMSA, February 2017**

### **The Housing Market**

In January, both sales and median prices experienced positive growth on the annual basis while sales experienced monthly decreases. 8,502 houses were sold in Illinois, a decline of -27.8% from a month ago but an increase of 1.2% from a year ago. In the Chicago PMSA, 6,159 houses were sold, decreasing by -25.1% from a month ago and increasing by 0.6% from a year ago. The median price was \$172,000 in Illinois, up 5.5% from January last year; the comparable figure for the Chicago PMSA was \$210,000, up 10.5% from this time last year.

In January, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 14.5%. 5,134 regular sales were made, 2.3% more than last year. 994 foreclosed properties were sold, 6.0% less than last year. The median price was \$225,000 for regular property sales, 7.1% more than last year; the comparable figure for the foreclosed properties was \$137,000, up 7.7% from this time last year.

The median sales price in January 2008 has been adjusted to 2017 values to enable calculation of the housing price recovery taking into account the effects of inflation. In Illinois, the January 2008 median sales price was \$145,000 (in \$2008) and \$167,048 (in \$2017); the current price level was 103% of the 2008 level after adjusting (119% before adjusting). In the Chicago PMSA, the January 2008 median sales price is \$185,000 (in \$2008) and \$213,130 (in \$2017); the comparable figure for price recovery in January 2017 is 99% after adjustment (114% before adjusting). Using the average annual growth rates of prices in the past months, Illinois has already recovered to the pre-bubble level and the Chicago PMSA is very close to recovery.

The sales forecast for February, March and April 2017 suggests increases both on a yearly basis and a monthly basis. Annually for Illinois, the three-month average forecasts point to an increase in the range 2.7% to 3.7%; the comparative figures for the Chicago PMSA are an increase in the range 1.5% to 2.1%. On a monthly basis, the three-month average sales are forecast to increase in the range 17.8%-24.1% for Illinois and increase by 17.2%-23.2% for the Chicago PMSA.

The pending home sales index<sup>1</sup> is a leading indicator based on contract signings. This January, the number of homes put under contract was greater than last year. The pending home sales index is 132.8 (2008=100) in Illinois, up 15.1% from a year ago. In the Chicago PMSA, the comparable figure is 158.7, up 21.3% from a year ago. At the latest average annual pending sales rate, Illinois had enough housing inventory for 3.6 months<sup>2</sup> (down from 4.5 months a year ago). In the Chicago PMSA, the comparable figure was 2.6 months (down from 3.4 months a year ago). Months of supply for homes in all price ranges experienced declines both in Illinois and the Chicago PMSA, and homes in the low to moderate price ranges (<500K) experienced the largest changes.

---

<sup>1</sup> The base level (100) of pending home sales is the average pending home sales of year 2008.

<sup>2</sup> Months' supply of inventory is defined as inventory of homes for sale at the end of the month divided by the average monthly pending sales in the last twelve months.

The median price forecast indicates moderate annual growth in both Illinois and the Chicago PMSA for February, March and April. In Illinois, the median price is forecast to rise by 5.5% in February, 6.3% in March and 2.7% in April. For the Chicago PMSA, the comparable figures are 10.5% in February, 10.6% in March and 5.9% in April. As a complement to the median housing price index (HPI), the REAL HPI<sup>3</sup> forecasts a stronger growth trend for both Illinois and the Chicago PMSA. In Illinois, the REAL HPI (Jan 2008=1) is forecast to rise by 11.6% in February, 9.3% in March and 9.1% in April. The comparable figures for the Chicago PMSA are 10.8% in February, 8.3% in March and 7.6% in April. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month.

In January, the Conference Board Consumer Confidence Index decreased while the University of Michigan Consumer Sentiment Index increased and reached an historic high. According to the Conference Board Consumer Confidence Index, their survey revealed that the decline in confidence was driven by a less optimistic outlook for business conditions, jobs, and especially consumers’ income prospects. On the other hand, the survey from the University of Michigan revealed that the post-election surge in confidence was driven by a more optimistic outlook for the economy and job growth during the year ahead as well as more favorable economic prospects over the next five years. A more housing specific sentiment index, the Fannie Mae Home Purchase Sentiment Index (HPSI), also pointed in a positive direction. This is likely due to the expectation of increasing home prices and the higher current household income compared to a year ago.

### **The Housing Market – Current Condition**

- In January, both sales and median prices experienced positive growth on the annual basis while sales experienced monthly decreases. 8,502 houses were sold in Illinois, a decline of -27.8% from a month ago and an increase of 1.2% from a year ago. In the Chicago PMSA, 6,159 houses were sold, decreasing by -25.1% from a month ago and increasing by 0.6% from a year ago. The median price was \$172,000 in Illinois, up 5.5% from January last year; the comparable figure for the Chicago PMSA was \$210,000, up 10.5% from this time last year. (Reference: Illinois and Chicago PMSA Total Home Sales and Median Home Sales Price figures; Forecast for February 2017 report table)
- In January, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 14.5%. 5,134 regular sales were made, 2.3% more than last year. 994 foreclosed properties were sold, 6.0% less than last year. The median price was \$225,000 for regular property sales, 7.1% more than last year; the comparable figure for the foreclosed properties was \$137,000, up 7.7% from this time last year. (Reference: Ratio of Foreclosed Sales over Total Sales, Sales & Median Prices: Foreclosed vs. Regular figures)
- In January, at the latest average annual pending sales rate, Illinois had enough housing inventory for 3.6 months<sup>4</sup> (down from 4.5 months a year ago). In the Chicago PMSA, the comparable figure was 2.6 months (down from 3.4 months a year ago). Months of supply for homes in all price ranges experienced declines both in Illinois and the Chicago PMSA,

---

<sup>3</sup> REAL HPI was developed by Esteban Lopez and Minshu Du. Contact us for further details.

<sup>4</sup> Months’ supply of inventory is defined as inventory of homes for sale at the end of the month divided by the average monthly pending sales in the last twelve months.

and homes in the low to moderate price ranges (<500K) experienced the largest changes. (Reference: Illinois and Chicago PMSA Annual Months' Supply by Price Range figures)

- In January, the market shares of homes priced at the low end (<\$100K) experienced the largest change compared to a year ago. In Illinois, the market share for homes less than \$100K decreased to 23.1% from 25.7% a year ago; the comparative figure for the Chicago PMSA showed a decrease to 13.8% from 17.4% a year ago. (Reference: Illinois and Chicago PMSA Price Stratification figures)

### **The Housing Market – Forecast and Future Condition**

- The median price forecast indicates moderate annual growth in both Illinois and the Chicago PMSA for February, March and April. In Illinois, the median price is forecast to rise by 5.5% in February, 6.3% in March and 2.7% in April. For the Chicago PMSA, the comparable figures are 10.5% in February, 10.6% in March and 5.9% in April. (Reference: Forecast for February 2017 report table)
- As a complement to the median housing price index (HPI), the REAL HPI<sup>5</sup> forecasts a stronger growth trend for both Illinois and the Chicago PMSA. In Illinois, the REAL HPI (Jan 2008=1) is forecast to rise by 11.6% in February, 9.3% in March and 9.1% in April. The comparable figures for the Chicago PMSA are 10.8% in February, 8.3% in March and 7.6% in April. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month. (Reference: Housing Price Index)
- The sales forecast for February, March and April 2017 suggests increases both on a yearly basis and a monthly basis. Annually for Illinois, the three-month average forecasts point to an increase in the range 2.7% to 3.7%; the comparative figures for the Chicago PMSA are an increase in the range 1.5% to 2.1%. On a monthly basis, the three-month average sales are forecast to increase in the range 17.8%-24.1% for Illinois and increase by 17.2%-23.2% for the Chicago PMSA. (Reference: Forecast for February 2017 report table)
- The pending home sales index<sup>6</sup> is a leading indicator based on contract signings. This January, the number of homes put under contract was greater than last year. The pending home sales index is 132.8 (2008=100) in Illinois, up 15.1% from a year ago. In the Chicago PMSA, the comparable figure is 158.7, up 21.3% from a year ago. (Reference: Illinois and Chicago PMSA Pending Home Sales Index figure)
- In January 2017, 1,807 houses were newly filed for foreclosure in the Chicago PMSA (up 6.1% and up 0.1% respectively from a year and a month ago). 1,730 foreclosures were completed<sup>7</sup> (down 1.0% and up 30.5% respectively from a year and a month ago). As of January 2017, there are 26,781 homes at some stage of foreclosure — the foreclosure inventory. The monthly average net flows of foreclosures (foreclosure inflows - outflows) were 288 in the past 6 months, 243 in the last 12 months and 139 in the last 24 months. (Reference: Chicago PMSA Foreclosure Inflows and Outflows, and Inventory figures).

---

<sup>5</sup> REAL HPI was developed by Esteban Lopez and Minshu Du. Contact us for further details.

<sup>6</sup> The base level (100) of pending home sales is the average pending home sales of year 2008.

<sup>7</sup> Including cancelled foreclosures and auctions

## The Economy

- In January 2017, according to the Bureau of Labor Statistics (BLS) Employment Situation report, the national unemployment rate edged up to 4.8% and nonfarm payroll jobs experienced a gain of 227,000 jobs. The employment gains in January were spearheaded by retail trade (46,000), followed by construction (36,000), and financial activities (32,000).
- In November 2016, according to the Illinois Department of Employment Security (IDES) news release, the Illinois unemployment rate remained unchanged at 5.6% and down 0.4% from a year ago. The state added 1,700 non-farm payroll jobs. The largest gains are in three sectors, education and health services (3,500), leisure and hospitality (3,100) and other services (1,800). Furthermore, the job growth in October was revised from 2,200 jobs to 3,400 jobs. (not updated)
- In December 2016, the one-year-ahead forecast for Illinois indicates that the non-farm employment will decrease at a rate between 0.15% and 0.58%, corresponding to job losses between 9,200 and 34,800. Only two out of ten sectors are forecast with positive job growth: education and health (1.46%; 13,300), and leisure and hospitality (0.91%; 5,400).

## Longer-term Outlook

- In January, one consumer sentiment index declined while the other increased. The Conference Board Consumer Confidence Index decreased to 111.8 from 113.3 last month. Their survey revealed that the decline in confidence was driven solely by a less optimistic outlook for business conditions, jobs, and especially consumers' income prospects. The University of Michigan Consumer Sentiment Index increased to 98.5 from 98.2 last month, reaching the historic high since February 2004; according to their survey, the post-election surge in confidence was driven by a more optimistic outlook for the economy and job growth during the year ahead as well as more favorable economic prospects over the next five years.
- In January, Fannie Mae Home Purchase Sentiment Index (HPSI) increased for the fifth month, to 82.7 from 80.7 last month. This upward optimism was mainly driven by the expectation of increasing home prices and the higher current household income compared to a year ago. This index uses information from their National Housing Survey collecting consumers' feeling and opinions on home purchasing, directions and conditions of the housing market, finance conditions and the job market.
- The Chicago Business Activity Index (CBAI) increased to 96.9 in December from 96.0 in November. The rise is attributed mainly to an increase in nationwide economic activities measured by the Chicago Fed National Activity Index (CFNAI).

“Illinois median prices have already recovered to their pre-bubble levels while those in the Chicago PMSA are very close,” noted Geoffrey J.D. Hewings, Director of the Regional Economics Applications Laboratory. “Forecasts for median prices and the REAL Housing Price Indices (REAL HPI) also indicate moderate annual growth for both Illinois and the Chicago PMSA with a slightly stronger growth forecast by the REAL HPI for the next three months.”

**Forecast for February 2017 report**

PERCENTAGE CHANGE FOR THE TOTAL NUMBER OF SALES					
	Annual			Monthly	
	Illinois	Chicago PMSA		Illinois	Chicago PMSA
Nov-16	16.8%	18.1%		-9.5%	-8.1%
Dec-16	-1.6%	-2.5%		2.0%	-0.2%
Jan-17	1.2%	0.6%		-27.8%	-25.1%
3 Month Avg.	5.2%	5.0%		-11.8%	-11.0%
SUMMARY OF THE FORECAST INTERVALS FOR THE TOTAL NUMBER OF SALES					
	Annual			Monthly	
	Illinois	Chicago PMSA		Illinois	Chicago PMSA
Feb-17	3.8% 5.1%	1.5% 2.1%		5.9% 8.0%	2.3% 3.1%
Mar-17	2.7% 3.6%	2.7% 3.7%		31.8% 43.0%	33.5% 45.3%
Apr-17	2.1% 2.8%	0.5% 0.7%		15.6% 21.2%	15.8% 21.4%
3 Month Avg.	2.7% 3.7%	1.5% 2.1%		17.8% 24.1%	17.2% 23.2%
SUMMARY OF THE FORECAST FOR THE MEDIAN PRICE					
	Illinois	Chicago PMSA		Illinois	Chicago PMSA
Nov-16	\$177,500	\$214,333	Nov-15	\$165,000	\$195,000
Dec-16	\$174,000	\$214,125	Dec-15	\$165,000	\$198,250
Jan-17	\$172,000	\$210,000	Jan-16	\$163,000	\$190,000
Feb-17	\$168,824	\$207,233	Feb-16	\$160,000	\$187,500
Mar-17	\$181,730	\$232,183	Mar-16	\$171,000	\$210,000
Apr-17	\$190,978	\$243,558	Apr-16	\$186,000	\$230,000
ANNUAL PERCENTAGE CHANGE OF THE MEDIAN PRICE					
	Illinois	Chicago PMSA		Illinois	Chicago PMSA
Nov-16	7.6%	9.9%	Nov-15	6.5%	7.3%
Dec-16	5.5%	8.0%	Dec-15	7.1%	8.3%
Jan-17	5.5%	10.5%	Jan-16	8.7%	8.6%
Feb-17	5.5%	10.5%	Feb-16	8.3%	7.1%
Mar-17	6.3%	10.6%	Mar-16	3.7%	4.0%
Apr-17	2.7%	5.9%	Apr-16	10.1%	10.5%

### Median Prices and Recovery

	Illinois		Chicago PMSA	
	[\$2008]	[\$2017]	[\$2008]	[\$2017]
<b>January 2008 Median Price</b>	\$145,000	\$167,048	\$185,000	\$213,130
<b>January 2017 Median Price</b>	\$149,299	\$172,000	\$182,283	\$210,000
Price Ratio (January 17/ January 08)	Adjusted	1.03	Adjusted	0.99
	Unadjusted	1.19	Unadjusted	1.14

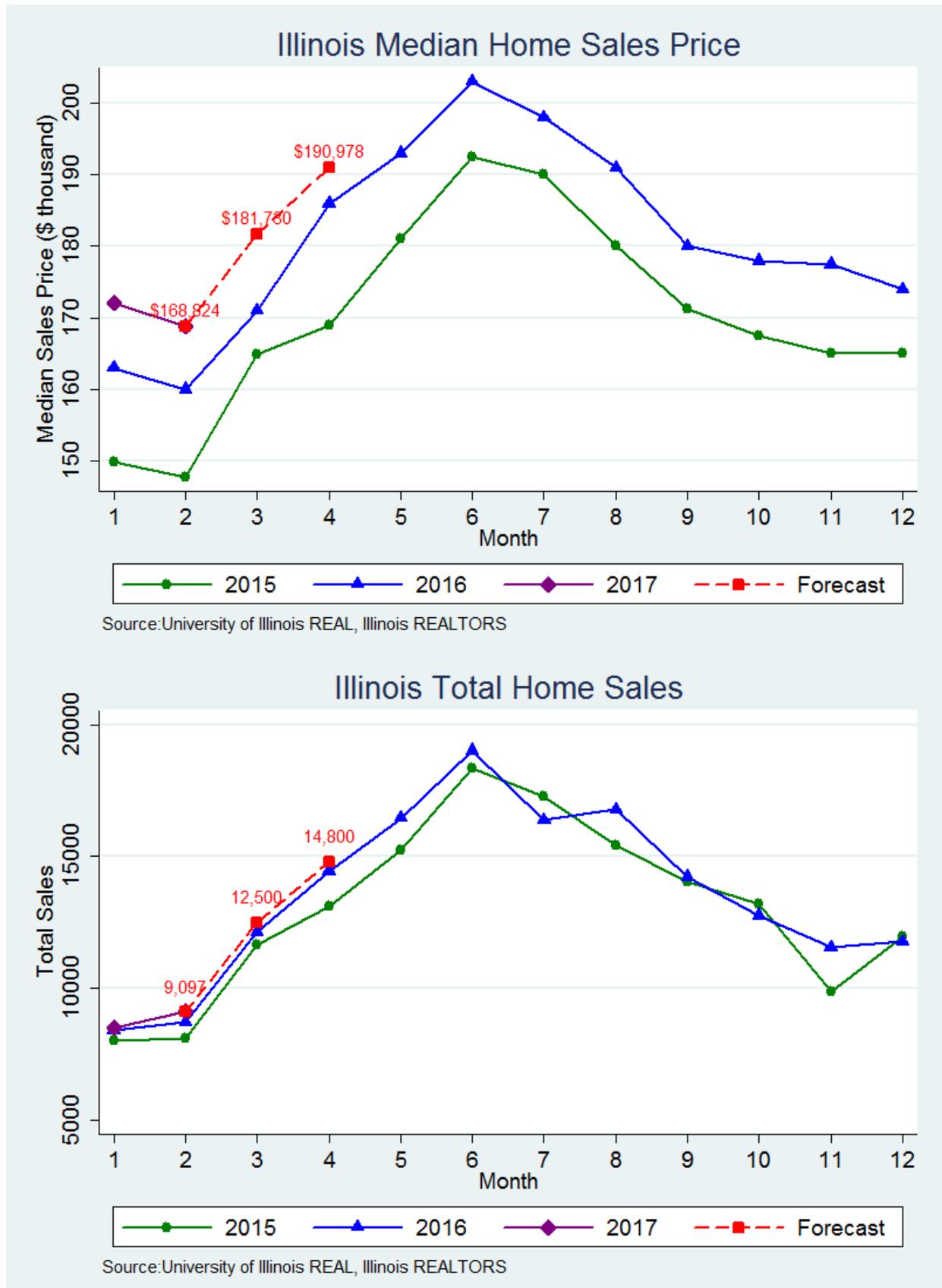
### Recovery Forecasts using *Annually Growth Rates*

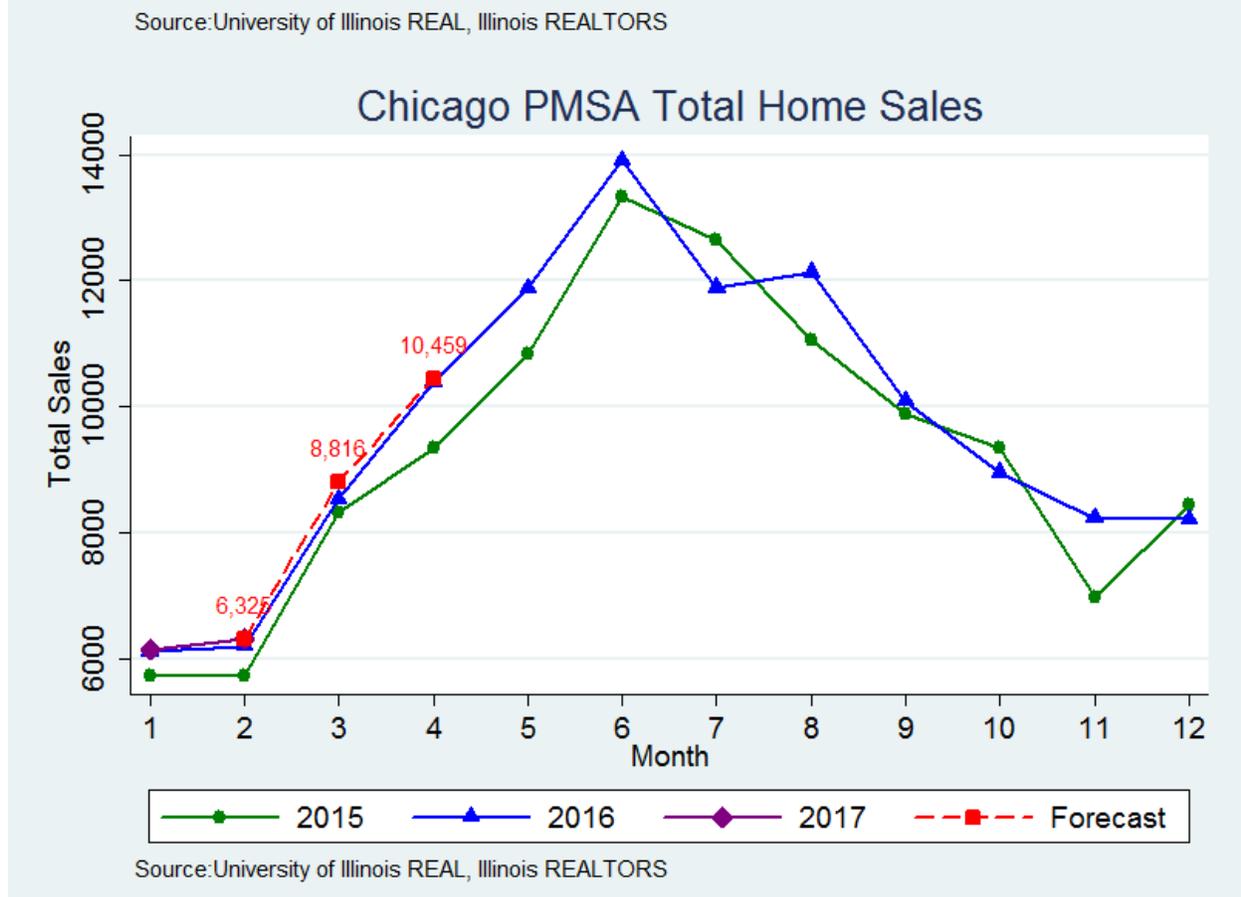
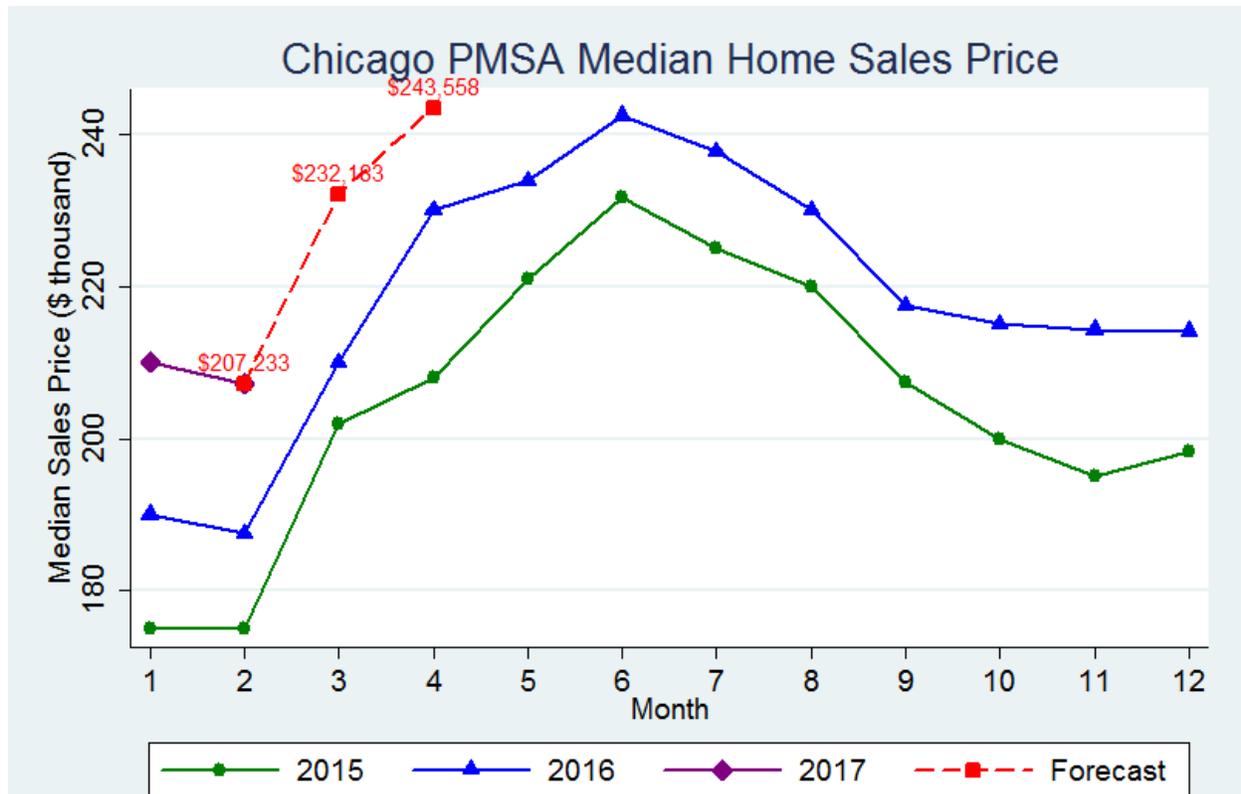
	Illinois	Chicago PMSA		
	Annual Recovery Rate*	Years to Recover**	Recovery Rate	Years to Recover
Current Month	2.9%	-1.0	7.8%	0.2
Past 3 months	4.0%	-0.7	7.2%	0.2
Past 6 months	4.2%	-0.7	5.7%	0.3
Past 9 months	4.3%	-0.7	5.2%	0.3
Past 12 months	4.8%	-0.6	5.5%	0.3

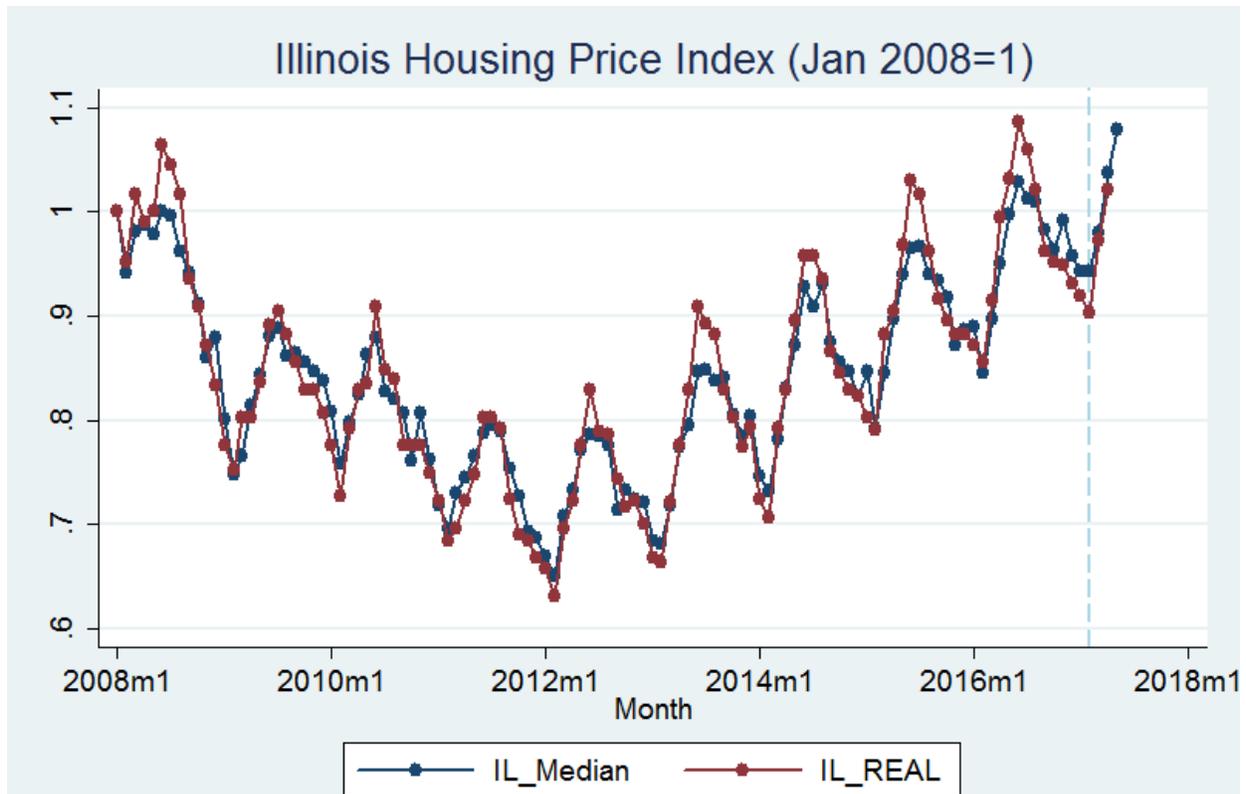
\*Annual recovery rate is the average of *annual* change rates in past months

\*\* Years to recover is calculated using the following formula:

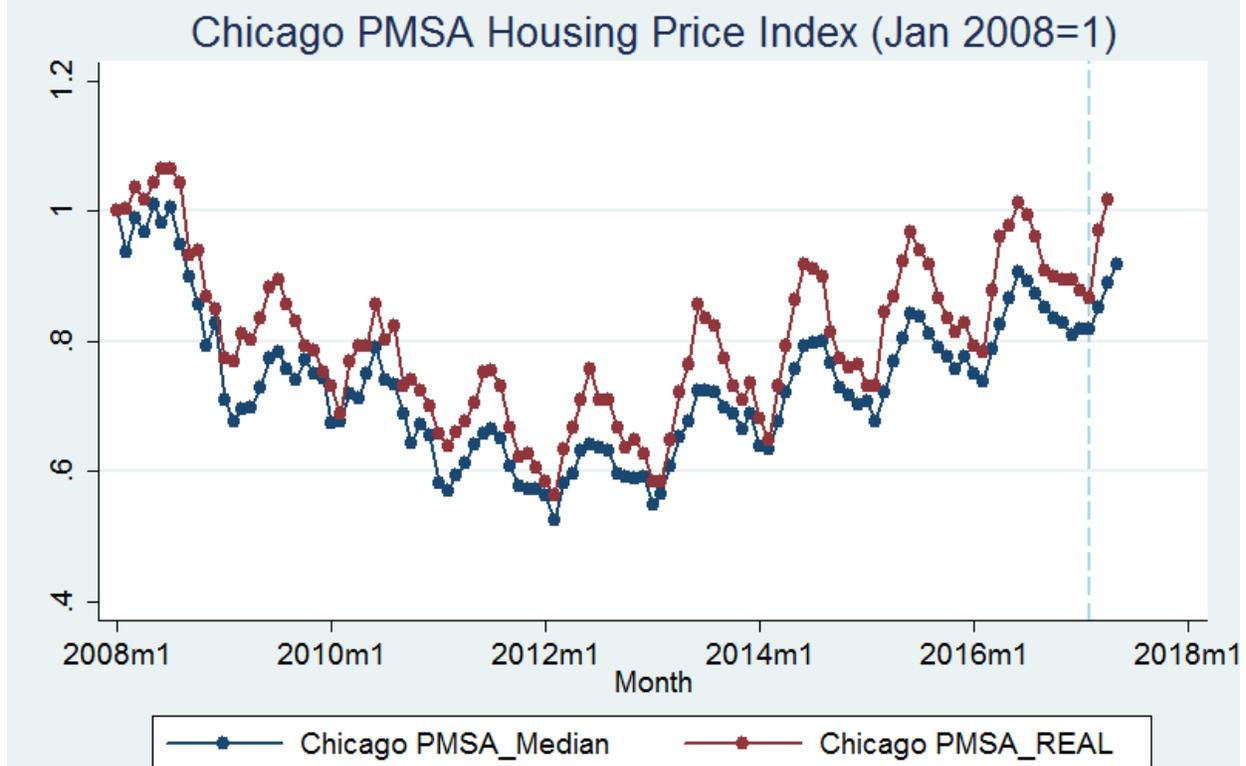
$Price_{\text{January 2017}} * (1 + \text{recovery rate})^{\text{years}} = Price_{\text{January 2008}}$ . Prices used in the formula are inflation adjusted. The recovery rate is applied as a constant annual change rate to recoup the differences between the current month and its corresponding month in 2008.



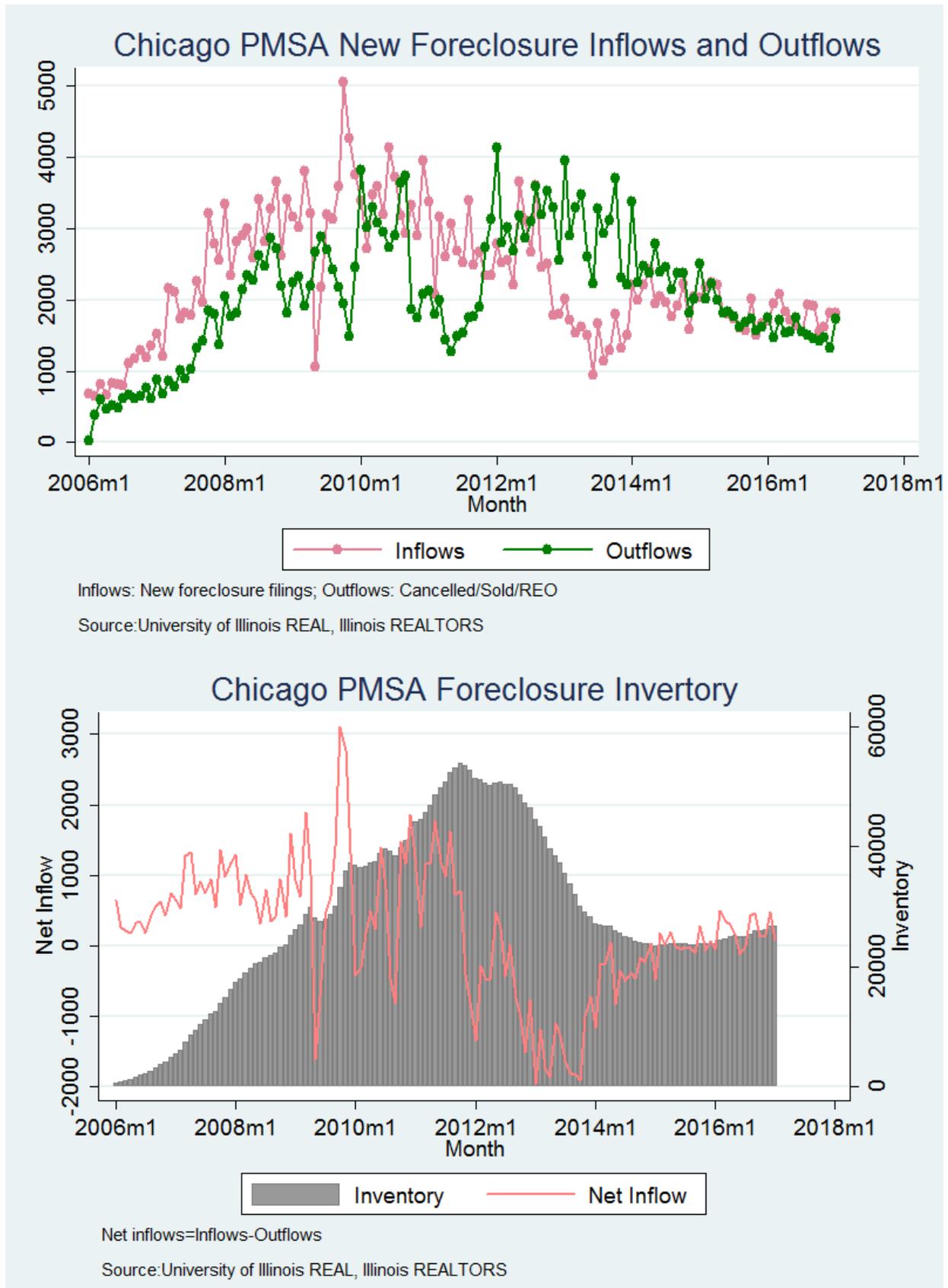


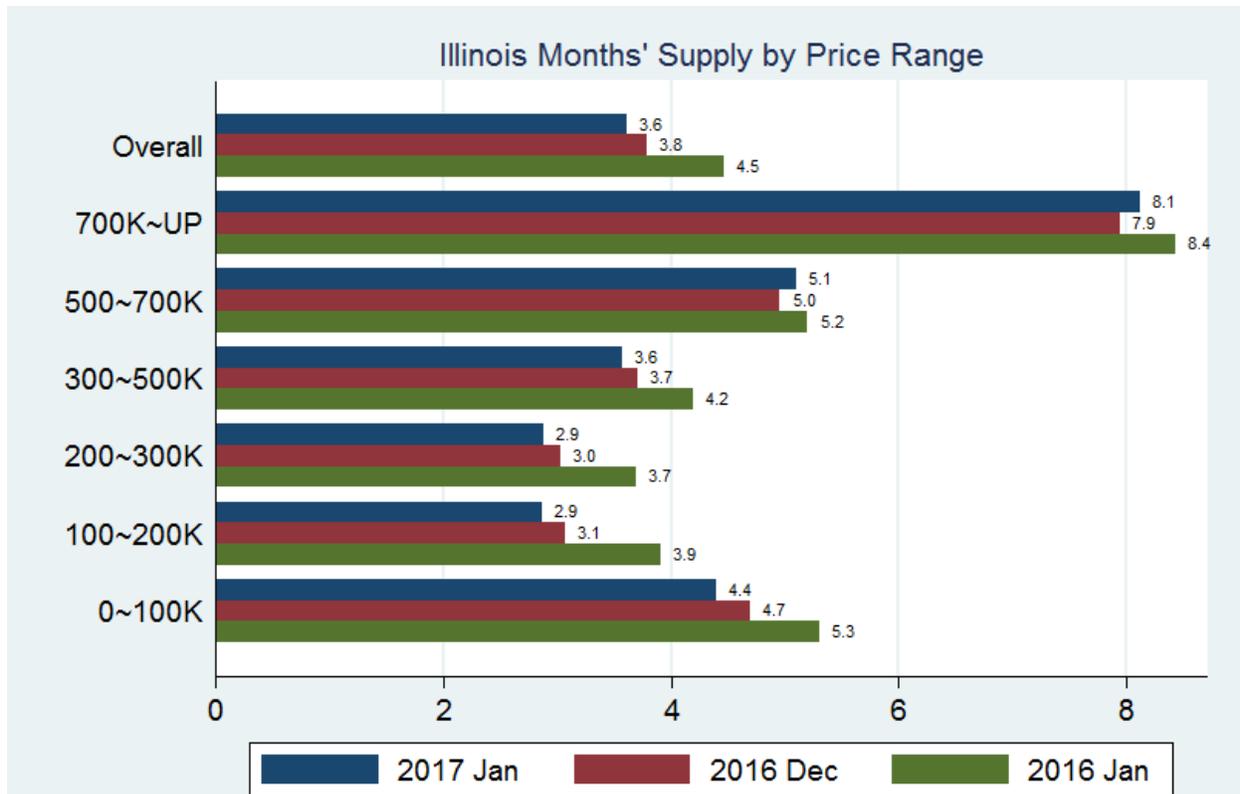


Source: University of Illinois REAL, Illinois REALTORS

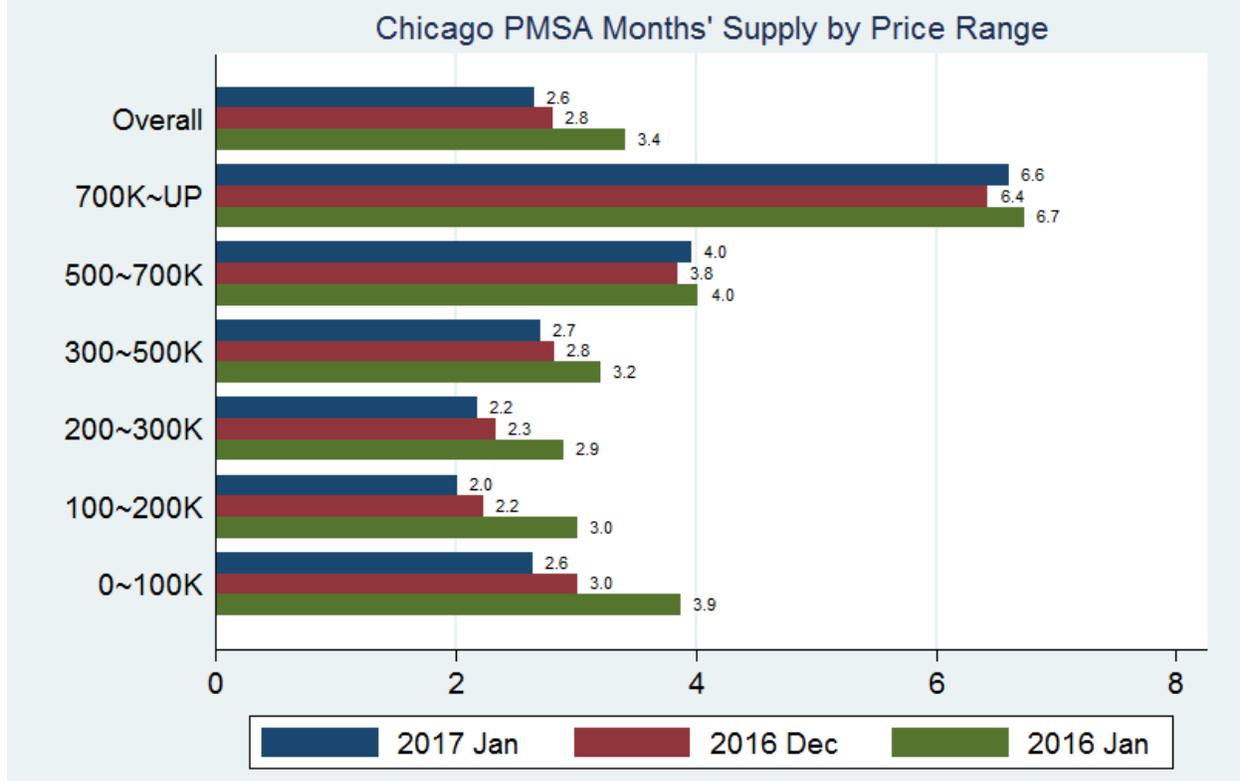


Source: University of Illinois REAL, Illinois REALTORS

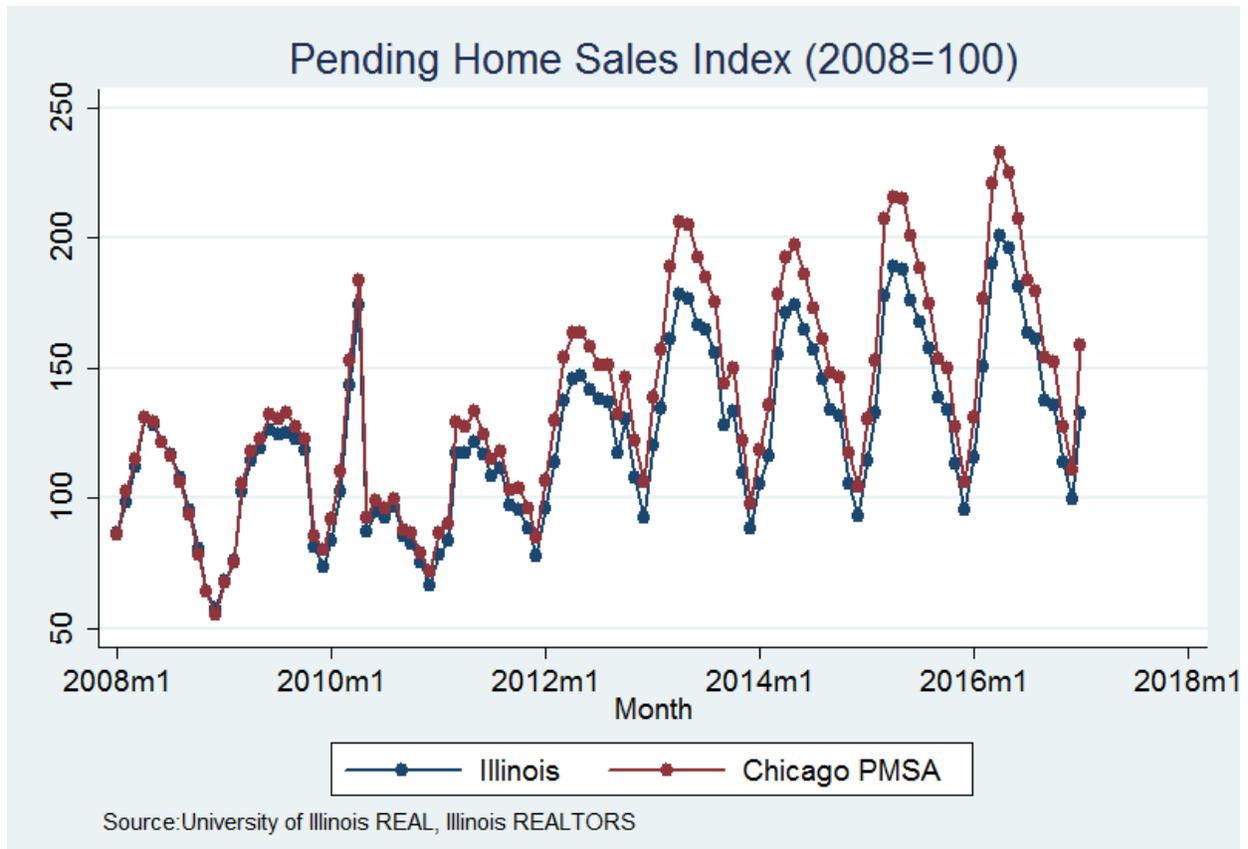


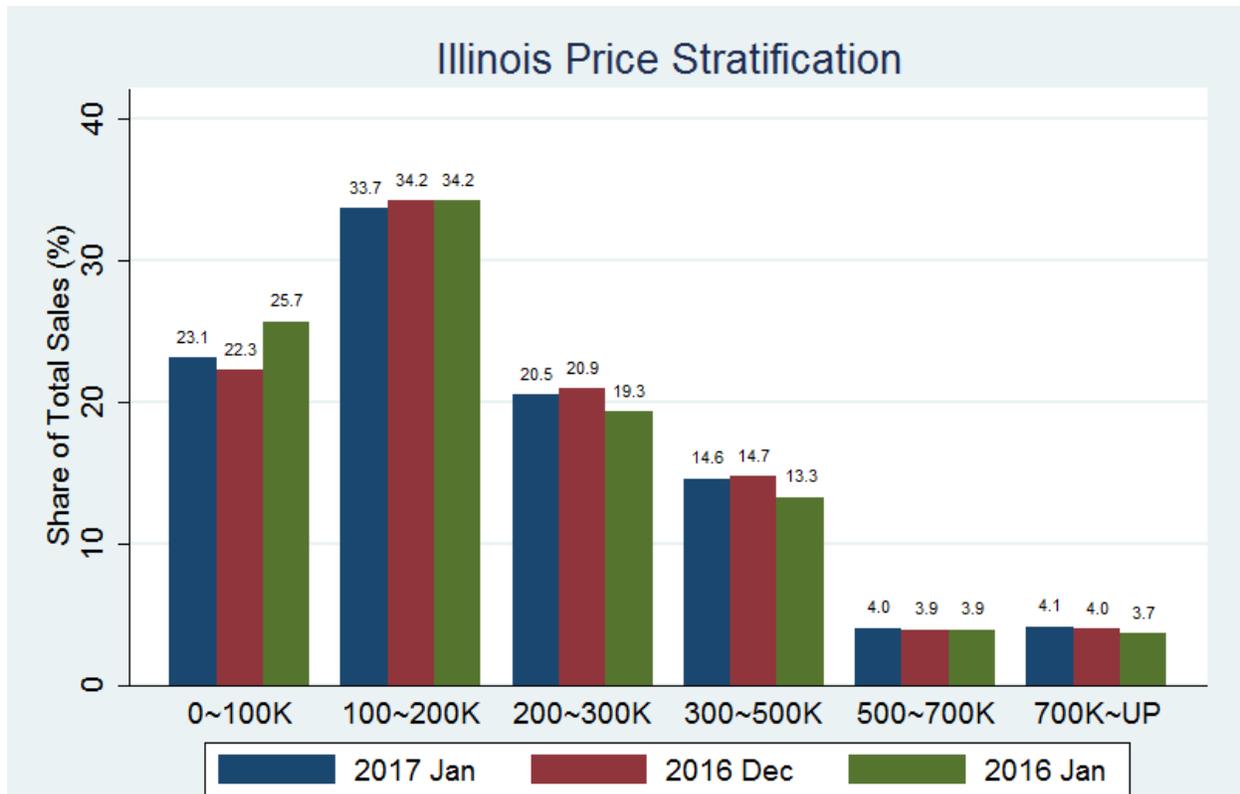


Source: University of Illinois REAL, Illinois REALTORS

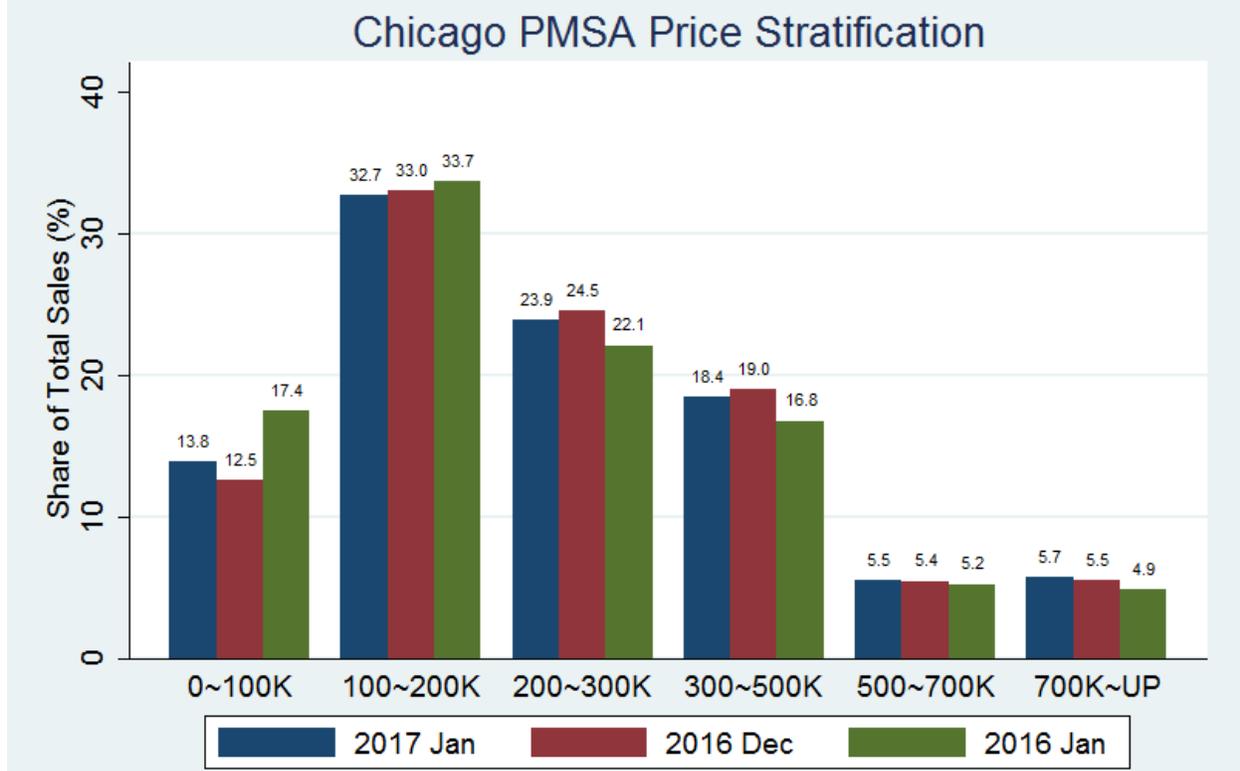


Source: University of Illinois REAL, Illinois REALTORS

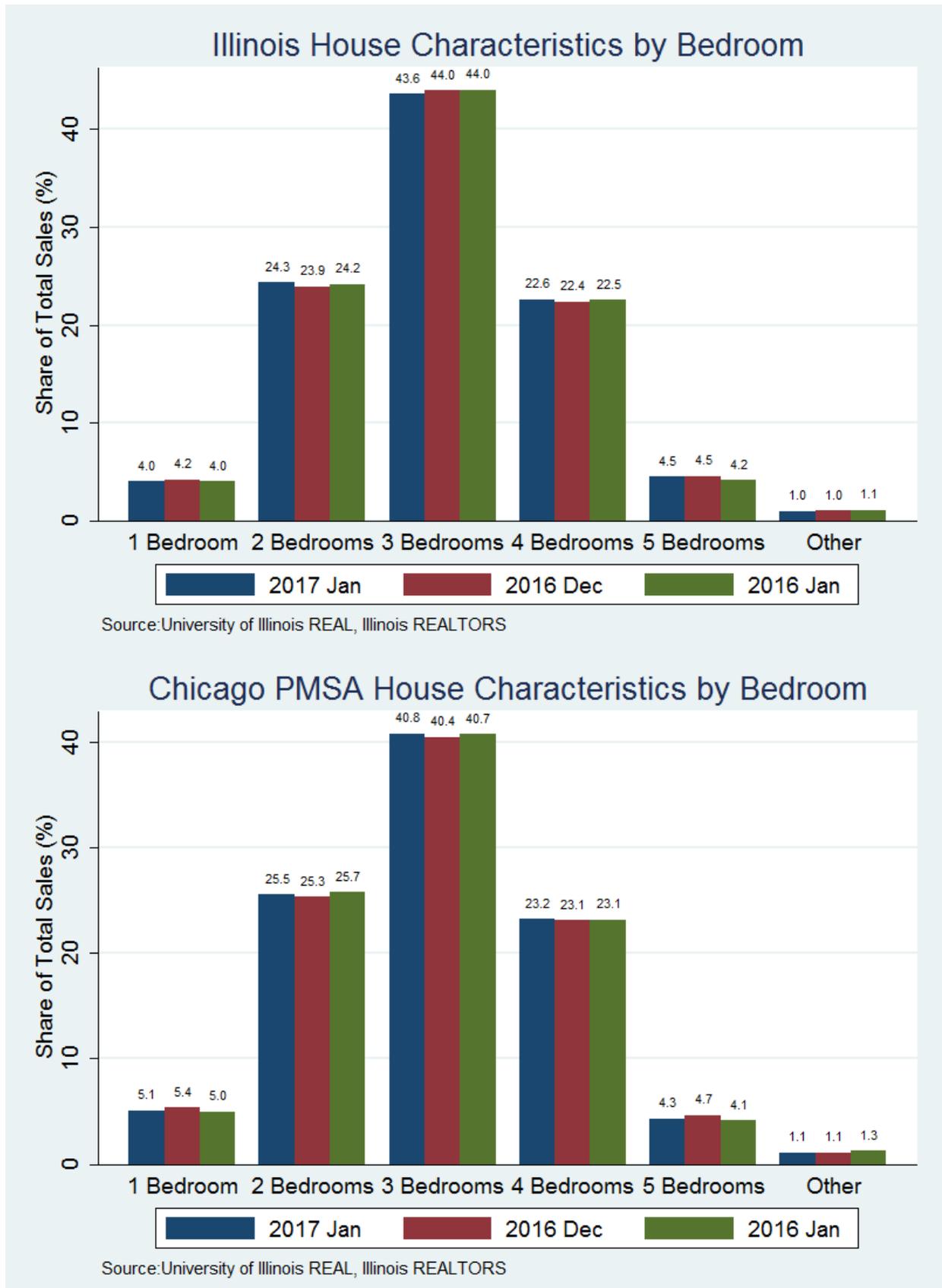




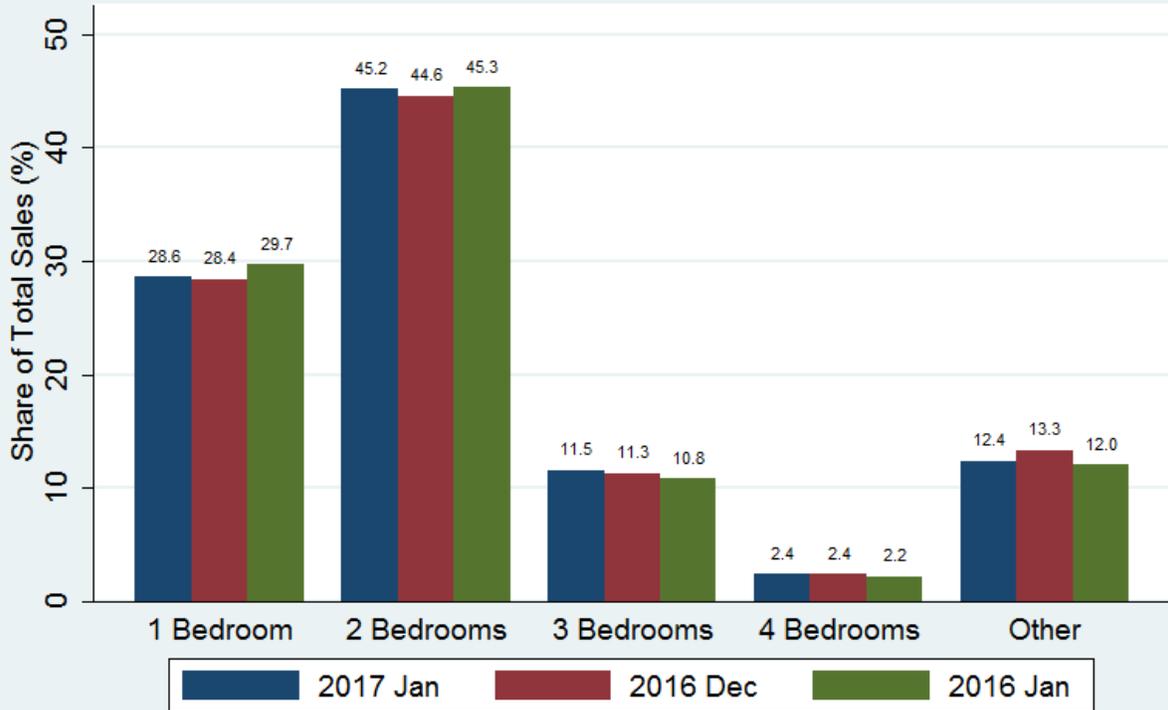
Source: University of Illinois REAL, Illinois REALTORS



Source: University of Illinois REAL, Illinois REALTORS

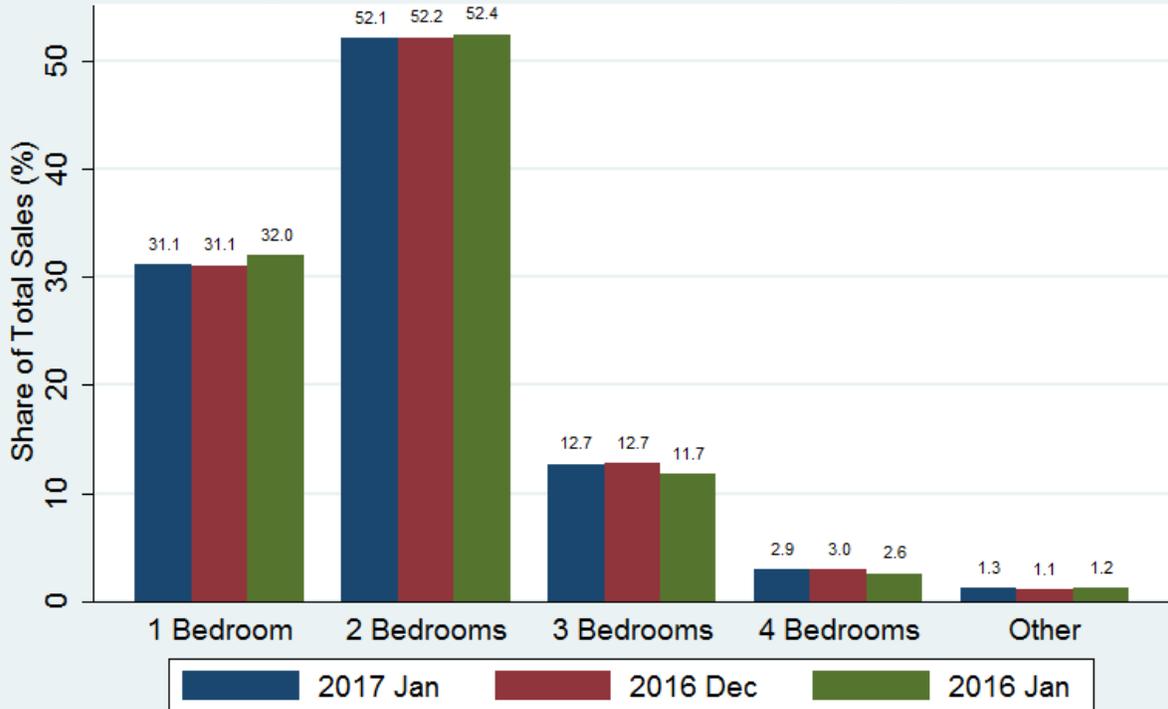


### Illinois House Characteristics by Bathroom

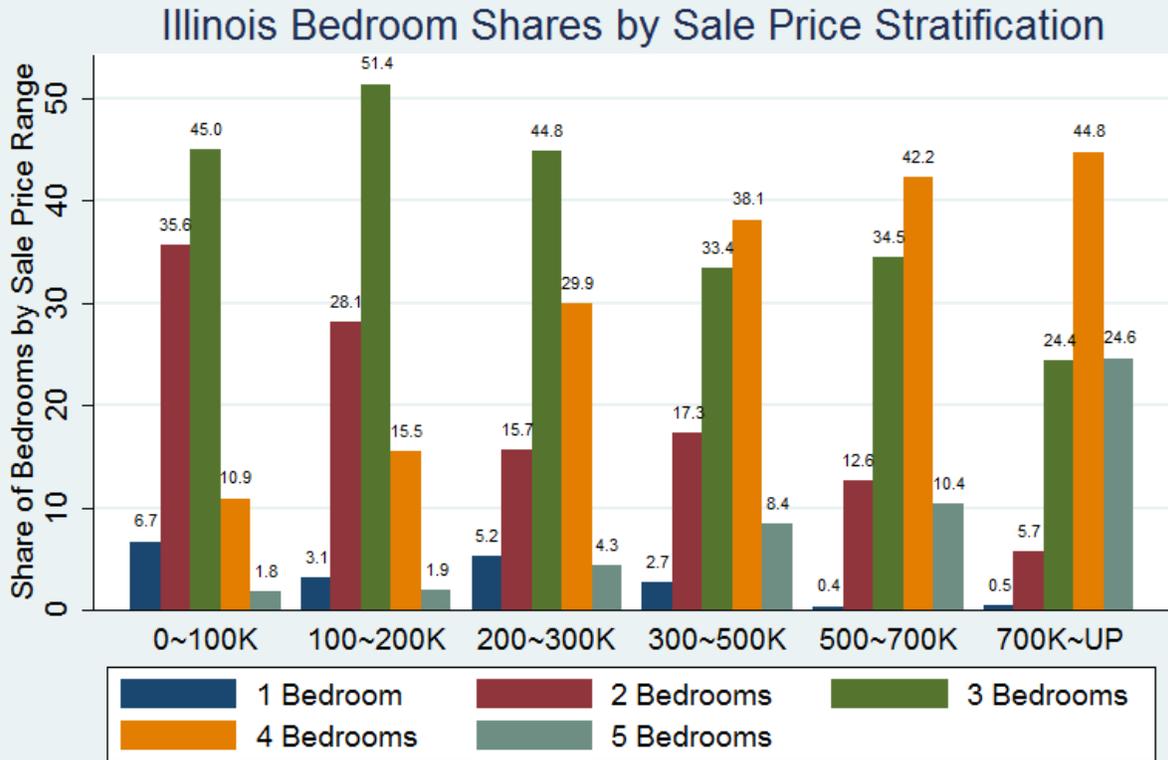


Source: University of Illinois REAL, Illinois REALTORS

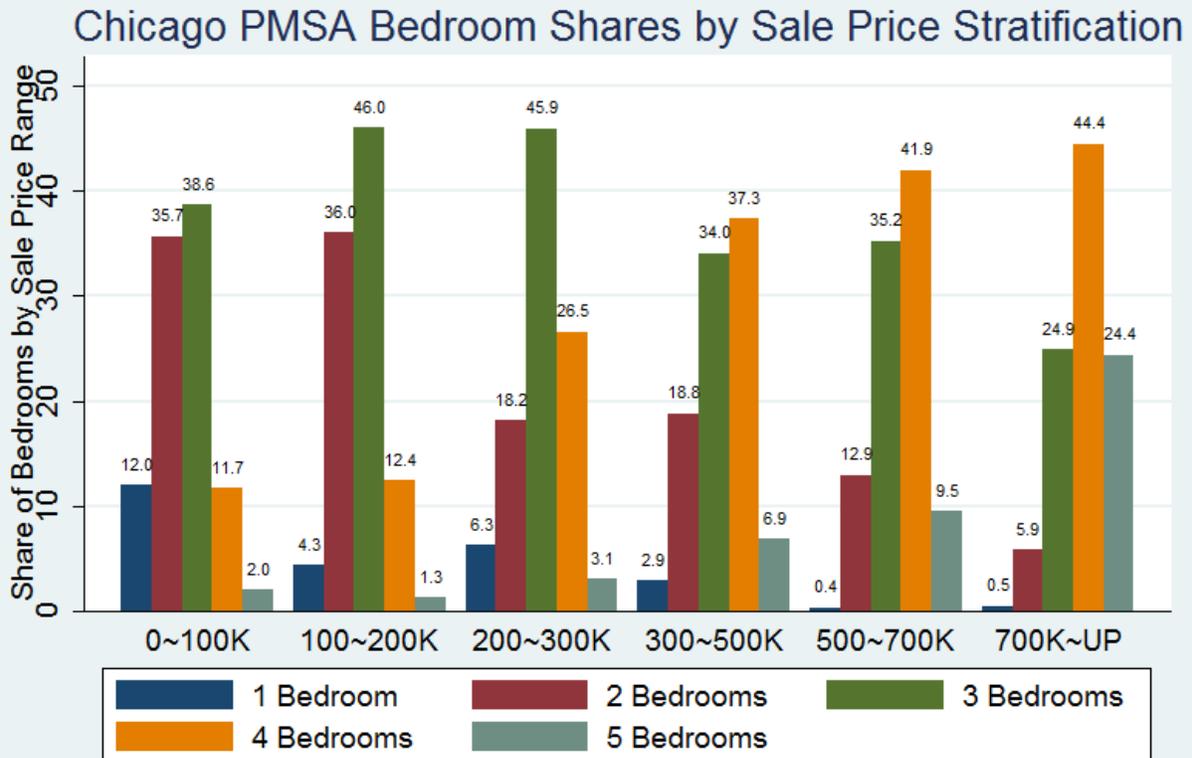
### Chicago PMSA House Characteristics by Bathroom



Source: University of Illinois REAL, Illinois REALTORS

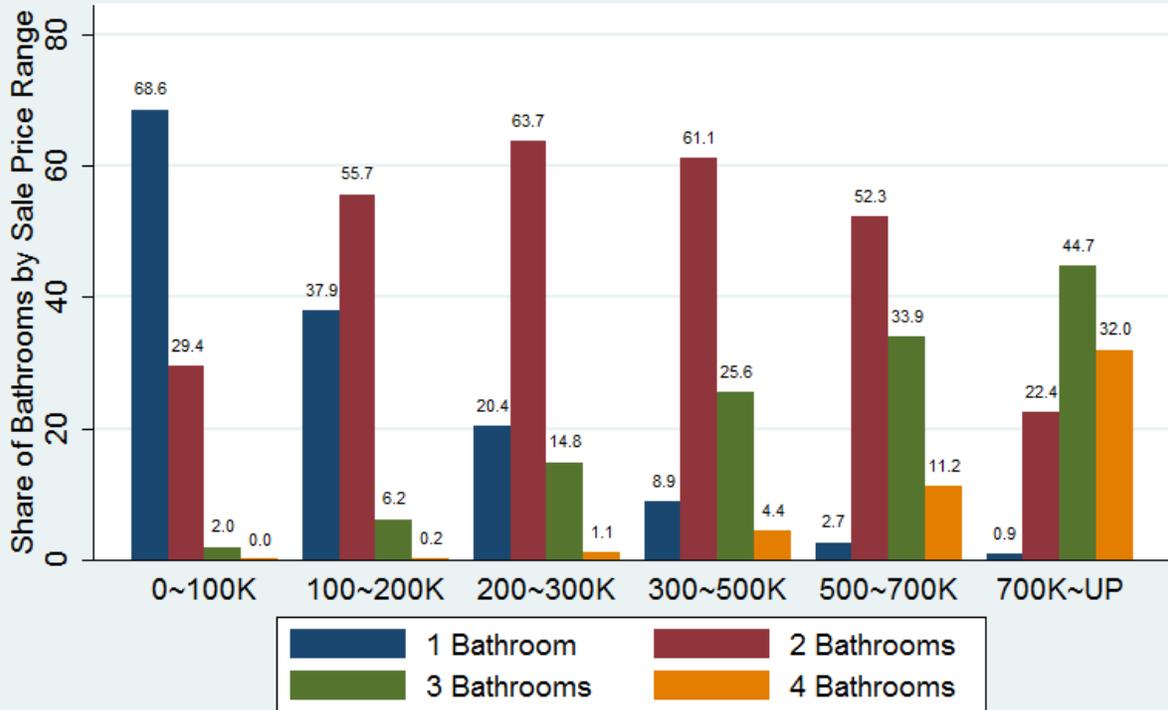


Source: University of Illinois REAL, Illinois REALTORS



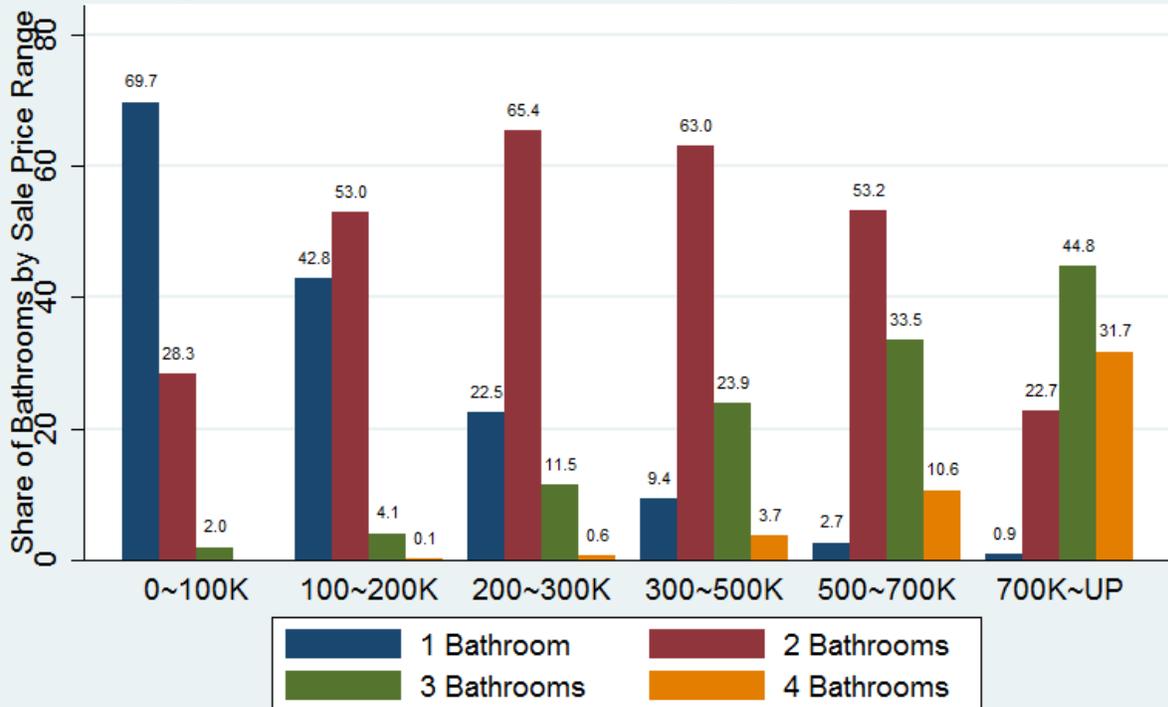
Source: University of Illinois REAL, Illinois REALTORS

### Illinois Bathroom Shares by Sale Price Stratification



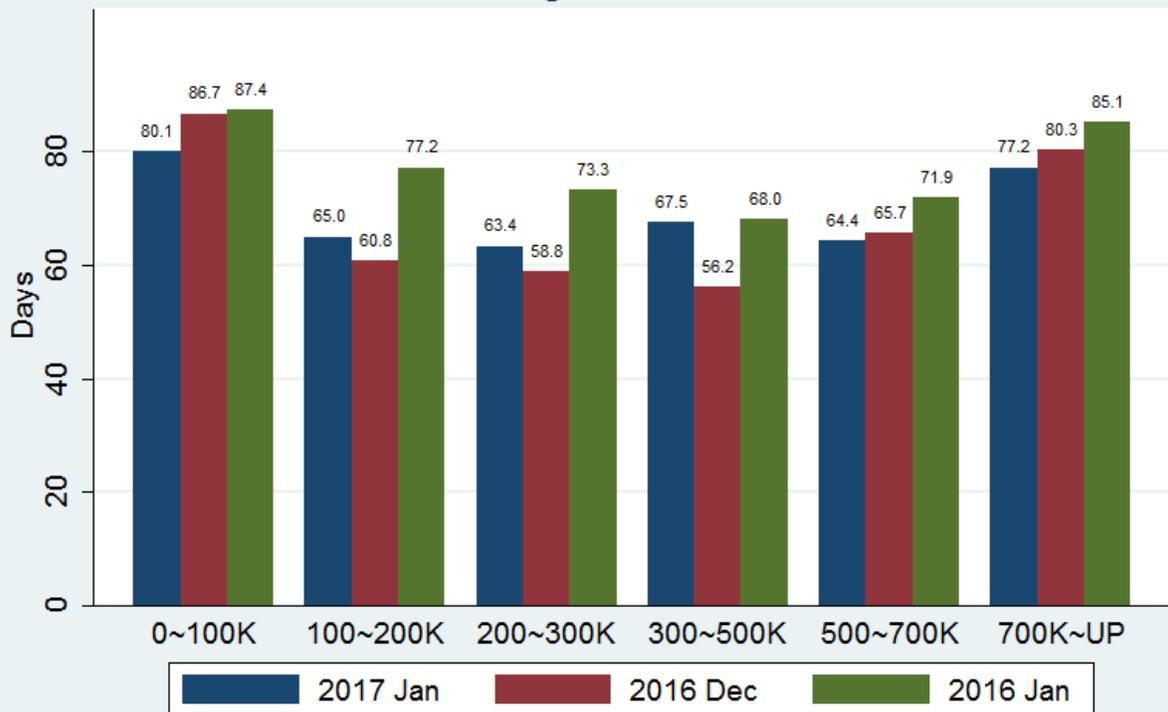
Source: University of Illinois REAL, Illinois REALTORS

### Chicago PMSA Bathroom Shares by Sale Price Stratification



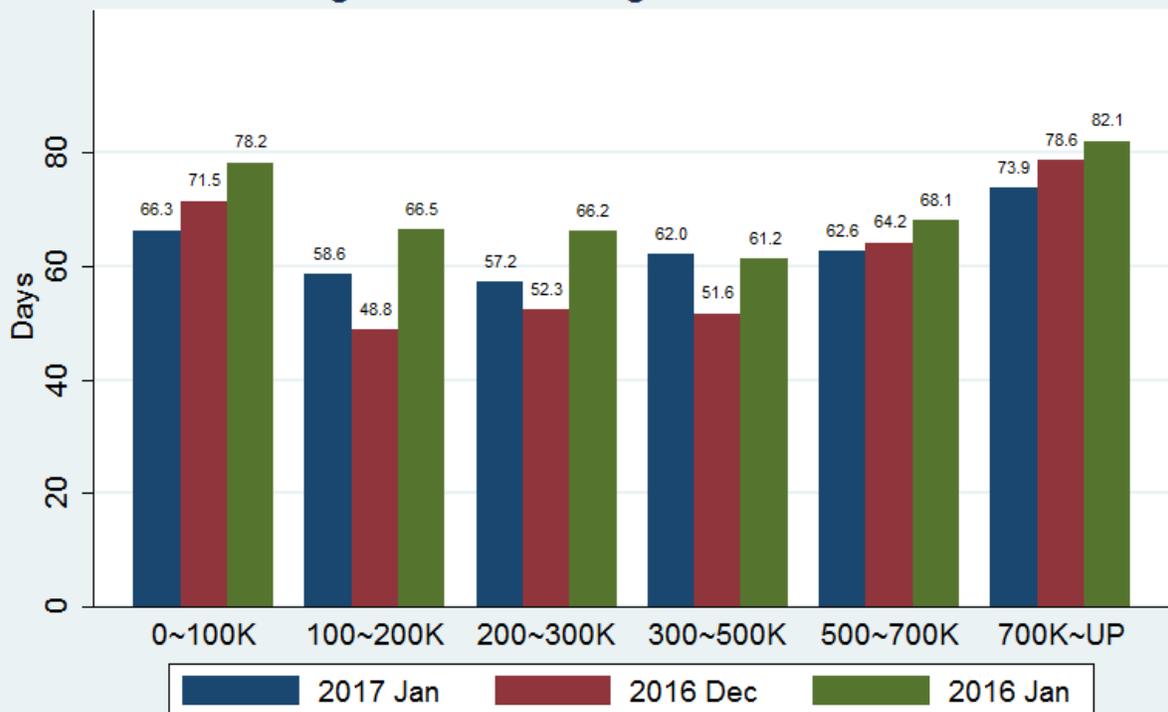
Source: University of Illinois REAL, Illinois REALTORS

### Illinois Average Time on the Market



Source: University of Illinois REAL, Illinois REALTORS

### Chicago PMSA Average Time on the Market



Source: University of Illinois REAL, Illinois REALTORS

