



Housing Price Forecasts

Illinois Metropolitan Statistical Areas

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Regional Economics Applications Laboratory, Institute of
Government and Public Affairs, University of Illinois
Dr. Geoffrey J.D. Hewings, Director

**December
Analysis
& Forecast**

January 2012

This report provides analysis of the housing market for the month of December 2011 with forecasts for the next three months (January, February and March) prepared by economists from the University of Illinois Regional Economics Applications Laboratory (REAL). Complementary analysis of the economy is provided to put the housing market into a broader perspective. For more information, visit www.illinoisrealtor.org/marketstats or contact the Illinois Association of REALTORS® Communications Department, 217-529-2600.

The Housing Market

There are signs that economy is improving. According to the U.S. Bureau of Labor Statistic (BLS) the unemployment rate in December declined to 8.5%, continuing a downward trend; the unemployment rate has declined by 0.6% since August. The nonfarm payroll employment rose by 200,000 in December and it has risen by 1.6 million in 2011. So far in 2011 in terms of job creation, Illinois has performed as well as the nation and better than the rest of Midwest states (RMW: Indiana, Iowa, Michigan, Missouri, Ohio and Wisconsin). From January 2011 to November 2011, the average growth rate for Illinois is 0.10% while for the RMW is 0.08% and for the nation is 0.10%.

The consumer's confidence is picking up as well. The Consumer Confidence Index is now back to levels seen in spring 2011. According to Lynn Franco, Director of The Conference Board Consumer Research Center: "Consumers' assessment of current business and labor market conditions improved again however it is too soon to tell if this is a rebound from earlier declines or a sustainable shift in attitudes." The Thomson Reuters/ University of Michigan's also reported the index of consumers sentiment continued to improve in December for the fourth consecutive month.

Demand for industrial real estate in the Chicago area has increased for two quarters in a row, and the vacancy rate for industry property has fallen below 11% for the first time in three years, according to a report by real estate firm Colliers International. The vacancy rate for retail real estate in the Chicago area has fallen for seven consecutive quarters, and the vacancy rate fell to 9.5%, according to a data from the Chicago office of real estate firm CBRE Inc. These changes provide further evidence that the still-fragile Chicago economy is improving.

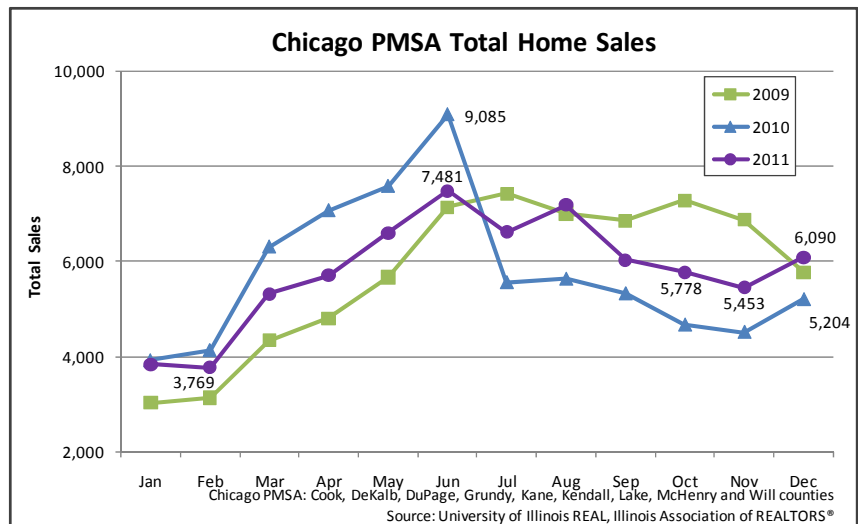
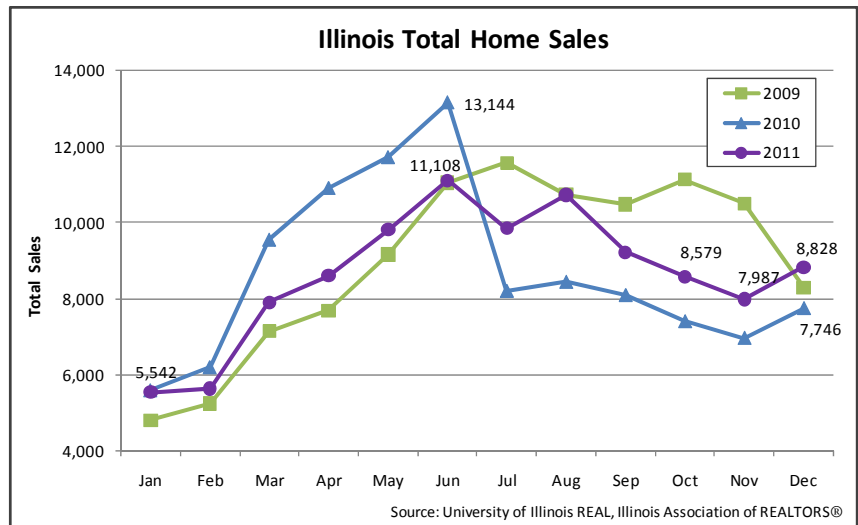
However, the large numbers in the foreclosure inventory could create some troubles in the housing market recovery in 2012. Because of the Robo-Signer investigation, many foreclosure filings are piled up in the court. According to foreclosure data from Regional Economics Applications Laboratory (REAL), by the end of 2011, only 18% of 2011 new foreclosure filings yielded foreclosure sales, while only 36% of new foreclosure filings in 2010 resulted in final sales. The foreclosure inventory that has accumulated from 2010 and 2011 is over 110,214 cases. This is almost twice as much as the monthly housing inventory in Chicago PMSA (55,386 houses in December 2011). Large number of foreclosure cases will create a negative impact on the future housing market and given the speed at which these cases are clearing the courts, it is likely that the impacts will be felt well beyond 2012.

"Housing market forecasts for January, February and March 2012 for Illinois and the Chicago PMSA suggest that sales volume will be significantly higher than the same period last year, although prices will still be lower than a year ago. Until these foreclosed properties and additions expected in 2012 clear the market, sustained upward movement in prices will be unlikely." - Dr. Geoffrey J.D. Hewings, Director, University of Illinois REAL

Housing Market Forecast – Sales

- Housing market forecasts for the next three months (January, February, and March 2012) for Illinois and Chicago PMSA suggest that even through the sales volume in the following three months will be significantly higher than the same period last year, the sales price will still be 9-14% lower than the same period last year.

- The sales forecast for the 1st quarter of 2012 suggest positive year-to-year changes in both the state of Illinois (13-61% higher than last year) and Chicago PMSA (14-68% higher than last year).

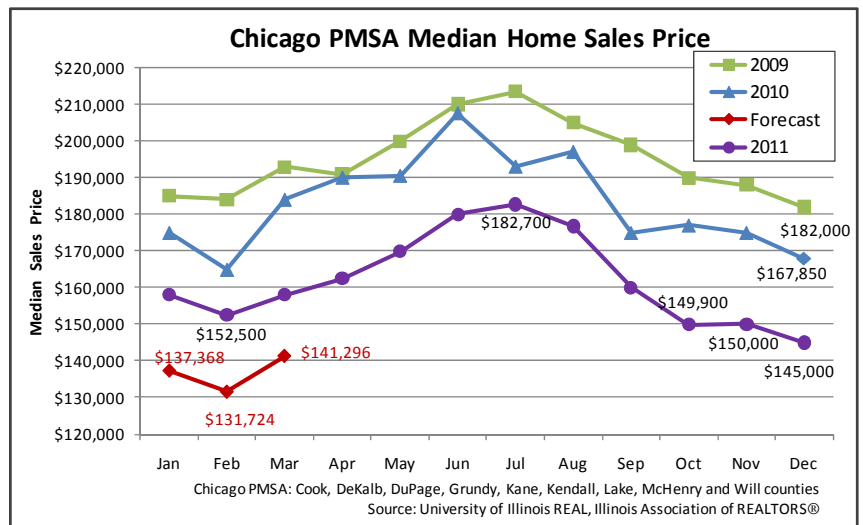
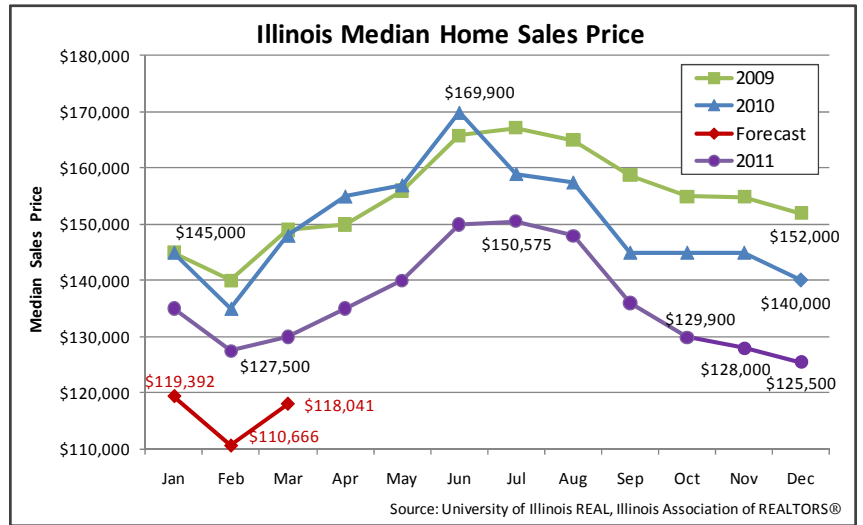


The Economy

- According to the U.S. Bureau of Labor Statistic (BLS), in December, and the unemployment rate at 8.5%, continued to trend down. The unemployment rate has declined by 0.6 percentage point since August. The nonfarm payroll employment rose by 200,000 in December. The nonfarm payroll employment has risen by 1.6 million in 2011. Employment in the private sector rose by 1.9 million over the year, while the Government employment fell by 280,000 over the year.
- In December 2011, 4,661 houses were sent to the court for the foreclosure process in Chicago PMSA, The new foreclosure filings for all of 2011 are 70,138, and this number is 14% lower than the 81,724 new foreclosure filings in 2010. There were 4,378 foreclosure sales in Chicago PMSA this December. The foreclosure sales for 2011 were 37,008, and it is 37% lower than 2010 when 58,921 foreclosure sales were processed. Less foreclosure sales are processes means more foreclosure cases are piled up in the court.
 - The Chicago Business Activity Index (CBAI) was 96.6 in November, a slight decrease from 99.9 in October. The drop is attributed mainly to the sluggishness in private consumption and the drop in construction employment in the Chicago region.

Housing Market Forecast – Median Price

- The price forecast shows that the year-to-year median prices are expected to decline about 9-13% for Illinois and 11-14% for Chicago PMSA.
- Median prices by March, 2012, (March 2011 in parentheses) are forecast to be \$118,041 (\$130,000) in Illinois and \$141,296 (\$158,000) in the Chicago PMSA.



Longer-Term Outlook

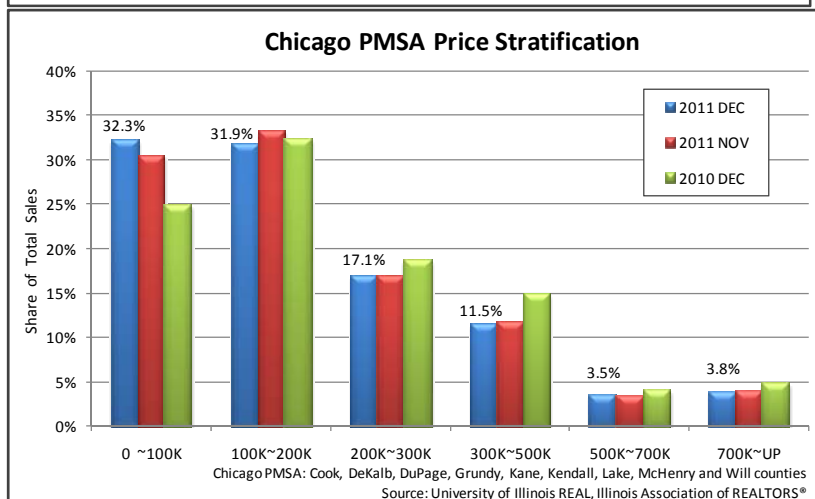
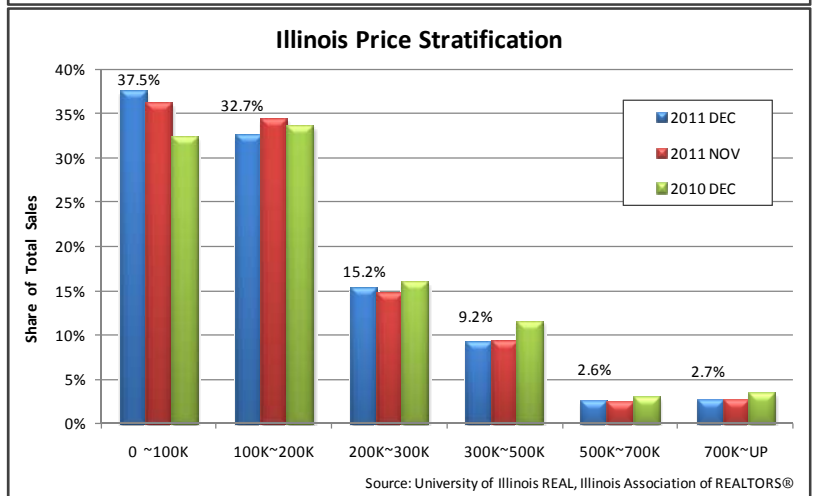
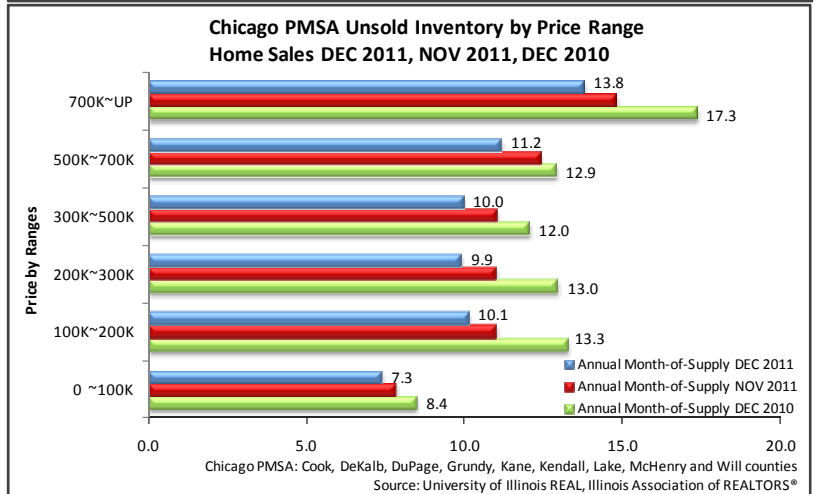
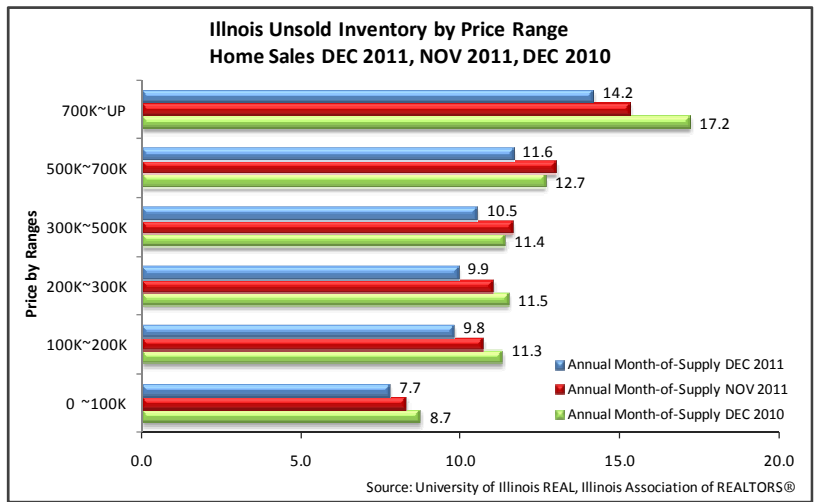
- After two months of solid gains in the Conference Board Consumer Confidence Index®, the Index level improved again in December. The Index now stands at 64.5 (1985=100), up from 55.2 in November. The Consumer Confidence Index is now back to levels seen in Spring 2011 (April 2011, 66.0). According to Lynn Franco, Director of The Conference Board Consumer Research Center: “Consumers’ assessment of current business and labor market conditions improved again;” however, “it is too soon to tell if this is a rebound from earlier declines or a sustainable shift in attitudes.” The Thomson Reuters/ University of Michigan’s also reported the index of consumers sentiment continued to improve in December for the fourth consecutive month.
- Comparing December 2011 to the same month last year, the housing inventories decreased about -13.4% for Illinois and -16.9% for Chicago. In December, Illinois had 81,129 houses listed in the market, and the housing inventories will take 9.4 months to sale according to the current annual sales rate (down from 10.8 a year ago). By the end of December, 55,386 houses were listed in Chicago PMSA, and it will take 9.5 months to sale (down from 11.6 months a year ago).

- In December, at the current annual sales rate, Illinois had enough housing inventory for 9.4 months (down from 10.8 a year ago).

- In the Chicago PMSA, the comparable figure was 9.5 months (down from 11.6 months last year this time). The decreasing months' supply figures are mostly contributed by decreasing housing inventory levels.

- Houses that are priced for less than \$100,000 will only take about 7-8 months to sell in both Illinois and the Chicago PMSA.

- At the other end of the market, houses that are priced for more than \$700,000 will take about 14 months to sell in these two markets.



Interest Rates December 2011

The monthly average commitment rate for a 30-year, fixed-rate mortgage for the North Central region was 3.94 percent in December 2011, down from 4.0 percent during the previous month, according to the Federal Home Loan Mortgage Corporation.

Last year in December it averaged 4.80 percent.

*Freddie Mac North Central region: OH, IN, IL, MI, WI, MN, IA, ND, SD

About REAL the IAR Housing Forecast

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 professor of Economics, Geography and Regional Science. He earned his B.A. from the University of Birmingham in the United Kingdom and his M.A. and Ph.D. from the University of Washington in Seattle.

Sales and price data is from Multiple Listing Service sales reported by 31 participating Illinois REALTOR® local boards and associations including Midwest Real Estate Data LLC data as of January 7 reported for the period December 1 through December 31, 2011.

The Chicago PMSA, as defined by the U.S. Census Bureau, includes the counties of Cook, DeKalb, DuPage, Grundy, Kane, Kendall, Lake, McHenry and Will.

Learn more about REAL at www.real.illinois.edu/.

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