

Housing Price Forecasts

Illinois and Chicago PMSA, October 2017

Presented To

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Regional Economics Applications Laboratory,
Institute of Government and Public Affairs
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The Housing Market

In September, median prices continued to experience positive growth while sales experienced a negative annual change. 13,657 houses were sold in Illinois, declining by -17.0% from a month ago and -4.0% from a year ago. In the Chicago PMSA, 9,634 houses were sold, changing by -18.7% from a month ago and -4.6% from a year ago. The median price was \$192,500 in Illinois, up 6.9% from September last year; the comparable figure for the Chicago PMSA was \$230,000, up 5.7% from this time last year.

In September, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 8.8%. 8,690 regular sales were made, 2.6% less than last year. 896 foreclosed properties were sold, 18.8% less than last year. The median price was \$239,900 for regular property sales, 5.2% more than last year; the comparable figure for the foreclosed properties was \$158,250, up 15.3% from this time last year.

Illinois and Chicago PMSA both have already recovered to their pre-bubble levels. The median sales price in September 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 September 2008 median sales price was \$160,000 (in \$2008) and \$181,621 (in \$2017); the current price level was 106% of the 2008 level after adjusting (120% before adjusting). In the Chicago PMSA, the September 2008 median sales price was \$199,070 (in \$2008) and \$225,970 (in \$2017); the comparable figure for price recovery in September 2017 is 102% after adjustment (116% before adjusting).

The sales forecast for October, November and December 2017 suggests increases on a yearly basis and decreases on a monthly basis for Illinois. Annually for Illinois, the three-month average forecasts point to an increase in the range 2.6% to 3.6%; the comparative figures for the Chicago PMSA are an increase in the range 2.9% to 3.9%. On a monthly basis, the three-month average sales are forecast to decrease in the range -2.9% to -4.0% for Illinois and decrease in the range -2.7% to -3.7% for the Chicago PMSA.

The pending home sales index¹ is a leading indicator based on contract signings. This September, the number of homes put under contract was greater than last year. The pending home sales index is 146.8 (2008=100) in Illinois, up 8.0% from a year ago. In the Chicago PMSA, the comparable figure is 170.3, up 12.1% from a year ago. At the latest average annual pending sales rate, Illinois had enough housing inventory for 4.4 months² (down from 5.0 months a year ago). In the Chicago PMSA, the comparable figure was 3.3 months (down from 3.9 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.

The median price forecast indicates moderate annual growth in both Illinois and the Chicago PMSA for October, November and December. In Illinois, the median price is forecast to rise by

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

² 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.

5.7% in October 5.5% in November and 6.4% in November. For the Chicago PMSA, the comparable figures are 4.3% in October 3.4% in November and 4.1% in December. As a complement to the median housing price index (HPI), the REAL HPI³ forecasts a positive growth trend for both Illinois and the Chicago PMSA. In Illinois, the REAL HPI (Jan 2008=1) is forecast to change by 7.3% in October 6.3% in November and 7.4% in December. The comparable figures for the Chicago PMSA are 7.1% in October 7.2% in November and 7.7% in December. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month.

In September, two consumer sentiment indices both slightly decreased. The Conference Board Consumer Confidence Index survey explained that confidence in Texas and Florida decreased considerably as these two states were the most severely impacted by Hurricanes Harvey and Irma. The University of Michigan Consumer Sentiment Index survey indicated that the decline was mainly due to concerns over the outlook for the national economy. Richard Curtin, chief economist for the Surveys of Consumers, noted that hurricanes Harvey and Irma greatly impacted expected economic conditions in September. On the other hand, the more housing specific sentiment index, the Fannie Mae Home Purchase Sentiment Index (HPSI), increased and their survey explained that the biggest driver for the increase in the HPSI is the rebound in the “good time to buy” sentiment, which outweighed the largest drag—a sizable reduction in the net share of consumers expecting home prices to rise over the next year.

The Housing Market – Current Condition

- In September, median prices continued to experience positive growth while sales experienced negative annual change. 13,657 houses were sold in Illinois, changing by -17.0% from a month ago and -4.0% from a year ago. In the Chicago PMSA, 9,634 houses were sold, changing by -18.7% from a month ago and -4.6% from a year ago. The median price was \$192,500 in Illinois, up 6.9% from September last year; the comparable figure for the Chicago PMSA was \$230,000, up 5.7% from this time last year. (Reference: Illinois and Chicago PMSA Total Home Sales and Median Home Sales Price figures; Forecast for October 2017 report table)
- In September, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 8.8%. 8,690 regular sales were made, 2.6% less than last year. 896 foreclosed properties were sold, 18.8% less than last year. The median price was \$239,900 for regular property sales, 5.2% more than last year; the comparable figure for the foreclosed properties was \$158,250, up 15.3% from this time last year. (Reference: Ratio of Foreclosed Sales over Total Sales, Sales & Median Prices: Foreclosed vs. Regular figures)
- In September, at the latest average annual pending sales rate, Illinois had enough housing inventory for 4.4 months⁴ (down from 5.0 months a year ago). In the Chicago PMSA, the comparable figure was 3.3 months (down from 3.9 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. (Reference: Illinois and Chicago PMSA Annual Months’ Supply by Price Range figures)

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

⁴ 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.

- In September, 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 18.4% from 21.0% a year ago; the comparative figure for the Chicago PMSA showed a decrease to 9.1% from 11.8% 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 October, November and December. In Illinois, the median price is forecast to rise by 5.7% in October 5.5% in November and 6.4% in November. For the Chicago PMSA, the comparable figures are 4.3% in October 3.4% in November and 4.1% in December. (Reference: Forecast for October 2017 report table)
- As a complement to the median housing price index (HPI), the REAL HPI⁵ forecasts a positive growth trend for both Illinois and the Chicago PMSA. In Illinois, the REAL HPI (Jan 2008=1) is forecast to change by 7.3% in October 6.3% in November and 7.4% in December. The comparable figures for the Chicago PMSA are 7.1% in October 7.2% in November and 7.7% in December. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month. (Reference: Housing Price Index)
- The sales forecast for October, November and December 2017 suggests increases on a yearly basis and decreases on a monthly basis for Illinois. Annually for Illinois, the three-month average forecasts point to an increase in the range 2.6% to 3.6%; the comparative figures for the Chicago PMSA are an increase in the range 2.9% to 3.9%. On a monthly basis, the three-month average sales are forecast to decrease in the range -2.9% to -4.0% for Illinois and decrease in the range -2.7% to -3.7% for the Chicago PMSA. (Reference: Forecast for October 2017 report table)
- The pending home sales index⁶ is a leading indicator based on contract signings. This September, the number of homes put under contract was greater than last year. The pending home sales index is 146.8 (2008=100) in Illinois, up 8.0% from a year ago. In the Chicago PMSA, the comparable figure is 170.3, up 12.1% from a year ago. (Reference: Illinois and Chicago PMSA Pending Home Sales Index figure)
- In September 2017, 1,432 houses were newly filed for foreclosure in the Chicago PMSA (down 25.3% and down 29.6% respectively from a year and a month ago). 1,389 foreclosures were completed⁷ (up 3.8% and down 1.4% respectively from a year and a month ago). As of September 2017, there are 32,785 homes at some stage of foreclosure — the foreclosure inventory. The monthly average net flows of foreclosures (foreclosure inflows - outflows) were 472 in the past 6 months, 500 in the last 12 months and 372 in the last 24 months. (Reference: Chicago PMSA Foreclosure Inflows and Outflows, and Inventory figures).

The Economy

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

⁷ Including cancelled foreclosures and auctions

- In September 2017, according to the Bureau of Labor Statistics (BLS) Employment Situation report, the national unemployment rate declined to 4.2% and nonfarm payroll jobs experienced a loss of 33,000 jobs. A steep employment decline in food services and drinking places (-105,000) and below-trend growth in some other industries likely reflected the impact of Hurricanes Irma and Harvey. Employment rose in health care and in transportation and warehousing.
- In August 2017, according to the Illinois Department of Employment Security (IDES) news release, the Illinois unemployment rate increased to 5.0%. Non-farm payroll jobs decreased by -3,700 over the month. The largest declines were in three sectors, leisure and hospitality (-9,900), professional and business services (-3,300) and manufacturing (-3,000). Furthermore, the job growth in July was revised from the preliminary estimate of +2,100 jobs to +600 jobs. (not updated)
- In August 2017, the one-year-ahead forecast for Illinois indicates that the non-farm employment will increase at a rate between 0.06% and 0.28%, corresponding to job gains between 3,500 and 16,900. Education and health, professional and business services, and leisure and hospitality are forecast to be the leading growth sectors.
- In September 2017, according to Freddie Mac's September Outlook report, new homes are expected to be a "primary driver of sales in 2018." Total home sales are expected to increase about 2 percent from 2017 to 2018, according to the report. Economists also predict that the uptick in housing starts, coupled with a moderate increase in mortgage rates, will help slow the run-up in home prices next year. "For several years, we have had moderate economic growth of about two percent a year, solid job gains, and low mortgage interest rates. We forecast those conditions to persist into next year," says Freddie Mac chief economist Sean Beckett.

Longer-term Outlook

- In September, two consumer sentiment indices both slightly decreased. The Conference Board Consumer Confidence Index declined to 119.8 from 120.4 last month. Their survey explained that confidence in Texas and Florida decreased considerably as these two states were the most severely impacted by Hurricanes Harvey and Irma. Despite the slight downtick in confidence, consumers' assessment of current conditions remains quite favorable and their expectations for the short-term suggest the economy will continue expanding at its current pace. The University of Michigan Consumer Sentiment Index also decreased (95.1 from 96.8 last month). Their survey indicated that it was mainly due to concerns over the outlook for the national economy. Richard Curtin, chief economist for the Surveys of Consumers, noted that hurricanes Harvey and Irma greatly impacted expected economic conditions in September.
- In September, Fannie Mae Home Purchase Sentiment Index (HPSI) increased to 88.3 from 88.0 last month. The biggest driver for the increase in the HPSI is the rebound in the good time to buy sentiment, which outweighed the largest drag—a sizable reduction in the net share of consumers expecting home prices to rise over the next year. 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 101.2 in August from 98.1 in July.

The rise is mainly attributed to the positive construction job growth and to the improvement of retail activities in the Chicago area.

“Housing inventory continues to dampen sales,” noted Geoffrey J.D. Hewings, Director of the Regional Economics Applications Laboratory. “This problem is reflected in the significant increases in the sales prices of foreclosed properties, increasing by over 15% compared to a 5% for regular sales.”

Forecast for October 2017 report

PERCENTAGE CHANGE FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Jul-17	-2.4%	-3.1%		-18.0%	-19.8%			
Aug-17	-1.8%	-2.4%		3.0%	2.8%			
Sep-17	-4.0%	-4.6%		-17.0%	-18.7%			
3 Month Avg.	-2.7%	-3.3%		-11.2%	-12.6%			
SUMMARY OF THE FORECAST INTERVALS FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Oct-17	2.6%	3.5%	2.2%	2.9%	-3.2%	-4.3%	-3.9%	-5.3%
Nov-17	1.5%	2.0%	1.3%	1.8%	-9.0%	-12.1%	-7.5%	-10.2%
Dec-17	3.8%	5.2%	5.3%	7.2%	4.2%	5.6%	3.8%	5.2%
3 Month Avg.	2.6%	3.6%	2.9%	3.9%	-2.9%	-4.0%	-2.7%	-3.7%
SUMMARY OF THE FORECAST FOR THE MEDIAN PRICE								
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Jul-17	\$210,000	\$247,500	Jul-16	\$198,000	\$237,500			
Aug-17	\$200,000	\$239,000	Aug-16	\$191,000	\$230,000			
Sep-17	\$192,500	\$230,000	Sep-16	\$180,000	\$217,250			
Oct-17	\$188,228	\$224,333	Oct-16	\$178,000	\$215,000			
Nov-17	\$187,203	\$221,289	Nov-16	\$177,500	\$214,000			
Dec-17	\$185,168	\$222,670	Dec-16	\$174,000	\$214,000			
ANNUAL PERCENTAGE CHANGE OF THE MEDIAN PRICE								
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Jul-17	6.1%	4.2%	Jul-16	4.2%	5.6%			
Aug-17	4.7%	3.9%	Aug-16	6.1%	4.5%			
Sep-17	6.9%	5.7%	Sep-16	5.0%	4.7%			
Oct-17	5.7%	4.3%	Oct-16	6.3%	7.5%			
Nov-17	5.5%	3.4%	Nov-16	7.6%	9.7%			
Dec-17	6.4%	4.1%	Dec-16	5.5%	7.9%			

Median Prices and Recovery

	Illinois		Chicago PMSA	
	[\$2008]	[\$2017]	[\$2008]	[\$2017]
September 2008 Median Price	\$160,000	\$181,621	\$199,070	\$225,970
September 2017 Median Price	\$168,335	\$192,500	\$201,127	\$230,000
Price Ratio (September 17/ September 08)	Adjusted	1.06	Adjusted	1.02
	Unadjusted	1.20	Unadjusted	1.16

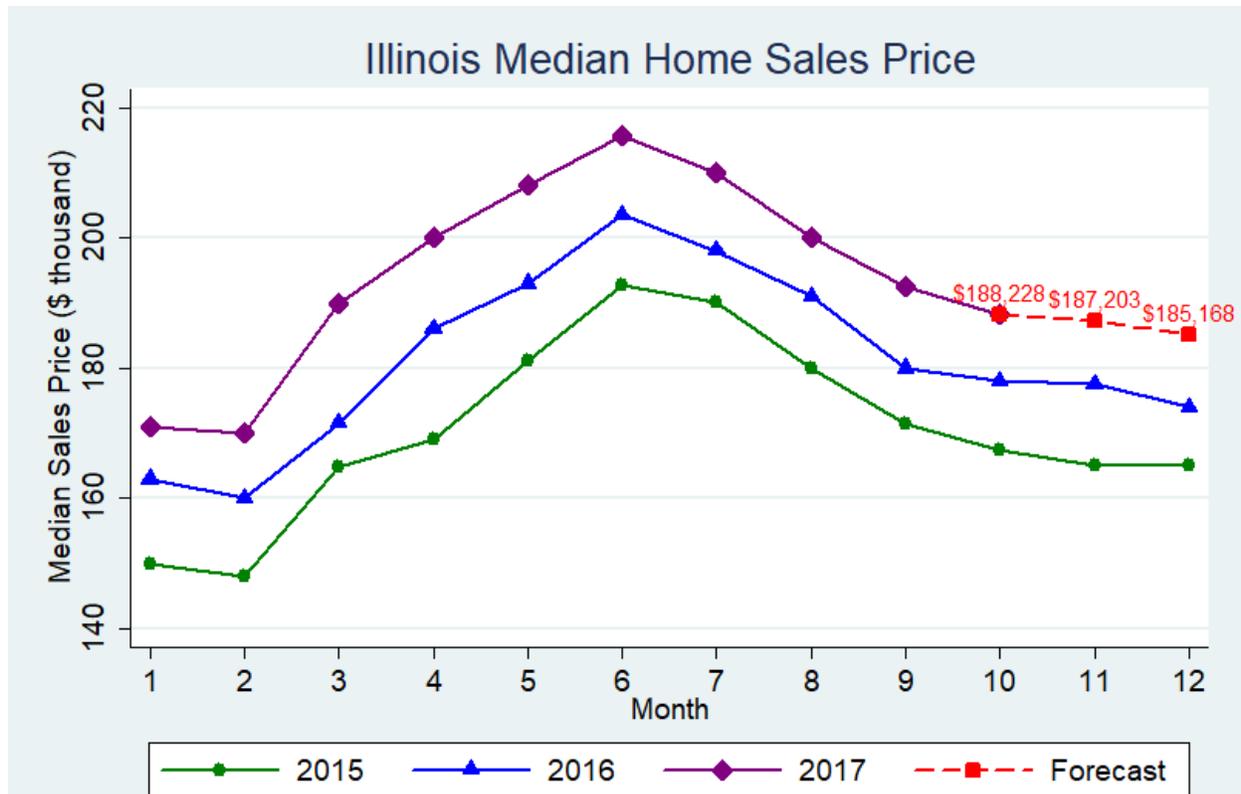
Recovery Forecasts using *Annually Growth Rates*

	Illinois	Chicago PMSA		
	Annual Recovery Rate*	Years to Recover**	Recovery Rate	Years to Recover
Current Month	4.2%	-1.2	2.4%	-0.4
Past 3 months	4.8%	-1.1	2.8%	-0.4
Past 6 months	5.2%	-1.0	4.5%	-0.2
Past 9 months	4.7%	-1.1	5.4%	-0.2
Past 12 months	4.6%	-1.1	5.0%	-0.2

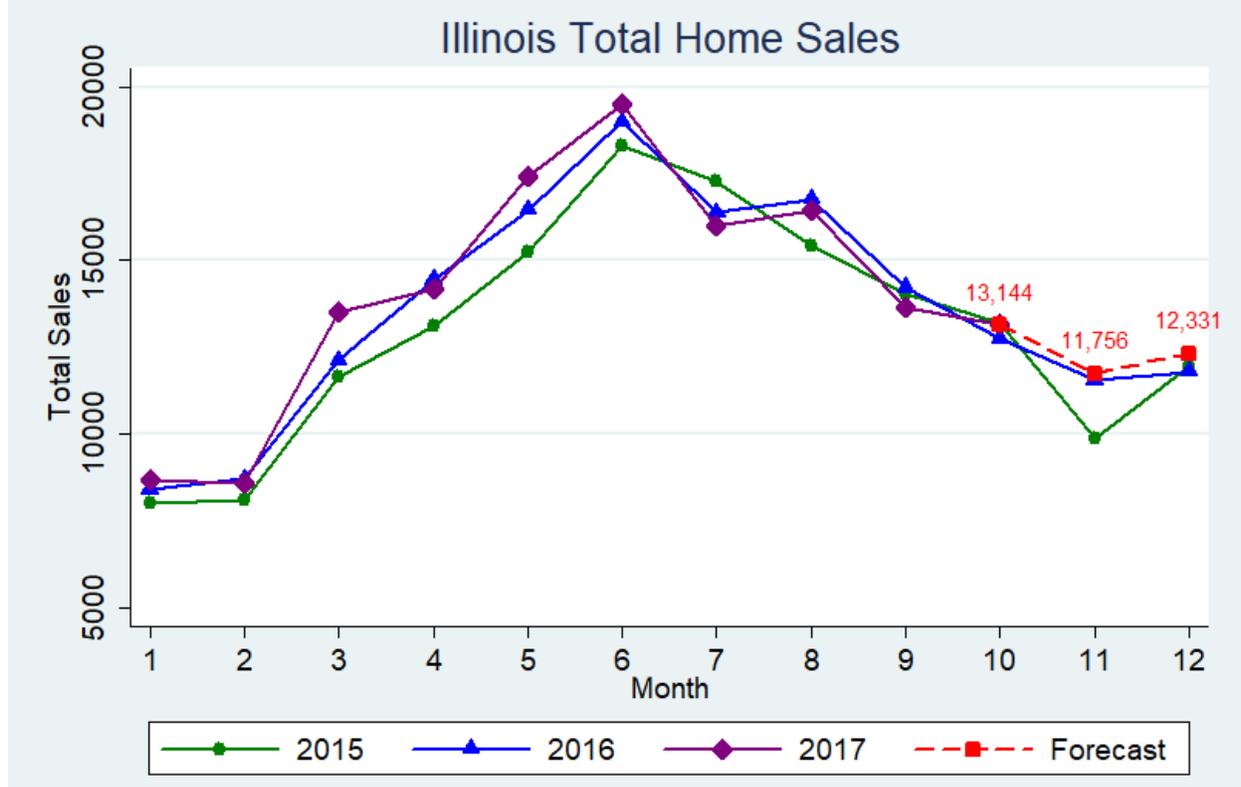
*Annual recovery rate is the average of *annual* change rates in past months

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

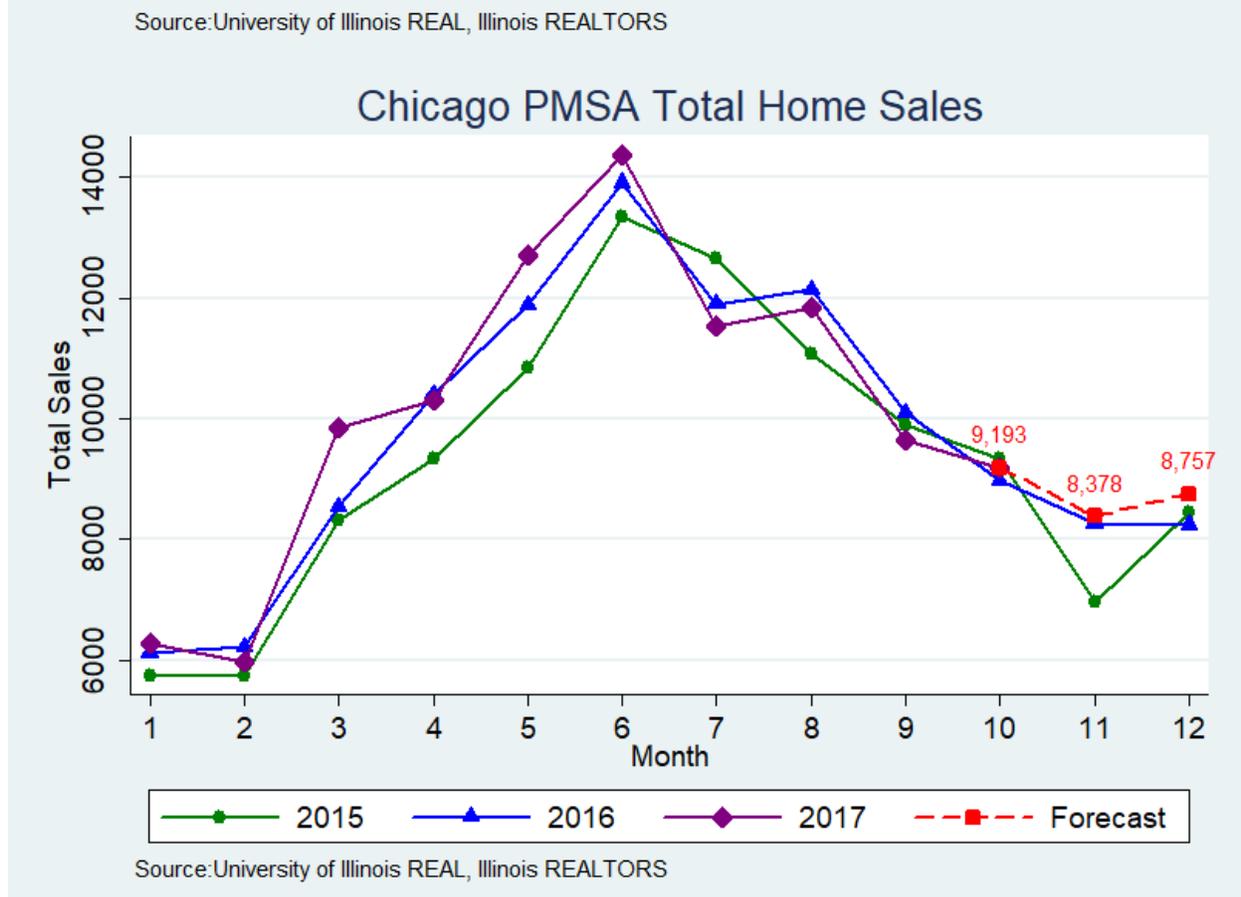
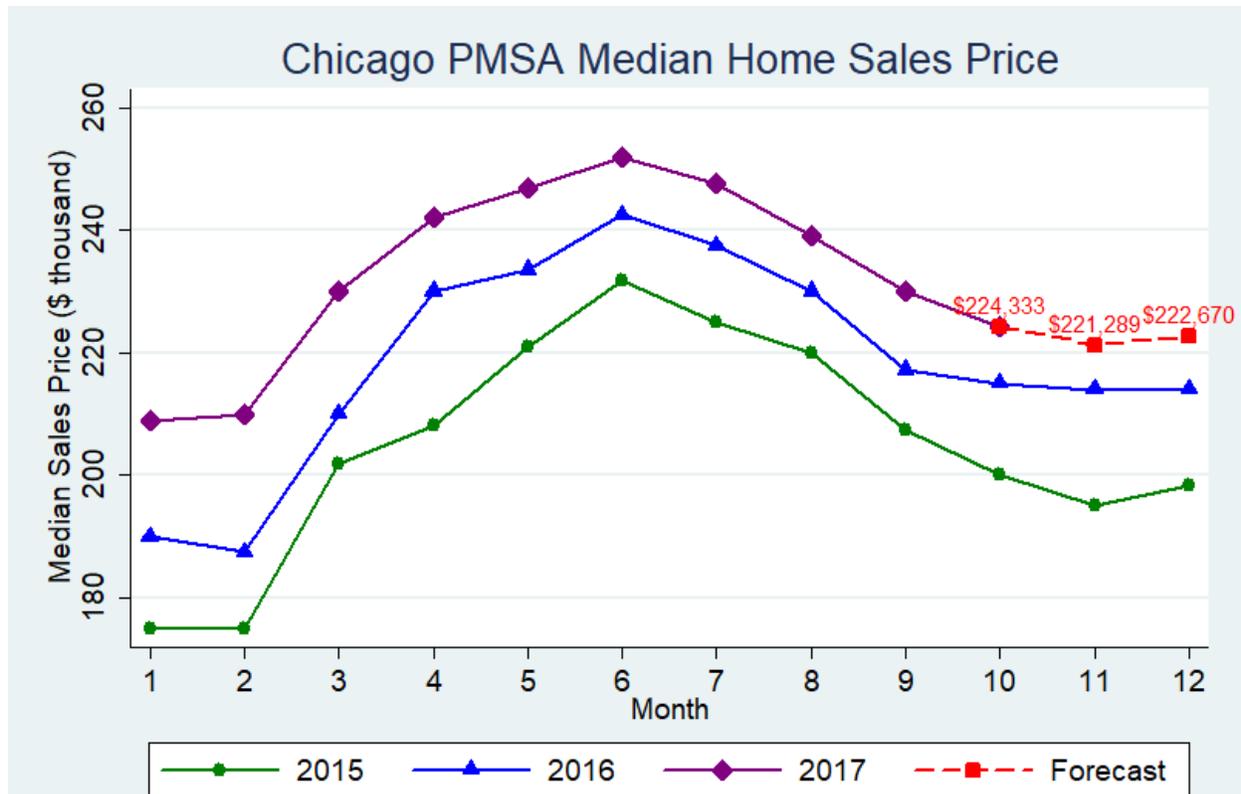
$Price_{September2017} * (1 + \text{recovery rate})^{\text{years}} = Price_{September2008}$. Prices used in the formula are inflation adjusted. The recovery rate is applied as a constant annual change rate to recoup the differences between the current month and its corresponding month in 2008.

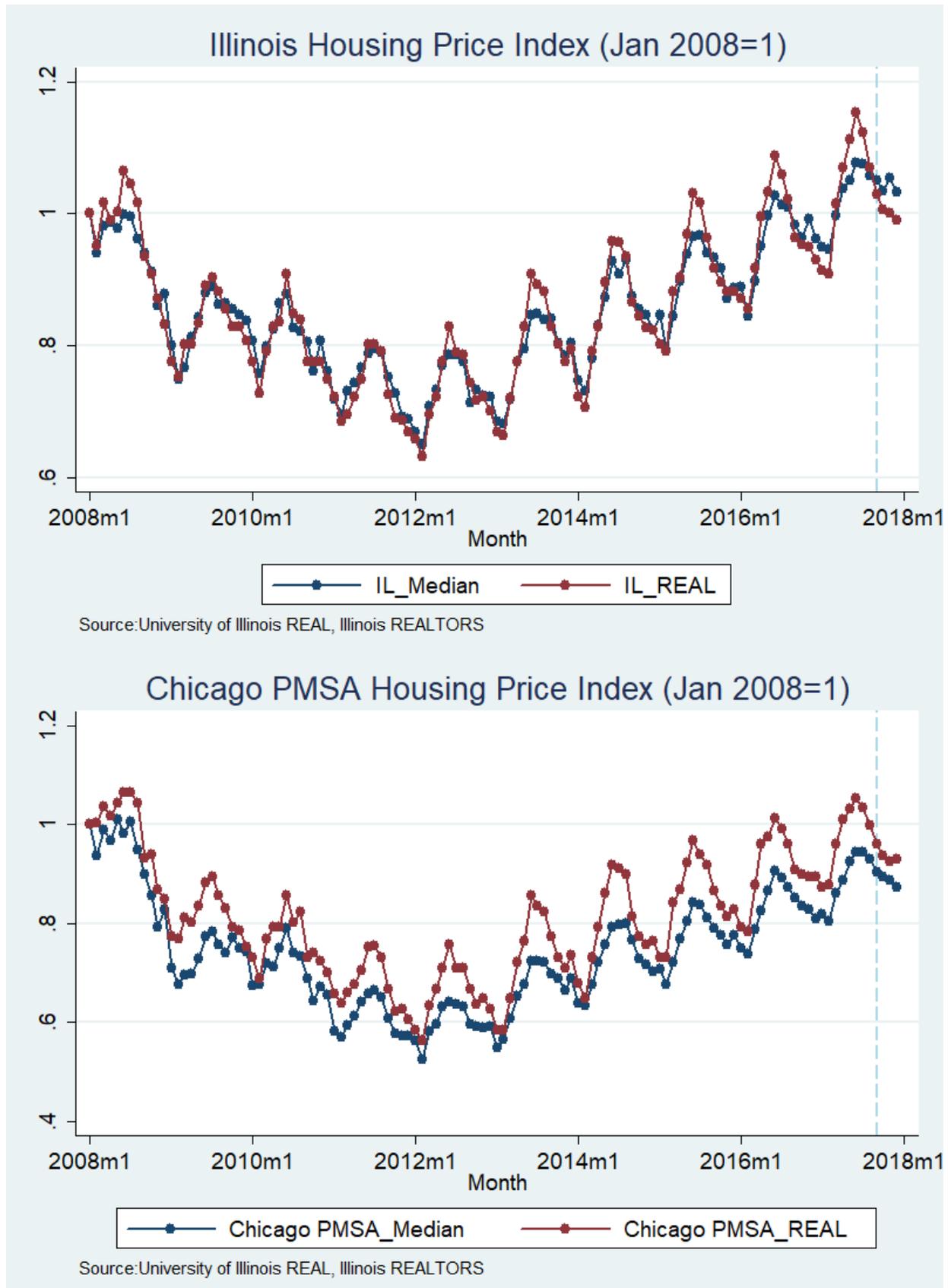


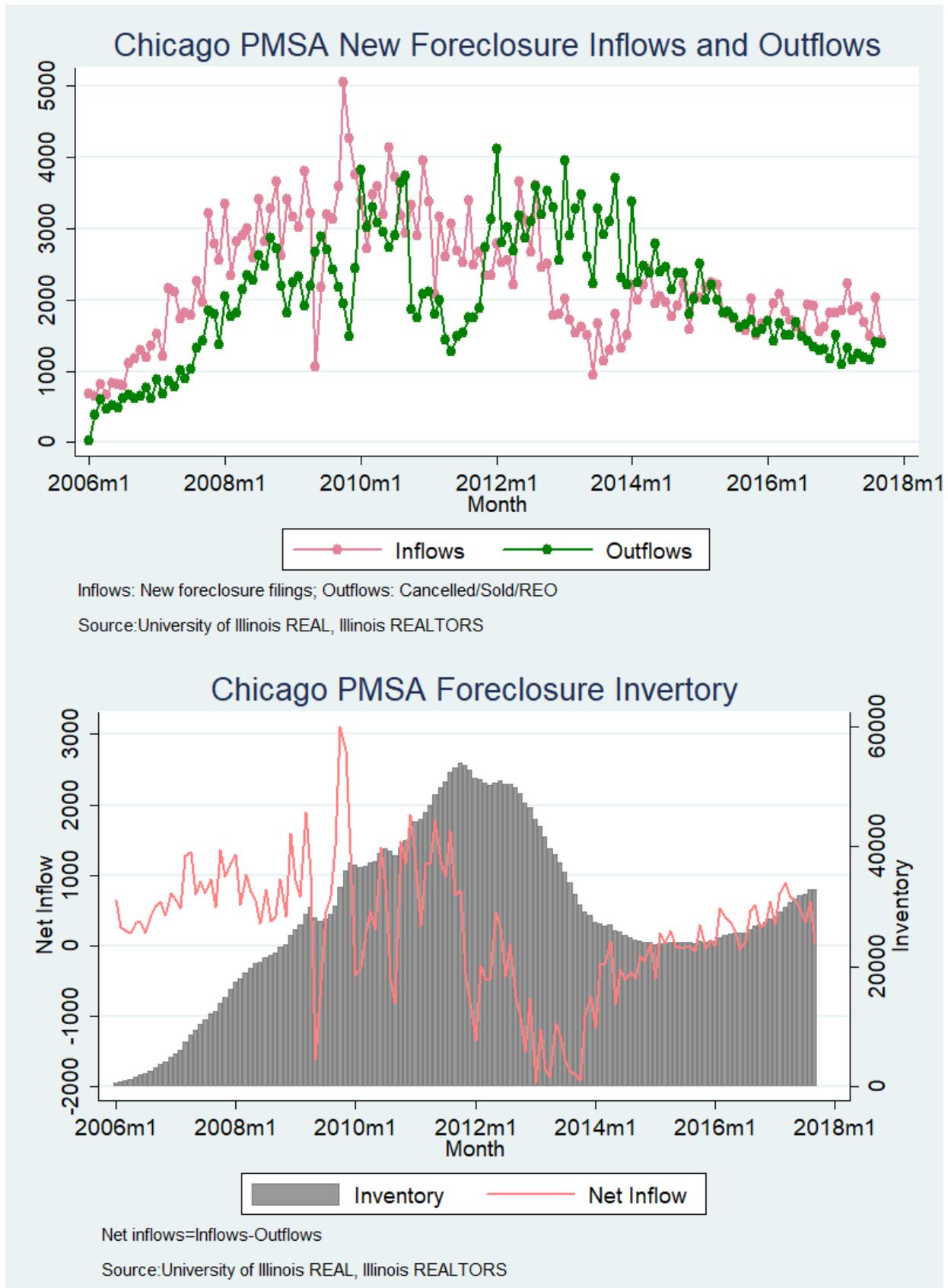
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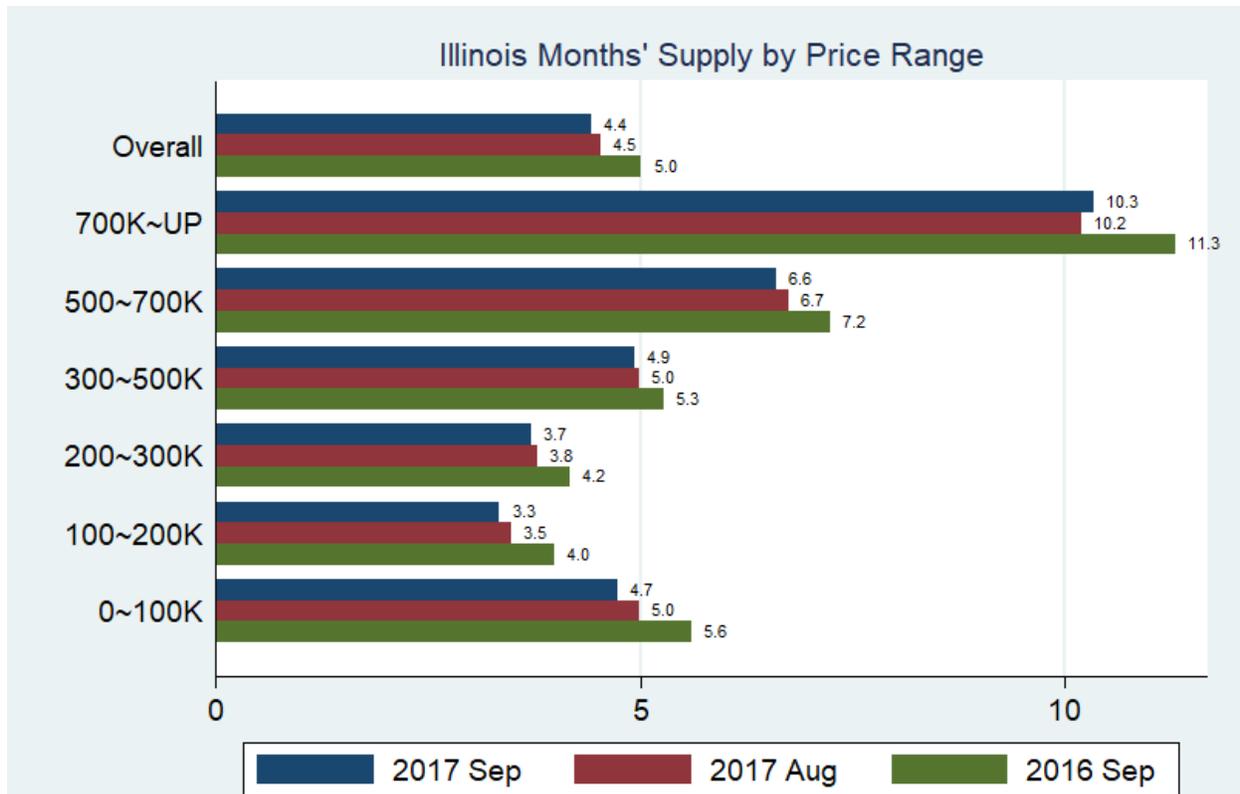


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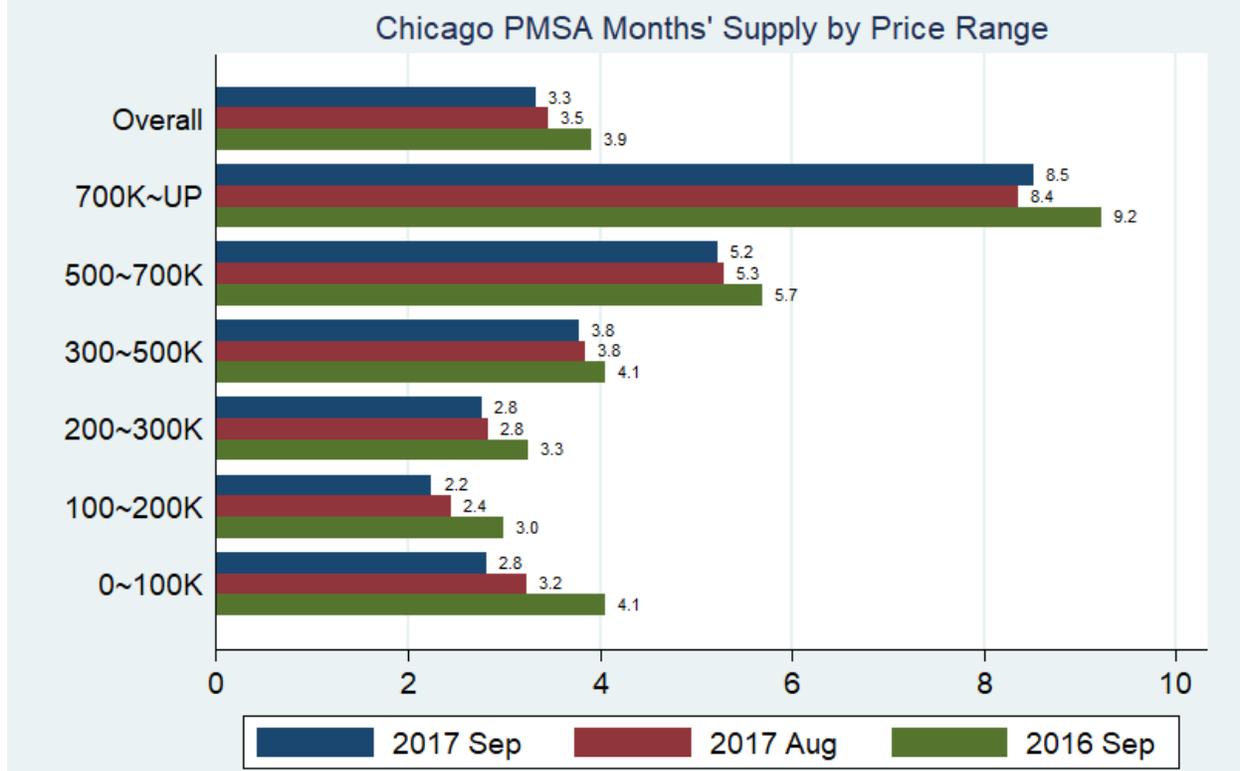




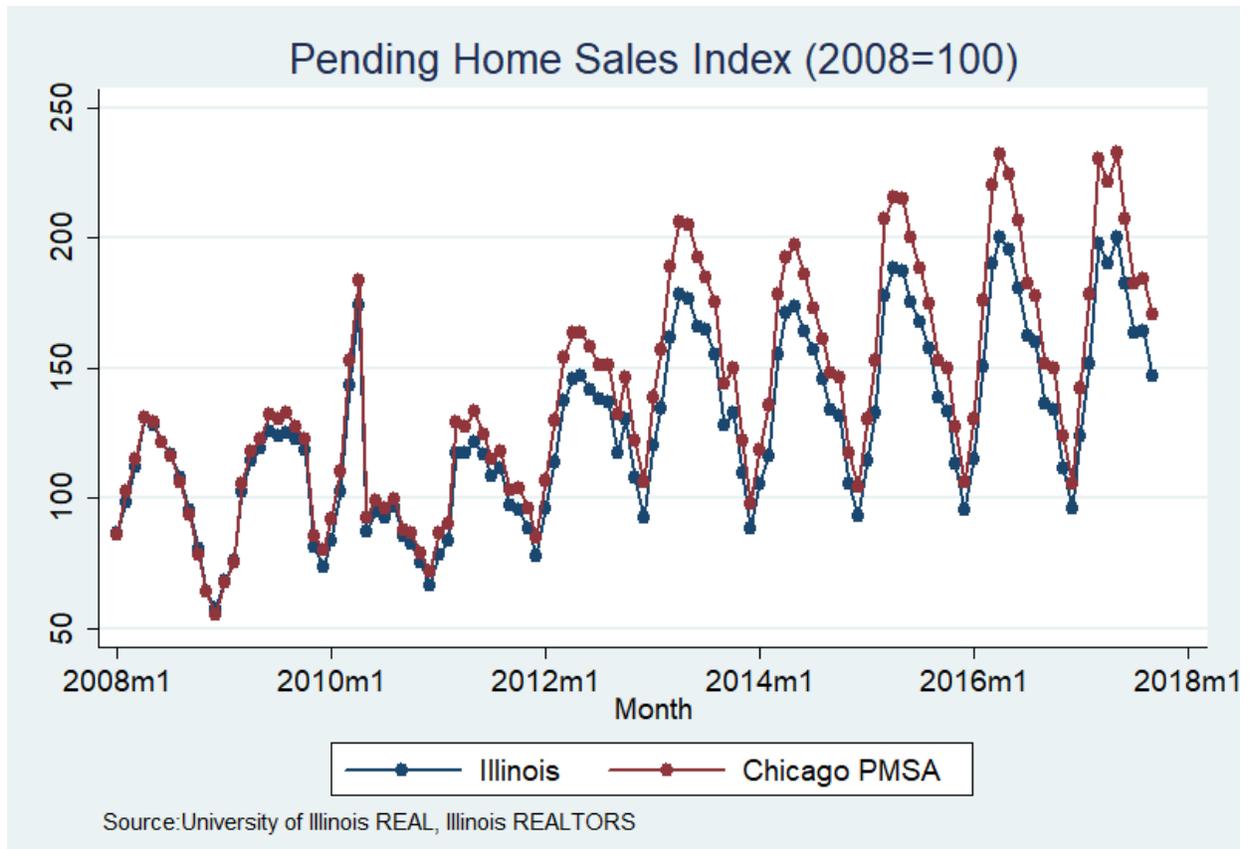




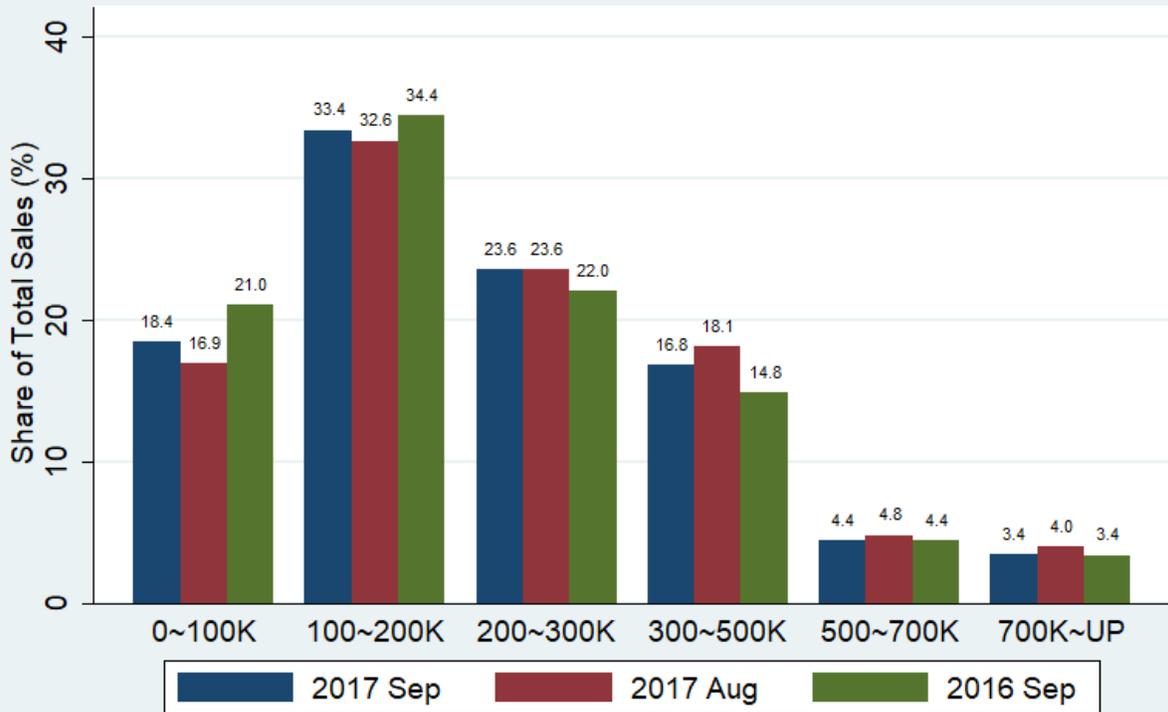
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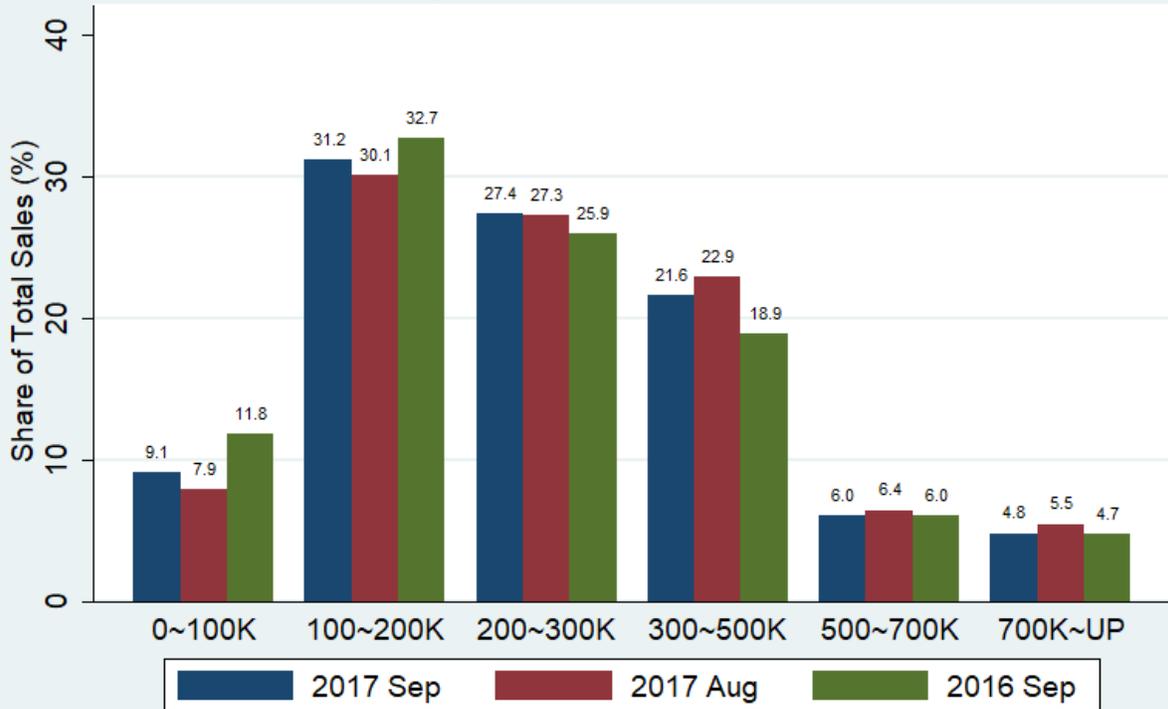


Illinois Price Stratification



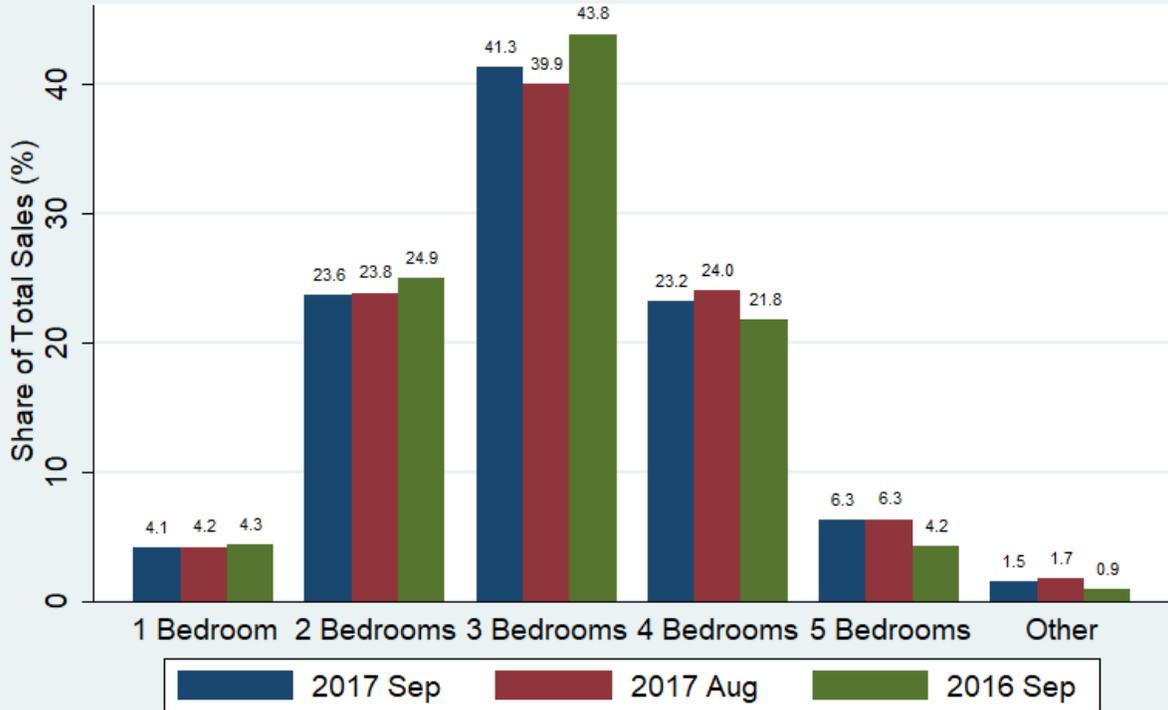
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Chicago PMSA Price Stratification



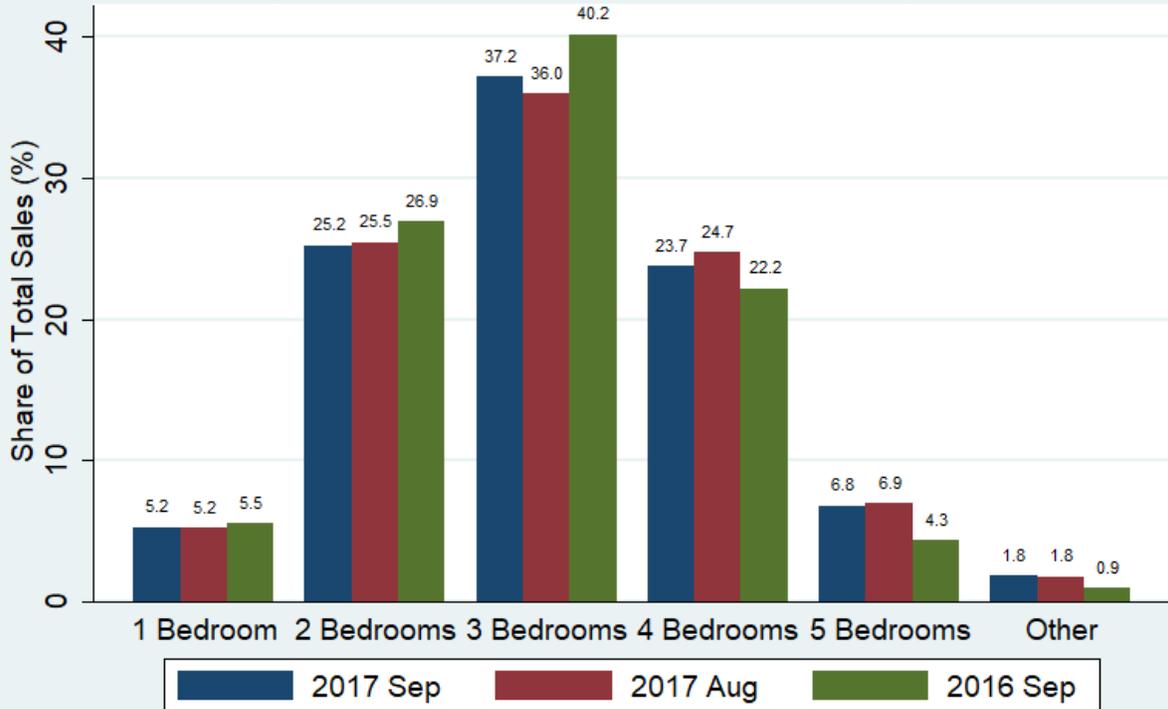
Source: University of Illinois REAL, Illinois REALTORS

Illinois House Characteristics by Bedroom



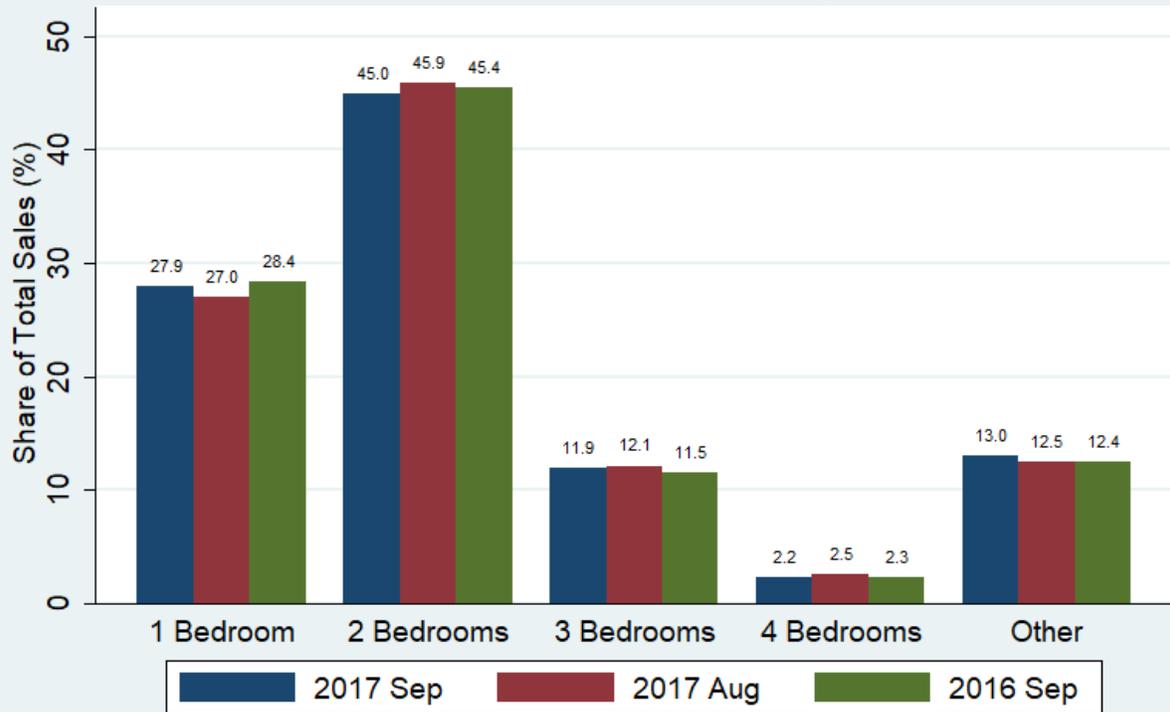
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Chicago PMSA House Characteristics by Bedroom



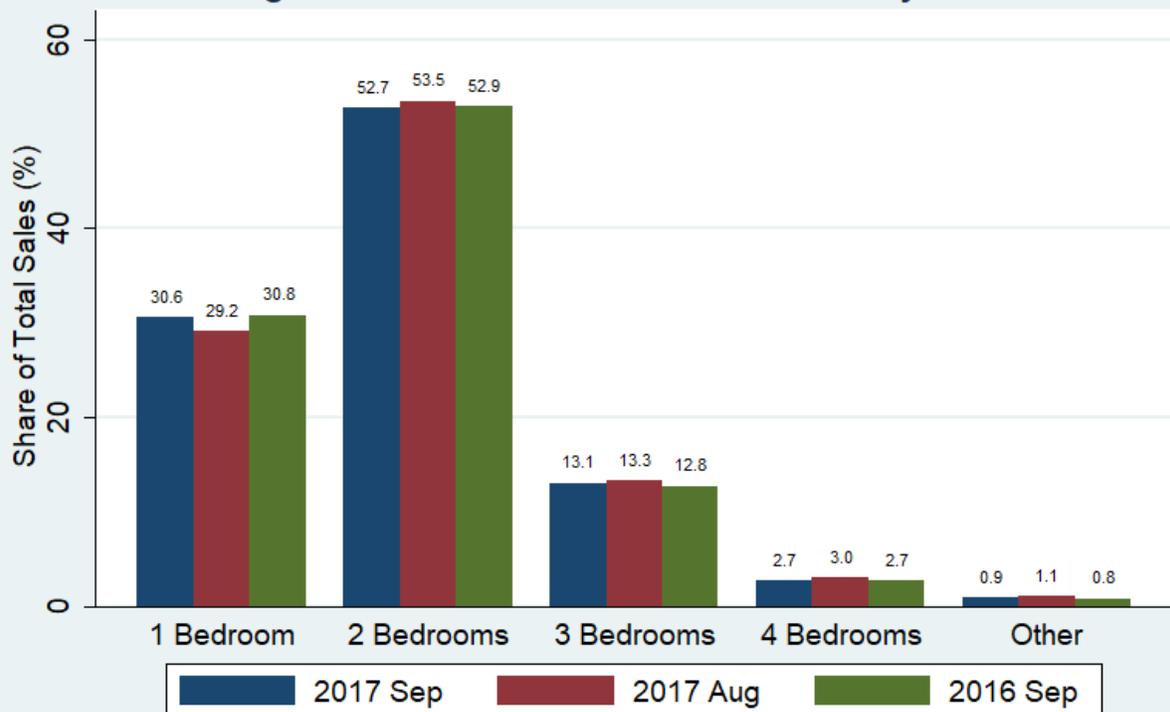
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Illinois House Characteristics by Bathroom



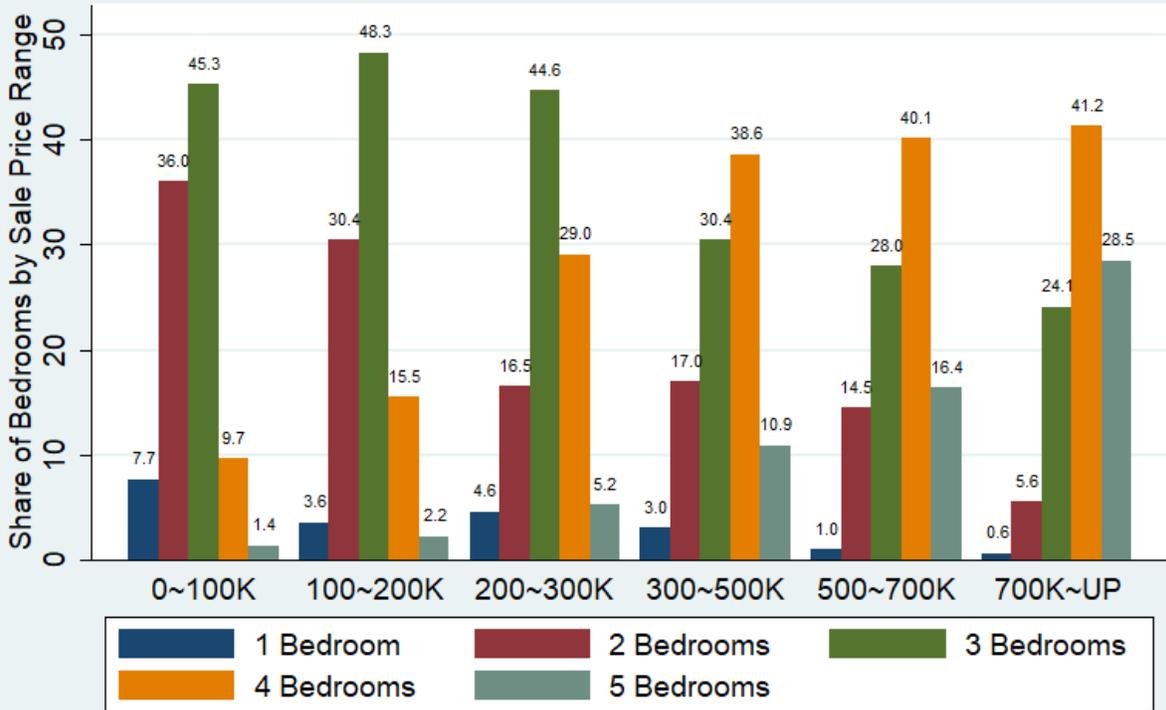
Source: University of Illinois REAL, Illinois REALTORS

Chicago PMSA House Characteristics by Bathroom



Source: University of Illinois REAL, Illinois REALTORS

Illinois Bedroom Shares by Sale Price Stratification



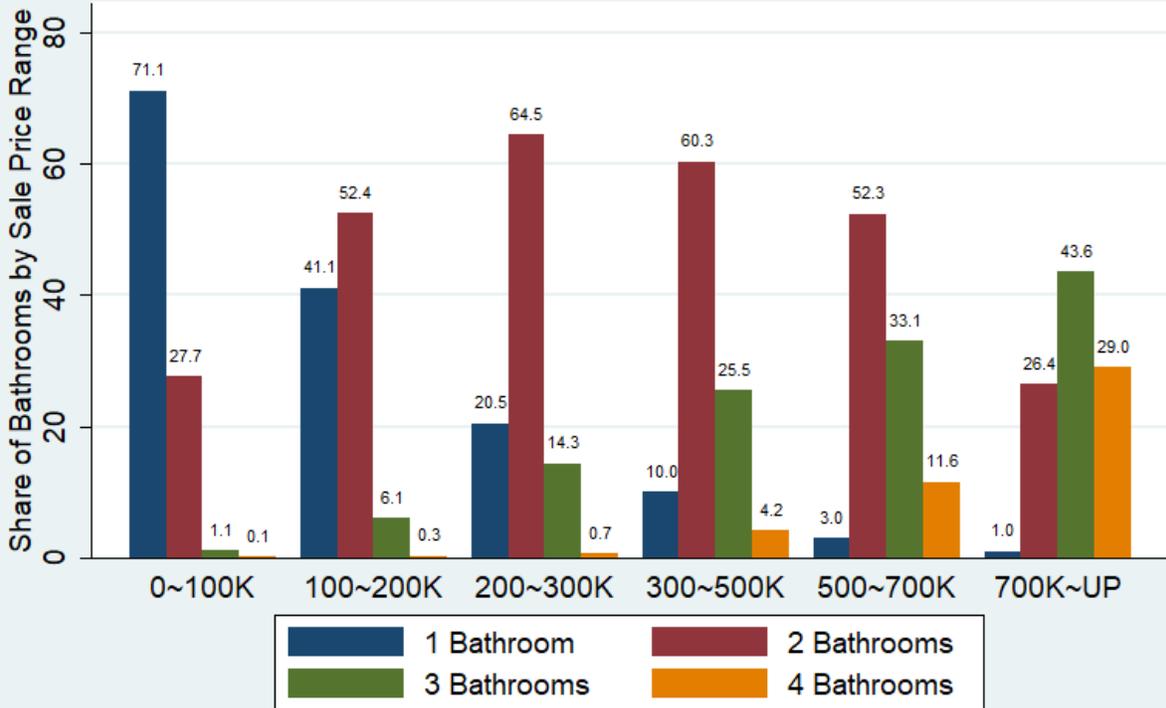
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Chicago PMSA Bedroom Shares by Sale Price Stratification



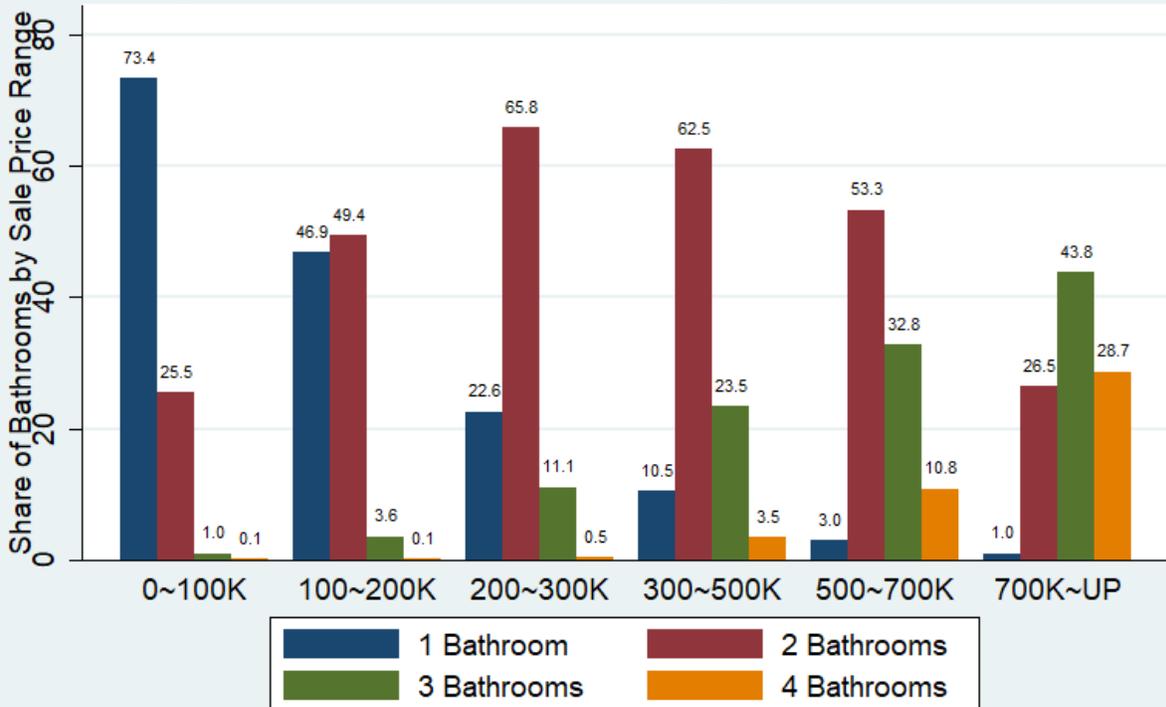
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Illinois Bathroom Shares by Sale Price Stratification



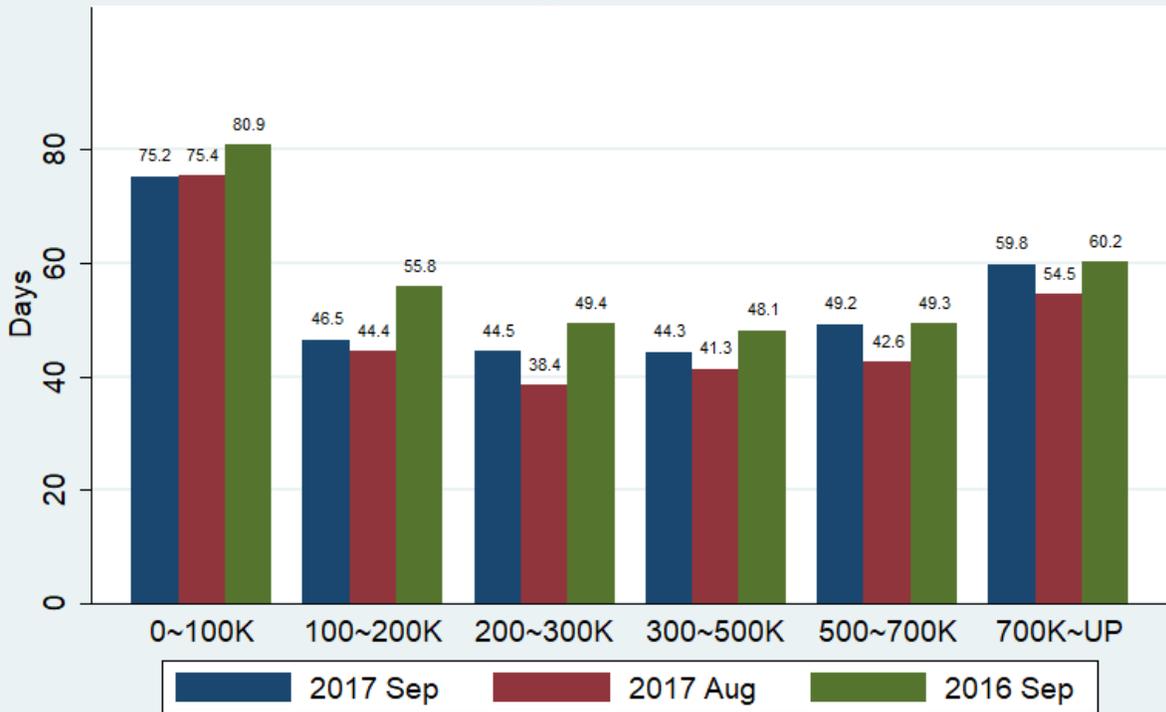
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Chicago PMSA Bathroom Shares by Sale Price Stratification



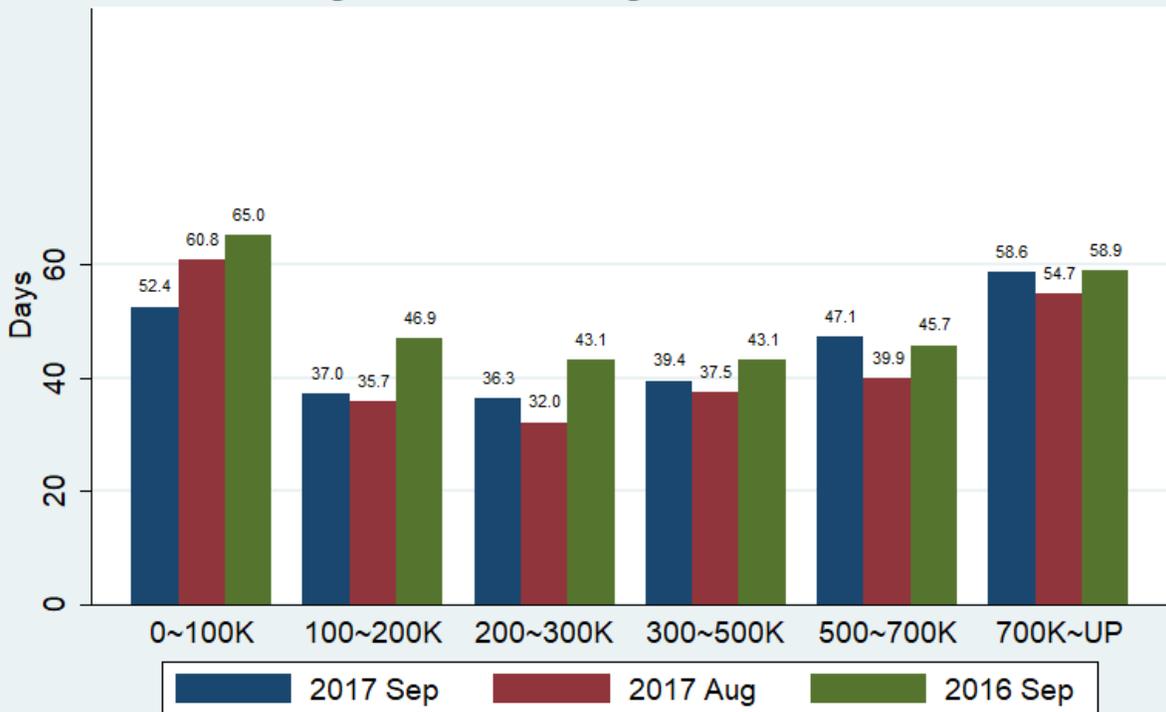
Source: University of Illinois REAL, Illinois REALTORS

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

