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Housing Price Forecasts

Illinois and Chicago MSA, May 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

May 19, 2008

Housing Price Forecast: Illinois and Chicago MSA, May 2008

The Housing Market

Even though nationally there was some positive news in that housing starts in April increased by 8.2%, much of this growth was generated by multifamily units. Housing sales as a whole in Illinois and Chicago both declined in April (compared to the same month one year ago) at rates that matched the values recorded in March. The month-to-month gains from March to April were, however, positive, with gains of 8.5% statewide and almost 6% in Chicago. These gains were about one third the changes recorded between February and March for the state and one sixth those for Chicago over the same period.

For the next three months, the sales forecasts look to be down (compared to the same months, May through July, 2007) between 18 and 27% for the state and 20 to 30% for Chicago. The month-to-month forecasts point to gains in the range of 11-19% for the state and 9-19% for Chicago for May and June but declines of 5-9% for Illinois and 7-11% for Chicago in July.

Median prices are expected to recover in the state in May and June but compared to the same months in 2007, the prices will be down around 6%. Prices will dip slightly in July but will still be above the forecast values for May. Chicago will experience a similar pattern (increasing prices in May and June with a fallback in July); compared to the same months a year ago, the declines will be between 2-3%.

The backlog of houses on the market has remained relatively unchanged (at about an 11 month supply). Various initiatives to help homeowners have been proposed in Congress but it is uncertain whether the President will support any one of them. One proposal would offer first-time homebuyers a tax credit of \$7,500. There is some sentiment that housing prices may “bottom-out” in April 2008 reflecting the potential end of a decline that began in July 2005. Analysts point to a combination of factors – declining interest rates and house prices may increase the affordability of housing to many households. However, other analysts point to the continuing fall-out (evidenced through increases in foreclosures – a 65% increase in April compared to the same month in 2007) that is associated with the sub-prime market troubles. An indication that consumers may be reluctant to enter the housing market may be gleaned by the increase in apartment rents and the decline in vacancy rates in Chicago – the rate in Chicago is below 5% whereas in the recent past rates as high as 7% were observed.

Compared to many other metropolitan areas, the Chicago region is still experiencing price declines that are below 10% in contrast to other areas such as Las Vegas, where price declines have exceeded 20%.

The economic news was a little brighter this month in the sense that national job losses of 20,000 in April were much lower than anticipated (consensus estimates were in the 70,000 range); however, the nation has now lost jobs for the past four months. Illinois meanwhile posted only a statistically insignificant loss (500 jobs). Over the past 12 months, Illinois has actually outperformed the US, gaining 0.35% compared to 0.34%. The Rest of the Midwest (RMW), on the other hand, continues to shed jobs (mainly in Ohio and Michigan); over the last 12 months, it has lost 87,700 jobs and shed 47,300 jobs in April. Illinois is rapidly catching up with the employment growth rates of the RMW since 1990. Both nationally and in Illinois, job losses were felt most significantly in the construction and manufacturing

sectors. Construction has been on a downward trend since early 2006 in all three areas – US, RMW and Illinois. The decline in the RMW was almost three times as large as in Illinois. Consumer sentiment, measured by the Michigan index, declined to its lowest level in 28 years (June 1980) generated in large part by the significant increase (>30 cents a gallon) in the price of gasoline. The University of Illinois Flash Index dropped to 102.8, a fall of six-tenths of a point from 103.4 the previous month and the lowest reading since November 2004; the current month's reading compares with a value of 107.4 one year ago – then, the highest reading in a decade. REAL continues to suggest slowing employment growth (in the low 30,000 for the next 12 months). Within the state, all parts – metro, non-metro, Chicago and downstate lost jobs with the greatest percentage losses occurring in the non-metro areas in March. Springfield and Kankakee were the only metro areas to record job gains while the greatest losses were recorded in Peoria, Bloomington-Normal and Metro East St. Louis.

“Both the US and Illinois economies appear to be flirting with recession” according to Geoffrey Hewings, Director of the Regional Economics Applications Laboratory, “with the rapid increases in gasoline prices generating inflationary pressure that may temper any future interest rate adjustment downwards by the Federal Reserve. Over the last twelve months, the Illinois economy has matched the employment growth rate of the US economy for the first time in over a decade.”

The Housing Market - Bullets

- Forecasts for the next three months indicate declines in home sales at rates observed since the beginning of the year
- Month-to-month changes suggest that May and June will witness increases in sales but July will experience declines
- Median prices in Illinois and Chicago will move upwards in May and June but will still be below levels recorded in the same months in 2007 (about 6% in Illinois and 2-3% in Chicago); median prices will fall back in July to levels below those in June but above those in May.

The Economy

- The nation lost 20,000 jobs in April contributing to a four month loss of 260,000 jobs
- The unemployment rate decreased slightly to 5.0%; the labor force participation rate (the percentage of the population 16-64 who were employed or actively seeking work) remained at 66.0 percent, the same as in April 2007
- In April, part-time workers who were employed for economic reasons increased by 306,000 to 5.2 million about 849,000 higher a year ago. Many were working part-time because their hours had been cut back or they were unable to find full-time jobs
- The Chicago Business Activity Index (CBAI) was 70.7 in March, the eighth consecutive below the long-term trend reading since August 2007. This was mainly attributed to the weak national economy and the negative contribution of both the manufacturing and non-manufacturing sectors. 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 lost only 500 jobs in April but over the last twelve months has added jobs at the same rate as the US as a whole; in contrast, the Rest of the Midwest (Iowa,

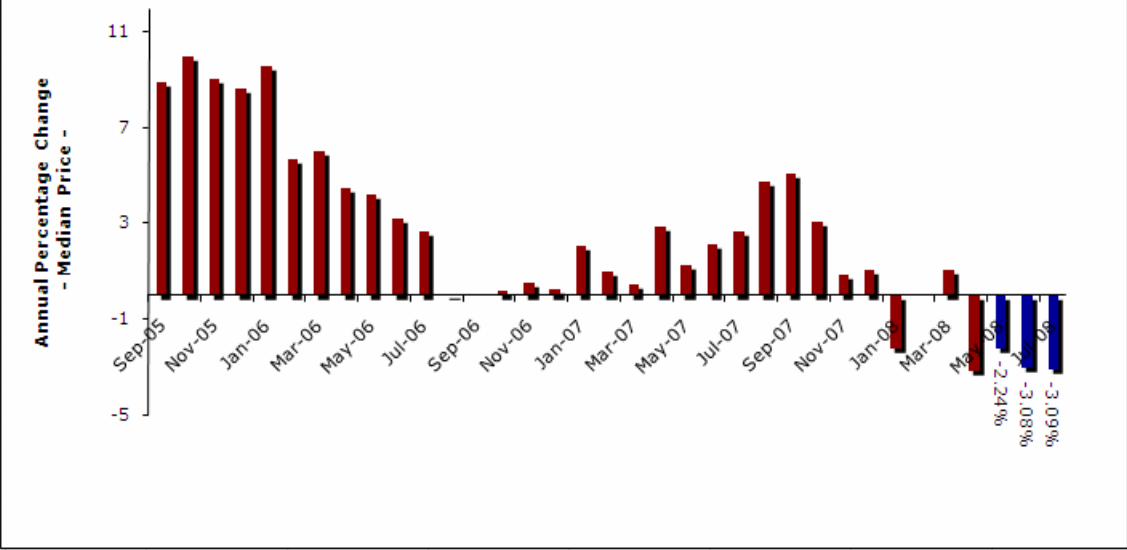
Wisconsin, Michigan, Ohio, Indiana and Missouri) lost 47,300 jobs in April and 87,700 over the last 12 months

- Forecasts for Illinois indicate gains of 33,000 jobs for the next twelve months; the 12-month ahead forecasts have been slowly dropping reflecting slowing national and state economies.

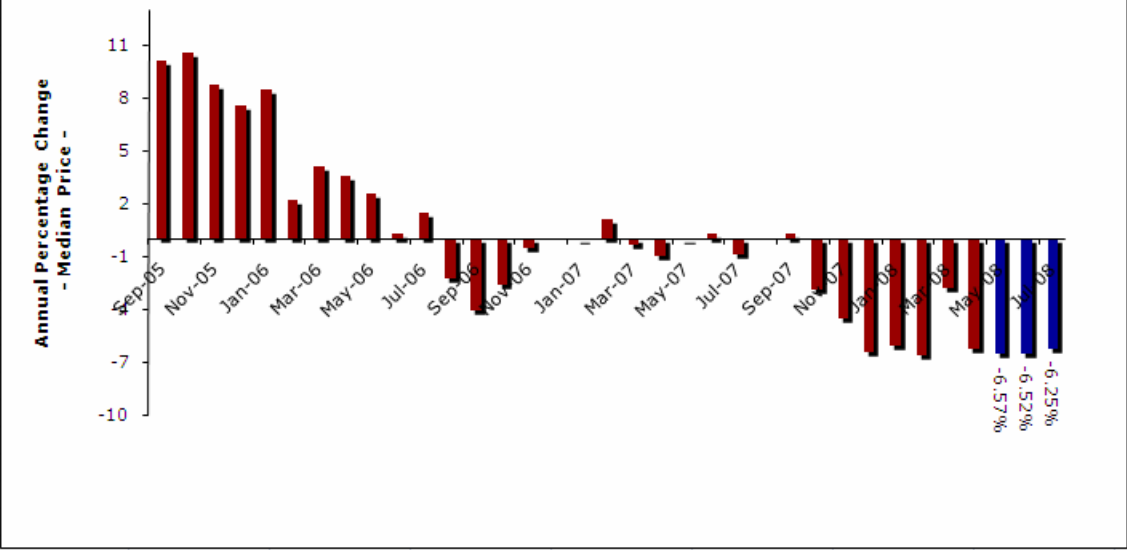
Longer-term Outlook

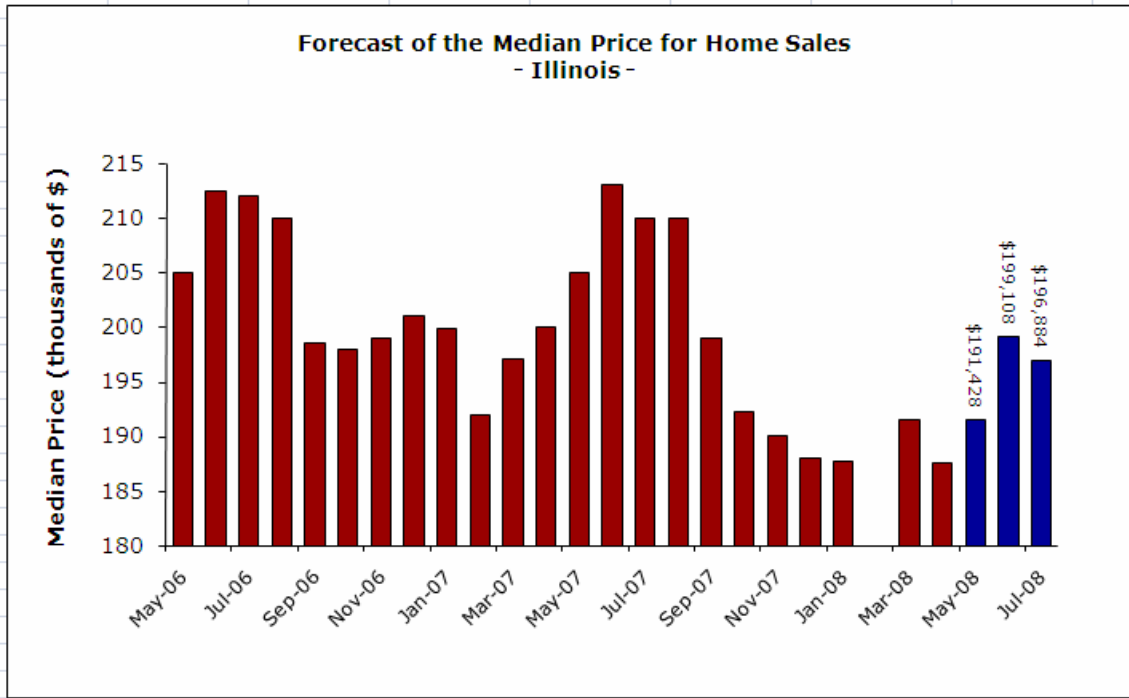
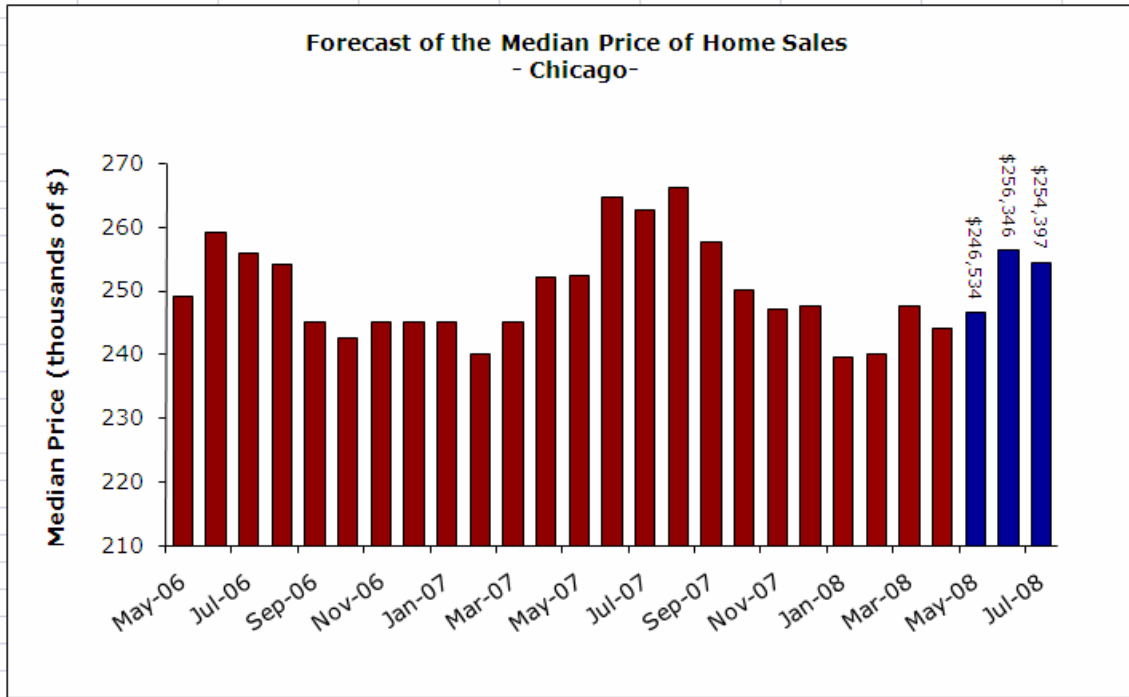
- Continuing record high oil prices and increases in food prices are creating inflationary pressures that may preclude further downward adjustments in interest rates
- Consumer sentiment (Michigan index) was the lowest in 28 years, reflecting continued uncertainty about the direction of the economy
- The Illinois and US economies appear to be skirting with a recession; for Illinois, the employment declines of the last two months have extended to December 2009 forecasts of recovery from the prior employment peak of November 2000. The US economy recovered in February 2005.

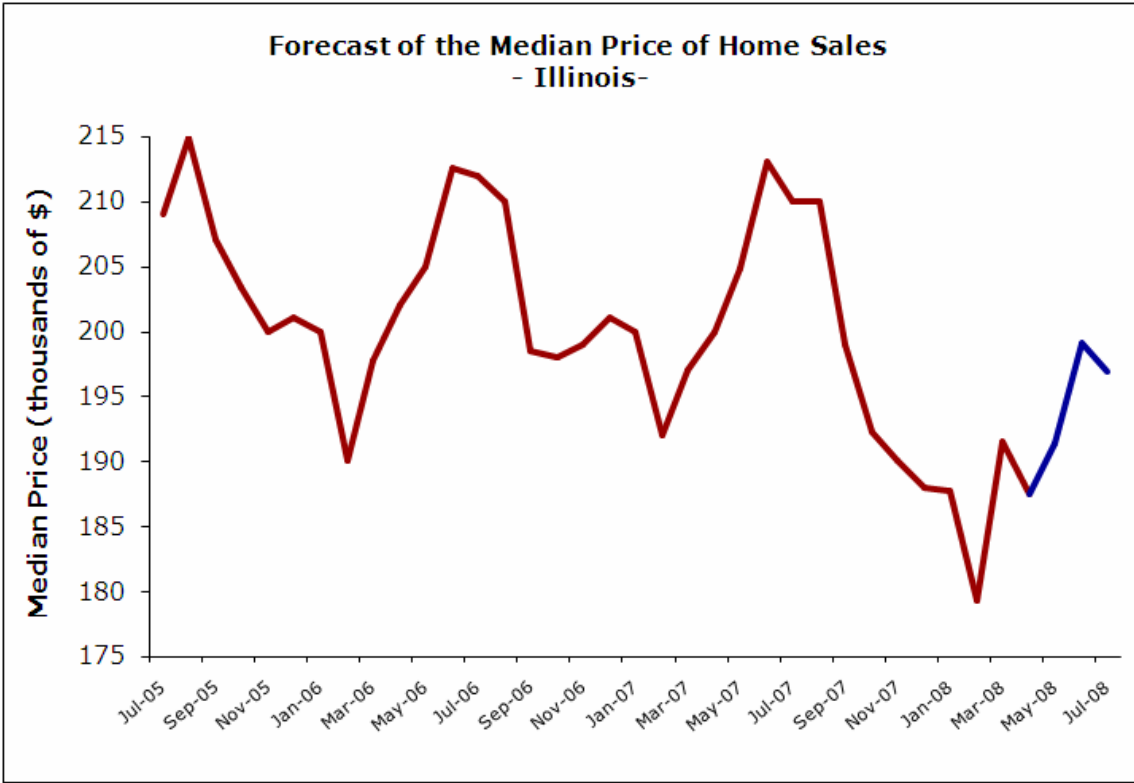
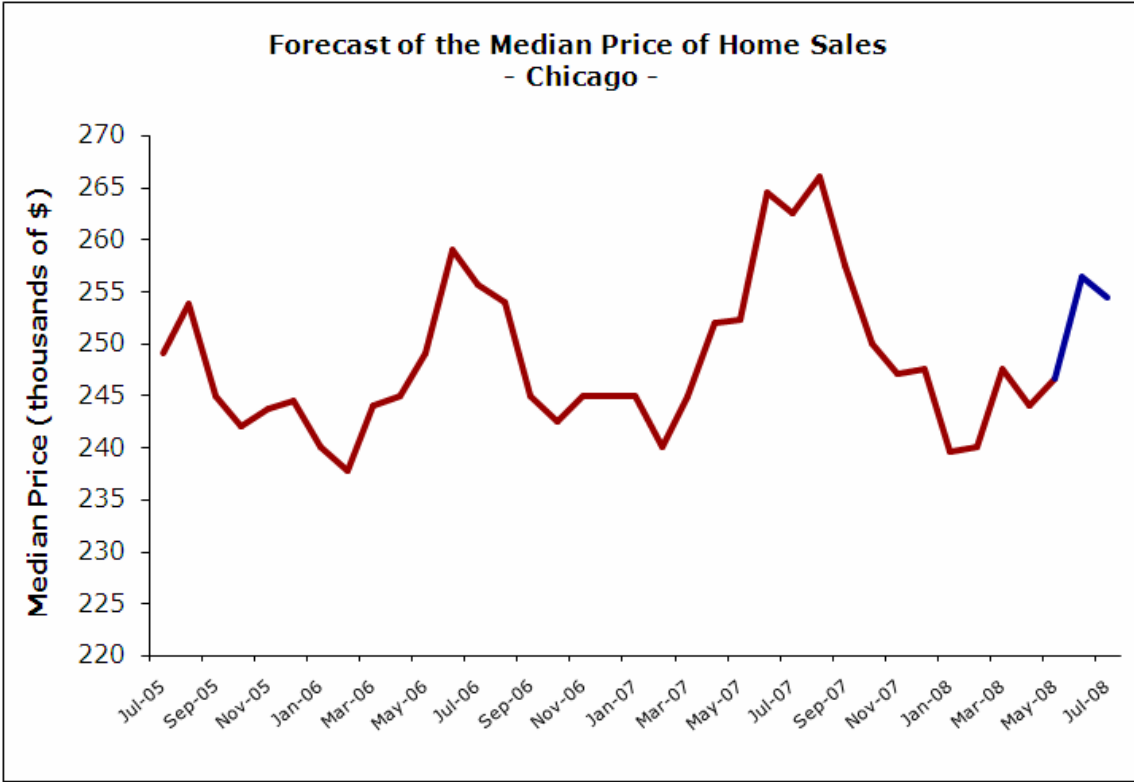
**Annual Percentage Change of the Median Price for Home Sales
- Chicago -**

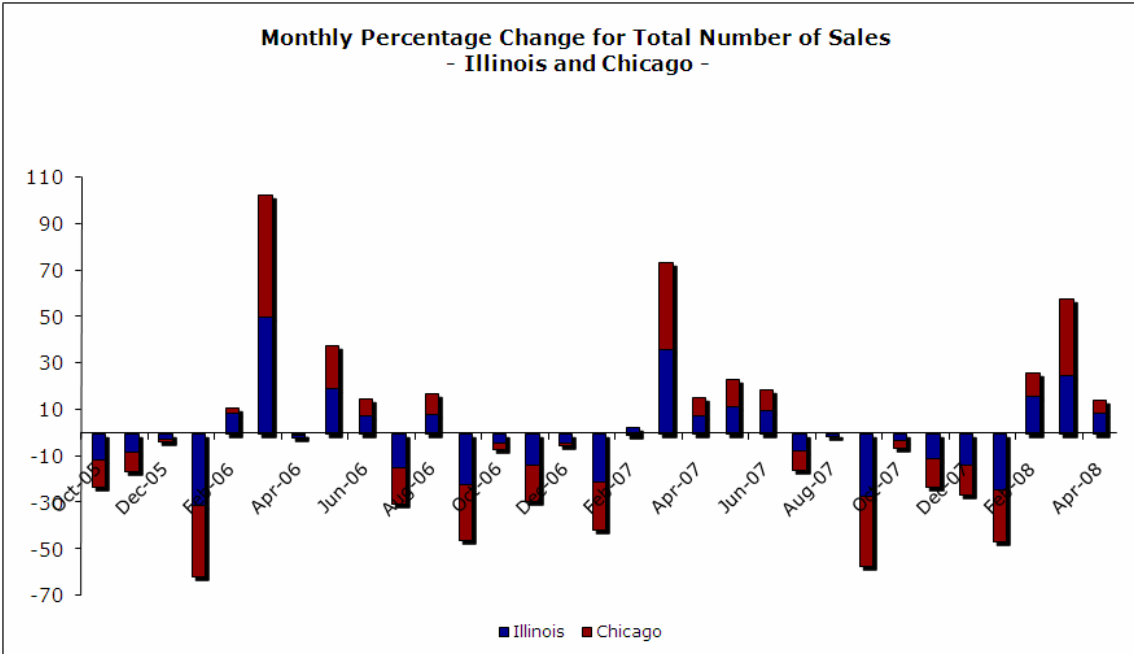
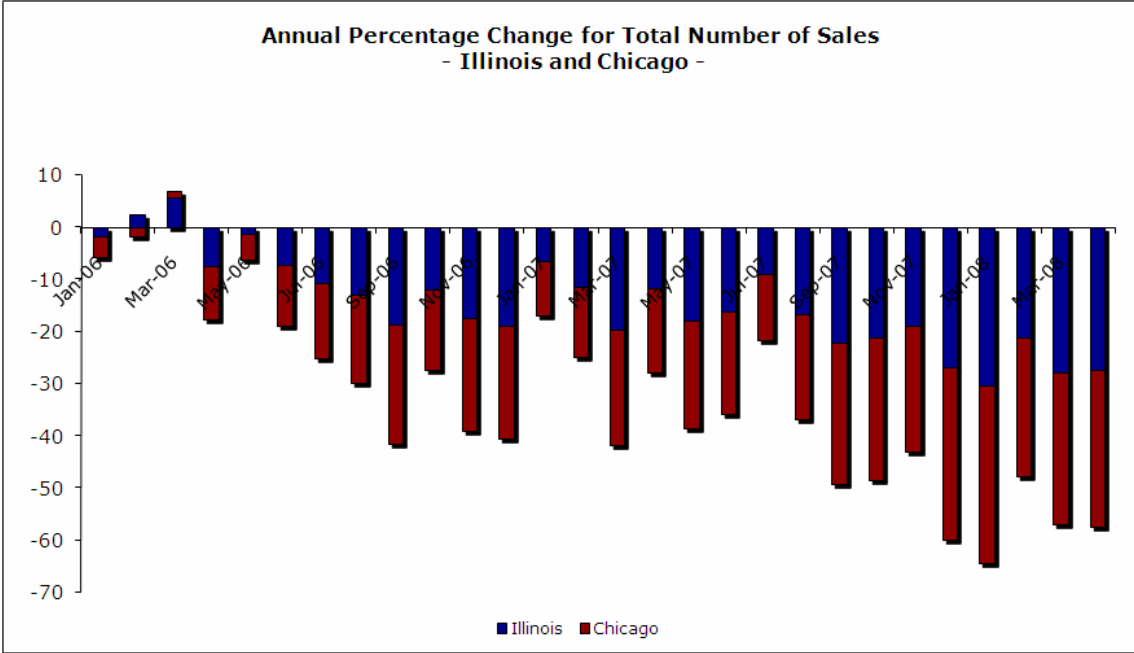


**Annual Percentage Change of the Median Price for Home Sales
- Illinois -**

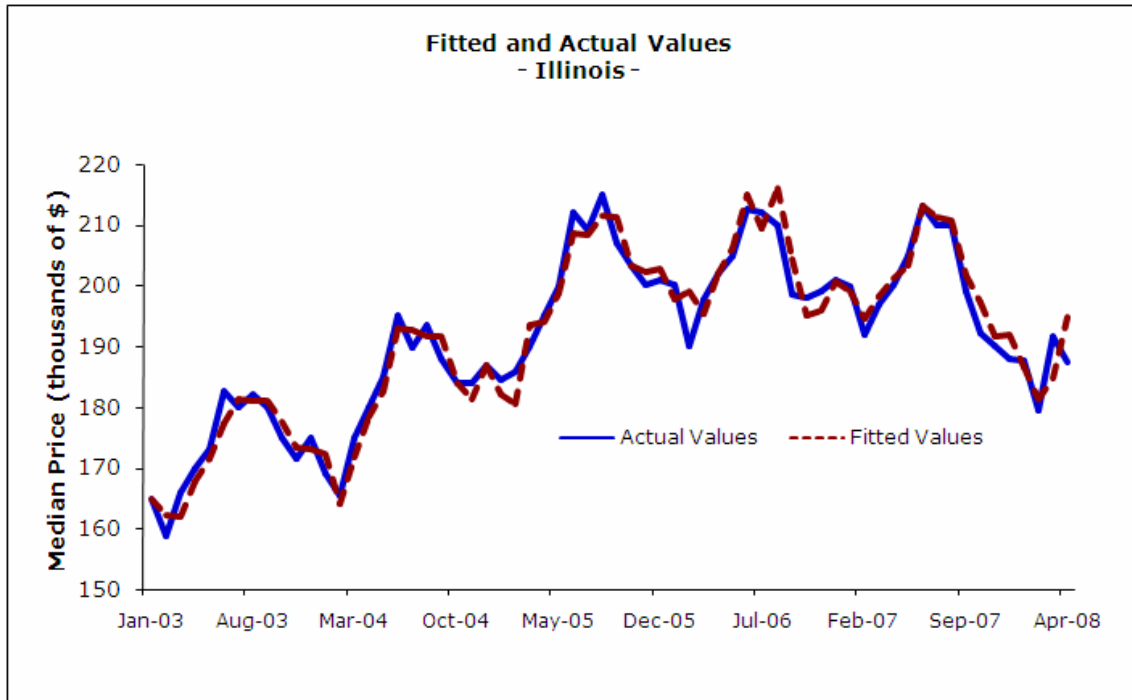




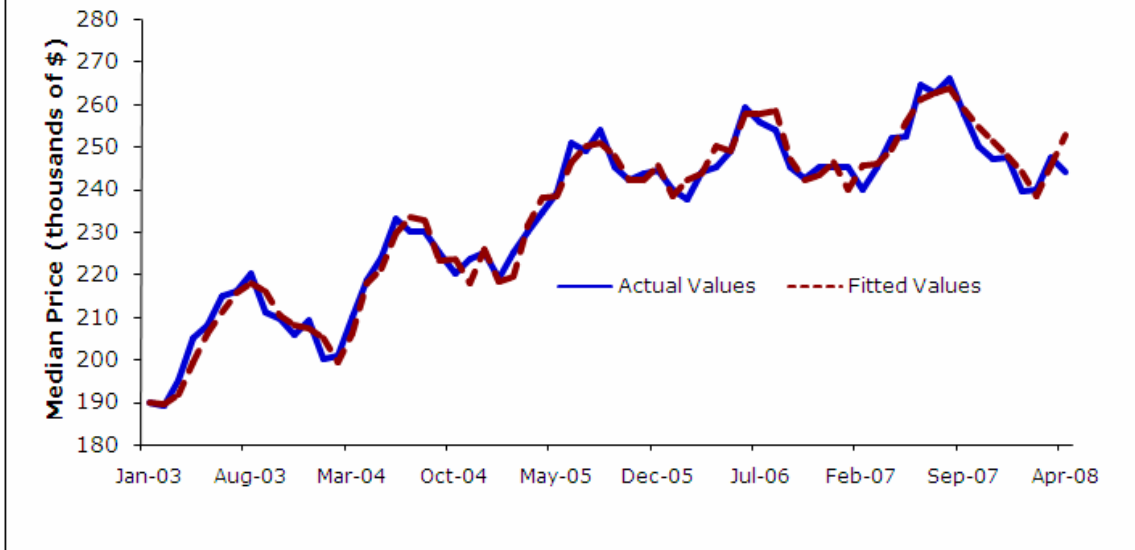




PERCENTAGE CHANGE FOR THE TOTAL NUMBER OF SALES (Illinois and Chicago)					
	Annual		Monthly		
	Illinois	Chicago	Illinois	Chicago	
Feb 2008	-21.10 %	-26.60 %	16.27 %	10.13 %	
Mar 2008	-27.76 %	-28.95 %	24.77 %	33.02 %	
Apr 2008	-27.18 %	-30.20 %	8.54 %	5.86 %	
SUMMARY OF THE FORECAST INTERVALS FOR THE TOTAL NUMBER OF SALES (Illinois and Chicago)					
	Annual		Monthly		
	Illinois	Chicago	Illinois	Chicago	
May 2008	-27.37 % -19.37 %	-30.69 % -22.69 %	15.34 % 19.34 %	15.35 % 19.35 %	
Jun 2008	-24.26 % -18.26 %	-28.26 % -20.26 %	11.01 % 15.01 %	9.79 % 13.79 %	
Jul 2008	-24.58 % -18.58 %	-29.32 % -21.32 %	-9.92 % -5.92 %	-11.08 % -7.08 %	
SUMMARY OF THE FORECAST FOR THE MEDIAN PRICE (Illinois and Chicago)					
	Illinois	Chicago		Illinois	Chicago
May 2008	\$ 191,428	\$ 246,534	May 2007	\$ 204,900	\$ 252,193
Jun 2008	\$ 199,108	\$ 256,346	Jun 2007	\$ 213,000	\$ 264,500
Jul 2008	\$ 196,884	\$ 254,397	Jul 2007	\$ 210,000	\$ 262,500
ANNUAL PERCENTAGE CHANGE OF THE MEDIAN PRICE (Illinois and Chicago)					
	Illinois	Chicago		Illinois	Chicago
May 2008	-6.57 %	-2.24 %	May 2007	-0.05 %	1.28 %
Jun 2008	-6.52 %	-3.08 %	Jun 2007	0.24 %	2.12 %
Jul 2008	-6.25 %	-3.09 %	Jul 2007	-0.94 %	2.66 %



Fitted and Actual Values
- Chicago -



Housing Price Forecasts

Illinois and Chicago MSA, May 2008

Part II Background Information

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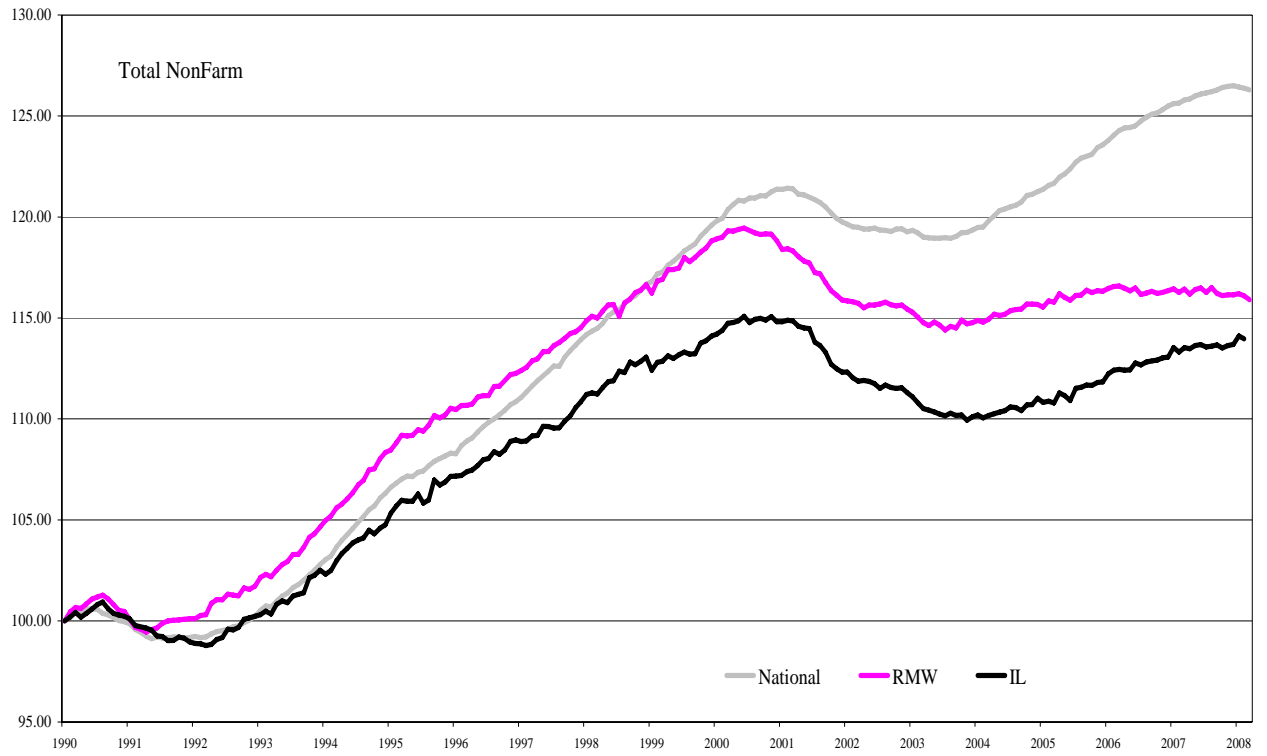
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	April 2008 Negative		Feb 2008 – Mar 2008		Last 12 months	
		Total non-farm employment	Growth Rate %	Number of Jobs	Growth Rate%	Number of Jobs
		Nation	-0.06	-80,000	+0.39	+536,000
		RMW	-0.17	-33,200	-0.45	-88,700
		Illinois	-0.03	-1,600	+0.36	+21,700

Talking Points	
Illinois Notes	<ul style="list-style-type: none"> ▪ Illinois lost 1,600 jobs at a rate of -0.03% in March 2008, declining from a revised 0.12% loss in February. This is for the second time in 2008 that Illinois posted negative growth. ▪ Through March, the average growth rate of Illinois in 2008 stood at 0.07% which is greater than the average growth rate for 2007 of 0.05%, and equal to the average growth rate in the recent recovery period for Illinois since early 2004 of 0.07%. ▪ In March, Illinois, the Nation and the RMW all lost jobs, for second consecutive month. ▪ Over the last 12-months, Illinois employment grew by 0.36%, slightly below the 0.39% growth of the Nation while RMW continued with a negative rating at -0.45% for the seventh consecutive month. The negative rating for RMW is the lowest since December 2003. ▪ Illinois has added 4,433 jobs on average per month in 2008, compared to 2,742 jobs in 2007. ▪ Until March 2008, the cumulative job growth for the Nation, Illinois and RMW compared to January 1990 stood at 26.29%, 13.94% and 15.90% respectively.
Nation Notes	<ul style="list-style-type: none"> ▪ The nation lost 80,000 jobs in March which far exceeded the forecast by economist of a 50,000 loss. This is the highest number of jobs lost by the nation after March 2003 ▪ This is for the first time after April 2003 that the nation has posted a net job loss for three consecutive months. ▪ The Nation added 536,000 new jobs at 0.39% over the last 12 months, the smallest gain recorded over any 12-month period after February 2004. ▪ While the Nation posted a negative growth rate in March, the average job 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 - Mar 2008



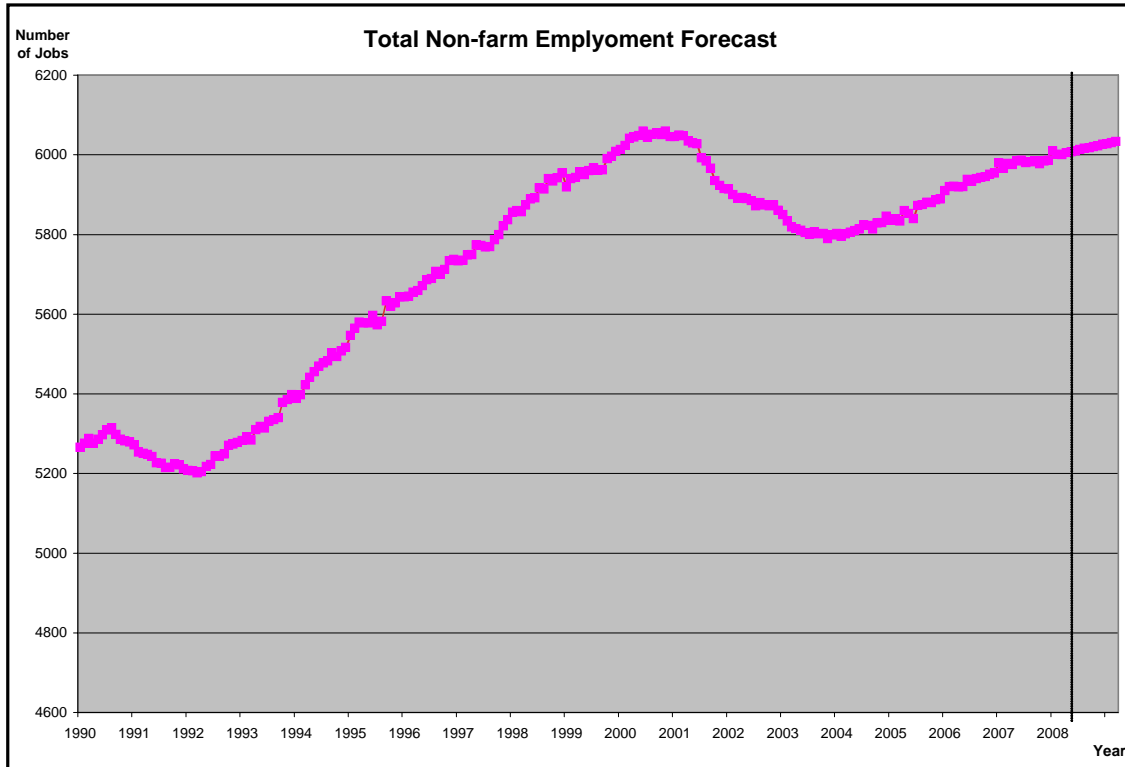
By employment sector:

Total non-farm Employment growth rate by sector									
	Jan 2008 – Mar 2008			Jan 1990 – Mar 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	+	+	+	-	-	39,400	17.33	25.83	35.34
Education & health	-	+	+	-	-	259,700	49.08	54.79	74.11
Financial activities	-	-	-	-	-	30,900	8.29	19.05	24.89
Government	-	-	+	-	-	99,900	13.25	14.06	23.34
Information	+	+	-	-	-	-13,600	-10.41	-5.35	12.73
Leisure & hospitality	+	+	+	+	-	143,400	37.15	29.39	47.29
Manufacturing	+	+	-	-	-	-250,300	-27.10	-19.96	-23.35
Professional & business services	-	+	+	-	-	303,500	53.17	59.60	67.34
Trade, transportation & utilities (TTU)	+	+	+	-	-	75,500	6.58	9.47	16.84
Other Services	-	-	-	+	-	54,200	26.39	21.90	30.68
Sector notes	<ul style="list-style-type: none"> ▪ While Illinois faced a 0.03% job loss in March, four sectors recorded net gains, one sector stayed the same and the five remaining sectors posted net losses. Compared to February, performance gains were recorded for Construction (-3.11% to 0.91%) and Trade, Transportation and Utilities (-0.23% to 0.10%) whereas Government (0.36% to -0.14%), Other Services (-0.11% to -0.42%) and Leisure and Hospitality (0.30% to 0.04%) faced losses in performance, although the latter sector still recorded a gain. ▪ Notable gains at the Nation level were recorded as follows: <ul style="list-style-type: none"> ○ Education and Health Services: 42,000 (0.23%) ○ Government: 18,000 (0.18%) ○ Leisure and Hospitality: 18,000 (0.13%) ▪ Major losses were recorded for the following sectors: <ul style="list-style-type: none"> ○ Construction: 51,000 (-0.69%) ○ Manufacturing: 48,000 (-0.35%) ○ Professional and Business Services: 35,000 (-0.19%) ▪ For the Illinois, the following sectors are notable in terms of job gains: <ul style="list-style-type: none"> ○ Construction: 2,400 (0.33%) ○ Trade, Transportation and Utilities: 1,200 (0.10%) ○ Leisure and Hospitalities: 200 (0.04%) ▪ Following are the major Illinois sectors that lost jobs in January: <ul style="list-style-type: none"> ○ Manufacturing: 1,800 (-0.27%) ○ Government: 1,200 (0.50%) ○ Other Services: 1,100 (0.50%) ▪ In terms of 12-months aggregated account, Construction, Manufacturing, Financial Activities, Leisure and Hospitalities and Other Services registered net losses, information recorded zero growth and other sectors maintained a positive rating. Education and Health Services and Trade, 								

	Transportation and Utilities were the two major contributors over that period.
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Illinois Employment Forecast Next 12 Months by Sector

	Mar 2008	Mar 2009 (p)	Number of Jobs	Growth Rate %
Total non-farm	5,999,800	6,033,600	33,800	0.56%
Construction	266,800	269,200	2,400	0.90%
Manufacturing	673,300	662,800	-10,500	-1.56%
Trade, transportation & utilities	1,223,400	1,222,500	-900	-0.07%
Information	117,000	115,400	-1,600	-1.37%
Financial Activities	403,600	403,900	300	0.07%
Professional & business services	874,300	885,900	11,600	1.33%
Education & health	788,800	798,300	9,500	1.20%
Leisure & hospitality	529,400	534,800	5,400	1.02%
Other services	259,600	267,200	7,600	2.93%
Government	853,800	855,600	1,800	0.21%



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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