

Housing Price Forecasts

Illinois and Chicago PMSA, December 2016

Presented To

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Housing Price Forecast: Illinois and Chicago PMSA, December 2016

The Housing Market

In November, both median prices and sales experienced positive annual growth. 11,341 houses were sold in Illinois, declining by -10.7% from a month ago and 14.8% from a year ago. In the Chicago PMSA, 8,093 houses were sold, a decline of -9.4% from a month ago but up 16.0% from a year ago. The median price was \$178,000 in Illinois, up 7.9% from November last year; the comparable figure for the Chicago PMSA was \$215,000, up 10.3% from this time last year.

In November, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 12.4%, the lowest November reading since 2009. 6,951 regular sales were made, 19.1% more than last year. 1,096 foreclosed properties were sold, 0.6% more than last year; this is the first time in 2016 with a year-over-year increase in foreclosed property sales. The median price was \$228,500 for regular property sales, 6.3% more than last year; the comparable figure for the foreclosed properties was \$132,000, up 13.7% from this time last year.

The median sales price in November 2008 has been adjusted to 2016 values to enable calculation of the housing price recovery taking into account the effects of inflation. In Illinois, the November 2008 median sales price was \$163,000 (in \$2008) and \$185,326 (in \$2016); the current price level was 96% of the 2008 level after adjusting (109% before adjusting). In the Chicago PMSA, the November 2008 median sales price is \$208,000 (in \$2008) and \$236,489 (in \$2016); the comparable figure for price recovery in November 2016 is 91% after adjustment (103% before adjusting). Using the average annual growth rates of prices in the past months, it could take about 0.7~0.9 years (8~11 months) for Illinois and 1.2~2.0 years (14~24 months) for the Chicago PMSA to recover to the inflation-adjusted 2008 levels.

The sales forecast for December, January and February 2016 suggests positive growth on a yearly basis and negative growth on a monthly basis. Annually for Illinois, the three-month average forecasts point to an increase in the range 6.6% to 8.9%; the comparative figures for the Chicago PMSA are for increases between 9.1% and 12.4%. On a monthly basis, the three-month average sales are forecast to decrease in the range 4.6%-6.2% for Illinois and decrease by 4.2%-5.6% for the Chicago PMSA.

The pending index, as a leading indicator, also indicates a positive annual growth. This November, the number of homes put under contract was greater than last year. The pending home sales index is 123.8 (2008=100) in Illinois, up 9.2% from a year ago. In the Chicago PMSA, the comparable figure is 143.1, up 12.0% from a year ago. At the latest average annual pending sales rate, Illinois had enough housing inventory for 4.2 months (down from 5.1 months a year ago). In the Chicago PMSA, the comparable figure was 3.1 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.

The median price forecast indicates moderate annual growth in both Illinois and the Chicago PMSA for December, January and February. In Illinois, the median price is forecast to rise by 7.5% in December, 5.8% in January and 5.8% in February. For the Chicago PMSA, the comparable figures are 10.6% in December, 10.5% in January and 10.3% in February. As a

complement to the median housing price index (HPI), the REAL HPI¹ forecasts a stronger growth trend for Illinois but a slightly weaker trend for the Chicago PMSA. In Illinois, the REAL HPI (Jan 2008=1) is forecast to rise by 9.8% in December, 9.6% in January and 10.2% in February. The comparable figures for the Chicago PMSA are 8.0% in December, 9.2% in January and 9.8% in February. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month.

In November, the first survey results after the presidential election revealed positive sentiments of consumers. Both consumer sentiment indices - the Conference Board Consumer Confidence Index and the University of Michigan Consumer Sentiment Index - pointed to positive directions. According to the University of Michigan Consumer Sentiment Index, the gains in sentiments were from all income and age groups as well as all regions across the country. Survey respondents expressed historic high levels of expectation in both their personal finances and prospects for future. As for the more housing market specific sentiment, Fannie Mae Home Purchase Sentiment Index edged down slightly, with a strong contrast between survey responses before and after the election. Respondents after the election appeared to have higher confidence than those responded before the election. However, these indices may just indicate a temporary reaction and should be interpreted with caution.

The Housing Market – Current Condition

- In November, both median prices and sales experienced positive annual growth. 11,341 houses were sold in Illinois, changing by -10.7% from a month ago and 14.8% from a year ago. In the Chicago PMSA, 8,093 houses were sold, changing by -9.4% from a month ago and 16.0% from a year ago. The median price was \$178,000 in Illinois, up 7.9% from November last year; the comparable figure for the Chicago PMSA was \$215,000, up 10.3% from this time last year. (Reference: Illinois and Chicago PMSA Total Home Sales and Median Home Sales Price figures; Forecast for December 2016 report table)
- In November, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 12.4%, the lowest November reading since 2009. 6,951 regular sales were made, 19.1% more than last year. 1,096 foreclosed properties were sold, 0.6% more than last year. The median price was \$228,500 for regular property sales, 6.3% more than last year; the comparable figure for the foreclosed properties was \$132,000, up 13.7% from this time last year. (Reference: Ratio of Foreclosed Sales over Total Sales, Sales & Median Prices: Foreclosed vs. Regular figures)
- In November, at the latest average annual pending sales rate, Illinois had enough housing inventory for 4.2 months² (down from 5.1 months a year ago). In the Chicago PMSA, the comparable figure was 3.1 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. (Reference: Illinois and Chicago PMSA Annual Months’ Supply by Price Range figures)
- In November, 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 21.9% from 26.4% a year ago; the comparative figure for the Chicago

¹ REAL HPI was developed by Esteban Lopez and Minshu Du. Contact us for further details.

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.

PMSA showed a decrease to 13.1% from 17.9% 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 December, January and February. In Illinois, the median price is forecast to rise by 7.5% in December, 5.8% in January and 5.8% in February. For the Chicago PMSA, the comparable figures are 10.6% in December, 10.5% in January and 10.3% in February. (Reference: Forecast for December 2016 report table)
- As a complement to the median housing price index (HPI), the REAL HPI³ forecasts a stronger growth trend for Illinois but a slightly weaker trend for the Chicago PMSA. In Illinois, the REAL HPI (Jan 2008=1) is forecast to rise by 9.8% in December, 9.6% in January and 10.2% in February. The comparable figures for the Chicago PMSA are 8.0% in December, 9.2% in January and 9.8% in February. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month. (Reference: Housing Price Index)
- The sales forecast for December, January and February 2016 suggests positive growth on a yearly basis and negative growth on a monthly basis. Annually for Illinois, the three-month average forecasts point to an increase in the range 6.6% to 8.9%; the comparative figures for the Chicago PMSA are for increases between 9.1% and 12.4%. On a monthly basis, the three-month average sales are forecast to decrease in the range 4.6%-6.2% for Illinois and decrease by 4.2%-5.6% for the Chicago PMSA. (Reference: Forecast for December 2016 report table)
- The pending home sales index⁴ is a leading indicator based on contract signings. This November, the number of homes put under contract was greater than last year. The pending home sales index is 123.8 (2008=100) in Illinois, up 9.2% from a year ago. In the Chicago PMSA, the comparable figure is 143.1, up 12.0% from a year ago. (Reference: Illinois and Chicago PMSA Pending Home Sales Index figure)
- In November 2016, 1,618 houses were newly filed for foreclosure in the Chicago PMSA (up 7.2% and up 4.8% respectively from a year and a month ago). 1,543 foreclosures were completed⁵ (down 2.7% and up 2.5% respectively from a year and a month ago). As of November 2016, there are 41,560 homes at some stage of foreclosure — the foreclosure inventory. The monthly average net flows of foreclosures (foreclosure inflows - outflows) were 106 in the past 6 months, 154 in the last 12 months and 72 in the last 24 months. (Reference: Chicago PMSA Foreclosure Inflows and Outflows, and Inventory figures).

The Economy

- In November 2016, according to the Bureau of Labor Statistics (BLS) Employment Situation report, the national unemployment decreased to 4.6% and nonfarm payroll jobs experienced gain of 178,000 jobs. The employment gains in November were spearheaded

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⁴ The base level (100) of pending home sales is the average pending home sales of year 2008.

⁵ Including cancelled foreclosures and auctions

by professional and business services (63,000), followed by health care (28,000), and construction (19,000).

- In November 2016, according to the Illinois Department of Employment Security (IDES) news release, the Illinois unemployment rate remained unchanged at 5.6% compared to last month and 0.4% down from a year ago. The state added 1,700 non-farm payroll jobs. The largest gains are in three sectors, education and health services (3,500), leisure and hospitality (3,100) and other services (1,800). Furthermore, the job growth in October was revised from 2,200 jobs to 3,400 jobs.
- In October 2016, the one-year-ahead forecast for Illinois indicates that the non-farm employment will increase at a rate between 0.33% and 0.43%, corresponding to job gains between 20,000 and 25,800. Four out of ten sectors are forecast with positive job growth: professional and business services (2.79%; 26,500), education and health (1.50%; 13,700), leisure and hospitality (1.60%; 9,600), and other services (0.16%; 400).

Longer-term Outlook

- In November, two consumer sentiment indices both pointed positive directions during the first month after the election. According to the Conference Board Consumer Confidence Index, it increased to 107.1 from 100.8 last month and stand at pre-recession levels. The University of Michigan Consumer Sentiment Index increased to 93.8 from 87.2 last month. According to their survey, the gains in sentiments were from all income and age groups as well as all regions across the country. Survey respondents expressed historic high levels of expectation in both their personal finances and prospects for future.
- In November, Fannie Mae Home Purchase Sentiment Index (HPSI) decreased for the fourth month, to 81.2 from 81.7 last month. The consumers' response were received around the time of election - about half before and half after. The index from the half responses after the election appeared to be higher, though it may just indicate a temporary reaction and was worthy of caution to interpret the outcome of election. Overall, different components of the index presented different directions, with "Household Income is Significantly Higher (past 12 months)" showing the largest gain. 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 98.8 in October from 95.2 in September. The increase is attributed to the job growth in the manufacturing sector and to the improved retail activities in the Chicago area.

"With the election finally over, consumers appeared to have responded with a significant growth in sales (year-over-year)," noted Geoffrey J.D. Hewings, director of the Regional Economics Applications Laboratory at the University of Illinois. "Supply continues to be a problem but prices of both regular and foreclosed properties increased and the forecasts suggest that these trends will continue into the first quarter of 2017."

Forecast for December 2016 report

PERCENTAGE CHANGE FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Sep-16	1.3%	2.0%		-15.2%	-16.9%			
Oct-16	-3.6%	-4.4%		-10.6%	-11.4%			
Nov-16	14.8%	16.0%		-10.7%	-9.4%			
3 Month Avg.	3.1%	3.4%		-12.4%	-13.0%			
SUMMARY OF THE FORECAST INTERVALS FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Dec-16	5.2%	7.0%	8.7%	11.8%	10.2%	13.7%	12.7%	17.2%
Jan-17	6.9%	9.4%	9.4%	12.7%	-24.2%	-32.7%	-22.9%	-31.0%
Feb-17	8.2%	11.1%	9.5%	12.9%	4.3%	5.8%	1.4%	1.8%
3 Month Avg.	6.6%	8.9%	9.1%	12.4%	-4.6%	-6.2%	-4.2%	-5.6%
SUMMARY OF THE FORECAST FOR THE MEDIAN PRICE								
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Sep-16	\$180,000	\$217,500	Sep-15	\$171,253	\$207,500			
Oct-16	\$178,500	\$215,900	Oct-15	\$167,500	\$200,000			
Nov-16	\$178,000	\$215,000	Nov-15	\$165,000	\$195,000			
Dec-16	\$177,332	\$219,610	Dec-15	\$165,000	\$198,500			
Jan-17	\$172,414	\$209,996	Jan-16	\$163,000	\$190,000			
Feb-17	\$169,261	\$206,904	Feb-16	\$160,000	\$187,500			
ANNUAL PERCENTAGE CHANGE OF THE MEDIAN PRICE								
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Sep-16	5.1%	4.8%	Sep-15	5.7%	6.4%			
Oct-16	6.6%	8.0%	Oct-15	6.0%	8.1%			
Nov-16	7.9%	10.3%	Nov-15	6.5%	7.3%			
Dec-16	7.5%	10.6%	Dec-15	7.1%	8.5%			
Jan-17	5.8%	10.5%	Jan-16	8.7%	8.6%			
Feb-17	5.8%	10.3%	Feb-16	8.3%	7.1%			

Median Prices and Recovery

	Illinois		Chicago PMSA	
	[\$2008]	[\$2016]	[\$2008]	[\$2016]
November 2008 Median Price	\$163,000	\$185,326	\$208,000	\$236,489
November 2016 Median Price	\$156,557	\$178,000	\$189,100	\$215,000
Price Ratio (November 16/November 08)	Adjusted	0.96	Adjusted	0.91
	Unadjusted	1.09	Unadjusted	1.03

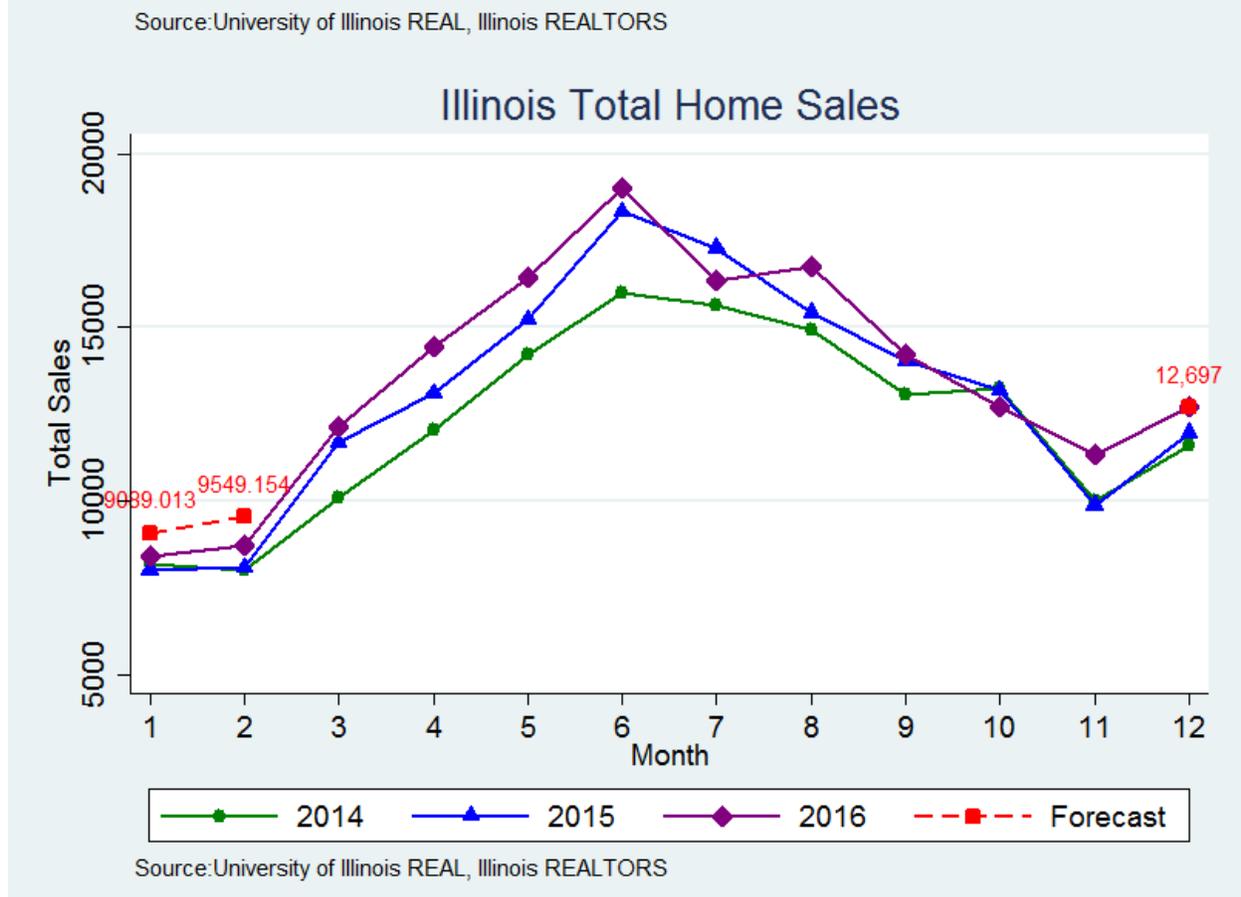
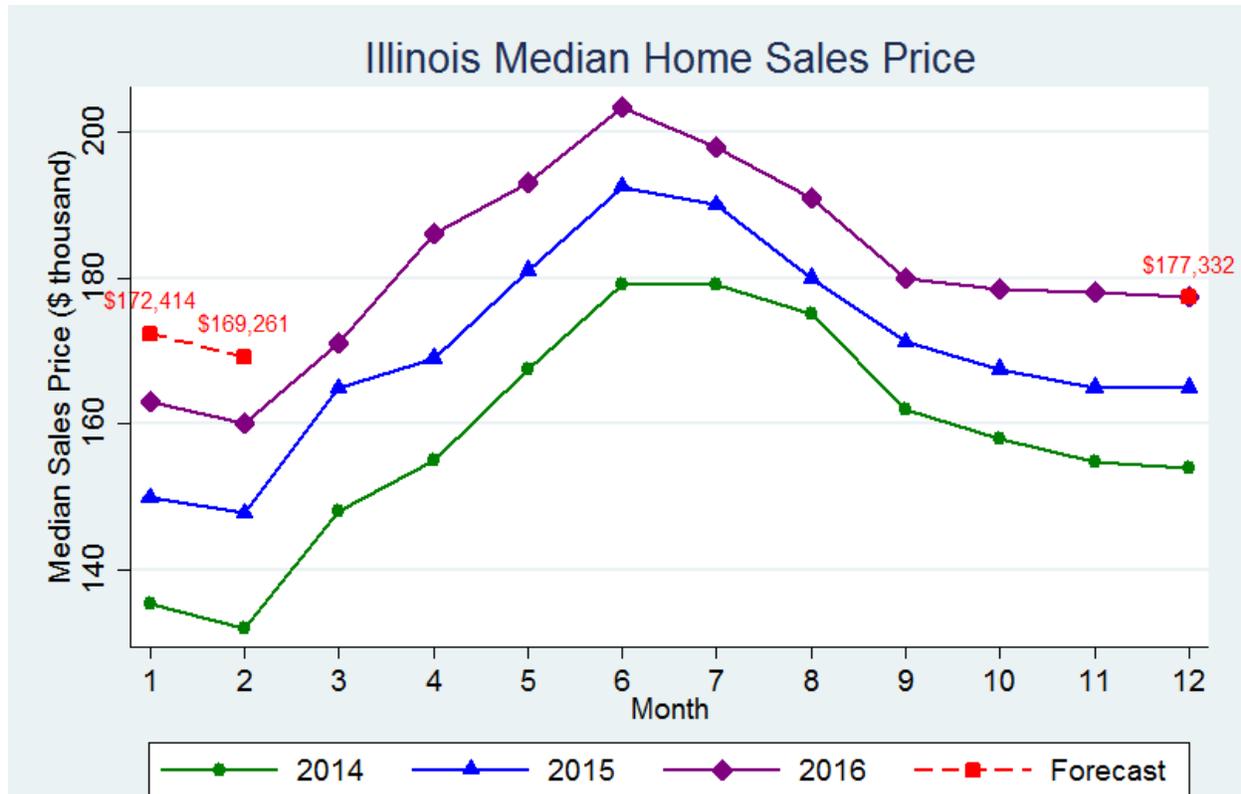
Recovery Forecasts using *Annually Growth Rates*

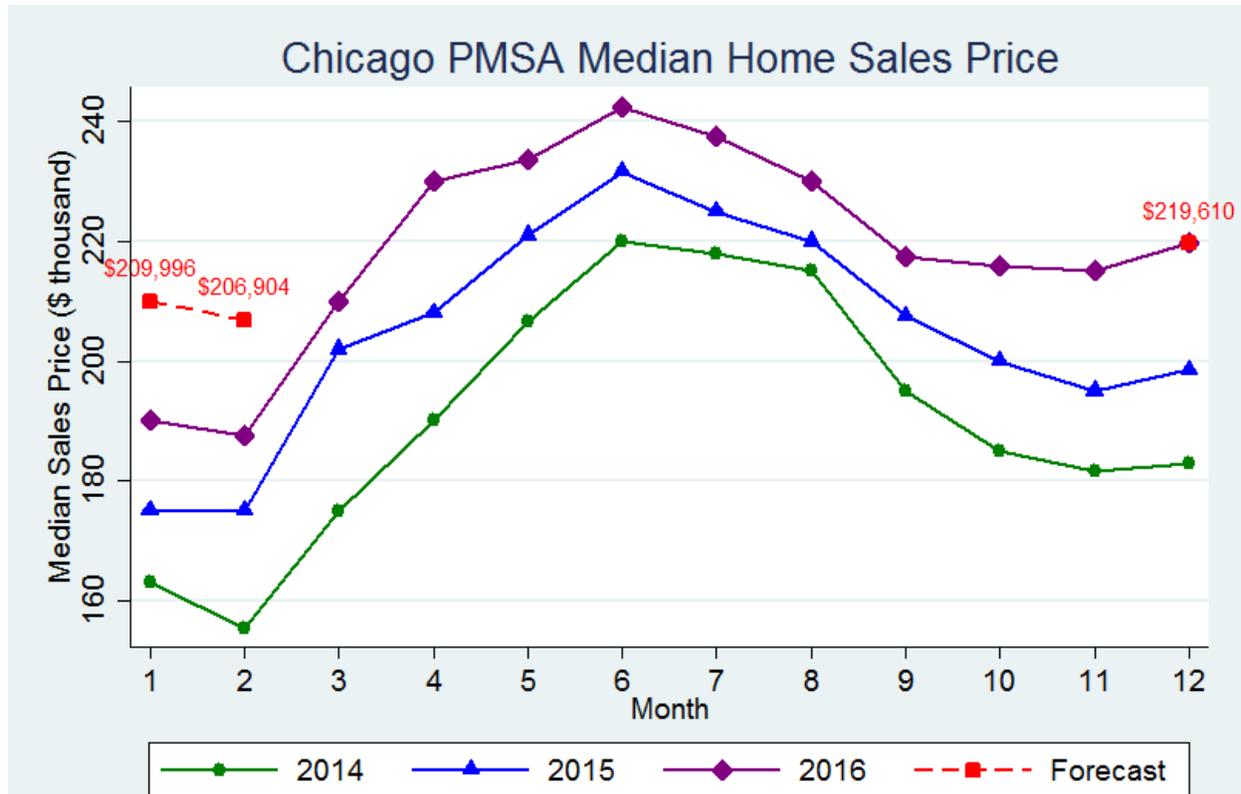
	Illinois	Chicago PMSA		
	Annual Recovery Rate*	Years to Recover**	Recovery Rate	Years to Recover
Current Month	6.1%	0.7	8.4%	1.2
Past 3 months	4.8%	0.9	6.0%	1.6
Past 6 months	4.6%	0.9	4.9%	2.0
Past 9 months	4.9%	0.8	5.2%	1.9
Past 12 months	5.5%	0.8	5.6%	1.7

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

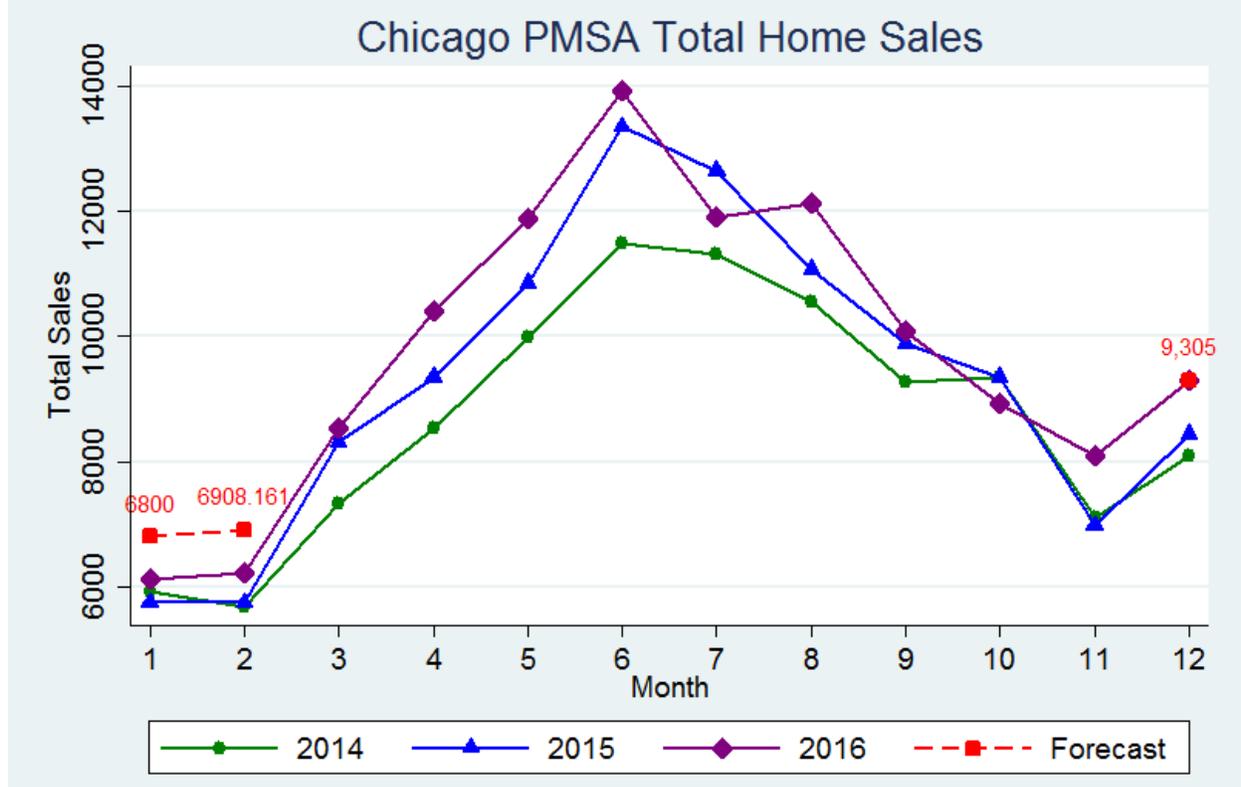
** Years to recover is calculated using the following formula:

$Price_{\text{November 2016}} * (1 + \text{recovery rate})^{\text{years}} = Price_{\text{November 2008}}$. 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.

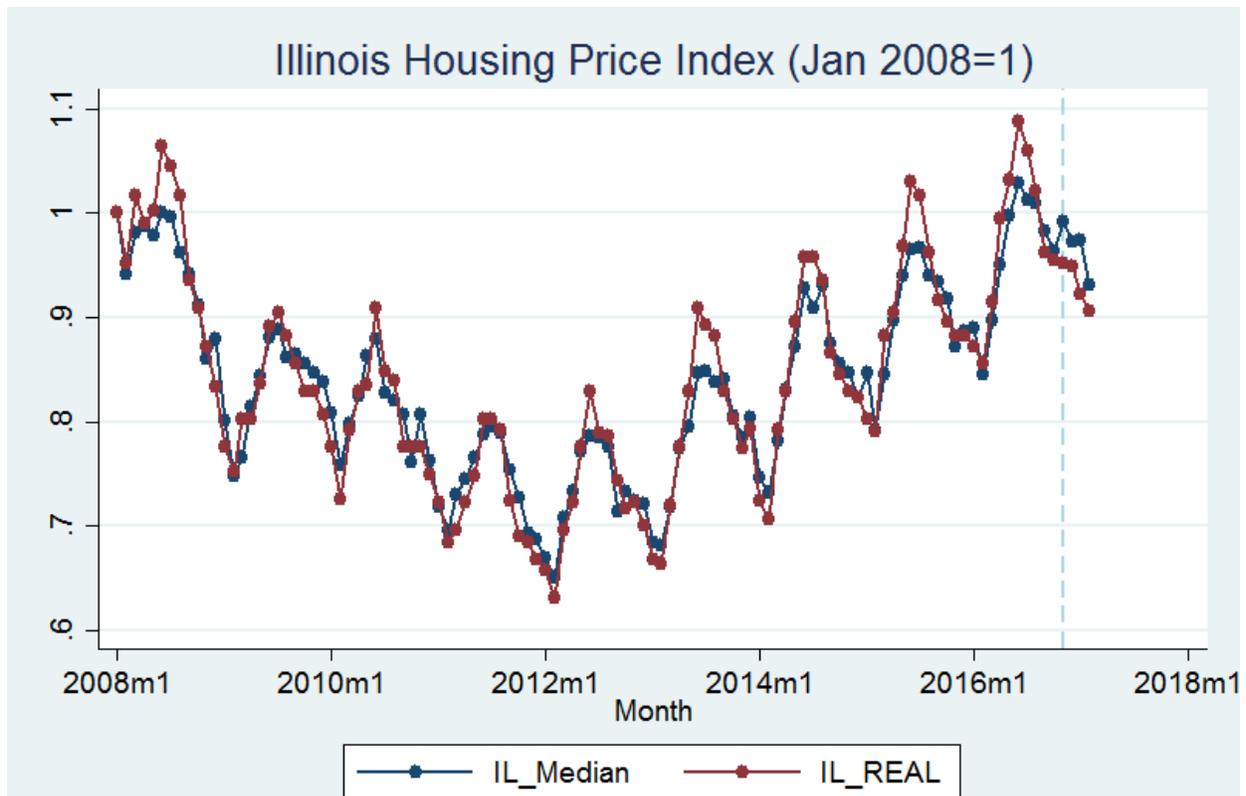




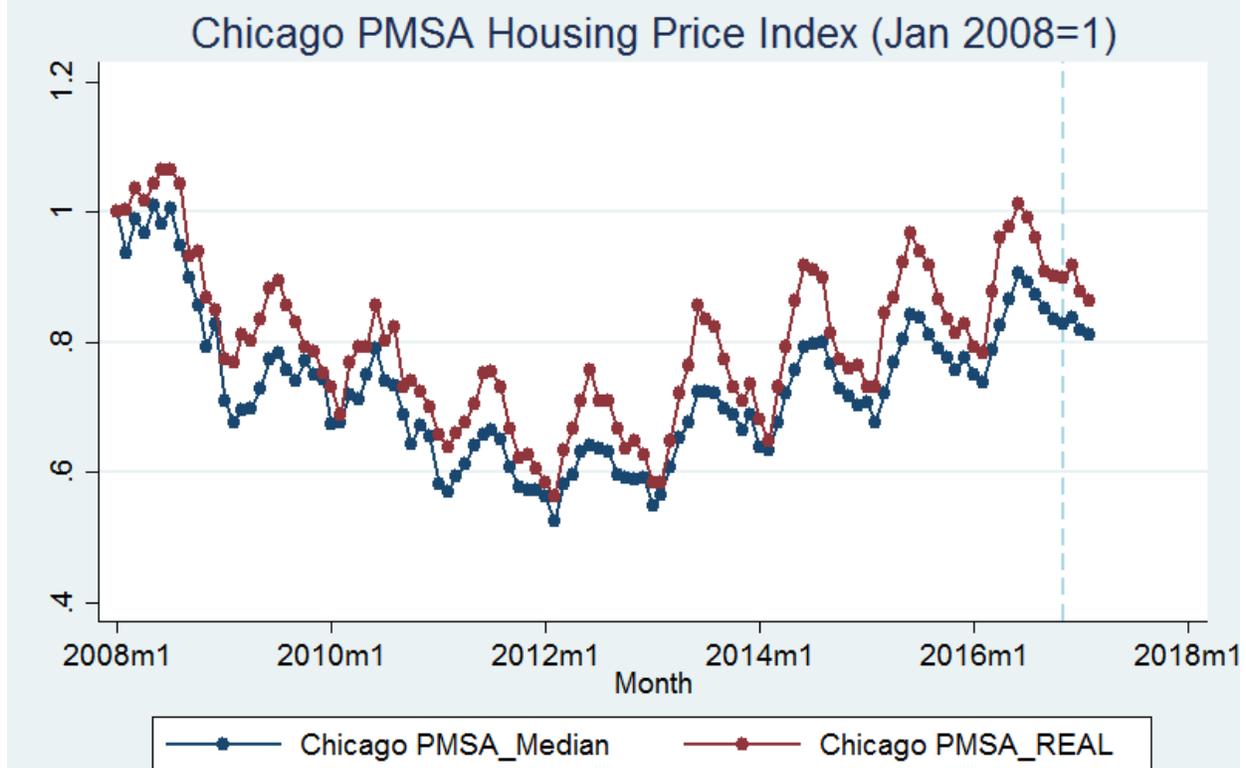
Source: University of Illinois REAL, Illinois REALTORS



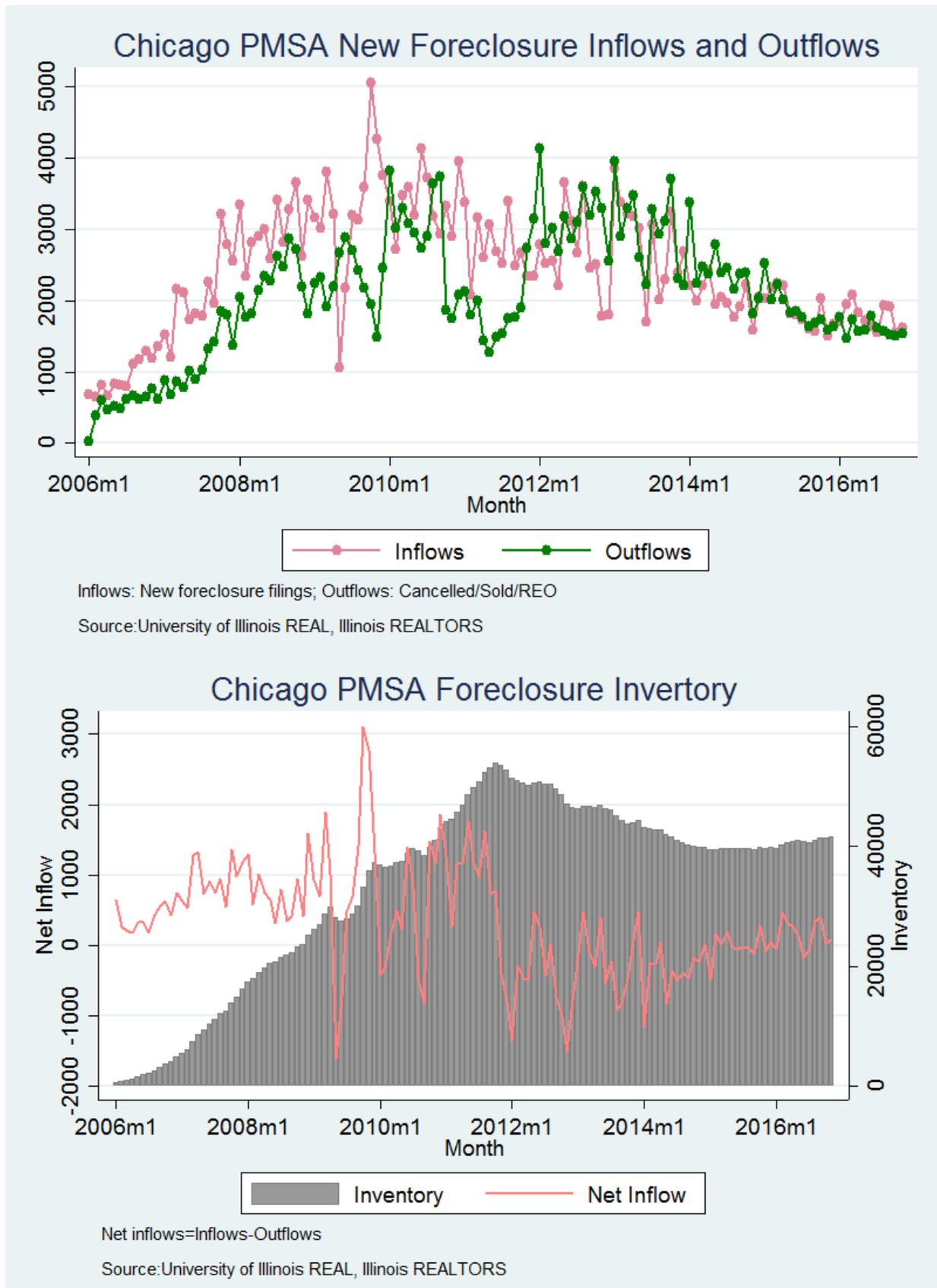
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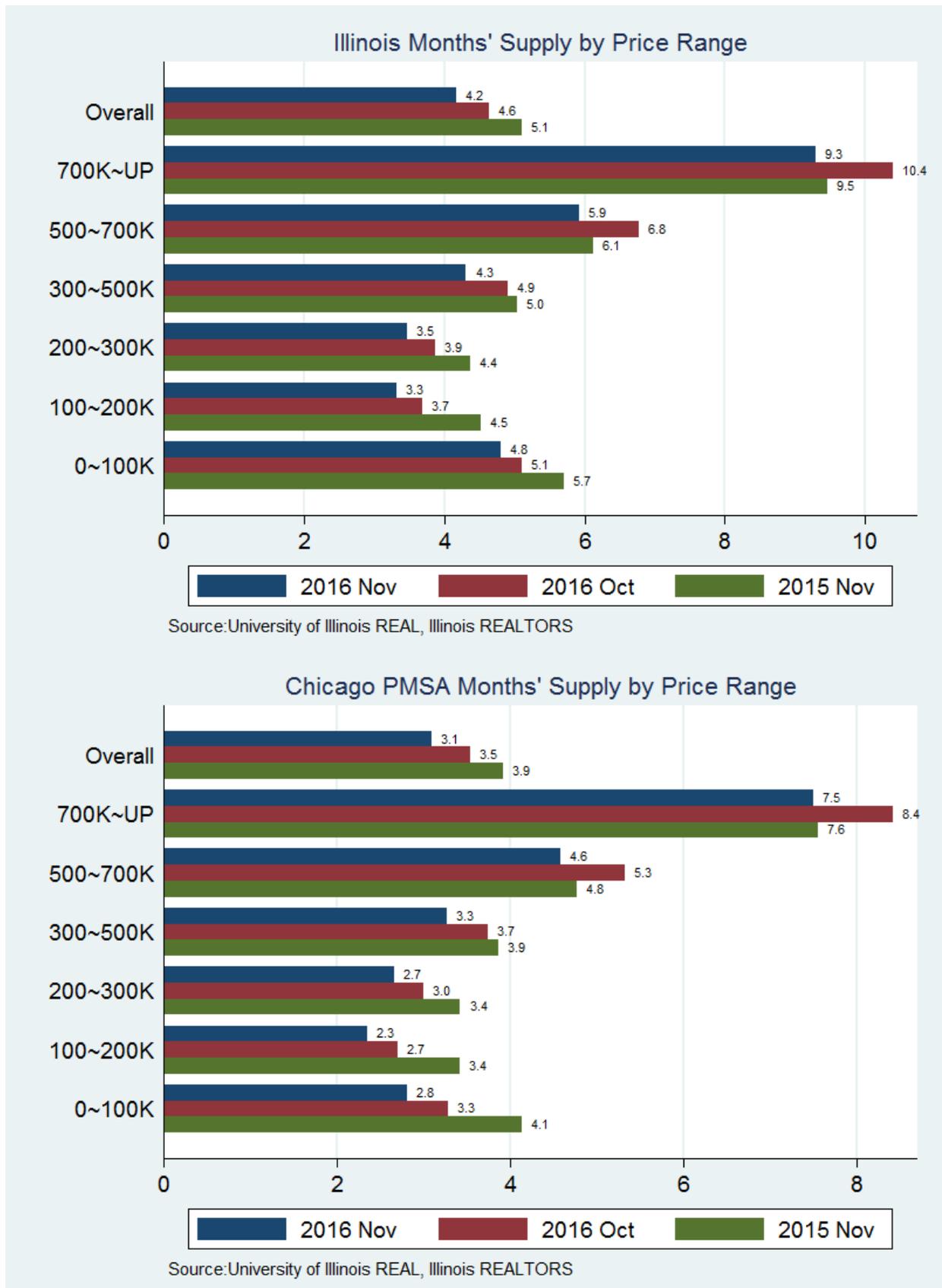


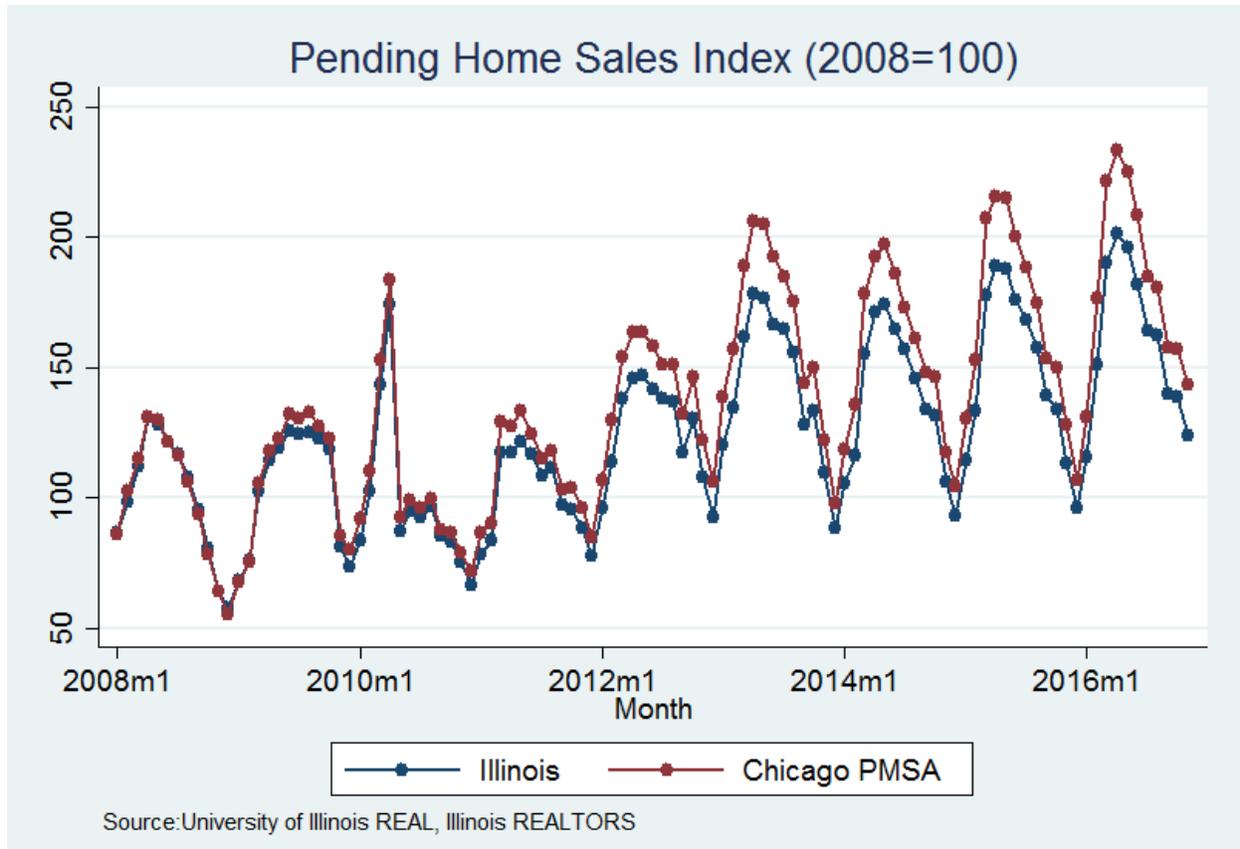
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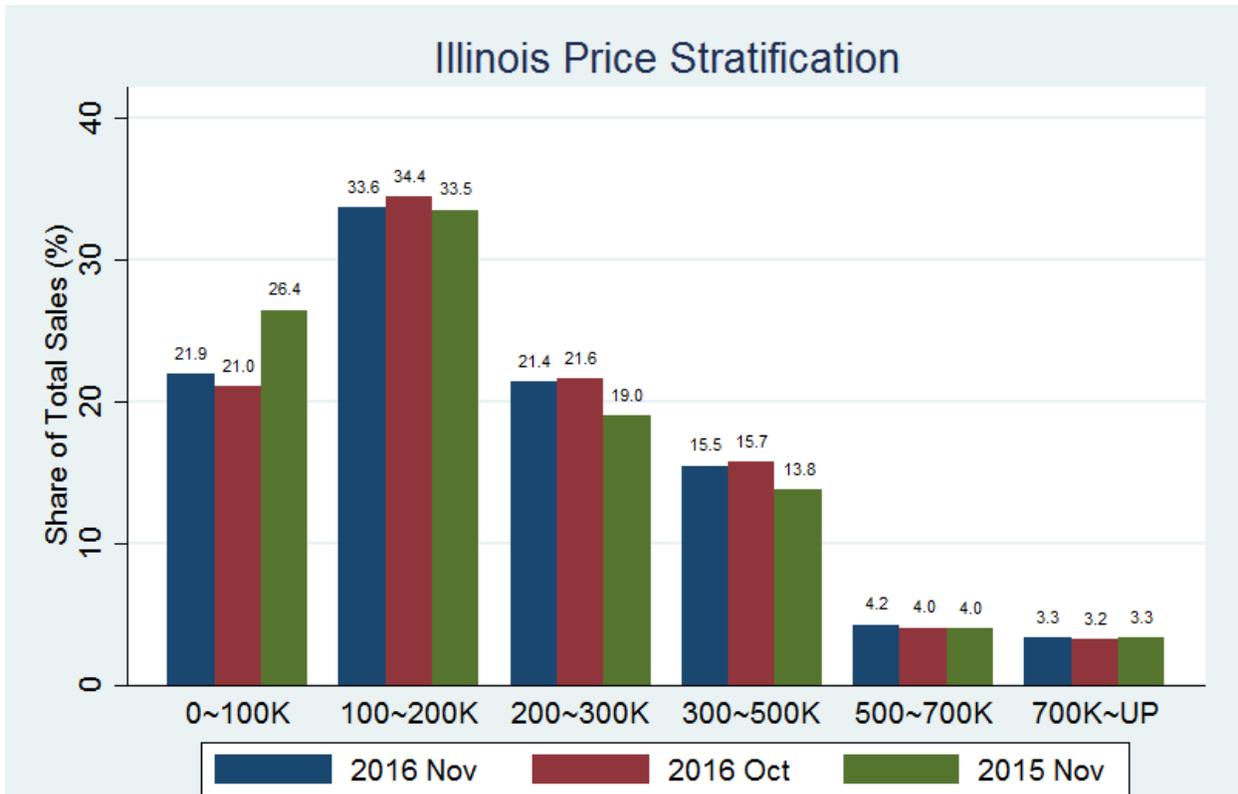


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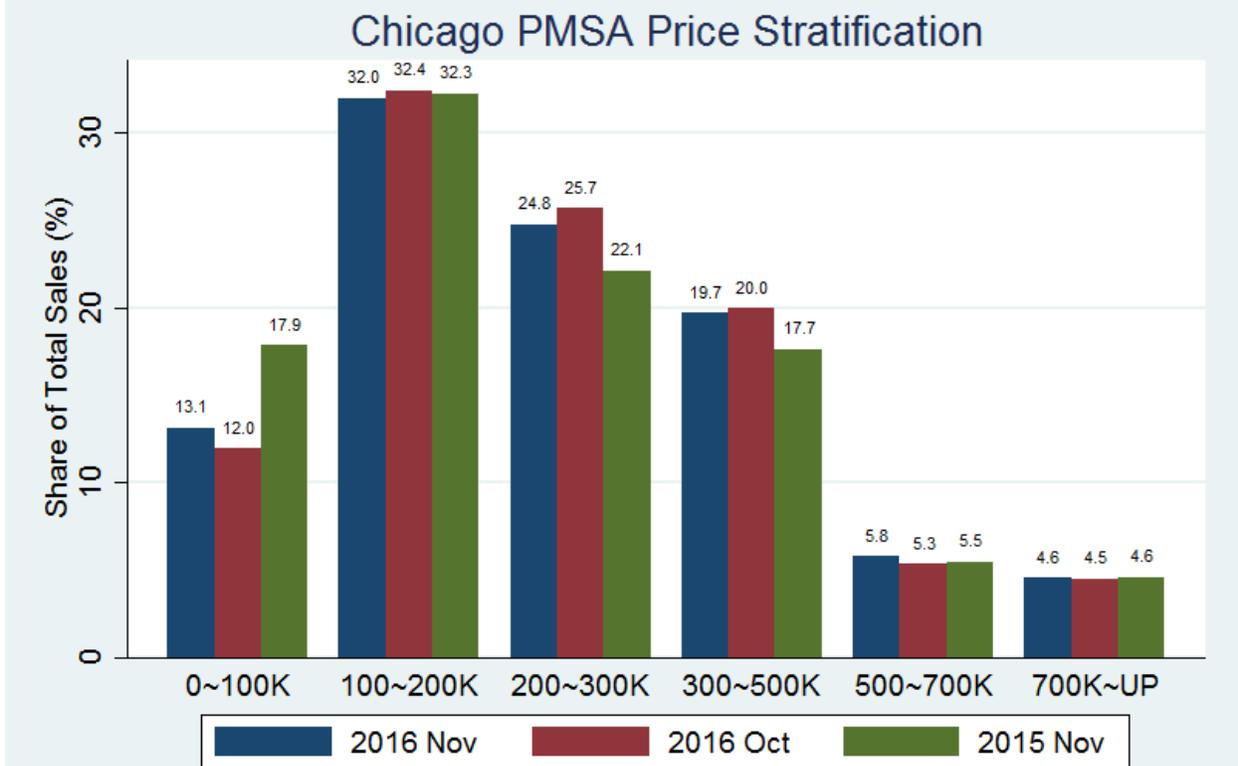




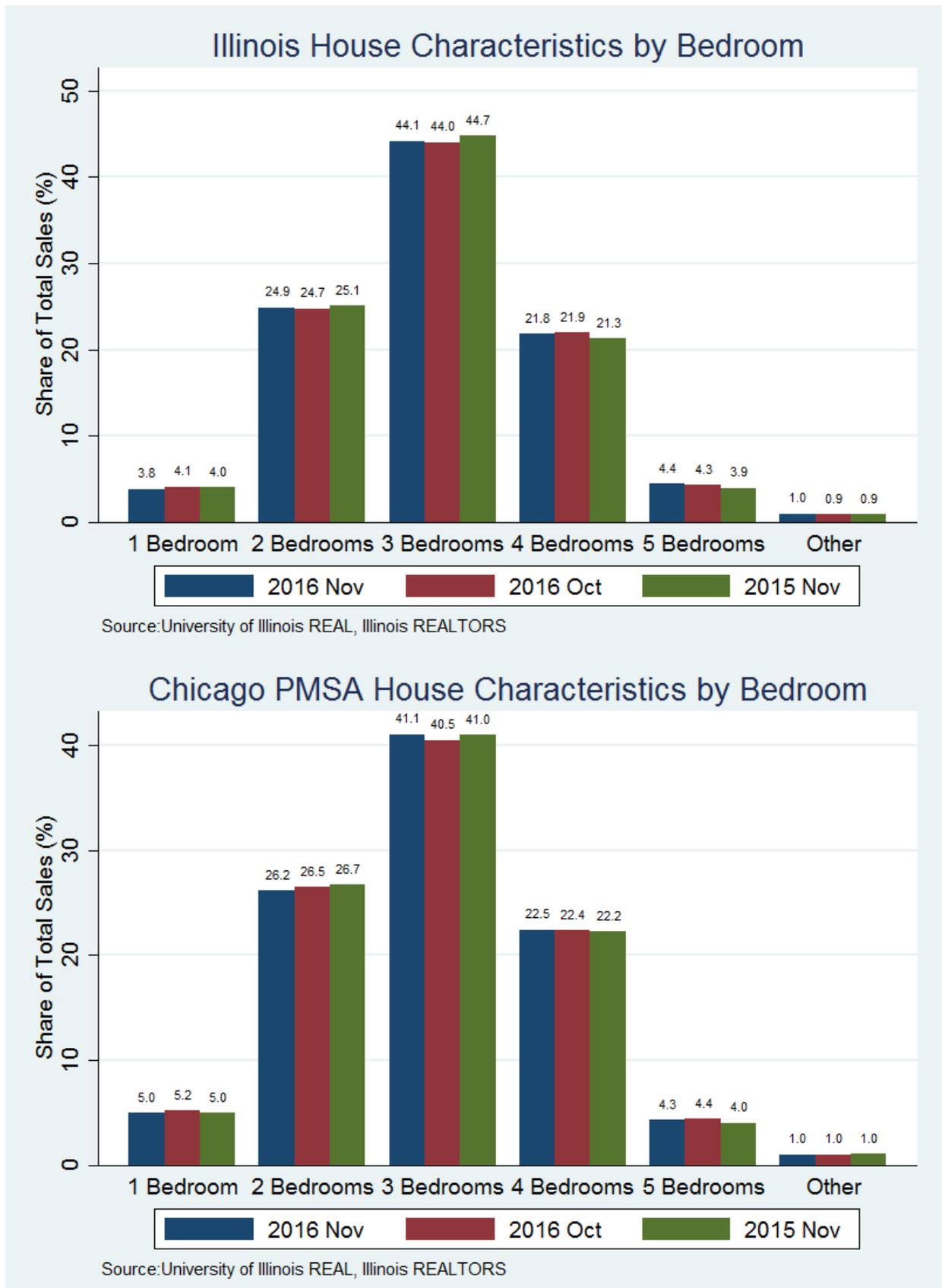




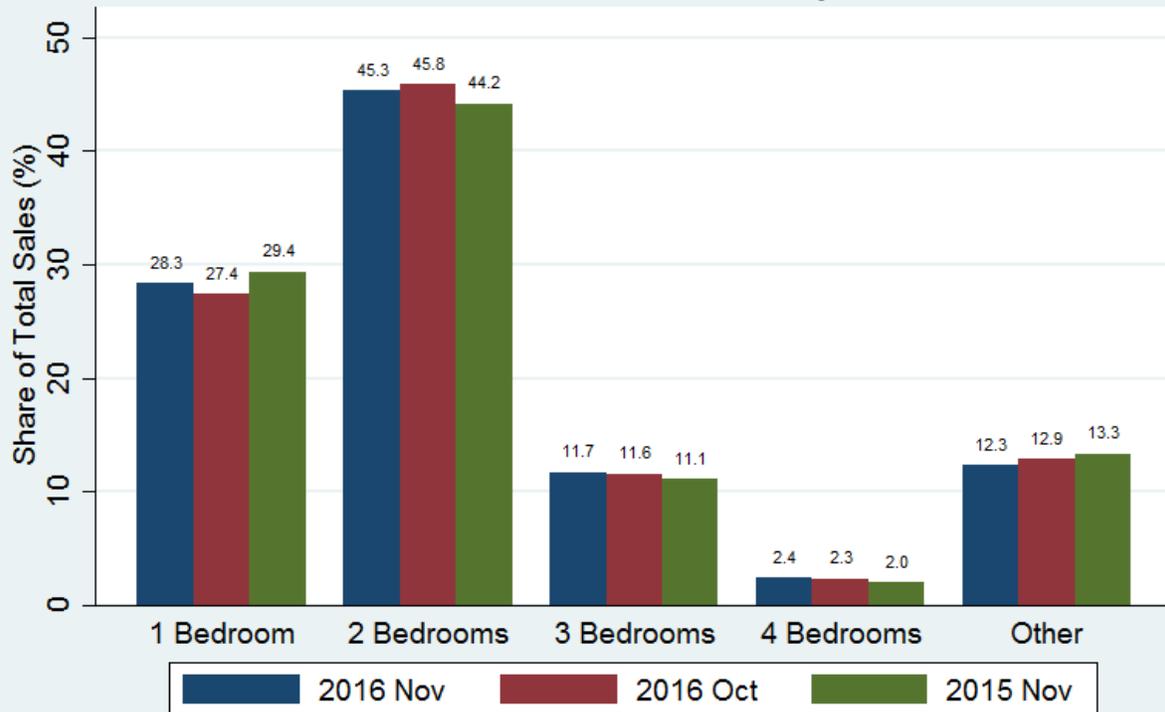
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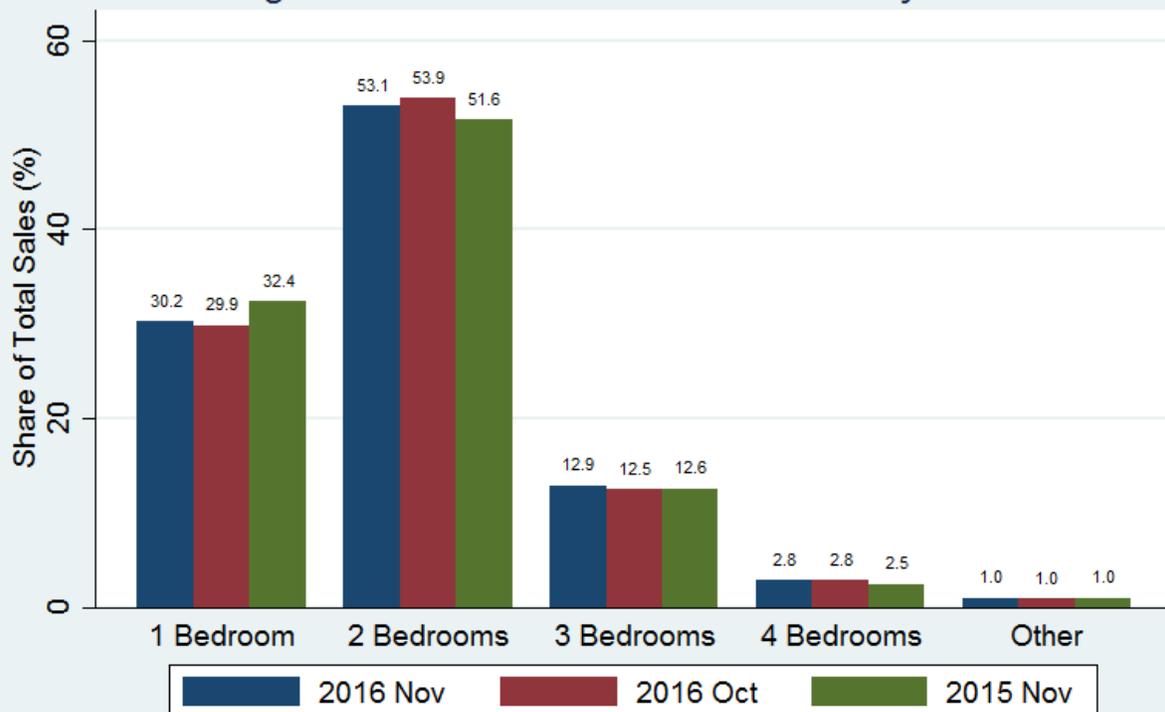


Illinois House Characteristics by Bathroom



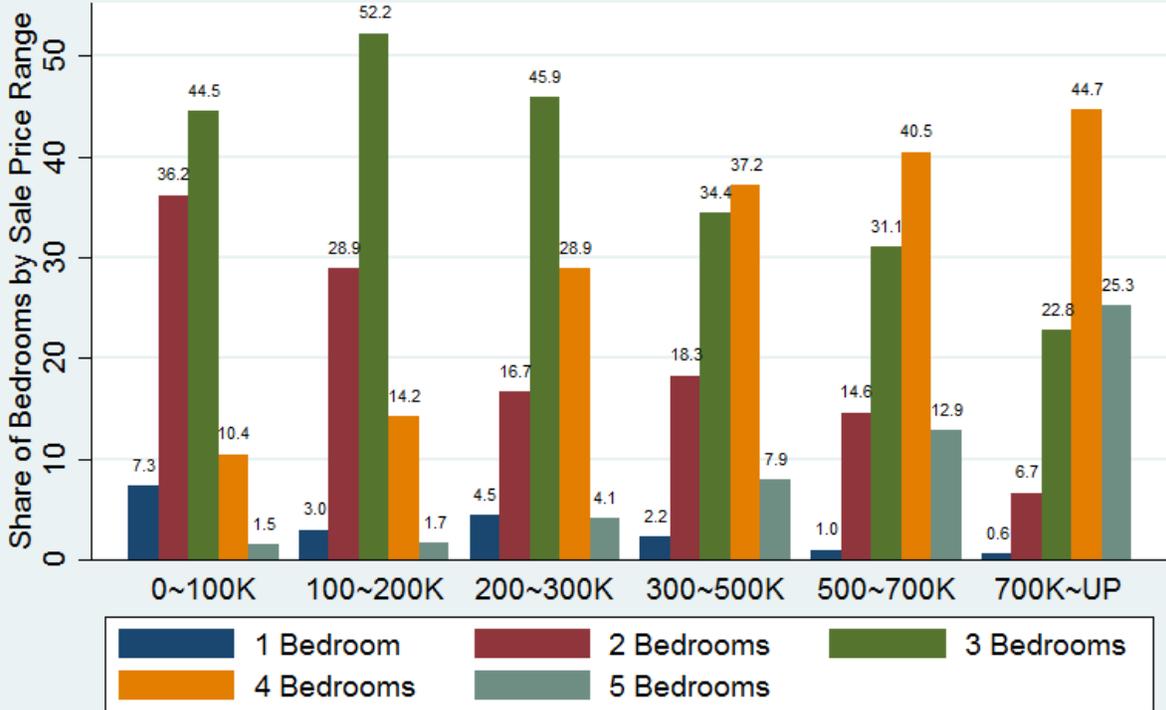
Source: University of Illinois REAL, Illinois REALTORS

Chicago PMSA House Characteristics by Bathroom



Source: University of Illinois REAL, Illinois REALTORS

Illinois Bedroom Shares by Sale Price Stratification



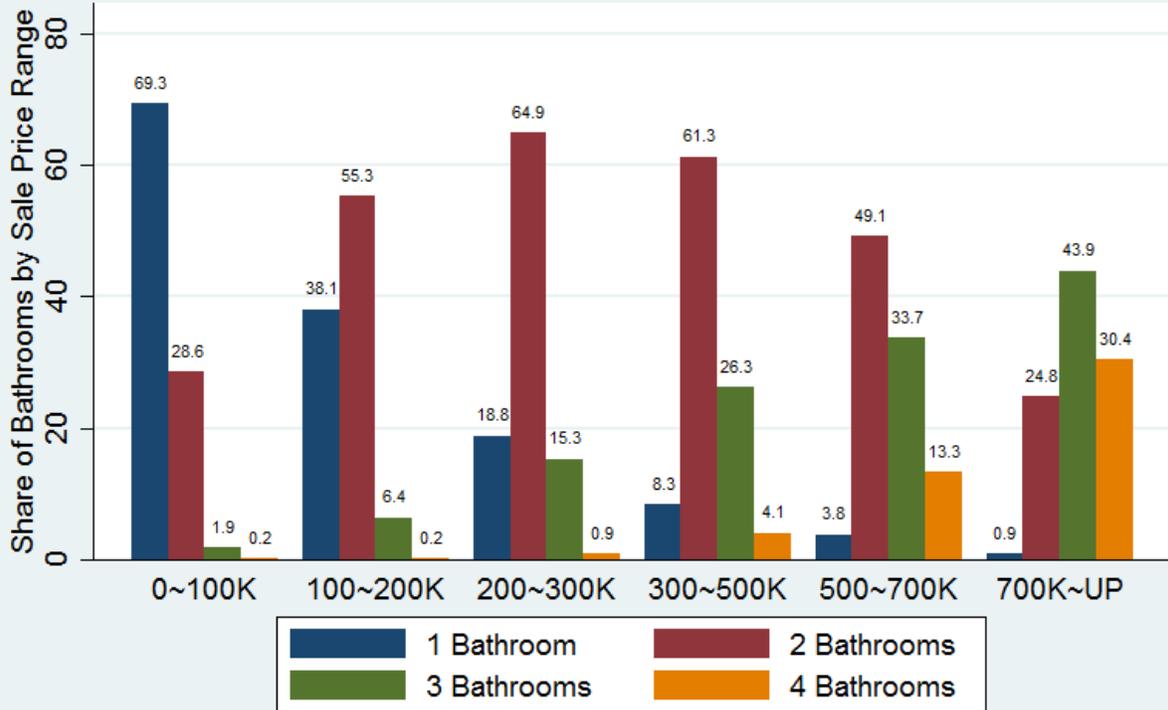
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Chicago PMSA Bedroom Shares by Sale Price Stratification



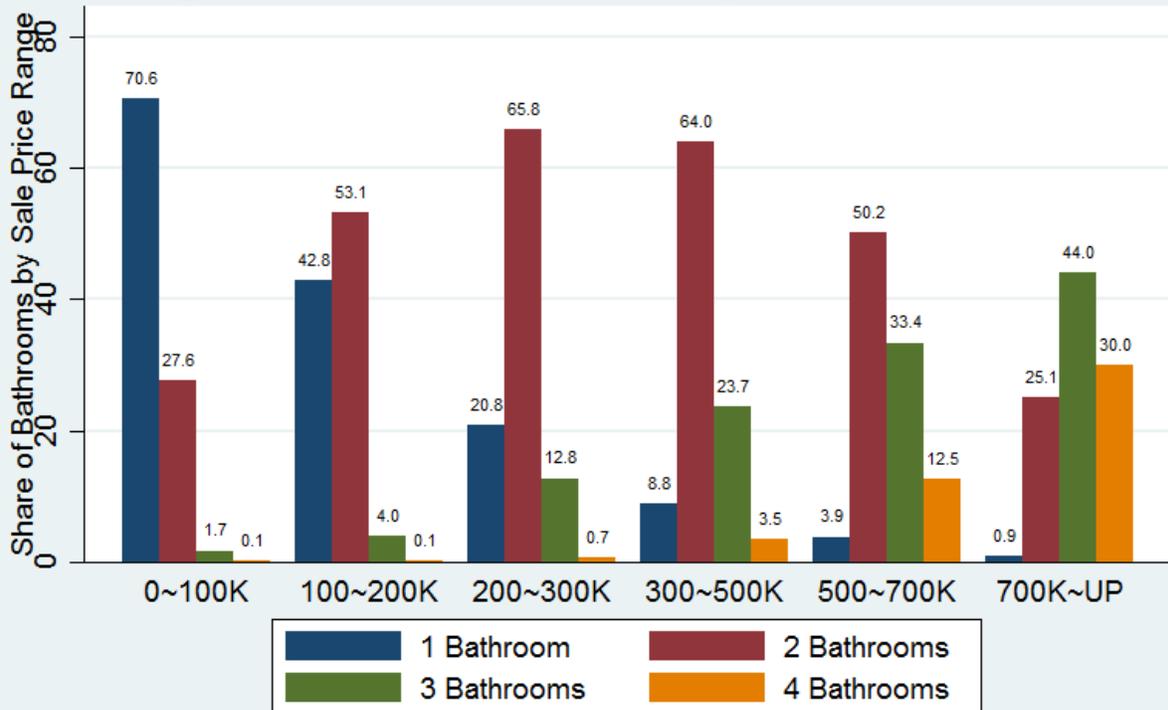
Source: University of Illinois REAL, Illinois REALTORS

Illinois Bathroom Shares by Sale Price Stratification



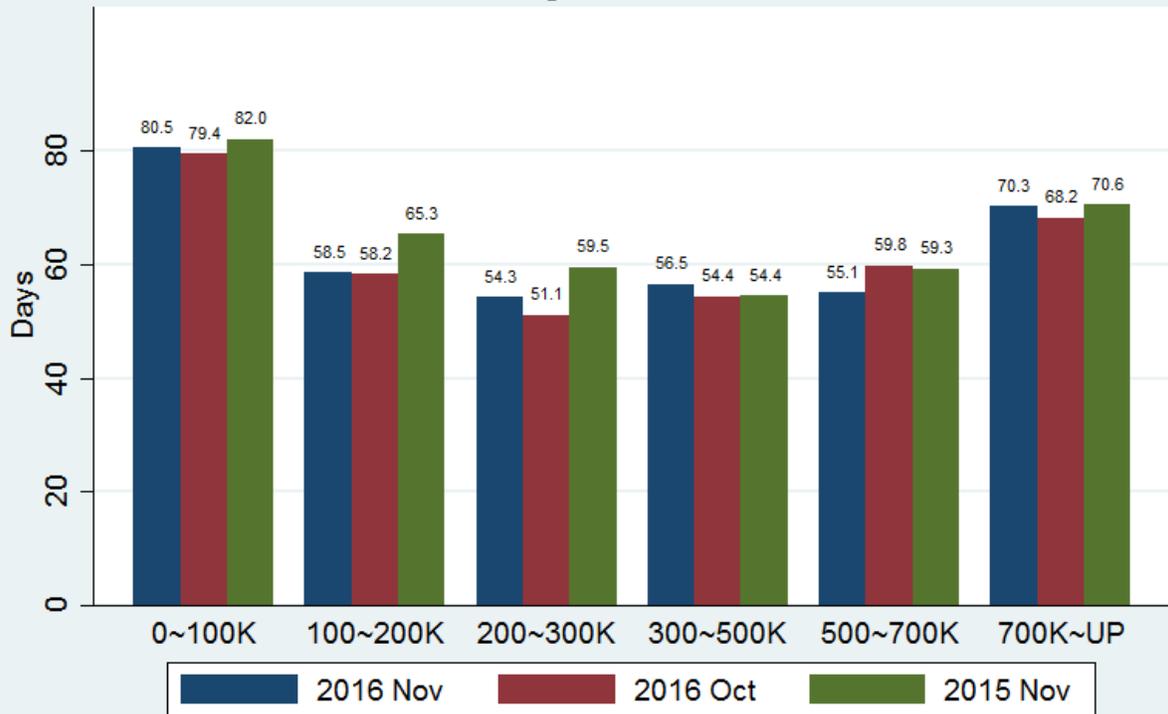
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Chicago PMSA Bathroom Shares by Sale Price Stratification



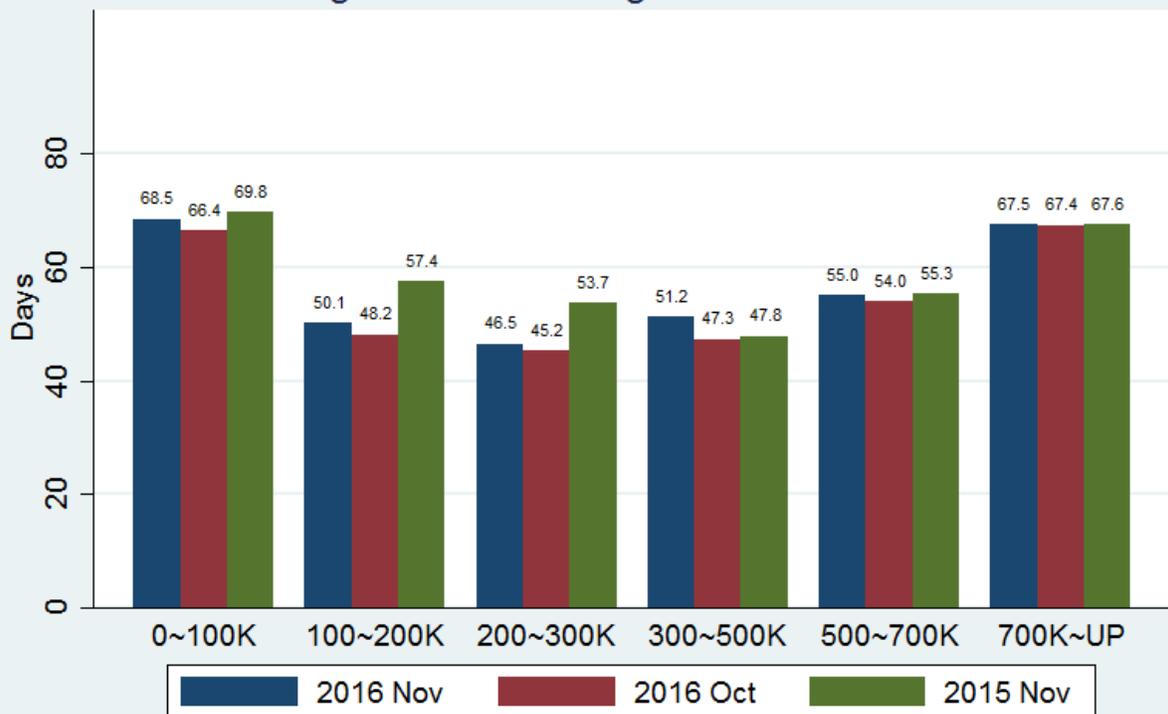
Source: University of Illinois REAL, Illinois REALTORS

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

