

# **Housing Price Forecasts**

## **Illinois and Chicago PMSA, April 2017**

Presented To

**Illinois Realtors®**

From

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

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## **Housing Price Forecast: Illinois and Chicago PMSA, April 2017**

### **The Housing Market**

In March, both sales and median prices experienced strong annual increases. 13,274 houses were sold in Illinois, up 55.3% from a month ago and up 9.6% from a year ago. In the Chicago PMSA, 9,661 houses were sold, increasing by 62.4% from a month ago and increasing by 13.1% from a year ago. The median price was \$189,900 in Illinois, up 10.7% from March last year; the comparable figure for the Chicago PMSA was \$231,000, up 10.0% from this time last year.

In March, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 15.1%. 8,404 regular sales were made, 16.8% more than last year. 1,195 foreclosed properties were sold, 7.7% less than last year. The median price was \$244,625 for regular property sales, 7.3% more than last year; the comparable figure for the foreclosed properties was \$154,000, up 18.5% from this time last year.

The median sales price in March 2008 has been adjusted to 2017 values to enable calculation of the housing price recovery taking into account the effects of inflation. In Illinois, the March 2008 median sales price was \$149,900 (in \$2008) and \$171,950 (in \$2017); the current price level was 110% of the 2008 level after adjusting (127% before adjusting). In the Chicago PMSA, the March 2008 median sales price is \$194,000 (in \$2008) and \$222,536 (in \$2017); the comparable figure for price recovery in March 2017 is 104% after adjustment (119% before adjusting). Using the average annual growth rates of prices in the past months, Illinois and Chicago PMSA both have already recovered to their pre-bubble levels.

The sales forecast for April, May and June 2017 suggests increases both on a yearly basis and a monthly basis for Illinois. Annually for Illinois, the three-month average forecasts point to an increase in the range 3.0% to 4.1%; the comparative figures for the Chicago PMSA are for an increase in the range 0.5% to 0.7%. On a monthly basis, the three-month average sales are forecast to increase in the range 11.5%-15.6% for Illinois and an increase between 10.5% and 14.2% for the Chicago PMSA.

The pending home sales index<sup>1</sup> is a leading indicator based on contract signings. This March, the number of homes put under contract was greater than last year. The pending home sales index is 213.1 (2008=100) in Illinois, up 12.3% from a year ago. In the Chicago PMSA, the comparable figure is 256.7, up 16.4% from a year ago. At the latest average annual pending sales rate, Illinois had enough housing inventory for 3.8 months<sup>2</sup> (down from 4.7 months a year ago). In the Chicago PMSA, the comparable figure was 2.8 months (down from 3.6 months a year ago). Months of supply for homes in all price ranges experienced declines both in Illinois and the Chicago PMSA, and homes in the low to moderate price ranges (<500K) experienced the largest changes.

The median price forecast indicates moderate annual growth in both Illinois and the Chicago PMSA for April, May and June. In Illinois, the median price is forecast to rise by 6.5% in April,

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<sup>1</sup> The base level (100) of pending home sales is the average pending home sales of year 2008.

<sup>2</sup> 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.

7.9% in May and 7.7% in June. For the Chicago PMSA, the comparable figures are 5.6% in April, 8.7% in May and 8.9% in June. As a complement to the median housing price index (HPI), the REAL HPI<sup>3</sup> forecasts a negative growth trend for both Illinois and the Chicago PMSA. In Illinois, the REAL HPI (Jan 2008=1) is forecast to decline by -3.9% in April, -8.5% in May and -8.4% in June. The comparable figures for the Chicago PMSA are -3.3% in April, -7.7% in May and -11.5% in June. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month.

In March, while the broader consumer sentiments were revealed to increase, a more housing market specific sentiment edged down. Both consumer sentiment indices – the Conference Board Consumer Confidence Index and the University of Michigan Consumer Sentiment Index – pointed to positive direction, and especially the Conference Board Consumer Confidence Index reached its highest level since December 2000. According to the Conference Board Consumer Confidence Index, their survey revealed that consumers’ assessment of current business and labor market conditions improved considerably, and consumers also expressed much greater optimism regarding the short-term outlook for business, jobs and personal income prospects. The survey from the University of Michigan revealed that the continued strength in consumer sentiment has been due to optimistic views on three critical components: higher incomes and wealth, more favorable job prospects, and low inflation expectations. In contrast, the more housing specific sentiment index, the Fannie Mae Home Purchase Sentiment Index (HPSI) edged down largely due to the reduced confidence about the stability of their jobs, and decreased housing demand.

### **The Housing Market – Current Condition**

- In March, both sales and median prices experienced moderate annual increases. 13,274 houses were sold in Illinois, up 55.3% from a month ago and up 9.6% from a year ago. In the Chicago PMSA, 9,661 houses were sold, increasing by 62.4% from a month ago and increasing by 13.1% from a year ago. The median price was \$189,900 in Illinois, up 10.7% from March last year; the comparable figure for the Chicago PMSA was \$231,000, up 10.0% from this time last year. (Reference: Illinois and Chicago PMSA Total Home Sales and Median Home Sales Price figures; Forecast for April 2017 report table)
- In March, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 15.1%. 8,404 regular sales were made, 16.8% more than last year. 1,195 foreclosed properties were sold, 7.7% less than last year. The median price was \$244,625 for regular property sales, 7.3% more than last year; the comparable figure for the foreclosed properties was \$154,000, up 18.5% from this time last year. (Reference: Ratio of Foreclosed Sales over Total Sales, Sales & Median Prices: Foreclosed vs. Regular figures)
- In March, at the latest average annual pending sales rate, Illinois had enough housing inventory for 3.8 months<sup>4</sup> (down from 4.7 months a year ago). In the Chicago PMSA, the comparable figure was 2.8 months (down from 3.6 months a year ago). Months of supply for homes in all price ranges experienced declines both in Illinois and the Chicago PMSA,

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<sup>3</sup> REAL HPI was developed by Esteban Lopez and Minshu Du. Contact us for further details.

<sup>4</sup> 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.

and homes in the low to moderate price ranges (<500K) experienced the largest changes. (Reference: Illinois and Chicago PMSA Annual Months' Supply by Price Range figures)

- In March, 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 20.5% from 24.2% a year ago; the comparative figure for the Chicago PMSA showed a decrease to 11.1% from 14.9% 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 April, May and June. In Illinois, the median price is forecast to rise by 6.5% in April, 7.9% in May and 7.7% in June. For the Chicago PMSA, the comparable figures are 5.6% in April, 8.7% in May and 8.9% in June. (Reference: Forecast for April 2017 report table)
- As a complement to the median housing price index (HPI), the REAL HPI<sup>5</sup> forecasts a negative growth trend for both Illinois and the Chicago PMSA. In Illinois, the REAL HPI (Jan 2008=1) is forecast to decline by -3.9% in April, -8.5% in May and -8.4% in June. The comparable figures for the Chicago PMSA are -3.3% in April, -7.7% in May and -11.5% in June. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month. (Reference: Housing Price Index)
- The sales forecast for April, May and June 2017 suggests increases both on a yearly basis and a monthly basis for Illinois. Annually for Illinois, the three-month average forecasts point to an increase in the range 3.0% to 4.1%; the comparative figures for the Chicago PMSA are an increase in the range 0.5% to 0.7%. On a monthly basis, the three-month average sales are forecast to increase in the range 11.5%-15.6% for Illinois and increase by 10.5%-14.2% for the Chicago PMSA. (Reference: Forecast for April 2017 report table)
- The pending home sales index<sup>6</sup> is a leading indicator based on contract signings. This March, the number of homes put under contract was greater than last year. The pending home sales index is 213.1 (2008=100) in Illinois, up 12.3% from a year ago. In the Chicago PMSA, the comparable figure is 256.7, up 16.4% from a year ago. (Reference: Illinois and Chicago PMSA Pending Home Sales Index figure)
- In March 2017, 2,217 houses were newly filed for foreclosure in the Chicago PMSA (down 7.2% and up 20.4% respectively from a year and a month ago). 1,480 foreclosures were completed<sup>7</sup> (down 13.1% and up 17.9% respectively from a year and a month ago). As of March 2017, there are 28,669 homes at some stage of foreclosure — the foreclosure inventory. The monthly average net flows of foreclosures (foreclosure inflows - outflows) were 403 in the past 6 months, 318 in the last 12 months and 208 in the last 24 months. (Reference: Chicago PMSA Foreclosure Inflows and Outflows, and Inventory figures).

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<sup>5</sup> REAL HPI was developed by Esteban Lopez and Minshu Du. Contact us for further details.

<sup>6</sup> The base level (100) of pending home sales is the average pending home sales of year 2008.

<sup>7</sup> Including cancelled foreclosures and auctions

## The Economy

- In March 2017, according to the Bureau of Labor Statistics (BLS) Employment Situation report, the national unemployment rate declined to 4.5% and nonfarm payroll jobs experienced a gain of 98,000 jobs. The employment gains in March were spearheaded by professional and business services (56,000), followed by health care (14,000), and mining (11,000).
- In February 2017, according to the Illinois Department of Employment Security (IDES) news release, the Illinois unemployment rate dropped to 5.4%. The state added 25,600 non-farm payroll jobs. The largest gains were in three sectors, government (8,300), construction (7,300) and education and health services (5,800). Furthermore, the job growth in January was revised from the preliminary estimate of 1,700 jobs to 8,100 jobs.
- In February 2017, the one-year-ahead forecast for Illinois indicates that the non-farm employment will increase at a rate between 0.69% and 1.61%, corresponding to job gains between 41,400 and 96,800. Construction, Financial Activities, Education and Health and Leisure and Hospitality are forecast to be the leading growth sectors.

## Longer-term Outlook

- In March, two consumer sentiment indices both increased. The Conference Board Consumer Confidence Index sharply increased to 125.6, its highest level since December 2000, from 116.1 last month. Their survey explained that consumers' assessment of current business and labor market conditions improved considerably, and consumers also expressed much greater optimism regarding the short-term outlook for business, jobs and personal income prospects. The University of Michigan Consumer Sentiment Index increased to 96.9 from 96.3 last month. Their survey revealed that the continued strength in consumer sentiment has been due to optimistic views on three critical components: higher incomes and wealth, more favorable job prospects, and low inflation expectations.
- In March, Fannie Mae Home Purchase Sentiment Index (HPSI) decreased to 84.5 from 88.3 last month. This downward trend was mainly driven by reduced confidence about the stability of their jobs, and decreased housing demand. 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 97.7 in February from 97.3 in January. The increase is attributed to positive job growth in manufacturing, nonmanufacturing and construction and to the improvement of retail activities in the Chicago area.

“In inflation adjusted terms, both the Illinois and Chicago housing markets have recovered to their pre-recession levels,” noted Geoffrey J.D. Hewings, Director of the Regional Economics Applications Laboratory. “The consumer indices still reflect a positive outlook on the economy although the Home Purchase Sentiment Index declined reflecting some elevated concerns about job security.”

## Forecast for April 2017 report

PERCENTAGE CHANGE FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Jan-17	3.1%	2.3%		-26.5%	-23.9%			
Feb-17	-1.7%	-4.2%		-1.3%	-5.0%			
Mar-17	9.6%	13.1%		55.3%	62.4%			
3 Month Avg.	4.3%	4.8%		5.1%	7.0%			
SUMMARY OF THE FORECAST INTERVALS FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Apr-17	4.2%	5.6%	2.6%	3.5%	12.1%	16.3%	9.2%	12.5%
May-17	3.2%	4.4%	1.1%	1.5%	10.7%	14.5%	10.5%	14.2%
Jun-17	2.0%	2.8%	-1.5%	-2.0%	11.9%	16.0%	11.5%	15.6%
3 Month Avg.	3.0%	4.1%	0.5%	0.7%	11.5%	15.6%	10.5%	14.2%
SUMMARY OF THE FORECAST FOR THE MEDIAN PRICE								
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Jan-17	\$171,000	\$209,000	Jan-16	\$162,900	\$190,000			
Feb-17	\$170,000	\$210,000	Feb-16	\$160,000	\$187,500			
Mar-17	\$189,900	\$231,000	Mar-16	\$171,500	\$210,000			
Apr-17	\$198,135	\$242,863	Apr-16	\$186,000	\$230,000			
May-17	\$208,246	\$253,875	May-16	\$193,000	\$233,500			
Jun-17	\$219,543	\$264,079	Jun-16	\$203,847	\$242,500			
ANNUAL PERCENTAGE CHANGE OF THE MEDIAN PRICE								
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Jan-17	5.0%	10.0%	Jan-16	8.7%	8.6%			
Feb-17	6.3%	12.0%	Feb-16	8.2%	7.1%			
Mar-17	10.7%	10.0%	Mar-16	4.0%	4.1%			
Apr-17	6.5%	5.6%	Apr-16	10.1%	10.5%			
May-17	7.9%	8.7%	May-16	6.6%	5.7%			
Jun-17	7.7%	8.9%	Jun-16	5.8%	4.7%			

### Median Prices and Recovery

	Illinois		Chicago PMSA	
	[\$2008]	[\$2017]	[\$2008]	[\$2017]
<b>March 2008 Median Price</b>	\$149,900	\$171,950	\$194,000	\$222,536
<b>March 2017 Median Price</b>	\$165,549	\$189,900	\$201,378	\$231,000
Price Ratio (March 17/ March 08)	Adjusted	1.10	Adjusted	1.04
	Unadjusted	1.27	Unadjusted	1.19

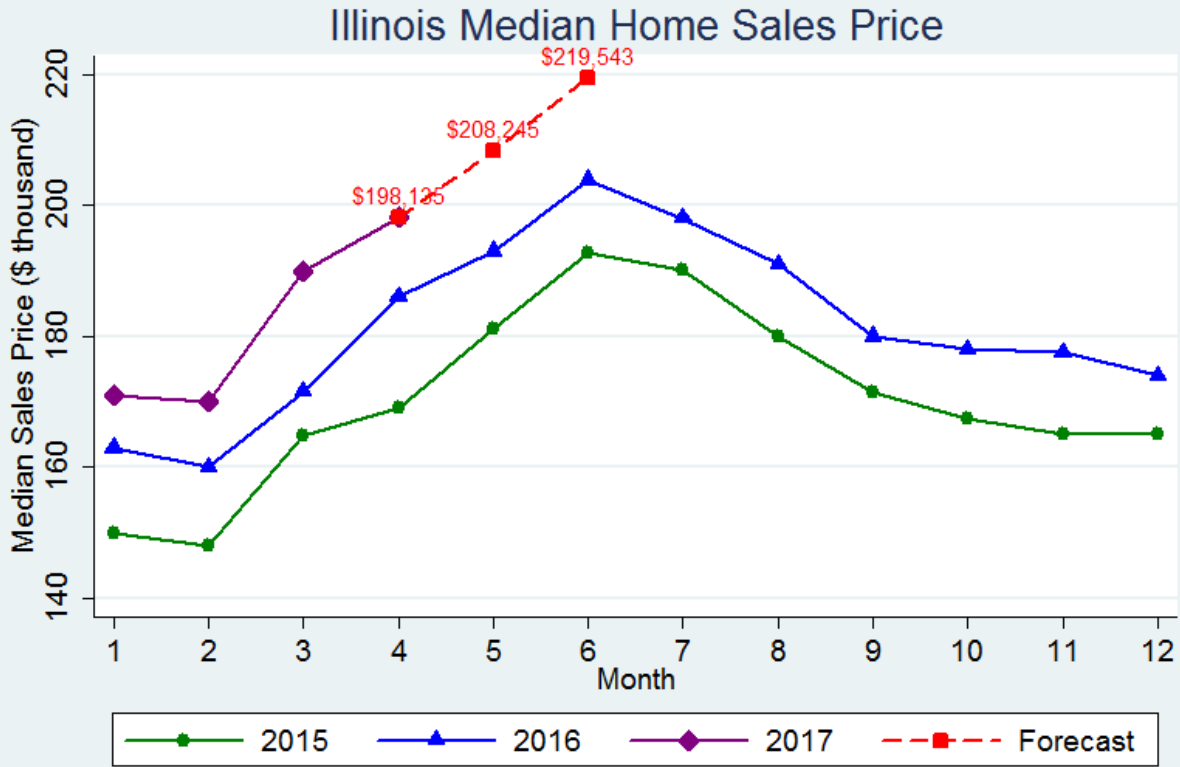
### Recovery Forecasts using *Annually Growth Rates*

	Illinois	Chicago PMSA		
	Annual Recovery Rate*	Years to Recover**	Recovery Rate	Years to Recover
Current Month	8.1%	-1.3	7.4%	-0.5
Past 3 months	4.6%	-2.2	7.8%	-0.5
Past 6 months	4.6%	-2.2	7.2%	-0.5
Past 9 months	4.4%	-2.3	6.0%	-0.6
Past 12 months	4.8%	-2.1	6.0%	-0.6

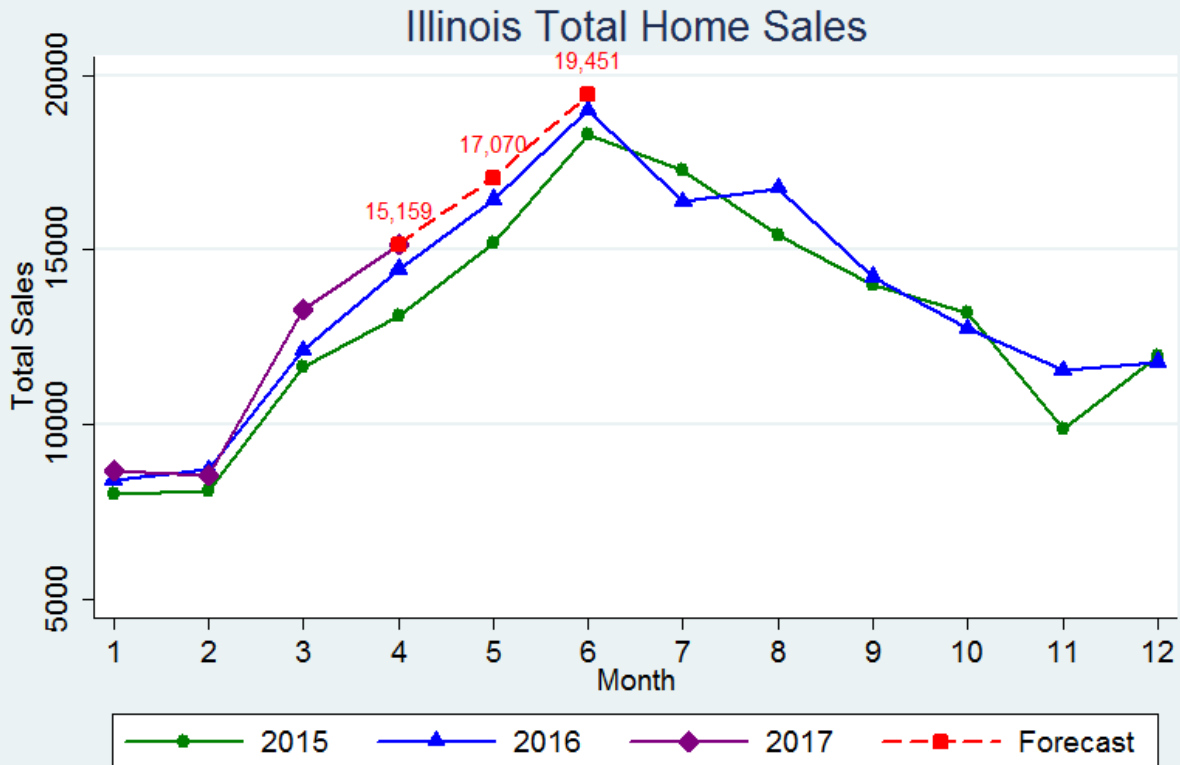
\*Annual recovery rate is the average of *annual* change rates in past months

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

$Price_{\text{March2017}} * (1 + \text{recovery rate})^{\text{years}} = Price_{\text{March2008}}$ . 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.

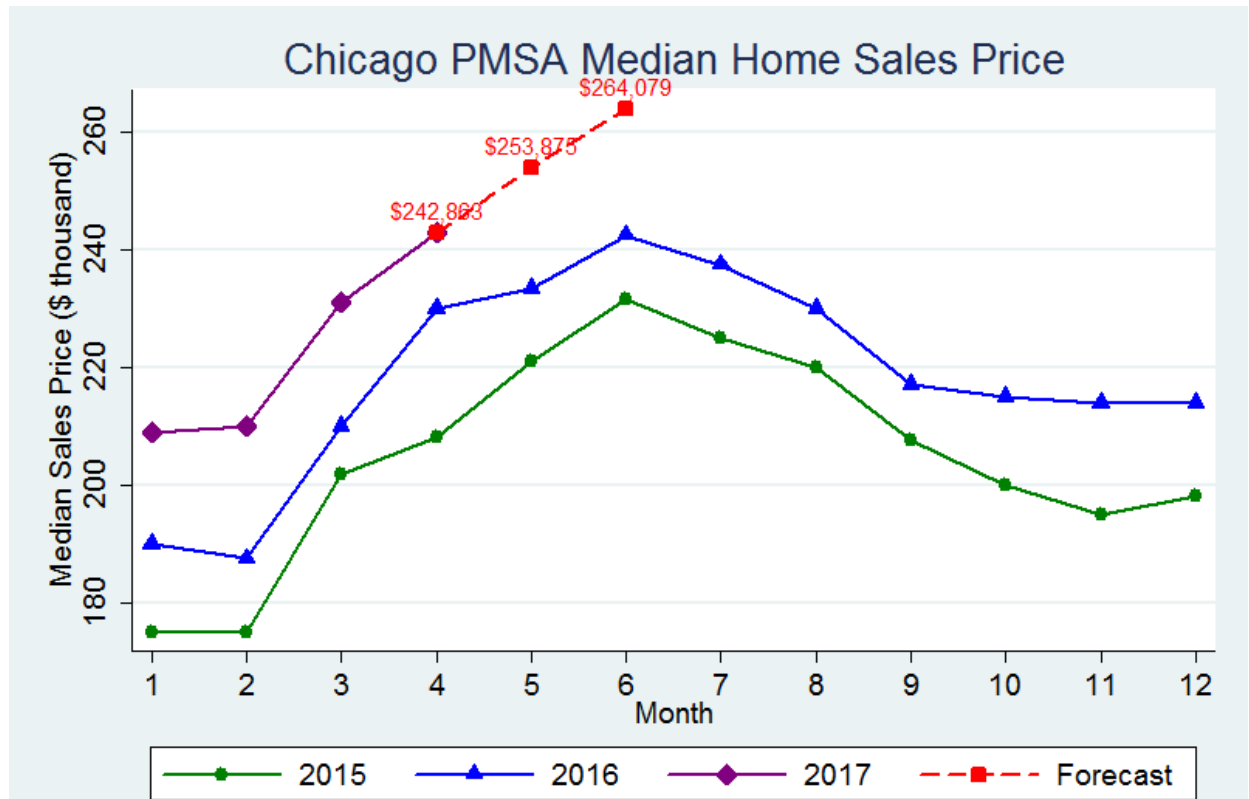


Source: University of Illinois REAL, Illinois REALTORS

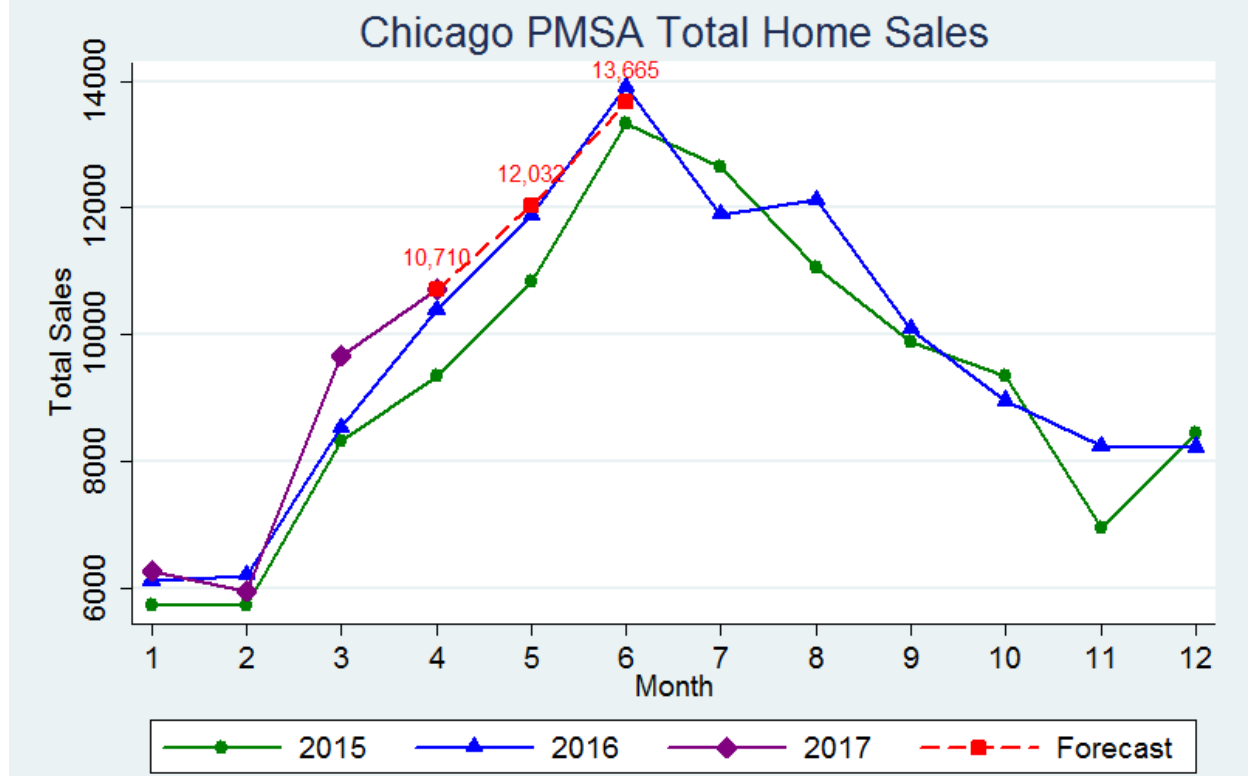


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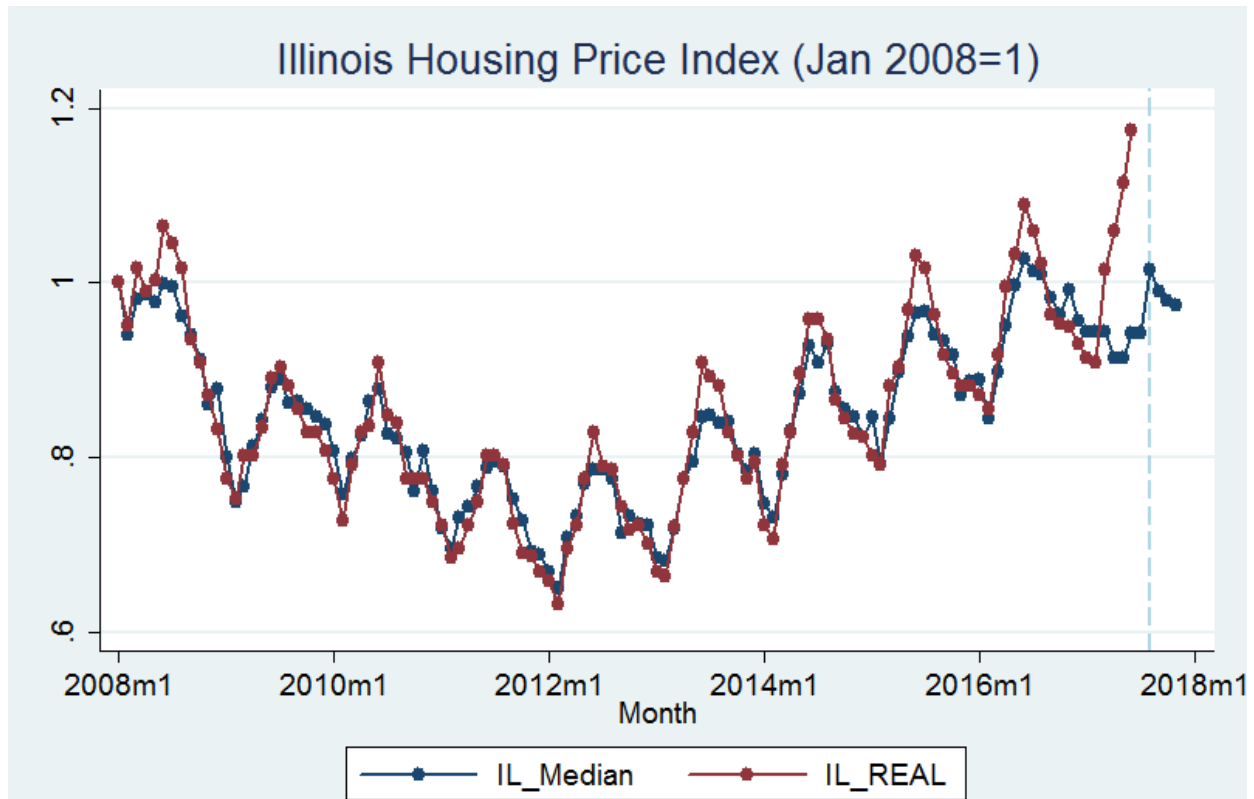




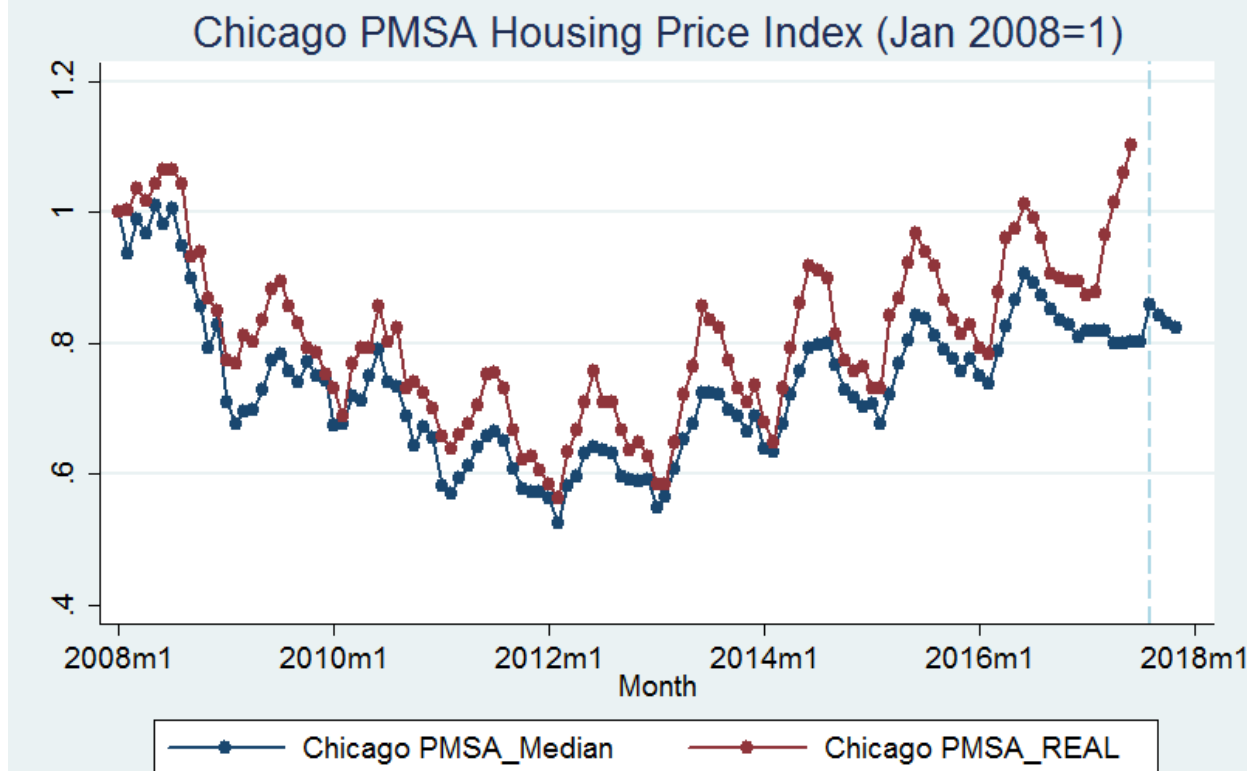
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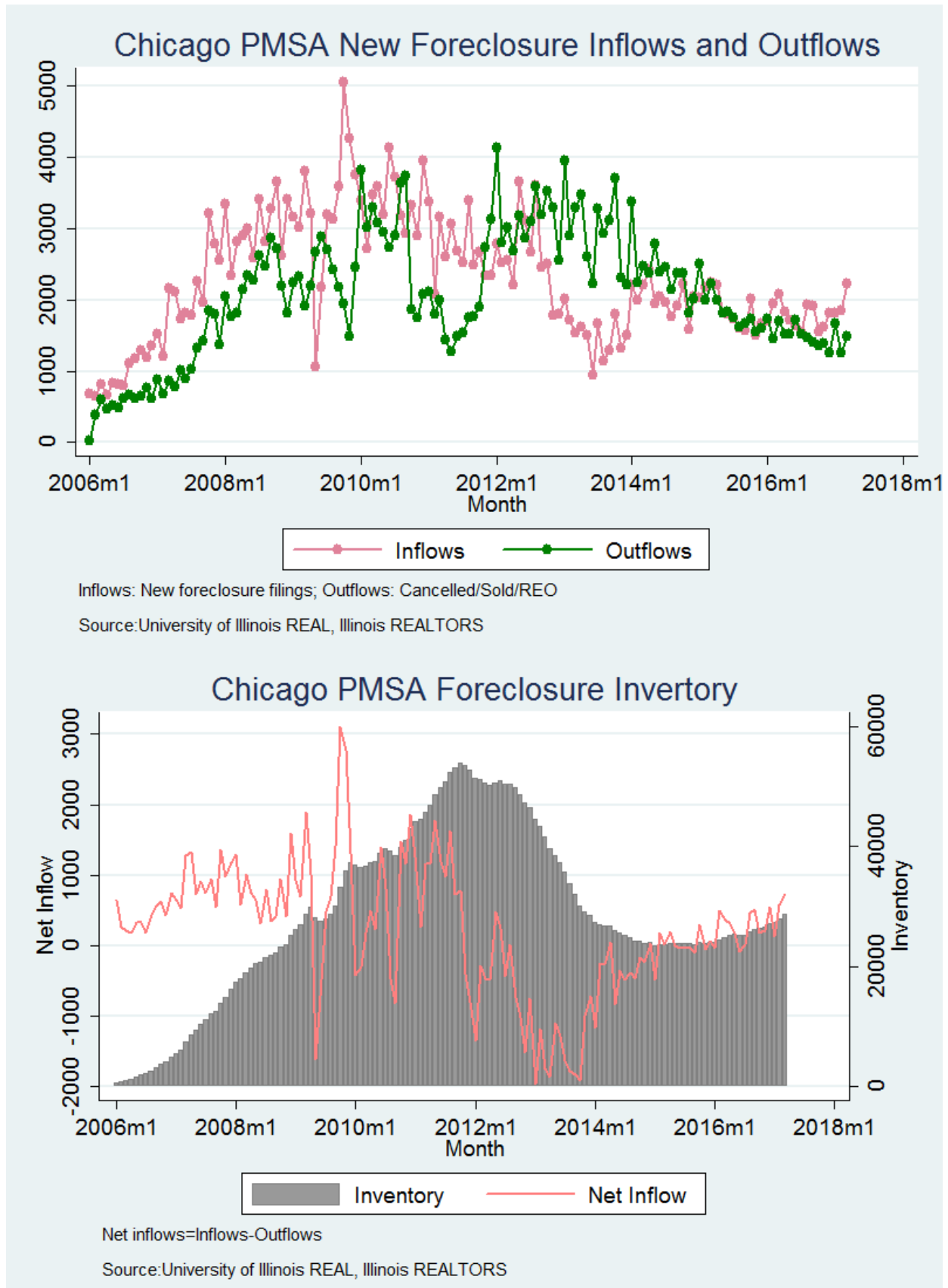
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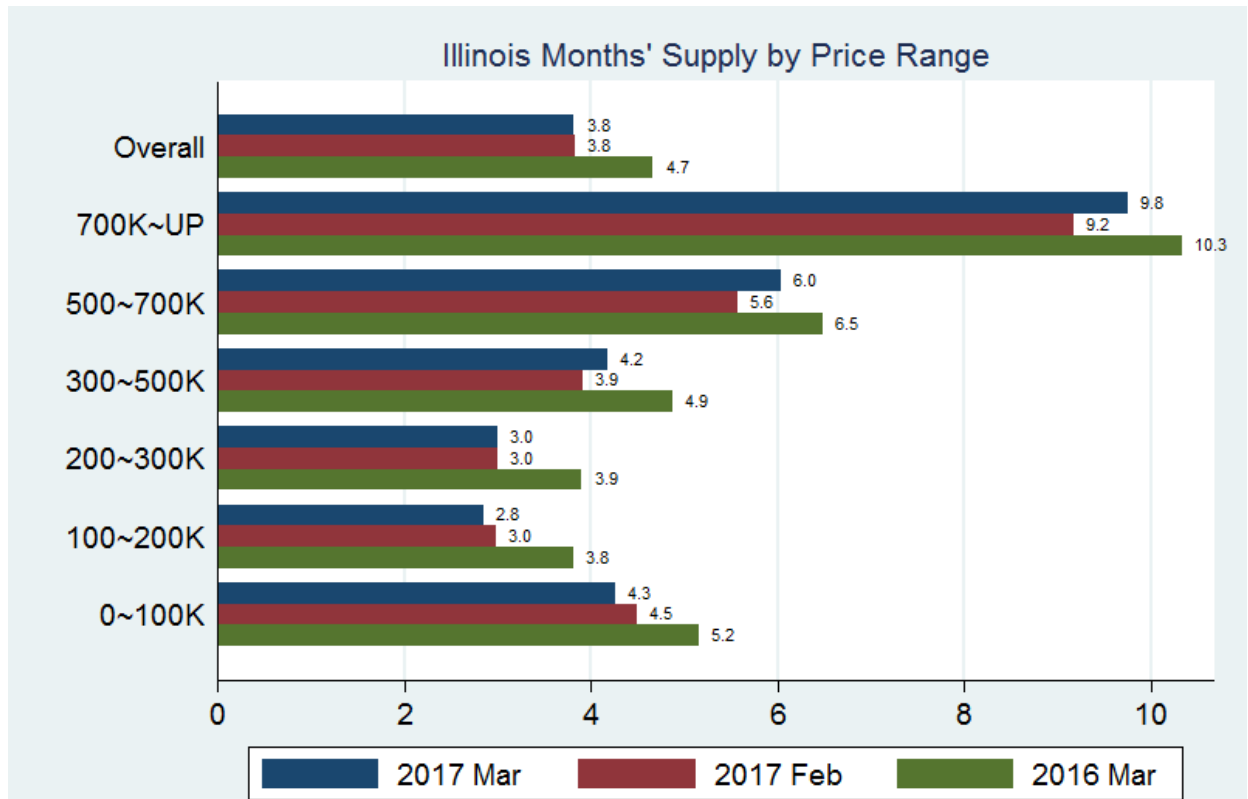


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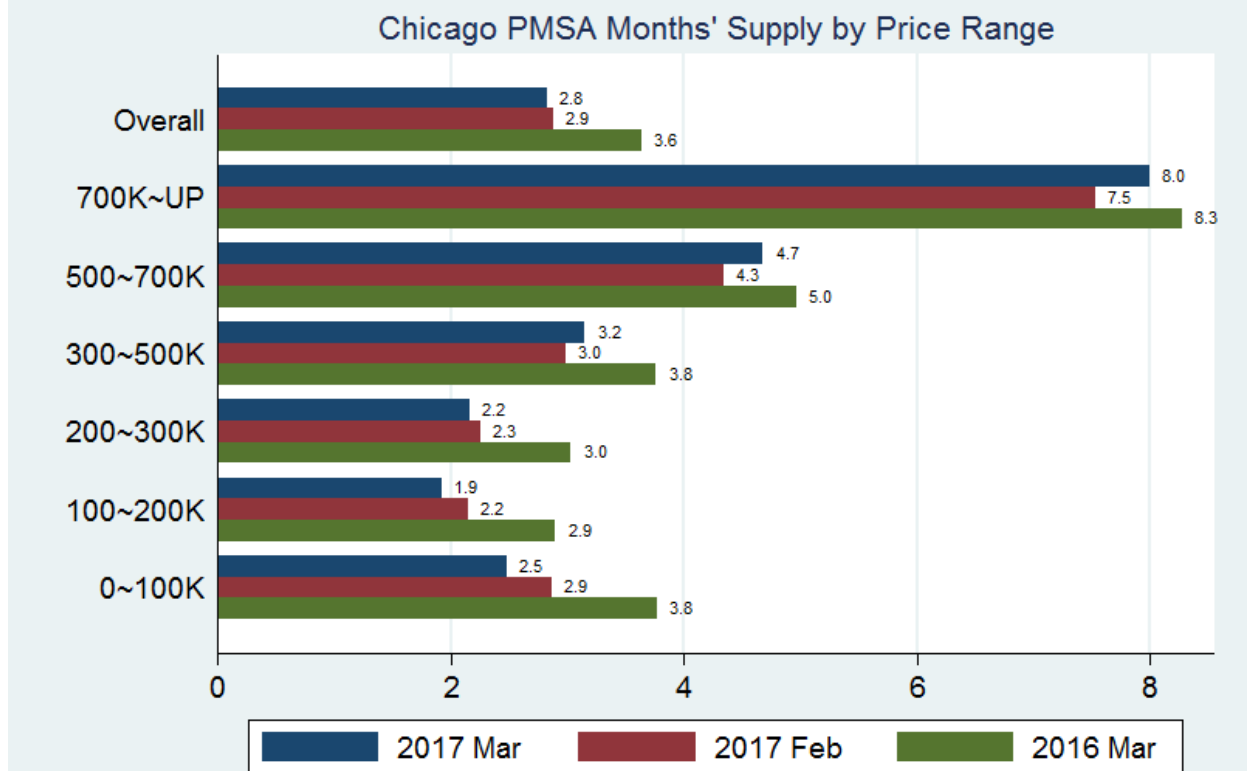


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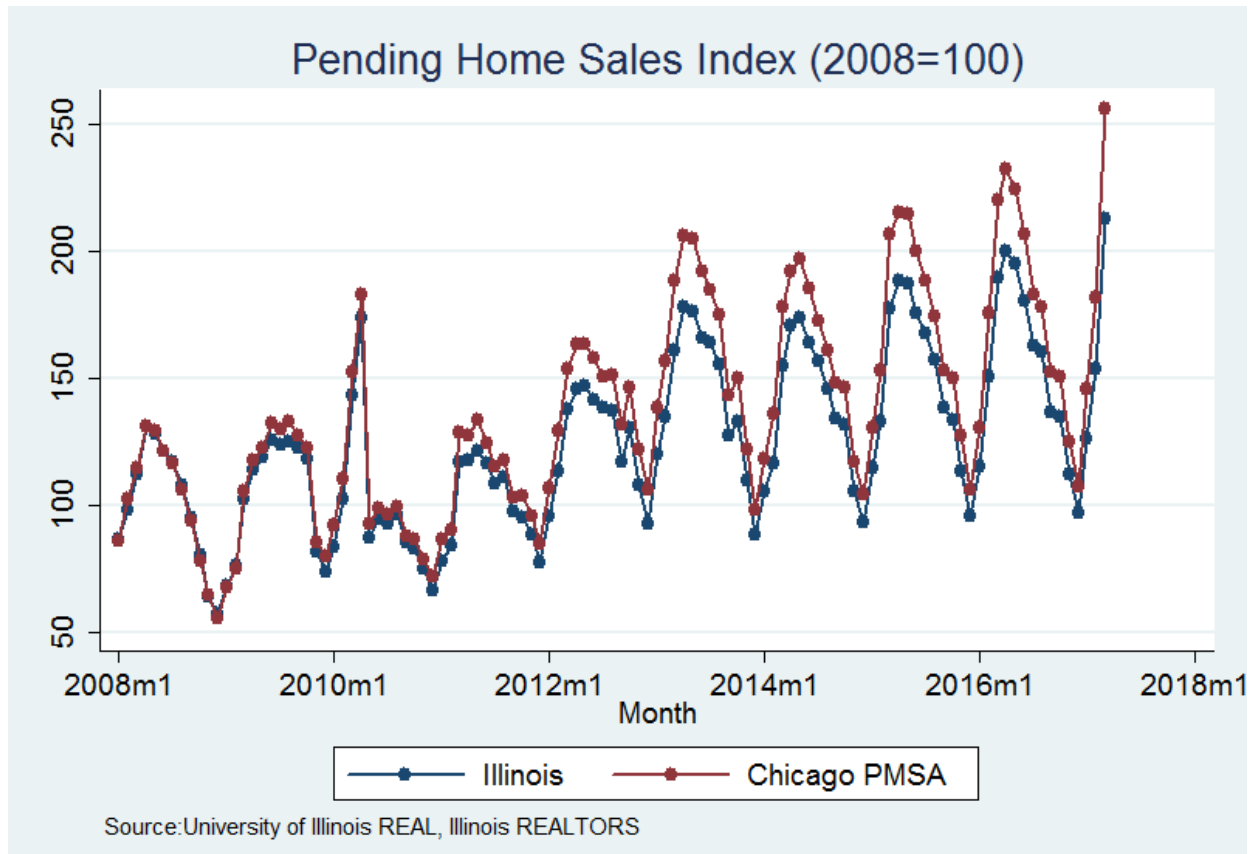


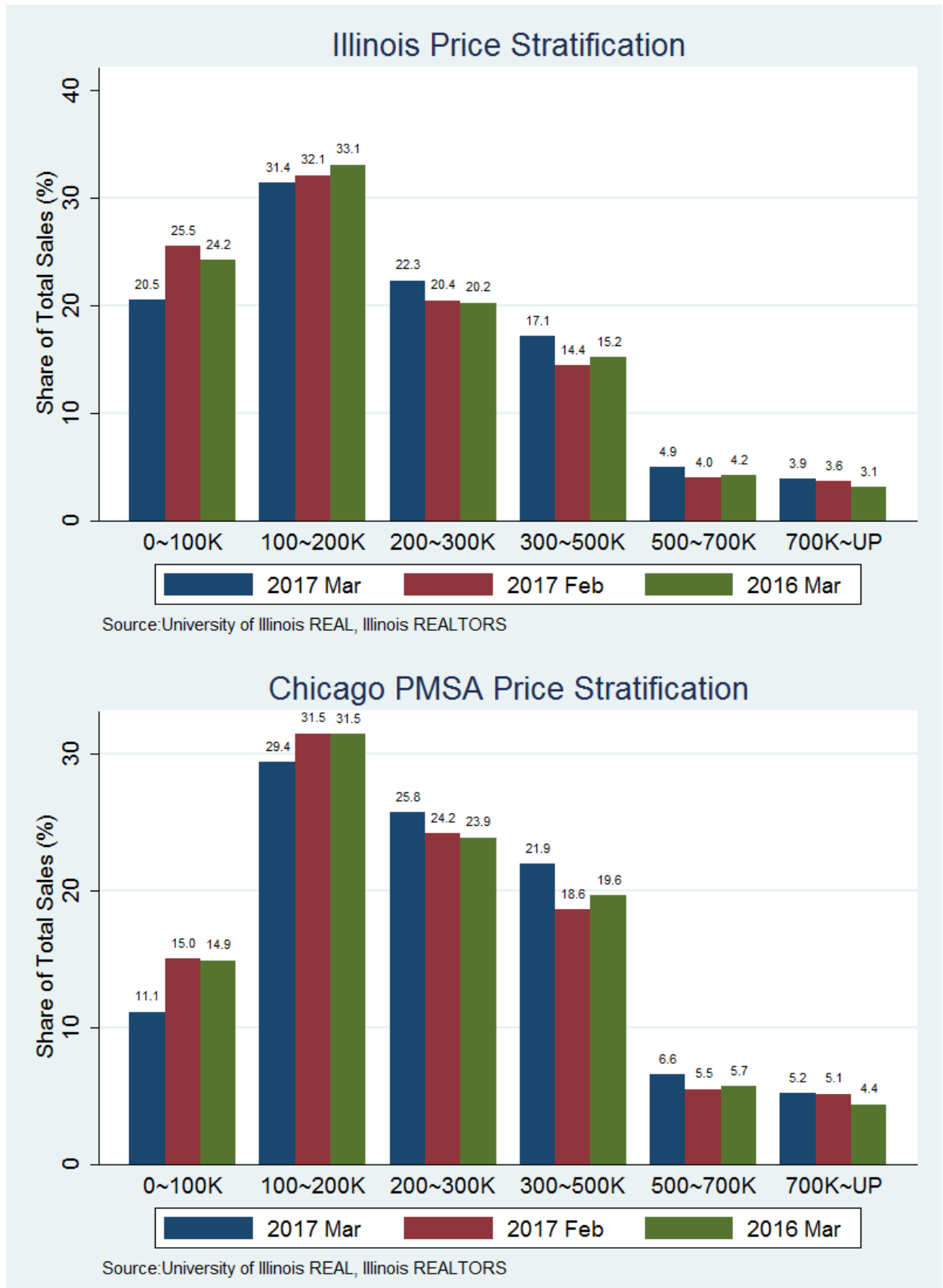


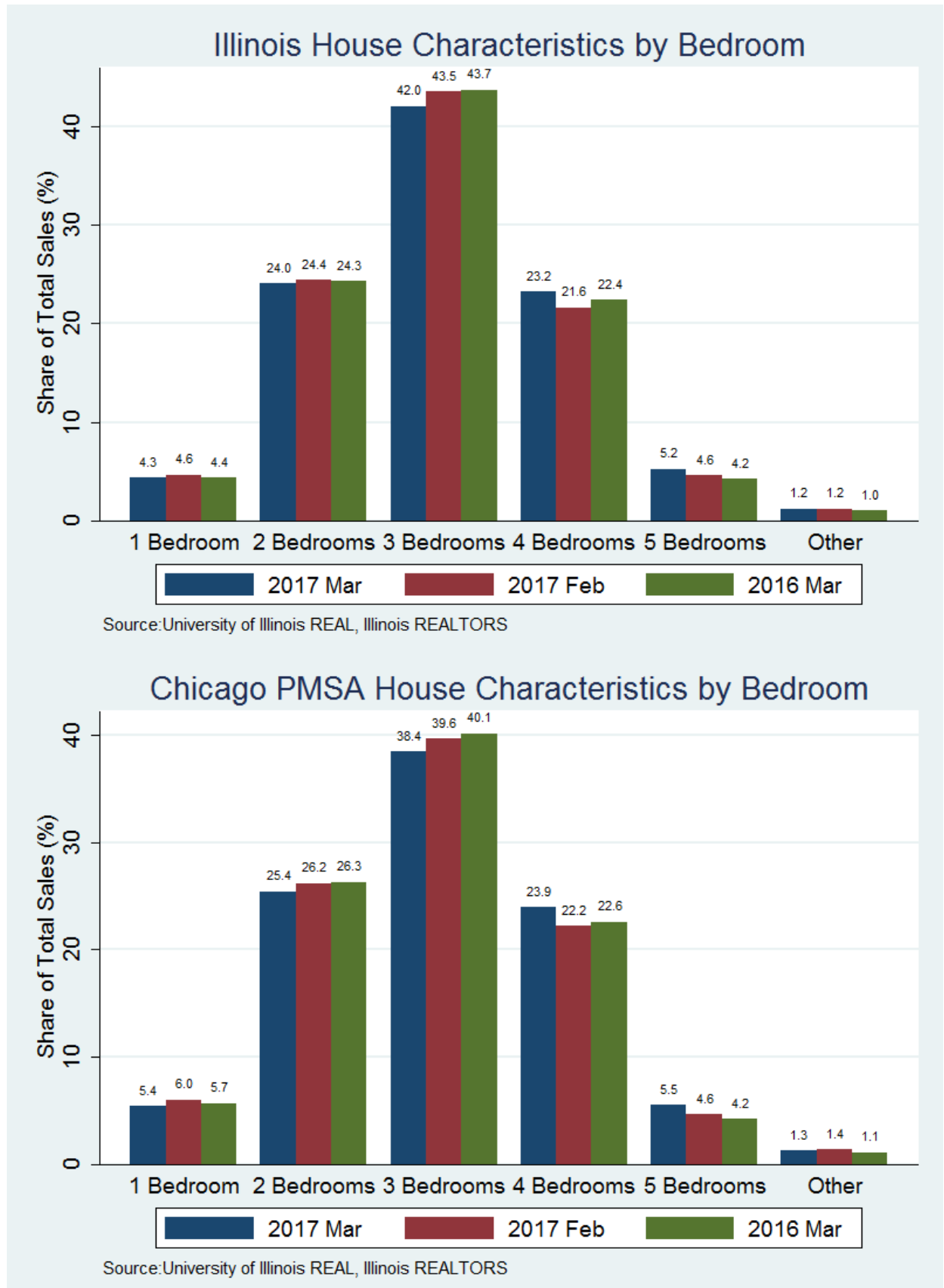
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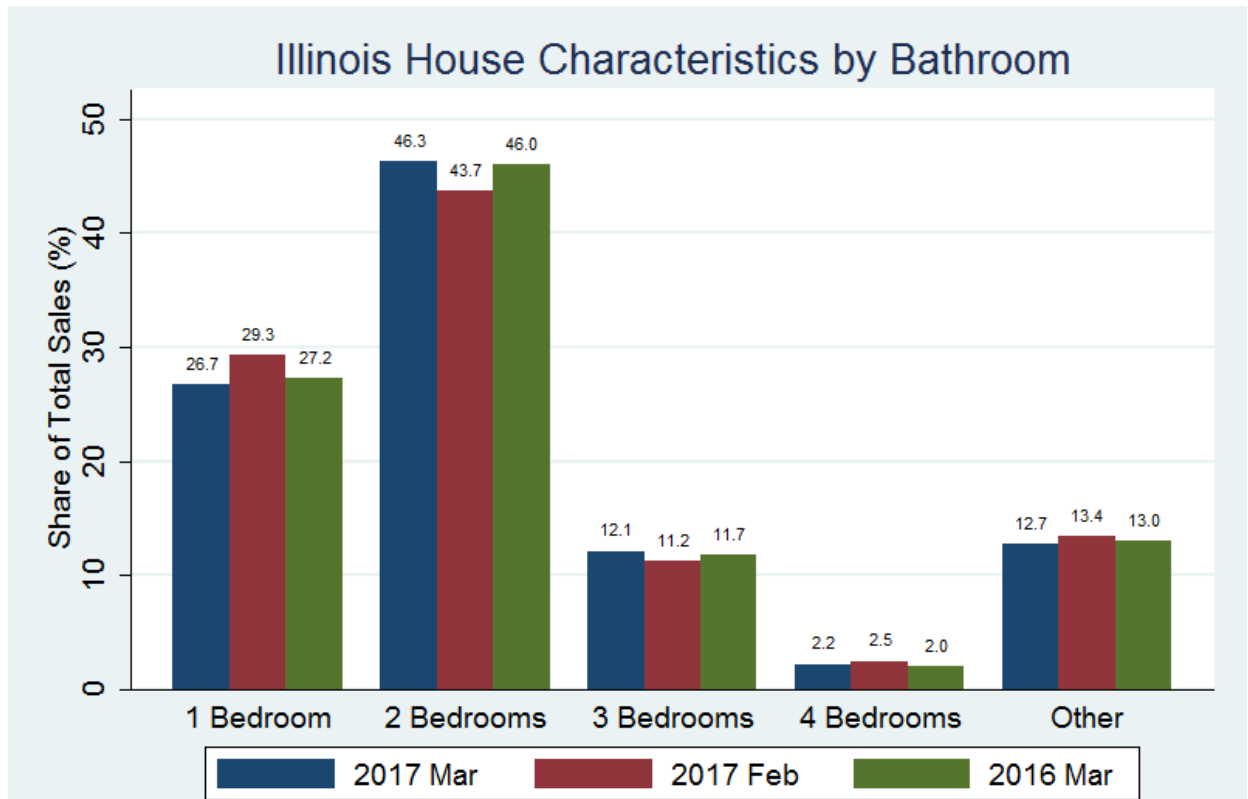


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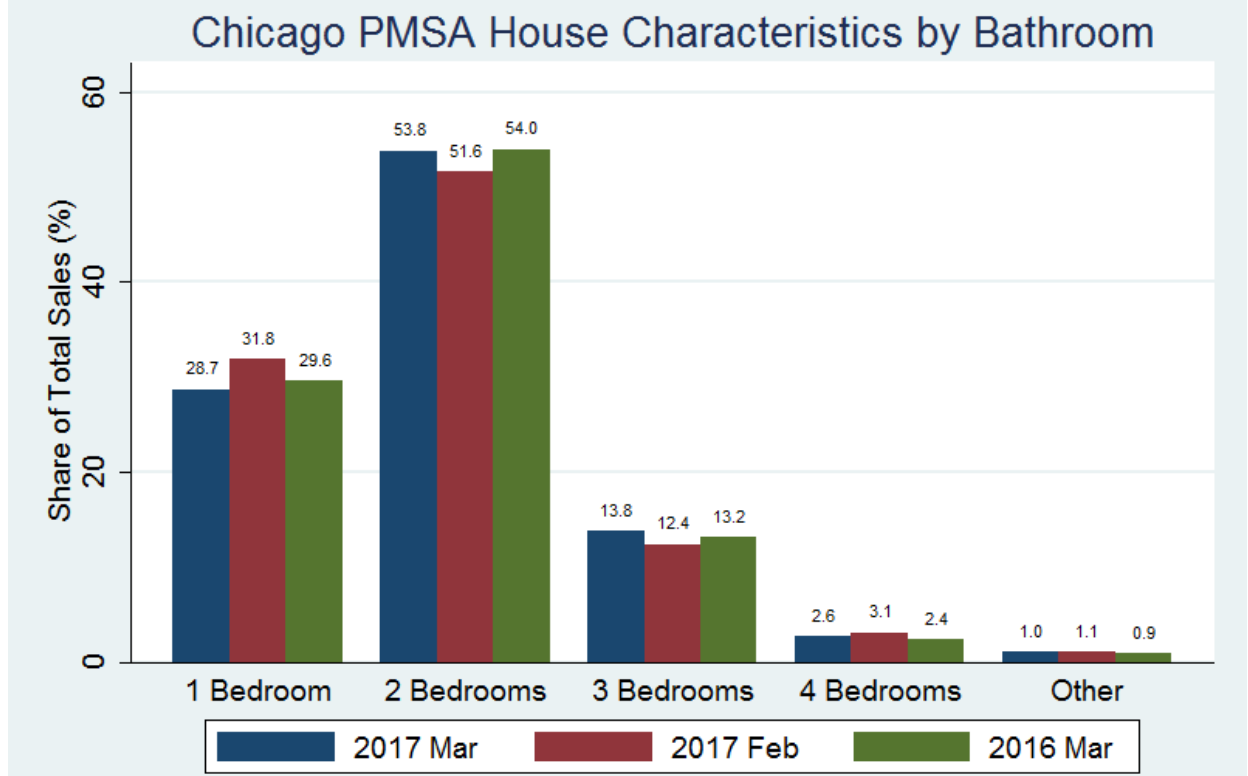






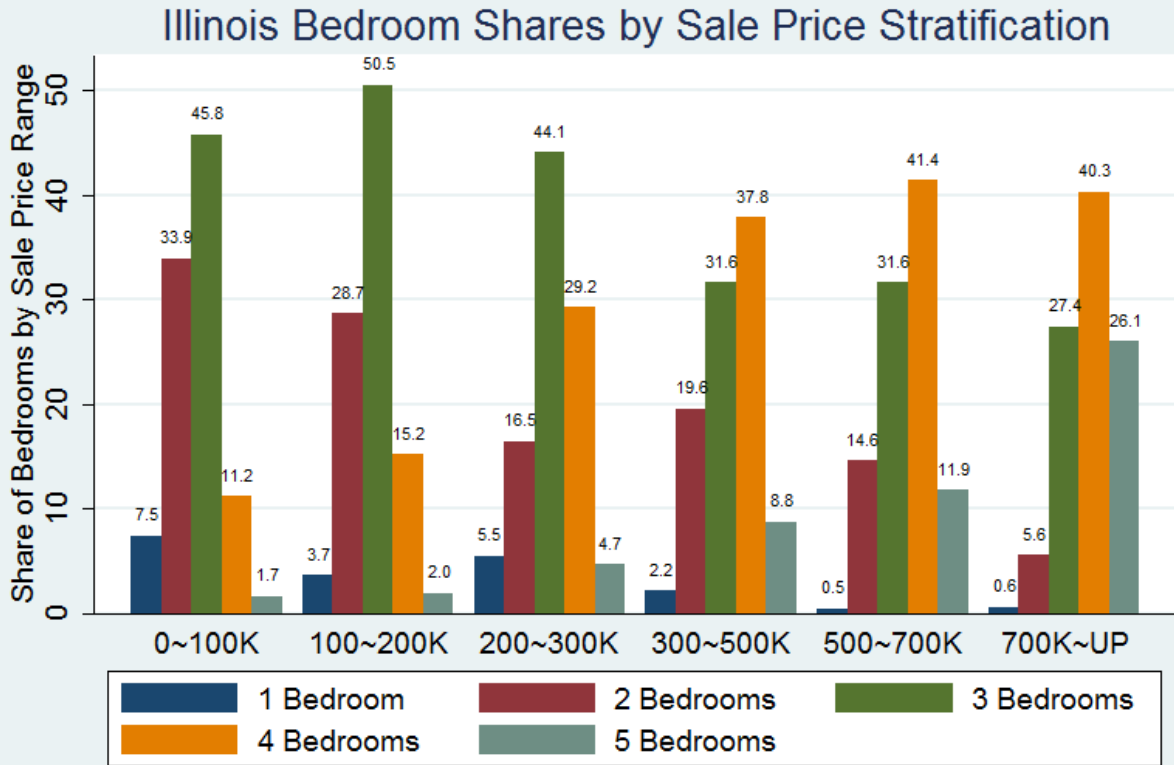


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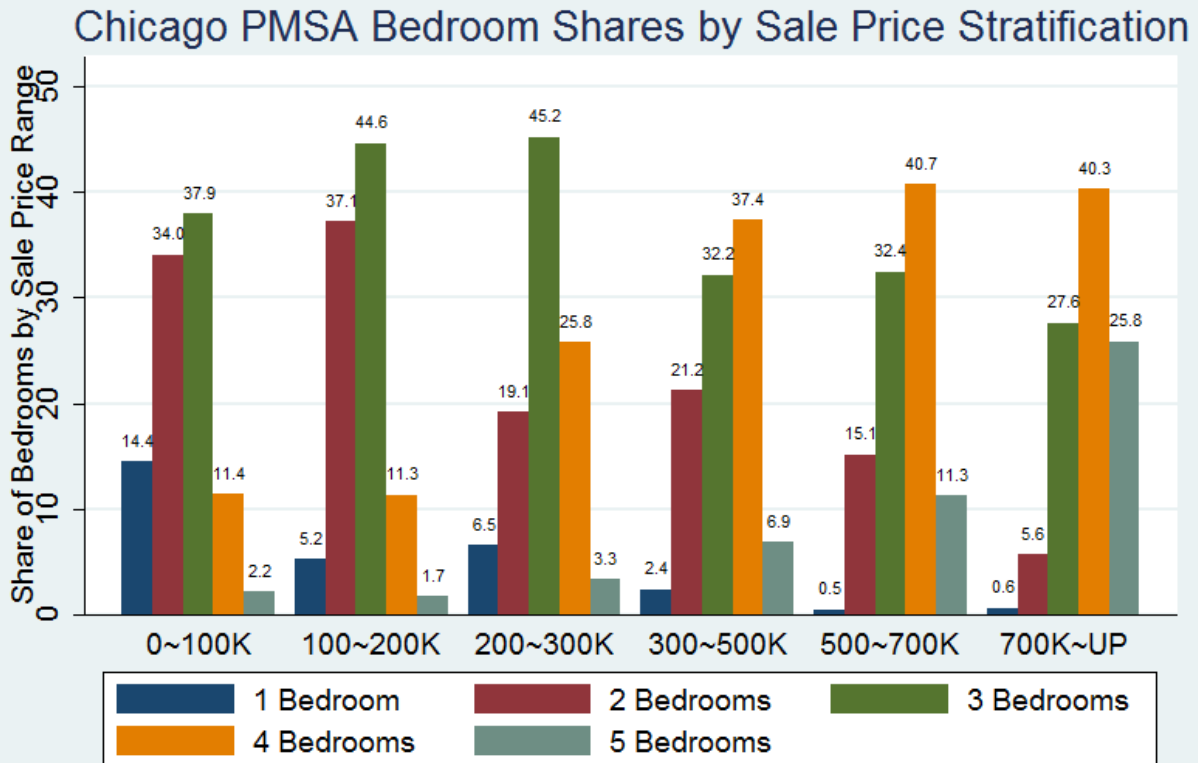


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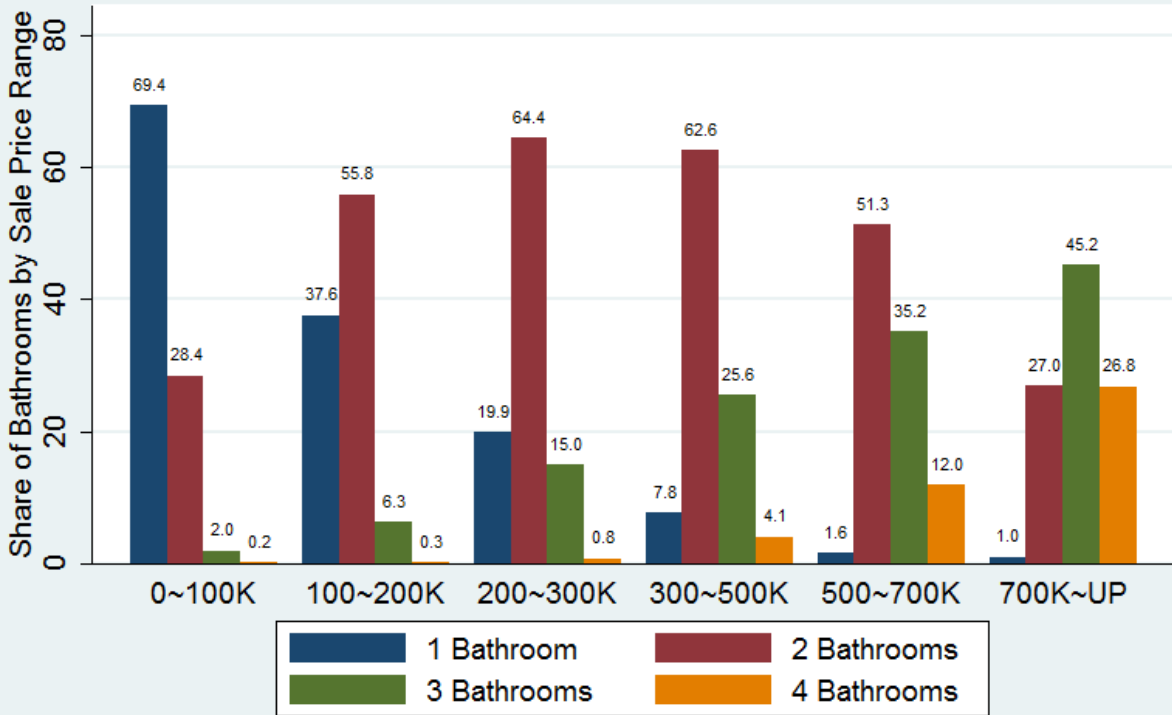


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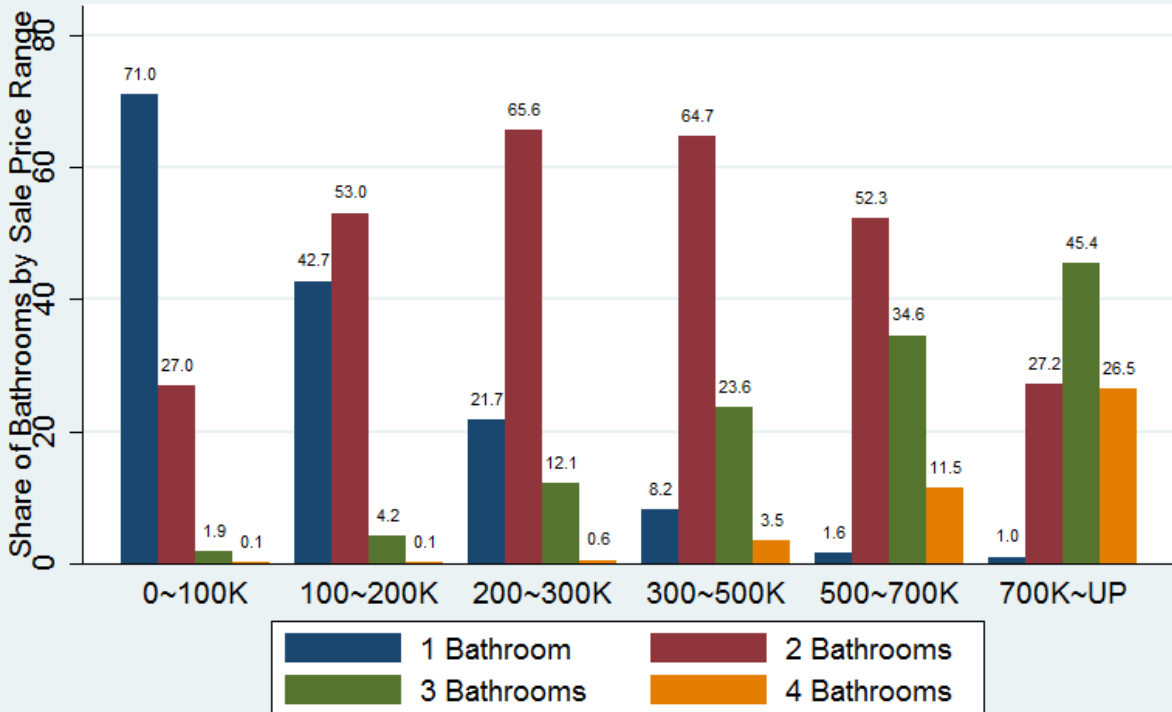
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### Illinois Bathroom Shares by Sale Price Stratification



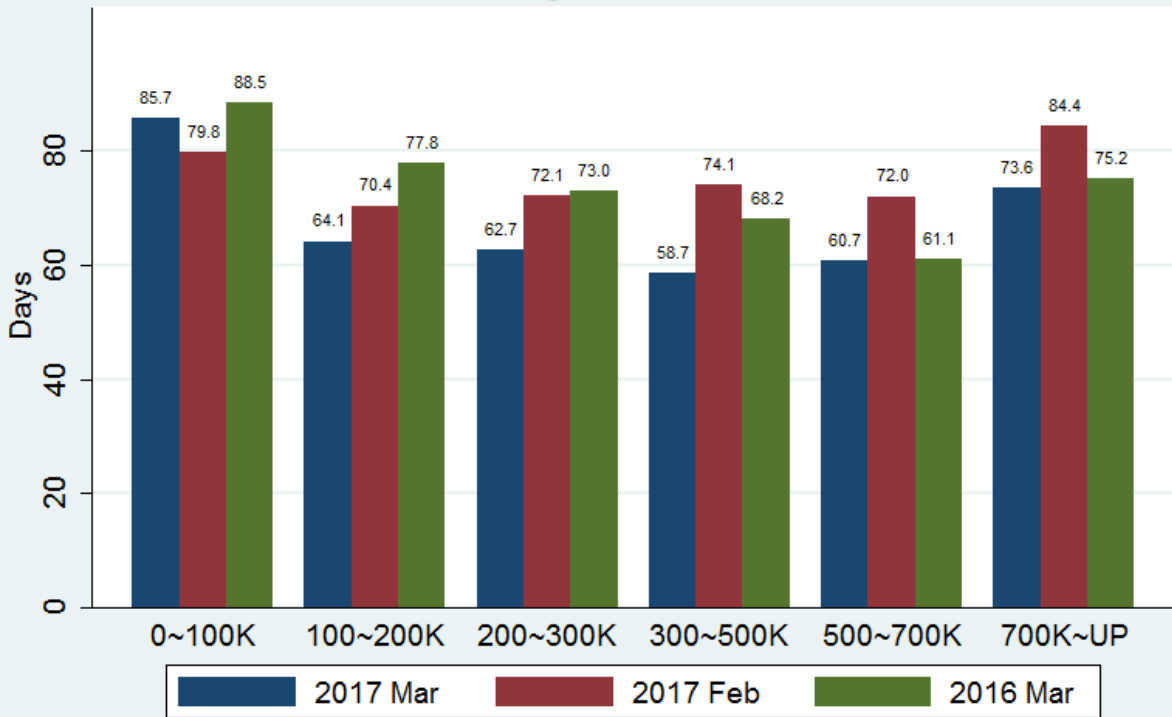
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### Chicago PMSA Bathroom Shares by Sale Price Stratification



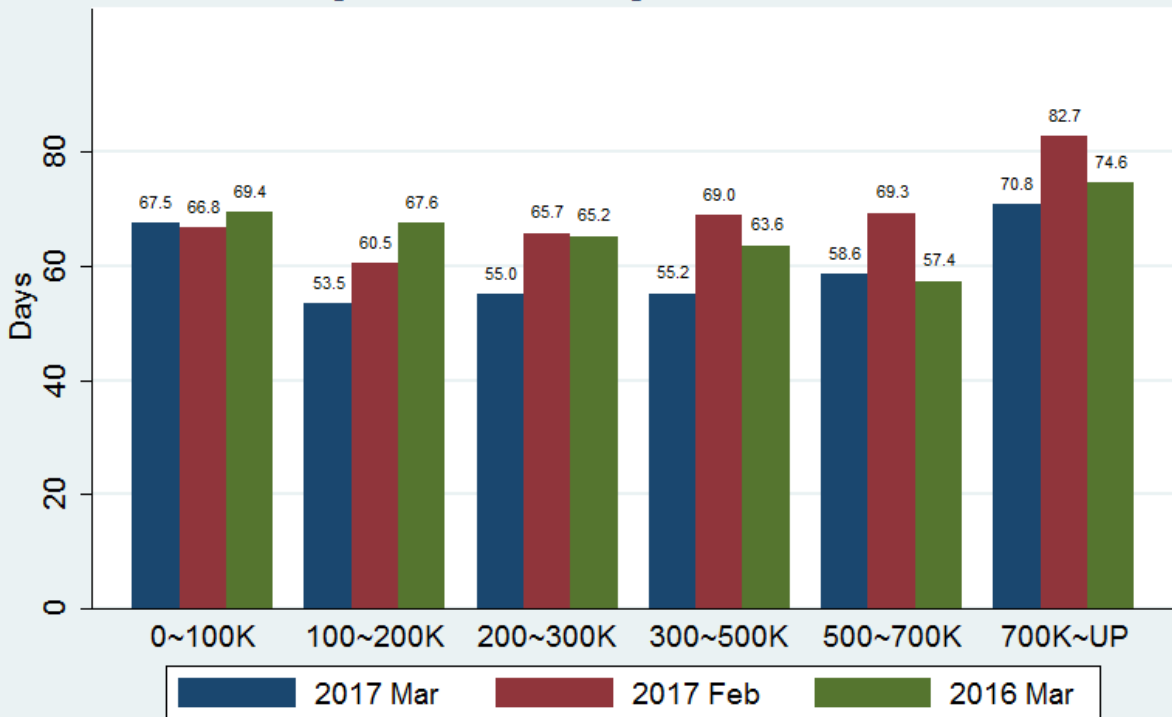
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### Illinois Average Time on the Market



Source: University of Illinois REAL, Illinois REALTORS

### Chicago PMSA Average Time on the Market



Source: University of Illinois REAL, Illinois REALTORS

