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Housing Price Forecasts

Illinois and Chicago MSA, June 2008

Presented To

Illinois Association of REALTORS®

From

R | E | A | L

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

June 16, 2008

Housing Price Forecast: Illinois and Chicago MSA, June 2008

The Housing Market

There were some positive data in the first quarter of 2008; according to NAR, the median prices of homes in the Northeast rose by 3.2%. However, declines of 12.3% and 7.5% were recorded in the West and South. In Chicago, there appeared to be significant differences by neighborhood with median prices holding up well. Housing sales continued to decline in May in both Illinois and Chicago, but at rates that were slightly below those recorded in April (comparing the same month one year ago). The month-to-month gains from April to May were positive, with gains of 17% in Illinois and just under 14% in Chicago. The month to month gains were almost twice as large as those in the previous month for Illinois and two and a half times as large for Chicago.

For the next three months, the sales forecasts continue to suggest declines in the 17-24% range for Illinois and 23-29% for Chicago for the months of June, July and August compared to the same months one year ago. The month-to-month forecasts indicate gains of 9-14% for Illinois and 11-15% for Chicago but then declines of between 6-10% for Illinois and 7-10% for Chicago in July followed by little or no month-to-month change in August. Median prices are expected to continue to inch back upwards in Chicago, although they will still be below levels recorded in the same months in 2007. The declines (compared to the same month last year) will be between 1.8 and 2.4% in Chicago. For the state, the trend for the next three months is down, about 7% through August.

Two major supply issues are affecting housing prices – the most important one being the continued 11+ month backlog of homes on the market. This supply problem is being exacerbated by continued increases in foreclosures which are adding further contributions to supply. Foreclosure filing surged 65% in April compared to the same month in 2007; the Woodstock Institute in Chicago estimated some years ago that each foreclosure within an eighth of a mile of a single family home results in a 0.9% decline in the home's value. The suggestion has been made that the impact is likely to be much larger into today's market. Further, the Conference Board has noted that, based on a survey of households, the number who indicated that they planned to buy a new home in the next six months has declined from 3.4% in March to 2.5% in April to 2.1% in May. Analysts are now starting to talk about "recovery" in 2010 rather than in 2009; however Freddie Mac indicated a more optimistic assessment with a decline in home sales of 13.9% in 2008 followed by an increase of 5.7% in 2009. Another forecast suggested similar timing, based on anticipated declines in inventories – once the level reaches five months (it is 10+ months now), then prices start to recover. There seems to be a growing consensus that the supply of homes is leveling off.

The economic news at the national level continued the uncertainty of recent months with a further loss of 49,000 payroll jobs in May. Compounding the problem was a significant jump in the unemployment rate to 5.5%. The number of unemployed persons increased by 861,000 to 8.5 million in May, after seasonal adjustment; a year ago, the number of unemployed persons was 6.9 million, and the jobless rate was 4.5 percent. These data revived intensive debate about whether the economy was in recession. Much to many analysts surprise, the Illinois economy added 4,000 jobs in May; even construction (500) and manufacturing (400) added jobs although both sectors have lost a combined 13,500 jobs in 2008.

As has been the case recently, most of the jobs shed have been concentrated in the manufacturing and construction sectors. The University of Illinois Flash Index dropped again by five-tenths of a point to 102.3 from its reading in April and reached its lowest point since September 2004, when it was at 102.2. A year ago, the index was at 106.6. REAL's forecasts for employment suggest a significant slowdown, with estimates of 17-20,000 additional jobs over the next 12 months. The slowdown in job growth will add further to the fiscal stress in the state's economy, dampening revenue growth on the one hand and generating additional demands for unemployment compensation and other state benefits on the other hand. Within the state, the major geographic divisions, Chicago, Downstate and the division between Metro and Non-Metro areas registered mixed ratings in April. Metro areas also showed notable variation in performance. Downstate added 4,700 jobs at 0.28% in April, up from a revised 900 loss at -0.05% in March. Chicago, on the other hand lost 5,200 jobs at -0.12%, as opposed to a revised 4,200 loss in March at -0.10%. This is, however, the largest number of jobs lost by Chicago since June 2005. Illinois Metro, by losing 8,800 jobs at -0.16% down from a 5,300 revised loss in March posted a negative rating for third consecutive month, for the first time since June 2006. Non-metro, however, added 8,300 jobs at 1.77% compared to a revised 200 job loss in March. Over the last 12-months, Illinois registered a 0.35% growth by adding 20,900 jobs. In terms of the last 12 months, Metro posted a 0.22% growth by adding 11,800 jobs whereas Non-metro gained 9,100 jobs at 1.77% during the same period. Chicago, on the other hand added 12,600 jobs at 0.30% while Downstate added 8,300 jobs at 0.49%.

The Housing Market - Bullets

- Forecasts for the next three months (June, July and August) suggest continuing declines in home sales compared to the same months last year but month to month forecasts suggest positive growth in June, declines in July and almost no change in August.
- Prices declines (compared with the same month last year) will be more moderate in Chicago (1.7 to 2.3%) but in excess of 7% in the state
- Median prices will move marginally higher in Chicago but continue to decline in the state

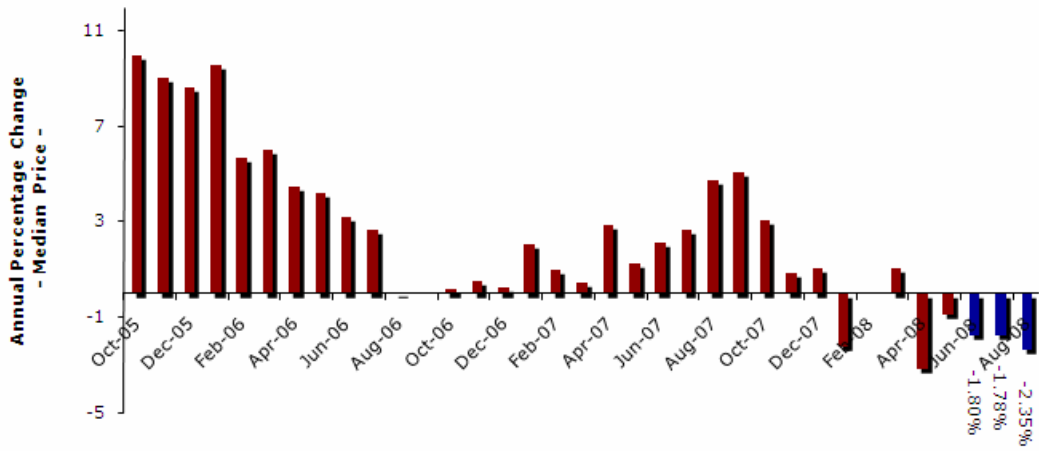
The Economy

- The nation lost a further 49,000 jobs in April, generating a five month loss in excess of 324,000
- There was a surge in the number of unemployed (compared to the same period last year) in May and the unemployment rate jumped from 5 to 5.5%
- The Chicago Business Activity Index (CBAI) was 65.9 in April, the ninth consecutive below the long-term trend reading since August 2007. This was mainly attributed to the weak national economy. Considering that the CBAI leads the local business cycle and the values of this index under 100 are associated with below-trend growth, the Chicago economy will experience below trend growth over the next 12 months.
- Illinois defied the national trend for the third time in the last six months by adding 4,000 jobs in May
- Forecasts suggest an employment gain of between 17-20,000 in the state over the next 12 months, reflecting the slowing national, regional (Midwest) and state economies.

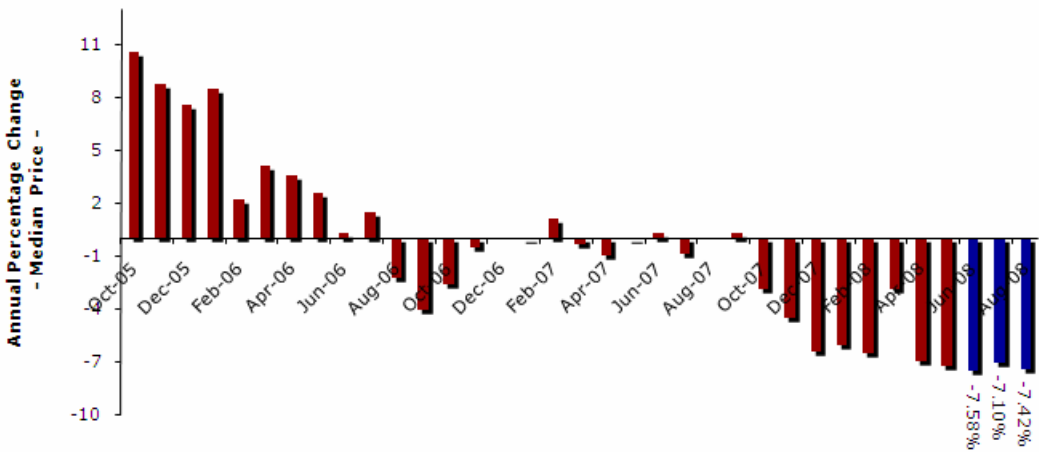
Longer-term Outlook

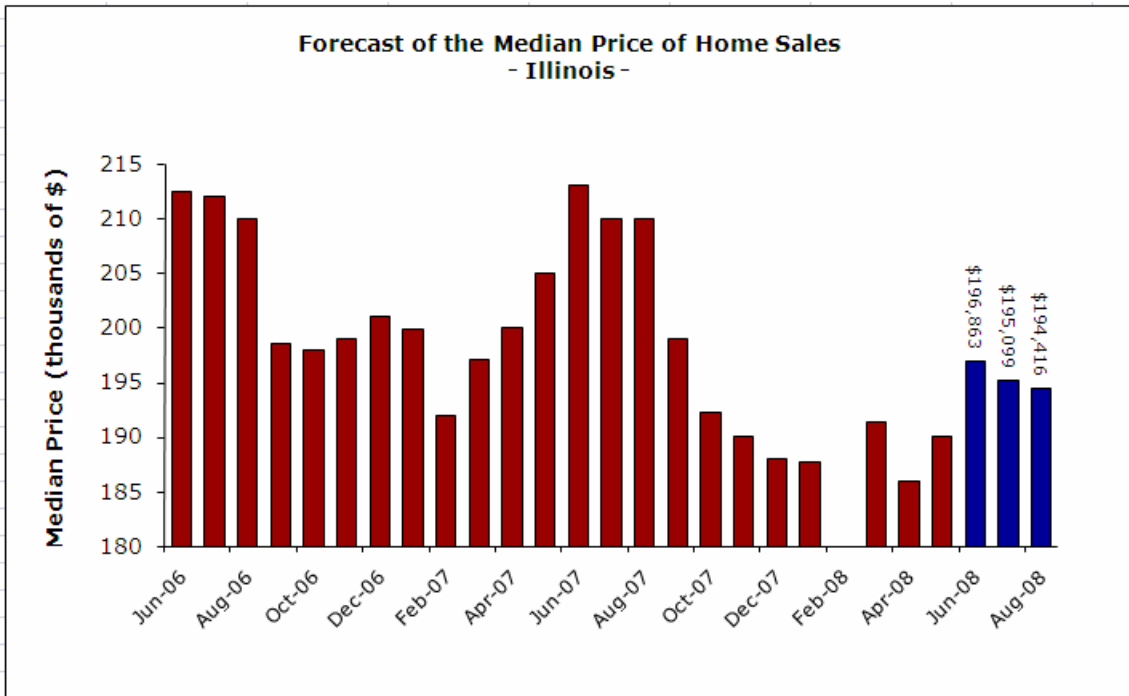
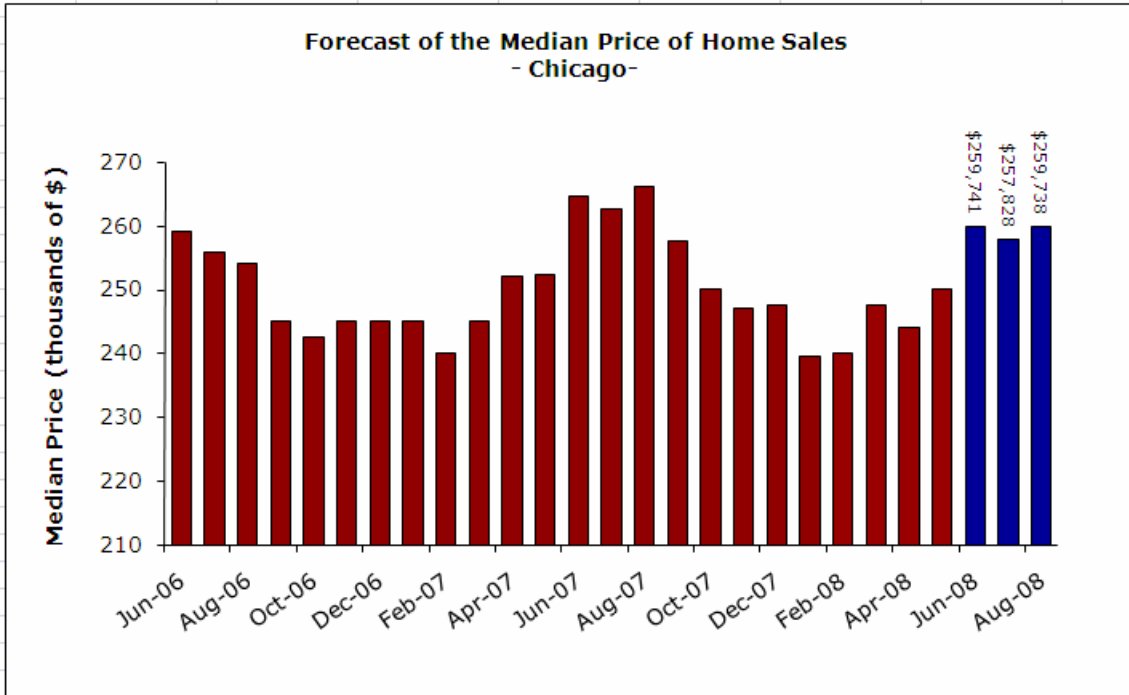
- US consumers seem to be cutting consumption of gasoline and also being more careful in shopping for necessities; the longer-term impact of the tax rebates is unclear
- The employment declines in the US last month generated further concern that the economy was in recession; the Reuters/University of Michigan preliminary index of consumer sentiment fell to 56.7 in June, a reading unseen since 1980, from 59.8 in May
- With continued employment declines in the state, recovery from the 2000 recession will be further delayed into 2011 – by far the longest recovery period since the Second World War.

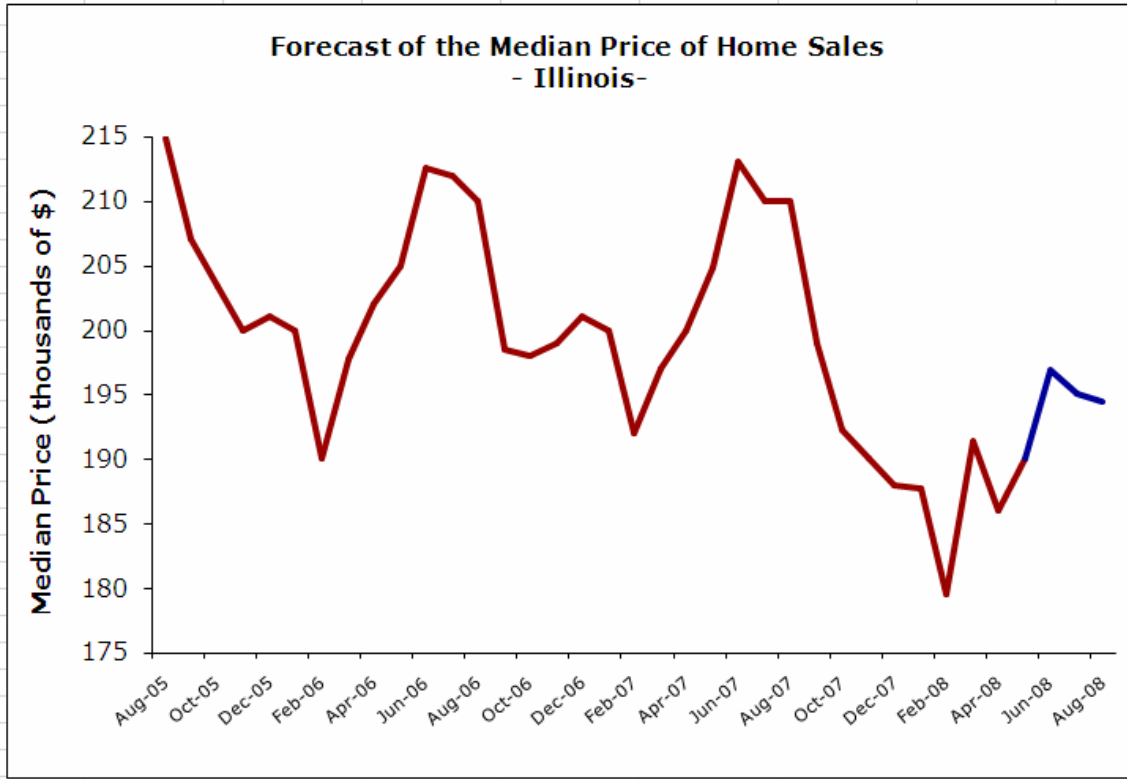
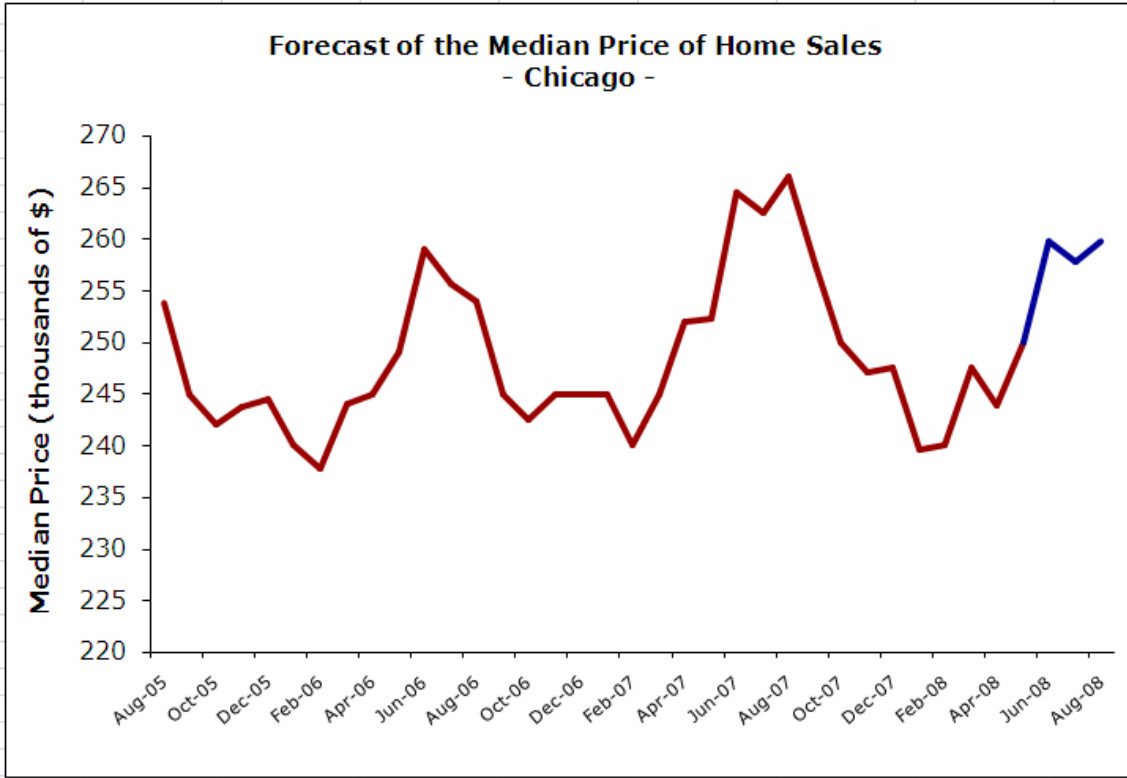
**Annual Percentage Change of the Median Price for Home Sales
- Chicago -**

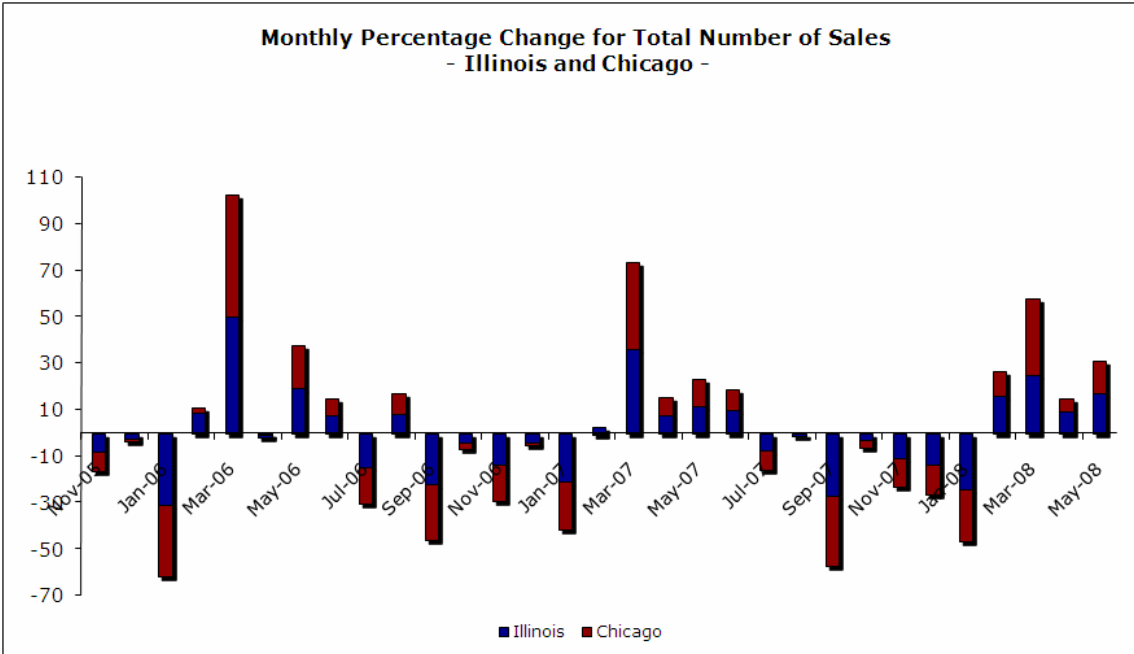
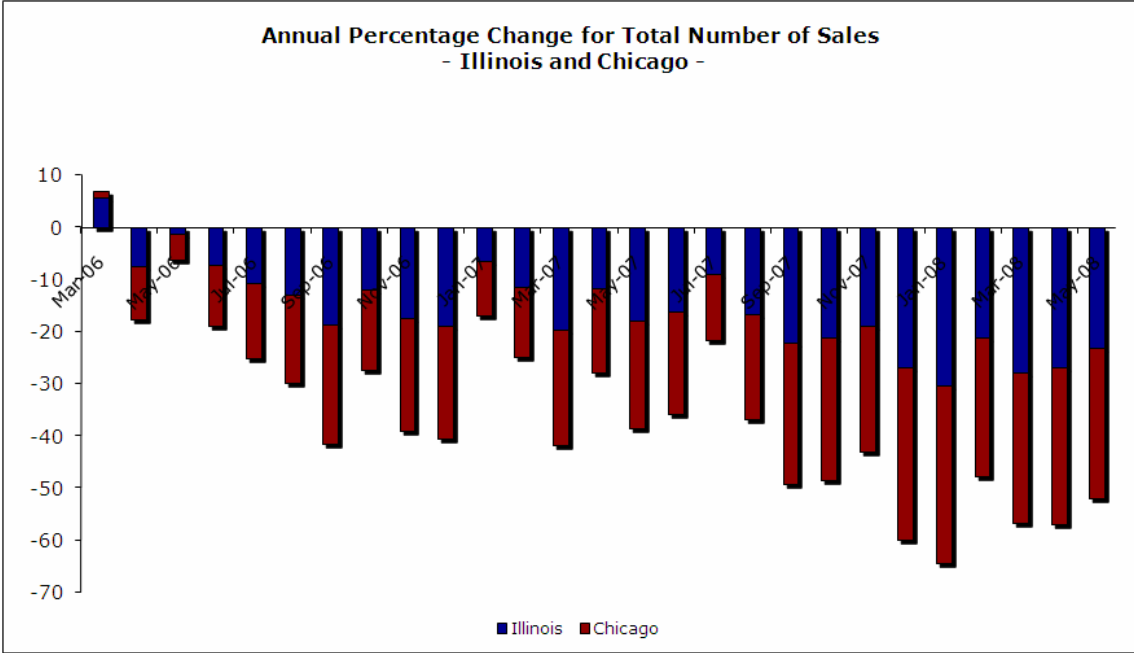


**Annual Percentage Change of the Median Price for Home Sales
- Illinois -**

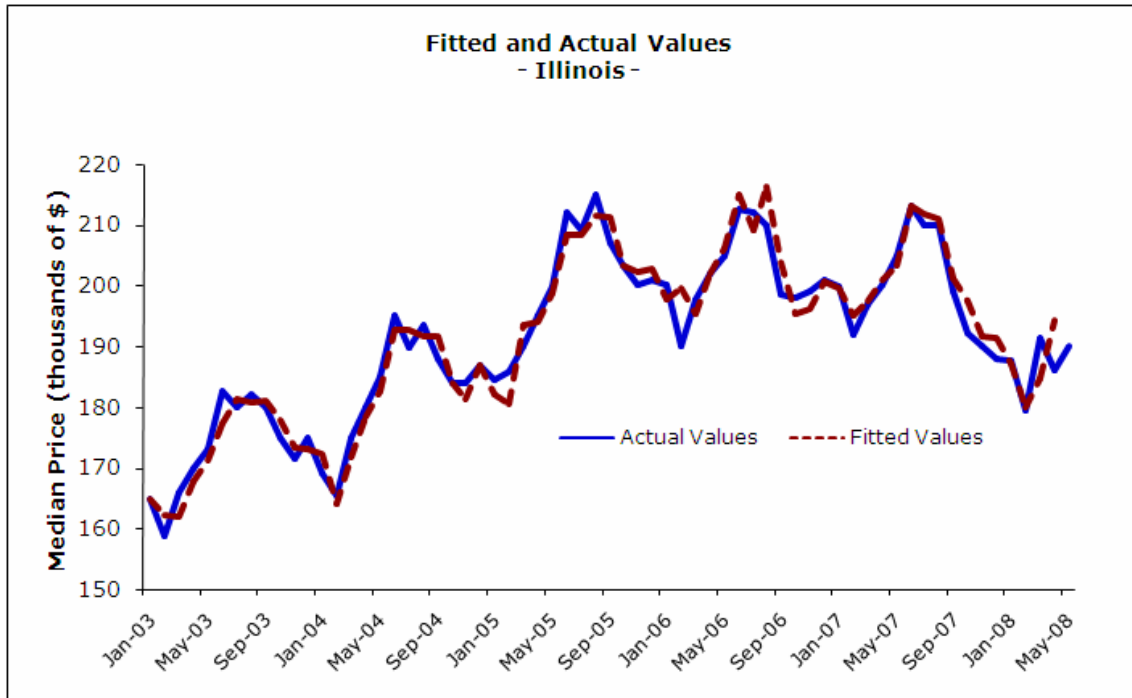




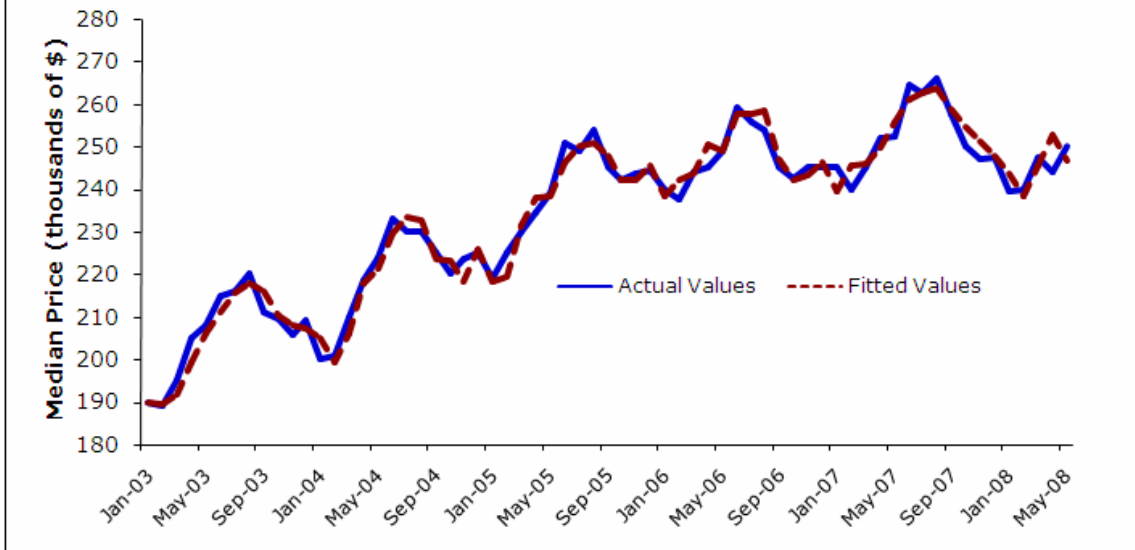




PERCENTAGE CHANGE FOR THE TOTAL NUMBER OF SALES (Illinois and Chicago)					
	Annual		Monthly		
	Illinois	Chicago	Illinois	Chicago	
Mar 2008	-27.73 %	-28.94 %	24.81 %	33.01 %	
Apr 2008	-26.75 %	-30.17 %	9.14 %	5.89 %	
May 2008	-22.95 %	-28.99 %	17.28 %	13.62 %	
SUMMARY OF THE FORECAST INTERVALS FOR THE TOTAL NUMBER OF SALES (Illinois and Chicago)					
	Annual		Monthly		
	Illinois	Chicago	Illinois	Chicago	
Jun 2008	-23.96 % -17.96 %	-29.22 % -23.22 %	9.82 % 14.82 %	11.03 % 15.03 %	
Jul 2008	-24.33 % -18.33 %	-29.68 % -23.68 %	-9.98 % -5.98 %	-10.85 % -6.85 %	
Aug 2008	-24.23 % -18.23 %	-29.19 % -23.19 %	-0.11 % -2.11 %	-0.34 % 1.66 %	
SUMMARY OF THE FORECAST FOR THE MEDIAN PRICE (Illinois and Chicago)					
	Illinois	Chicago	Illinois	Chicago	
Jun 2008	\$ 196,863	\$ 259,741	Jun 2007	\$ 213,000	\$264,500
Jul 2008	\$ 195,099	\$ 257,828	Jul 2007	\$ 210,000	\$ 262,500
Aug 2008	\$ 194,416	\$ 259,738	Aug 2007	\$ 210,000	\$ 266,000
ANNUAL PERCENTAGE CHANGE OF THE MEDIAN PRICE (Illinois and Chicago)					
	Illinois	Chicago	Illinois	Chicago	
Jun 2008	-7.58 %	-1.80 %	Jun 2007	-0.23 %	2.12 %
Jul 2008	-7.10 %	-1.78 %	Jul 2007	-0.94 %	2.65 %
Aug 2008	-7.42 %	-2.35 %	Aug 2007	0 %	4.72 %



Fitted and Actual Values
- Chicago -



Housing Price Forecasts

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Part II Background Information

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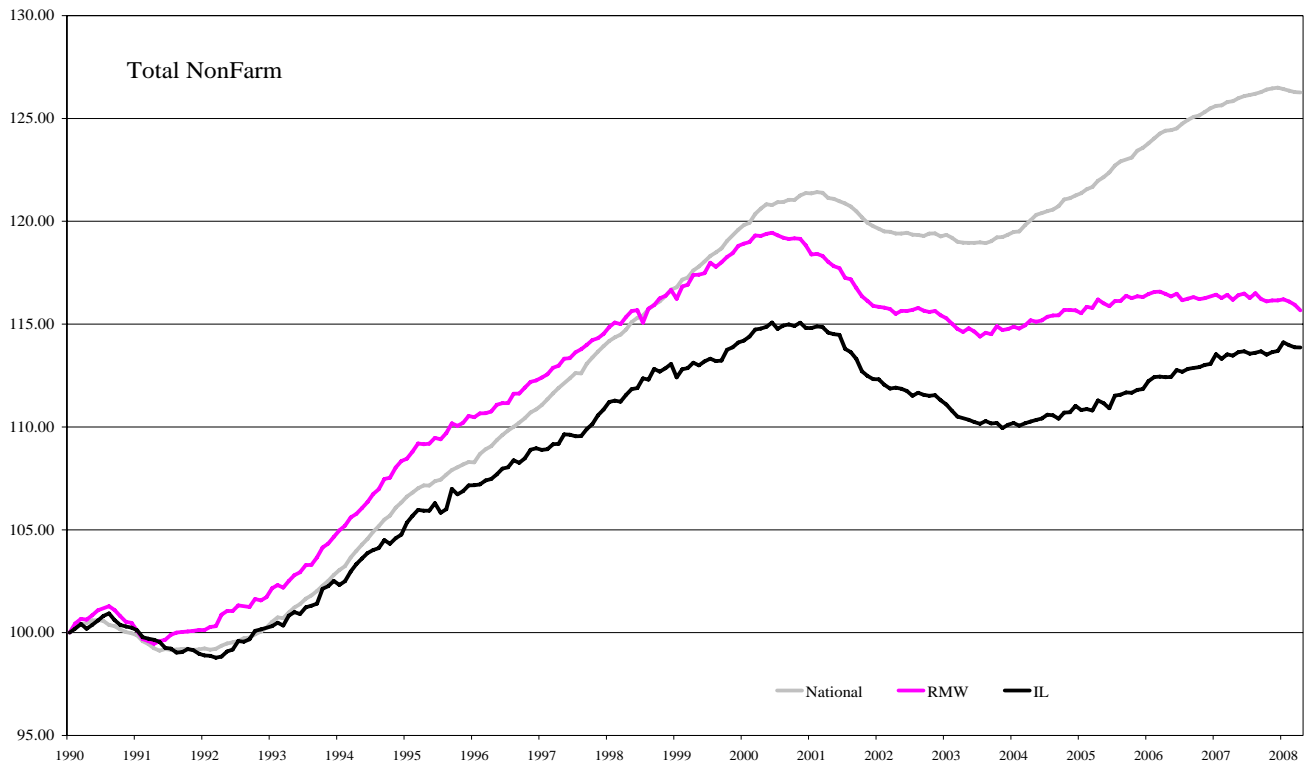
Regional Economics Applications Laboratory,
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	May 2008 <i>Neutral</i>		Mar 2008 - Apr 2008		Last 12 months	
		Total non-farm employment	Growth Rate %	Number of Jobs	Growth Rate%	Number of Jobs
		Nation	-0.01	-20,000	+0.34	+462,000
		RMW	-0.24	-47,300	-0.44	-87,700
	Illinois	-0.01	-500	+0.35	+20,900	

Talking Points	
Illinois Notes	<ul style="list-style-type: none"> ▪ The loss of 500 jobs at a rate of -0.01% in April 2008 was smaller than the loss in March (0.08%). This is for the third time in 2008 that Illinois posted negative growth. ▪ Through April, the average growth rate of Illinois in 2008 stood at 0.04% which is below the average growth rate for 2007 of 0.05% and the average for the recent recovery period for Illinois since early 2004 of 0.07%. ▪ In April, Illinois, the Nation and the RMW all lost jobs, for the third consecutive month. ▪ Over the last 12-months, Illinois employment grew by 0.35%, slightly above the 0.34% growth of the Nation while RMW continued with a negative rating at -0.44% for the eighth consecutive months. The negative rating for RMW is the lowest since December 2003. ▪ Illinois has added 2,325 jobs on average per month in 2008, compared to 2,742 jobs in 2007. ▪ Until April 2008, the cumulative job growth for the Nation, Illinois and RMW compared to January 1990 stood at 26.26%, 13.87% and 15.67% respectively.
Nation Notes	<ul style="list-style-type: none"> ▪ While nation lost jobs (20,000) for the fourth consecutive month in April, the size of the loss was much lower than the forecast by economists (75,000). This is the smallest number of jobs lost by the nation in 2008. ▪ This is for the first time after March 2003 that the nation has posted a net job loss for four consecutive months. ▪ The Nation added 462,000 new jobs at 0.34% over the last 12 months, the smallest gain recorded over any 12-month period since February 2004. ▪ While through April the Nation posted negative growth for four months in a row, the average growth rate for 2007 was 0.08% and the average since the recent recovery period after September 2003 was 0.12%.

Total non-farm Employment growth rate Jan 1990 - Apr 2008



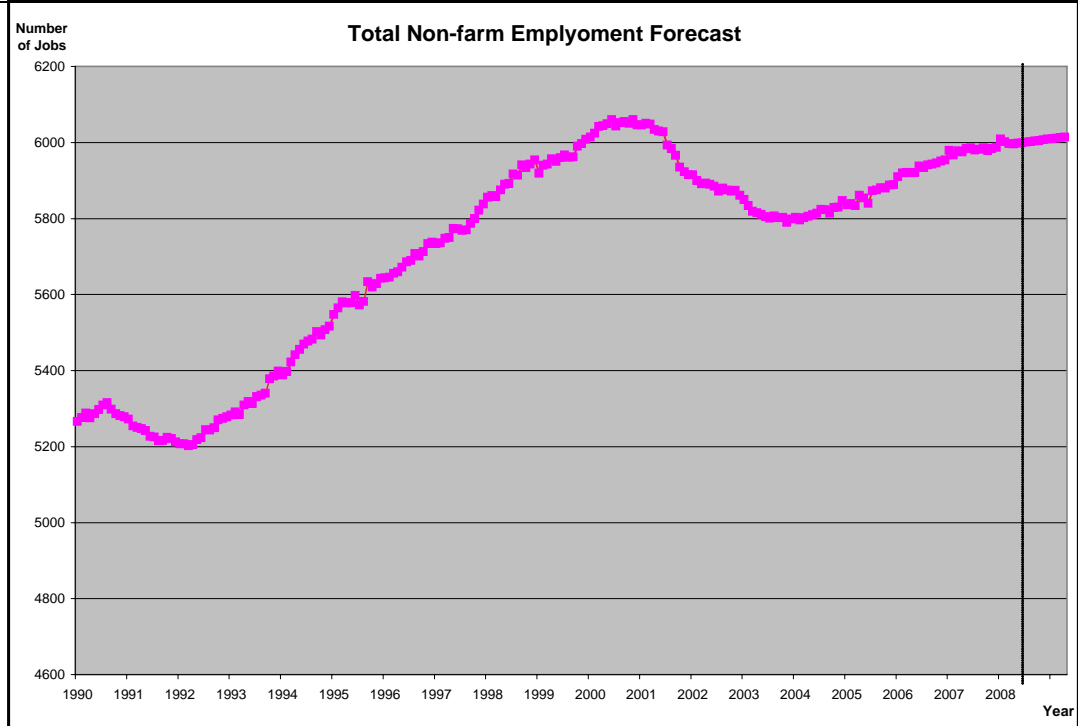
By employment sector:

Total non-farm Employment growth rate by sector									
	Mar 2008 – Apr 2008			Jan 1990 – Apr 2008					
Monthly growth rates	Illinois vs. RMW	Illinois vs. Nation	Midwest vs. Nation	Illinois				RMW	Nation
				vs. RMW	vs. Nation	Number of Jobs	Rate %	Rate %	Rate %
Construction	+	+	-	-	-	37,200	16.36	24.41	34.18
Education & health	+	-	-	-	-	261,400	49.40	54.72	74.67
Financial activities	+	-	-	-	-	30,500	8.18	19.04	24.92
Government	-	-	-	-	-	100,000	13.26	14.09	23.33
Information	-	-	+	-	-	-13,500	-10.34	-5.21	12.77
Leisure & hospitality	+	-	-	+	-	142,500	36.92	28.82	47.42
Manufacturing	+	+	-	-	-	-252,000	-27.28	-20.29	-23.61
Professional & business services	+	+	-	-	-	306,100	53.63	59.64	67.64
Trade, transportation & utilities (TTU)	+	+	-	-	-	74,100	6.46	9.19	16.70
Other Services	-	-	-	+	-	52,400	25.51	21.82	30.94
Sector notes	<ul style="list-style-type: none"> ▪ While Illinois faced a 0.01% job loss in April, three sectors recorded net gains and three remaining sectors posted net losses. Compared to April, notable performance gains were recorded for Professional and Business Services (-0.18% to 0.39%), Other Services (-0.84% to -0.27%) and Education and Health Services (0% to 0.23%) whereas Construction (0.53% to -0.54%), Information (0.17% to -0.09%) and Leisure and Hospitality (0.02% to -0.15%) faced losses in performance. ▪ Notable gains at the Nation level were recorded as follows: <ul style="list-style-type: none"> ○ Education and Health Services: 52,000 (0.28%) ○ Professional and Business Services: 39,000 (0.22%) ○ Leisure and Hospitality: 18,000 (0.13%) ○ Government: 18,000 (0.08%) ▪ Major losses in April were recorded for the following sectors: <ul style="list-style-type: none"> ○ Construction: 61,000 (-0.83%) ○ Manufacturing: 46,000 (-0.34%) ○ Trade, Transportation and Utilities: 36,000 (-0.14%) ▪ For the Illinois, the following sectors are notable in terms of job gains: <ul style="list-style-type: none"> ○ Professional and Business Services: 3,400 (0.39%) ○ Education and Health Services: 1,800 (0.23%) ▪ Following are the major Illinois sectors that lost jobs in April: <ul style="list-style-type: none"> ○ Manufacturing: 1,900 (-0.28%) ○ Construction: 1,200 (-0.45%) ○ Trade, Transportation and Utilities: 1,100 (-0.09%) ▪ In terms of 12-months aggregated account, Construction, Manufacturing, Financial Activities, Leisure and Hospitalities and Other Services registered net losses, whereas the remaining five sectors maintained a positive rating. Education and Health Services and Trade, Transportation 								

and Utilities were the two major contributors over that period.

Illinois Employment Forecast Next 12 Months by Sector

	Mar 2008	Mar 2009 (p)	Number of Jobs	Growth Rate %
Total non-farm	5,995,800	6,013,600	17,800	0.30%
Construction	264,600	268,800	4,200	1.59%
Manufacturing	671,600	661,800	-9,800	-1.46%
Trade, transportation & utilities	1,222,000	1,223,100	1,100	0.09%
Information	117,100	115,300	-1,800	-1.54%
Financial Activities	403,200	403,500	300	0.07%
Professional & business services	876,900	888,000	11,100	1.27%
Education & health	790,500	799,100	8,600	1.09%
Leisure & hospitality	528,500	535,300	6,800	1.29%
Other services	257,800	267,300	9,500	3.69%
Government	853,900	854,200	300	0.04%



About REAL the IAR Housing Forecast

Leading economists from the University of Illinois Regional Economics Applications Laboratory (REAL) developed the Illinois housing price forecast using an augmented distributed lag model as the framework to relate house pricing and the economic business cycle. This “ARIMA” model is considered a highly accurate forecasting method and one that can be easily updated with data provided by the Illinois Association of REALTORS® each month and quarter and selected monthly economic data available for the state and metropolitan regions.. Leading the research team is Dr. Geoffrey J.D. Hewings, director of REAL and a professor of Geography, Economics and Urban and Regional Planning.

All reports are available for members to download from the IAR Web site in Members Only, www.illinoisrealtor.org/MarketCenter.

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