Housing Price Forecasts

Illinois Metropolitan Statistical Areas

R E A L

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January Analysis & Forecast

ILLINOIS ASSOCIATION OF REALTORS®

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This report provides analysis of the housing market for the month of January 2011 with forecasts for the next three months (February, March and April). 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 Mary Schaefer, Director of Communications for the Illinois Association of REALTORS® 217-529-2600, mschaefer@iar.org.

The Housing Market

The housing market is showing signs of recovery in terms of sales volume, but the downward pressure on housing prices is still substantial. Illinois sold 5,487 houses in January 2011, nearly the same as last January when it sold 5,588 while the Chicagoland region sold 3,843 houses this January, only slightly down from the 3,921 it sold last year at this time. Median prices in January 2011 were $136,000 in Illinois (down 6.21% from last January) and $158,000 in Chicago (down 9.71% from last January).

There are different supply-and-demand forces that could affect the housing market in the future. On the demand side, buying a house is still very affordable: the housing price is trending back to the early 2000s, and the 30-year fixed mortgage rate is still around 5%. However, on the supply side, there is still a lot of distressed property that is flooding the market, creating a huge downward pressure on the market prices.

While the housing market is still sluggish, the rental market is heating up. After falling 27% between 2006 and 2009, values of apartment buildings rose 16% in 2010, according to the brokerage firm Marcus & Millichap. Renter households have reached a record high of 37 million after increasing by 3.5 million in the past five years. Green Street Advisors expects an additional 4.4 million rental households to be added by 2015. The pressure of rental property demand is driving up rent. For example, rents for top-tier downtown Chicago apartments climbed 7.2% last year to $2.23 per square foot. Further dramatic increases in rents could push consumers back to the housing market to take a mortgage and become homeowners.

However, the mortgage market has also tightened up. On the side of private lenders, banks are pushing home-buyers to put down more cash as a down payment. The median down payment in nine major U.S. cities rose to 22% last year on properties financed by private lenders. This figure was only 5% in early 2007. On the side of government, the Obama administration outlined a plan to shrink the government-owned mortgage giants, Fannie Mae and Freddie Mac. The proposed new plan has three goals: to gradually increase the fees the mortgage companies charge lenders, to tighten underwriting standards, and to require borrowers to put down larger down payments.

"While it is too early to signal a housing market turnaround, there are some encouraging signs, sales declined by a very small amount, year-over-year, and would have been higher than 2010 had the effect of the home buyer tax credit been removed. Prices, however, are still being challenged by the volume of distressed properties on the market."

– Dr. Geoffrey J.D. Hewings

Possible consequences of this plan are that it could drive up housing costs and make buying a house harder for some consumers. However, both Democratic and Republican parties are supporting this plan and believe that it will help attract private capital back into the mortgage market and reduce the role of government.

Unemployment Rates

There is some good news from the labor market: the unemployment rate, currently 9.0 percent, fell by 0.4 percent for the second month in a row. While the size of the labor force remained unchanged, the number of unemployed people decreased to 13.9 million in January, down by 0.6 million. The U.S. Bureau of Labor Statistics also reported that non-farm payroll employment changed very little in January (+36,000). However, the job gains for the last three months were 250,000 in total.

The December unemployment rates fell in every Illinois county for the first time since the Illinois Department of Employment Security started keeping track of the data in 1974. Although the nation and the state economies are still facing many challenges in their efforts to recover from the recession, the long-term trends continue to show that both are moving forward and adding jobs.

January Sales and the Homebuyer Tax Credit

The declines in annual sales have become more moderate in both Illinois and Chicago for December and January. The January annual sales rates for Illinois and Chicago are only down by 1.81% and 1.99%, respectively.

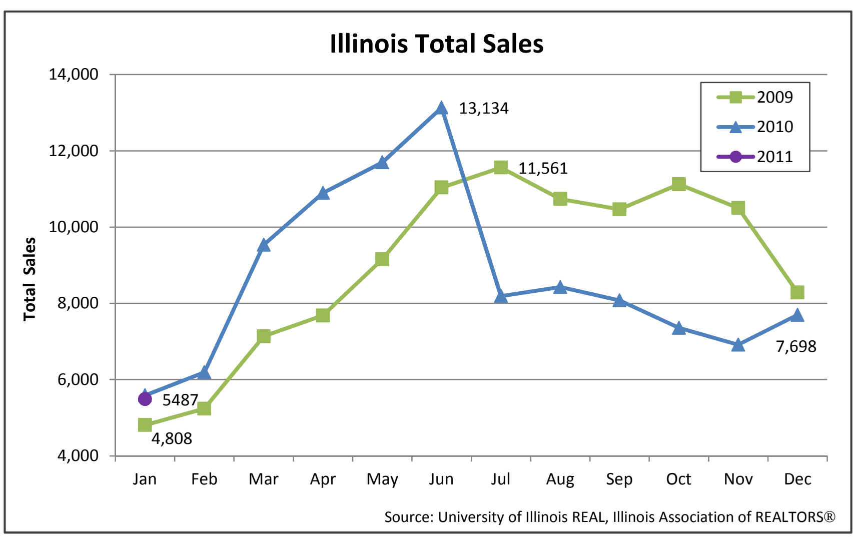
Considering that the housing market in early 2010 was being strongly influenced by the homebuyer tax credit, the sales volume for the first month in 2011 was a fairly promising signal. This is even more promising when we take into account the housing intervention report done by REAL.

The report indicates that when the federal government was giving tax credits to homebuyers, about 16.5% of the total sales could be attributed to the effect of the tax incentive. If we were to remove the effect of the tax incentive from the 2010 sales, the home sales in early 2011 would show a positive gain over 2010.

Housing Market Forecast

The sales forecast for Illinois predicts a decline of less than 20% per month when compared with the same month last year.

Forecasts for the next three months (February, March, and April, 2011) for Illinois and Chicago, suggest that while annual sales are expected to be negative(due to the effect of the tax credit), the month-to-month sales are expected to be positive for all three months.



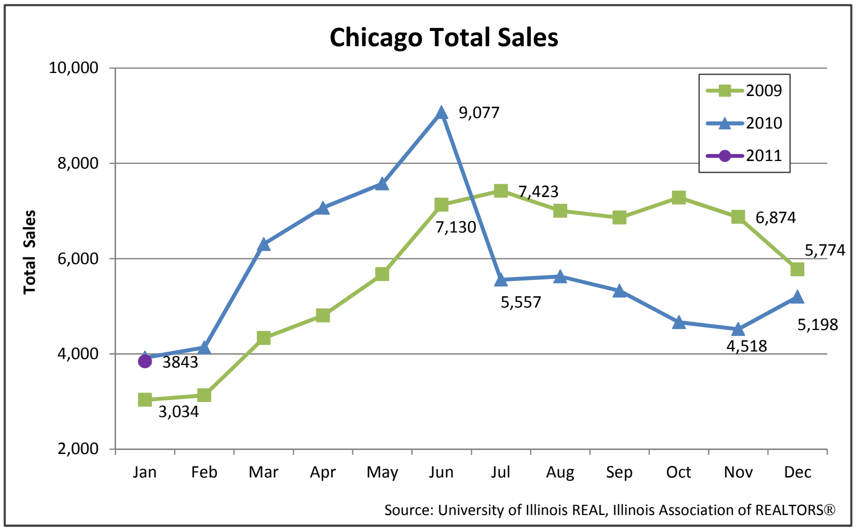
Housing Market Forecast

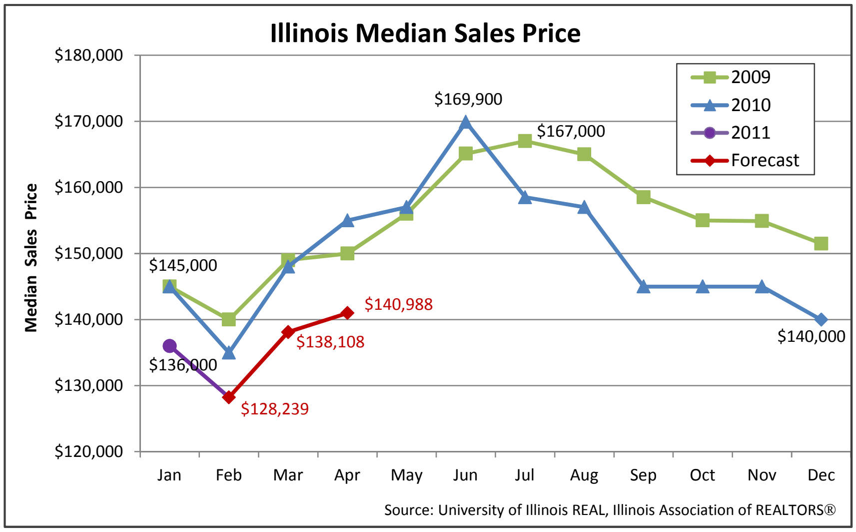
The annual sales forecast for the Chicago area over the next three months suggests a decline of less than 10%.

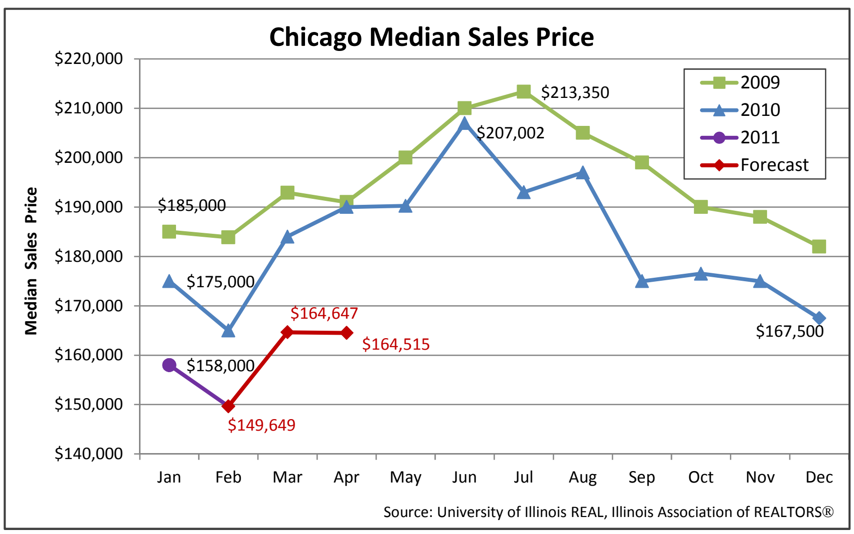
Median prices by April, 2011 (April 2010 in parentheses) are forecast to be $140,988 ($155,000) in Illinois and $164,515 ($190,000) in Chicago.

The median price year-over-year declines would be 9% for Illinois and 13% for Chicago.

The median prices for March and April are expected to be higher than January in both Chicago and Illinois. However, a price decline in February may occur before the prices begin to increase.







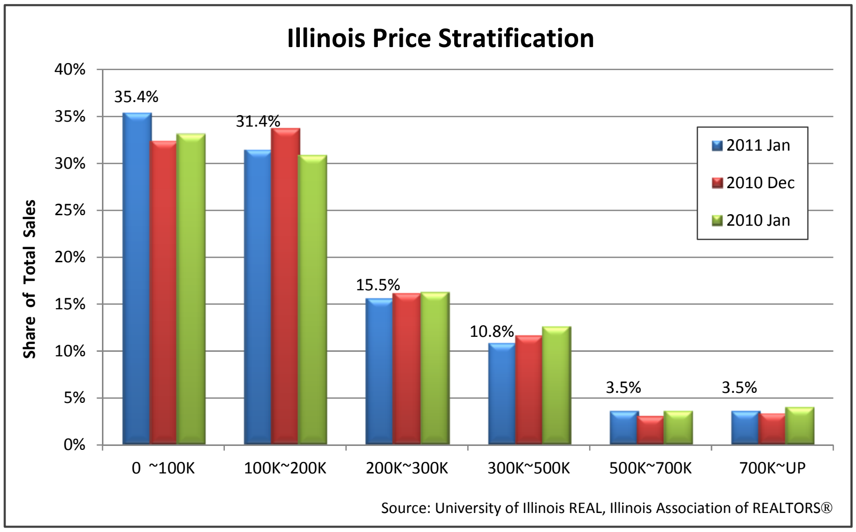
Interest Rates

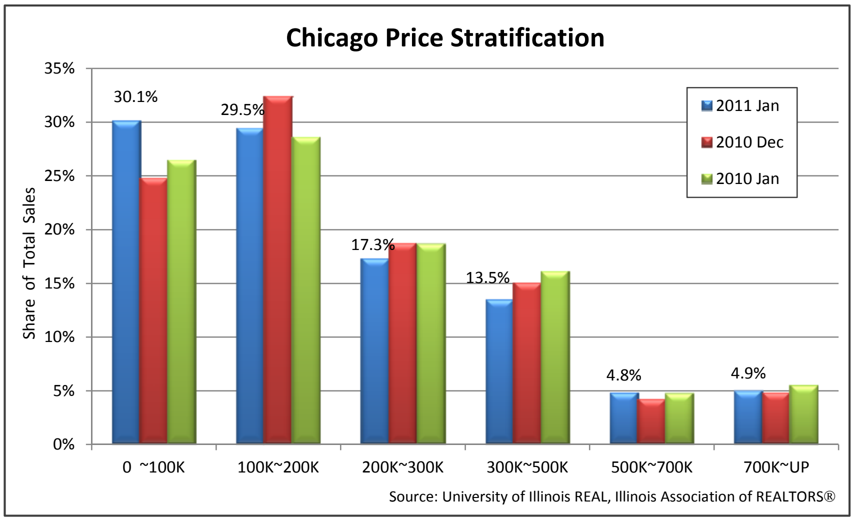
The monthly average commitment rate for a 30-year, fixed-rate mortgage for the North Central region was 4.80 percent in January 2011, up from 4.72 percent during the previous month, according to the Federal Home Loan Mortgage Corporation. Last year in January it averaged 5.06 percent.

In January, at the current annual sales rate, Illinois had enough housing inventory for 10.9 months of sales. In Chicagoland, the comparable figure was 11.7 months.

Compared with January 2010, the annual month of supply went up for less expensive houses (less than $200,000); at the same time, the months of supply went down for houses that cost more than $200,000.

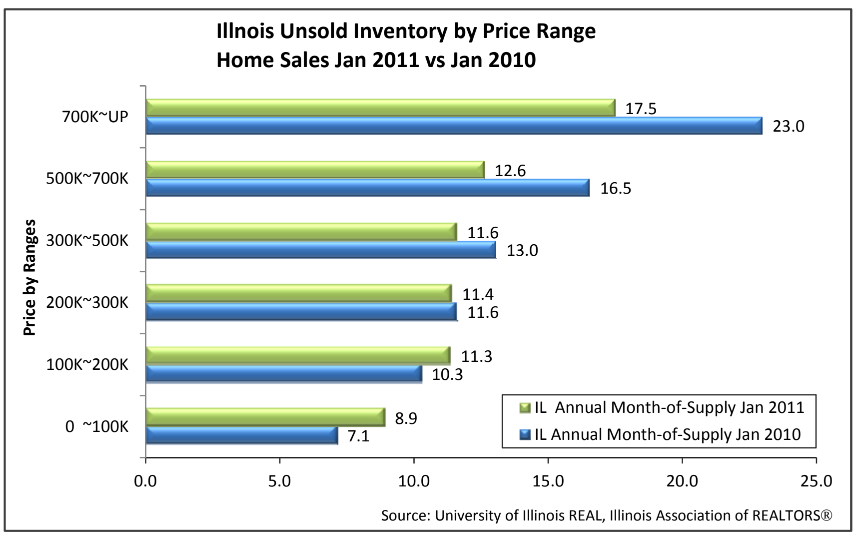
This is another effect of the homebuyer tax credit which created a higher demand for less expensive houses in the first half for 2010.



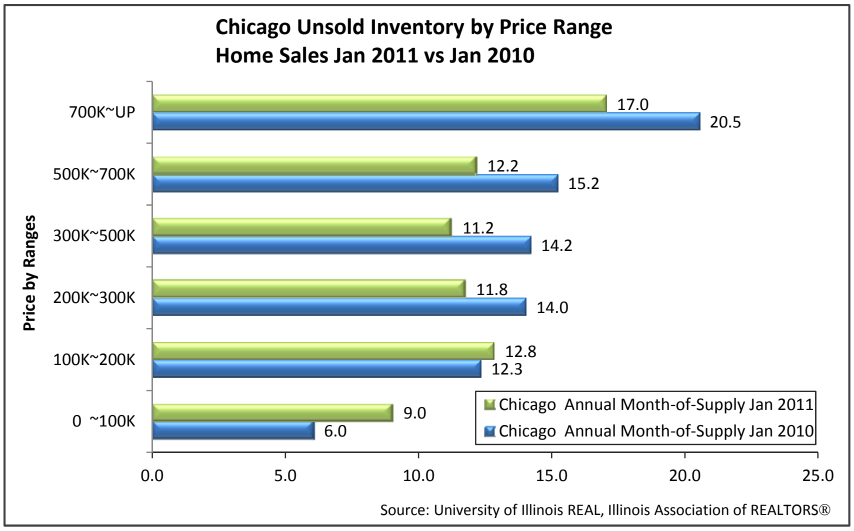


The Economy

- National employment changed little (+36,000) in January, as reported by the U.S. Bureau of Labor Statistics. Employment rose in manufacturing and in retail trade but was down in construction and in transportation and warehousing. Employment in most other major industries changed little over the last month. Total job gains in the last three months have been +250,000.
- The unemployment rate fell by 0.4 percentage points to 9.0 percent in January. While the labor force remained unchanged, the number of unemployed people decreased to 13.9 million in January, down by 0.6 million.
- The Chicago Business Activity Index (CBAI) was 90.9 in December, down from 97.3 in November. The drop of the index in December could be mainly attributed to the decline in construction activities in the Chicago region and the sluggishness of private demand.



The forecast for Illinois employment over the next 12 months is in the -20,400 to +16,000 range; in December the range was +4,700 to +20,000.



Longer-Term Outlook

- The Conference Board Consumer Confidence Index® switched to a new method of conducting the consumer confidence survey this January. The new index is listed as 57.8 in November, 63.4 in December, and 65.6 in January. The new January index put the consumer confidence at its highest point since March 2008. The Thomson Reuters/University of Michigan's January reading on the overall index on consumer confidence was 74.2 this January. It is mainly unchanged from December and the January 2010 level. The index remained at its highest level in nearly three years.
- Housing inventories remained stable for the third month in a row in this month. In January, at the current annual sales rate, Illinois had enough for 10.9 months of sales. In Chicago, the comparable figure was 11.7 months. A year ago, the inventories were 10.6 months (Illinois) and 12.0 months (Chicago).

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 chair of the Economics Department for the University of Illinois. 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.

Data is supplied by a survey of Multiple Listing Service sales reported by 35 participating Illinois REALTOR® local boards and associations including Midwest Real Estate Data LLC. The Chicagoland PMSA, as defined by the U.S. Census Bureau, includes the counties of Cook, DeKalb, DuPage, Grundy, Kane, Kendall, Lake, McHenry and Will.