

# **Housing Price Forecasts**

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

Presented To  
**Illinois Realtors®**

From

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

### **The Housing Market**

In July, median prices continue to experience positive growth while sales experienced negative annual change. 15,677 houses were sold in Illinois, changing by -19.4% from a month ago and -4.3% from a year ago. In the Chicago PMSA, 11,322 houses were sold, changing by -21.0% from a month ago and -4.9% from a year ago. The median price was \$210,000 in Illinois, up 5.8% from July last year; the comparable figure for the Chicago PMSA was \$248,000, up 4.4% from this time last year.

In July, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 8.5%. 10,317 regular sales were made, 3.4% more than last year. 934 foreclosed properties were sold, 2.2% less than last year. The median price was \$258,000 for regular property sales, 4.0% more than last year; the comparable figure for the foreclosed properties was \$156,502, up 14.5% from this time last year.

The median sales price in July 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 July 2008 median sales price was \$169,000 (in \$2008) and \$192,078 (in \$2017); the current price level was 109% of the 2008 level after adjusting (124% before adjusting). In the Chicago PMSA, the July 2008 median sales price was \$214,000 (in \$2008) and \$243,223 (in \$2017); the comparable figure for price recovery in July 2017 is 102% after adjustment (116% 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 August, September and October 2017 suggests increases on a yearly basis and decreases on a monthly basis for Illinois. Annually for Illinois, the three-month average forecasts point to an increase in the range 0.6% to 0.8%; the comparative figures for the Chicago PMSA are for increases in the range 0.3% to 0.4%. On a monthly basis, the three-month average sales are forecast to decrease in the range -3.9% to -5.3% for Illinois and decrease in the range -4.6% to -6.2% for the Chicago PMSA.

The pending home sales index<sup>1</sup> is a leading indicator based on contract signings. This July, the number of homes put under contract was greater than last year. The pending home sales index is 174.1 (2008=100) in Illinois, up 7.2% from a year ago. In the Chicago PMSA, the comparable figure is 201.6, up 10.5% from a year ago. At the latest average annual pending sales rate, Illinois had enough housing inventory for 4.4 months<sup>2</sup> (down from 5.1 months a year ago). In the Chicago PMSA, the comparable figure was 3.3 months (down from 4.0 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 August, September and October. In Illinois, the median price is forecast to rise by 5.7% in August, 6.5% in September and 6.0% in October. For the Chicago PMSA, the comparable

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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.

figures are 5.3% in August, 4.7% in September and 3.0% in October. As a complement to the median housing price index (HPI), the REAL HPI<sup>3</sup> forecasts a positive growth trend for both Illinois and the Chicago PMSA. In Illinois, the REAL HPI (Jan 2008=1) is forecast to change by 5.0% in August, 6.8% in September and 7.7% in October. The comparable figures for the Chicago PMSA are 6.2% in August, 7.2% in September and 7.8% in October. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month.

In July, the Conference Board Consumer Confidence Index increased while the University of Michigan Consumer Sentiment Index declined moderately. According to the Conference Board Consumer Confidence Index, consumers’ appraisal of current conditions improved in July and their assessment of the labor market was also more favorable. On the contrary, the University of Michigan Consumer Sentiment Index revealed that consumers were less optimistic about their financial prospects over the longer term. The more housing specific sentiment index, the Fannie Mae Home Purchase Sentiment Index (HPSI) decreased and their survey explained that consumers are growing more pessimistic about their ability to secure a mortgage, and continued to express that their current household income is not significantly higher than it was 12 months ago.

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

- In July, median prices continue to experience positive growth while sales experienced negative annual change. 15,677 houses were sold in Illinois, changing by -19.4% from a month ago and -4.3% from a year ago. In the Chicago PMSA, 11,322 houses were sold, changing by -21.0% from a month ago and -4.9% from a year ago. The median price was \$210,000 in Illinois, up 5.8% from July last year; the comparable figure for the Chicago PMSA was \$248,000, up 4.4% from this time last year. (Reference: Illinois and Chicago PMSA Total Home Sales and Median Home Sales Price figures; Forecast for August 2017 report table)
- In July, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 8.5%. 10,317 regular sales were made, 3.4% more than last year. 934 foreclosed properties were sold, 2.2% less than last year. The median price was \$258,000 for regular property sales, 4.0% more than last year; the comparable figure for the foreclosed properties was \$156,502, up 14.5% from this time last year. (Reference: Ratio of Foreclosed Sales over Total Sales, Sales & Median Prices: Foreclosed vs. Regular figures)
- In July, at the latest average annual pending sales rate, Illinois had enough housing inventory for 4.4 months<sup>4</sup> (down from 5.1 months a year ago). In the Chicago PMSA, the comparable figure was 3.3 months (down from 4.0 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. (Reference: Illinois and Chicago PMSA Annual Months’ Supply by Price Range figures)
- In July, 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 15.6% from 17.7% a year ago; the comparative figure for 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.

showed a decrease to 7.4% from 9.4% 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 August, September and October. In Illinois, the median price is forecast to rise by 5.7% in August, 6.5% in September and 6.0% in October. For the Chicago PMSA, the comparable figures are 5.3% in August, 4.7% in September and 3.0% in October. (Reference: Forecast for August 2017 report table)
- As a complement to the median housing price index (HPI), the REAL HPI<sup>5</sup> forecasts a positive growth trend for both Illinois and the Chicago PMSA. In Illinois, the REAL HPI (Jan 2008=1) is forecast to change by 5.0% in August, 6.8% in September and 7.7% in October. The comparable figures for the Chicago PMSA are 6.2% in August, 7.2% in September and 7.8% in October. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month. (Reference: Housing Price Index)
- The sales forecast for August, September and October 2017 suggests increases on a yearly basis and decreases on a monthly basis for Illinois. Annually for Illinois, the three-month average forecasts point to an increase in the range 0.6% to 0.8%; the comparative figures for the Chicago PMSA are an increase in the range 0.3% to 0.4%. On a monthly basis, the three-month average sales are forecast to decrease in the range -3.9% to -5.3% for Illinois and decrease in the range -4.6% to -6.2% for the Chicago PMSA. (Reference: Forecast for August 2017 report table)
- The pending home sales index<sup>6</sup> is a leading indicator based on contract signings. This July, the number of homes put under contract was greater than last year. The pending home sales index is 174.1 (2008=100) in Illinois, up 7.2% from a year ago. In the Chicago PMSA, the comparable figure is 201.6, up 10.5% from a year ago. (Reference: Illinois and Chicago PMSA Pending Home Sales Index figure)
- In July 2017, 1,483 houses were newly filed for foreclosure in the Chicago PMSA (down 4.0% and down 11.8% respectively from a year and a month ago). 1,203 foreclosures were completed<sup>7</sup> (down 19.2% and down 5.0% respectively from a year and a month ago). As of July 2017, there are 31,529 homes at some stage of foreclosure — the foreclosure inventory. The monthly average net flows of foreclosures (foreclosure inflows - outflows) were 572 in the past 6 months, 494 in the last 12 months and 316 in the last 24 months. (Reference: Chicago PMSA Foreclosure Inflows and Outflows, and Inventory figures).

### **The Economy**

- In July 2017, according to the Bureau of Labor Statistics (BLS) Employment Situation report, the national unemployment rate was little changed at 4.3% and nonfarm payroll jobs experienced a gain of 209,000 jobs. The employment gains in July were spearheaded by food services and drinking places (53,000), followed by professional and business services (49,000), and health care (39,000).

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<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

- In July 2017, according to the Illinois Department of Employment Security (IDES) news release, the Illinois unemployment rate increased to 4.8%. Non-farm payroll jobs increased by 2,100 over the month. The largest gains were in three sectors, professional and business services (6,200), leisure and hospitality (4,000) and other services (1,800). Furthermore, the job growth in June was revised from the preliminary estimate of +8,600 jobs to +6,400 jobs.
- In June 2017, the one-year-ahead forecast for Illinois indicates that the non-farm employment will increase at a rate between 0.41% and 0.65%, corresponding to job gains between 24,700 and 39,600. Education and health, professional and business services, and leisure and hospitality are forecast to be the leading growth sectors.
- In July 2017, according to Scotsman Guide News, the national home price reached a record high in the second quarter and these rising home prices have made the overall market unaffordable for many potential buyers. “It has been super-high affordability in recent past years, but because of the consistent home prices outpacing people’s income growth, the affordability has been trending down, and is now reaching a decade low,” according to Lawrence Yun, chief economist of the National Association of Realtors (NAR). “The desirable way to make it more affordable is to build more homes, increase supply. By having additional supply, we will not have cases of home prices outpacing people’s income.” Further, he noted that it is encouraging that it looks like the bottoming of the homeownership rate has already occurred and the mortgage delinquency rates are reaching historic lows.
- In July 2017, homebuilder confidence fell as builders faced higher material costs, the National Association of Home Builders (NAHB) reported. “Our members are telling us they are growing increasingly concerned over rising material prices, particularly lumber,” said NAHB Chairman Granger MacDonald, a home builder and developer from Kerrville, Texas. “This is hurting housing affordability even as consumer interest in the new-home market remains strong.”

### **Longer-term Outlook**

- In July, one consumer sentiment index increased while the other declined moderately. The Conference Board Consumer Confidence Index increased to 121.1 from 117.3 last month. Their survey explained that consumers’ appraisal of current conditions improved in July and their assessment of the labor market was also more favorable. On the other hand, the University of Michigan Consumer Sentiment Index decreased moderately (93.1 from 95.1 last month). Their survey indicates that consumers were less optimistic about their financial prospects over the longer term.
- In July, Fannie Mae Home Purchase Sentiment Index (HPSI) decreased to 86.8 from 88.3 last month. Their survey indicates that consumers are growing more pessimistic about their ability to get a mortgage, and continued to express that their current household income is not significantly higher than it was 12 months ago. 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 96.9 in June from 96.8 in May. The rise is attributed to positive job growth in construction, nonmanufacturing and manufacturing in the Chicago area.

“The concerns this month center on the continuing low inventory rates and the potential dampening of demand caused by real income growth failing to keep pace with rising house prices”

noted Geoffrey J.D. Hewings, Director of the Regional Economics Applications Laboratory. “Housing affordability is once again becoming a concern especially for those seeking to enter the housing market.”

## Forecast for August 2017 report

PERCENTAGE CHANGE FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
May-17	5.6%	6.8%		22.6%	23.2%			
Jun-17	2.3%	3.0%		12.0%	12.9%			
Jul-17	-4.3%	-4.9%		-19.4%	-21.0%			
3 Month Avg.	1.3%	1.8%		3.0%	2.7%			
SUMMARY OF THE FORECAST INTERVALS FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Aug-17	-2.9%	-3.9%	-3.5%	-4.7%	2.8%	3.8%	2.3%	3.2%
Sep-17	0.4%	0.6%	0.3%	0.4%	-10.0%	-13.5%	-11.0%	-14.9%
Oct-17	5.3%	7.2%	5.5%	7.4%	-4.4%	-5.9%	-4.9%	-6.6%
3 Month Avg.	0.6%	0.8%	0.3%	0.4%	-3.9%	-5.3%	-4.6%	-6.2%
SUMMARY OF THE FORECAST FOR THE MEDIAN PRICE								
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
May-17	\$208,500	\$246,900	May-16	\$193,000	\$233,500			
Jun-17	\$215,450	\$252,000	Jun-16	\$203,597	\$242,500			
Jul-17	\$210,000	\$248,000	Jul-16	\$198,180	\$237,500			
Aug-17	\$201,860	\$242,172	Aug-16	\$191,000	\$230,000			
Sep-17	\$191,612	\$227,427	Sep-16	\$180,000	\$217,250			
Oct-17	\$188,691	\$221,498	Oct-16	\$178,000	\$215,000			
ANNUAL PERCENTAGE CHANGE OF THE MEDIAN PRICE								
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
May-17	8.2%	5.6%	May-16	6.6%	5.7%			
Jun-17	5.7%	3.9%	Jun-16	5.7%	4.7%			
Jul-17	5.8%	4.4%	Jul-16	4.3%	5.6%			
Aug-17	5.7%	5.3%	Aug-16	6.1%	4.5%			
Sep-17	6.5%	4.7%	Sep-16	5.0%	4.7%			
Oct-17	6.0%	3.0%	Oct-16	6.3%	7.5%			

**Median Prices and Recovery**

	Illinois		Chicago PMSA	
	[\$2008]	[\$2017]	[\$2008]	[\$2017]
<b>July 2008 Median Price</b>	\$169,000	\$192,078	\$214,000	\$243,223
<b>July 2017 Median Price</b>	\$184,769	\$210,000	\$218,203	\$248,000
Price Ratio (July 17/ July 08)	Adjusted	1.09	Adjusted	1.02
	Unadjusted	1.24	Unadjusted	1.16

**Recovery Forecasts using *Annually Growth Rates***

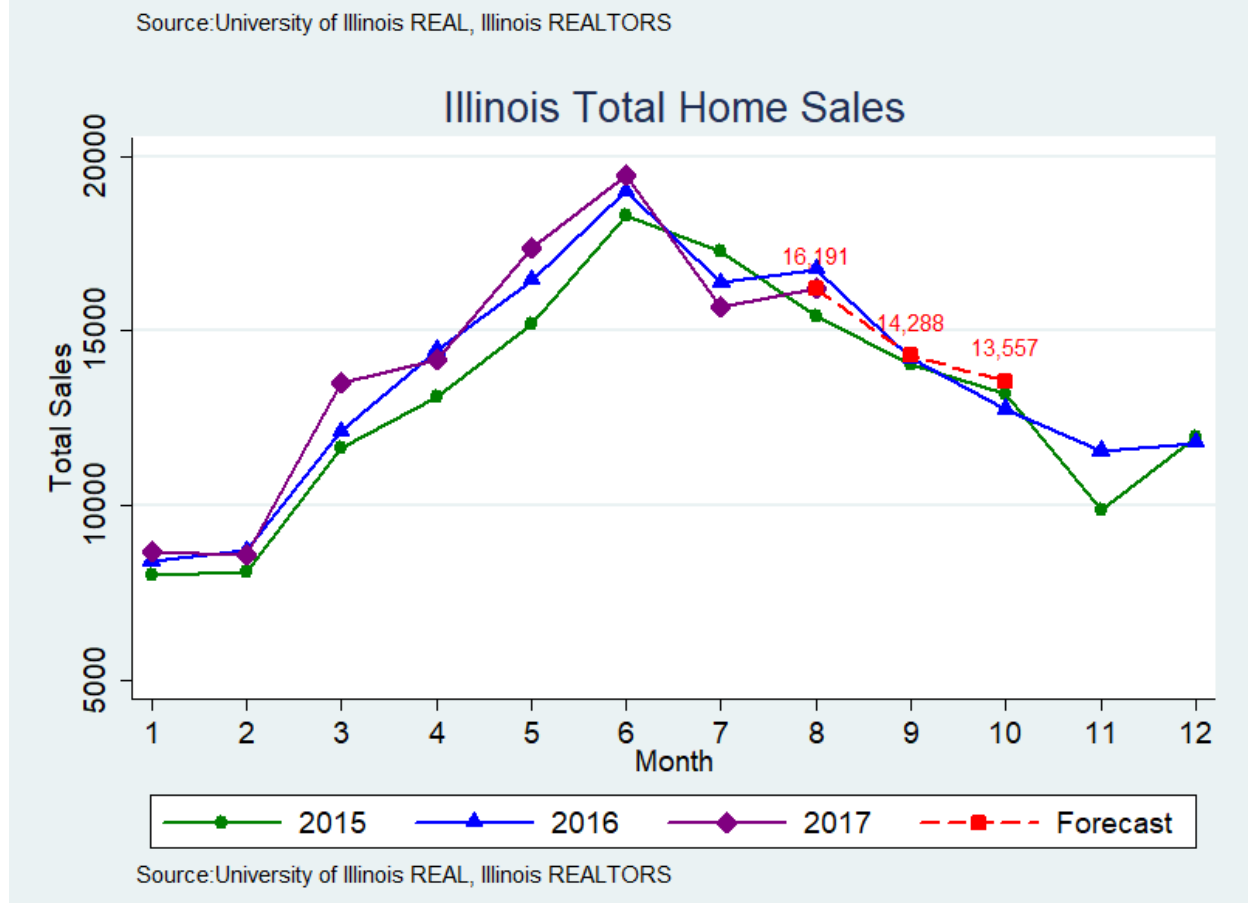
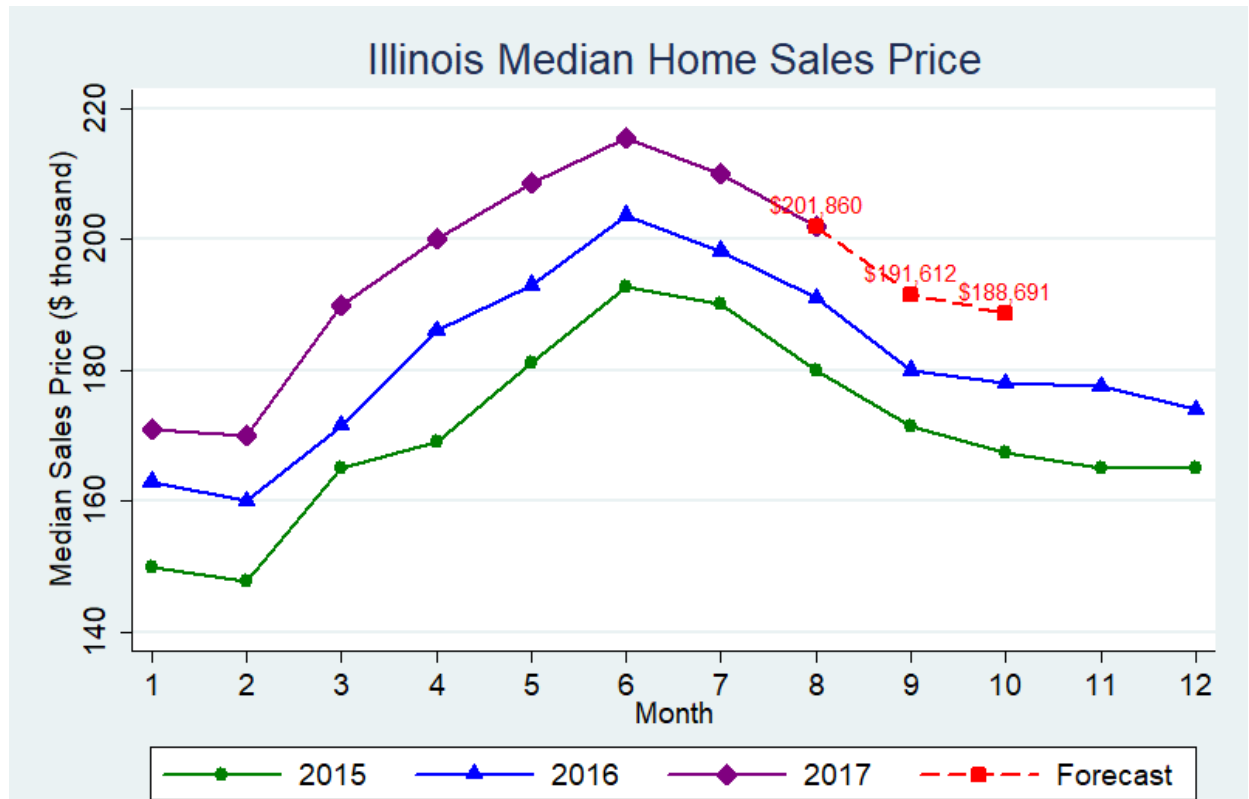
	Illinois	Chicago PMSA		
	Annual Recovery Rate*	Years to Recover**	Recovery Rate	Years to Recover
Current Month	4.1%	-2.2	2.6%	-0.8
Past 3 months	4.8%	-1.9	2.9%	-0.7
Past 6 months	5.2%	-1.8	4.6%	-0.4
Past 9 months	4.7%	-1.9	5.4%	-0.4
Past 12 months	4.6%	-2.0	5.1%	-0.4

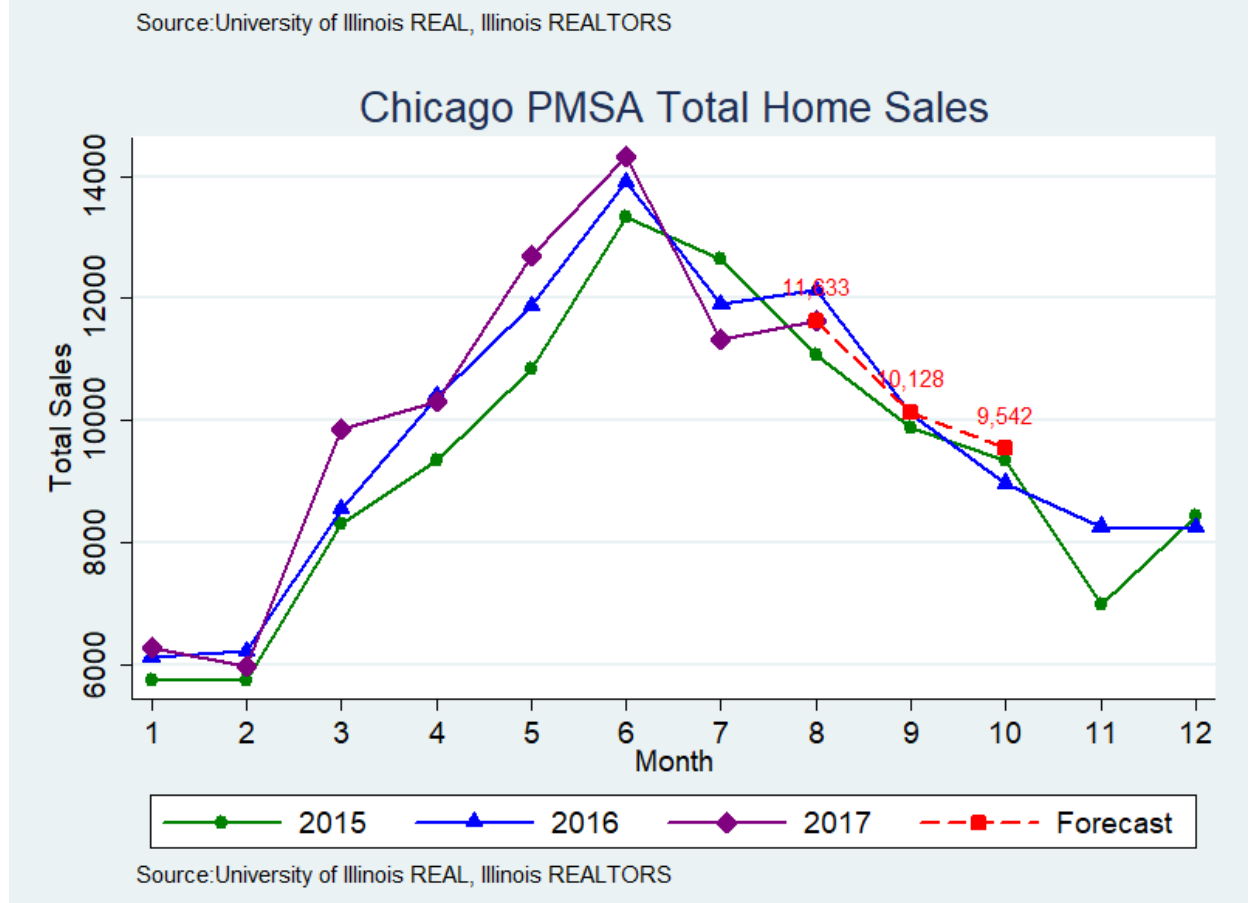
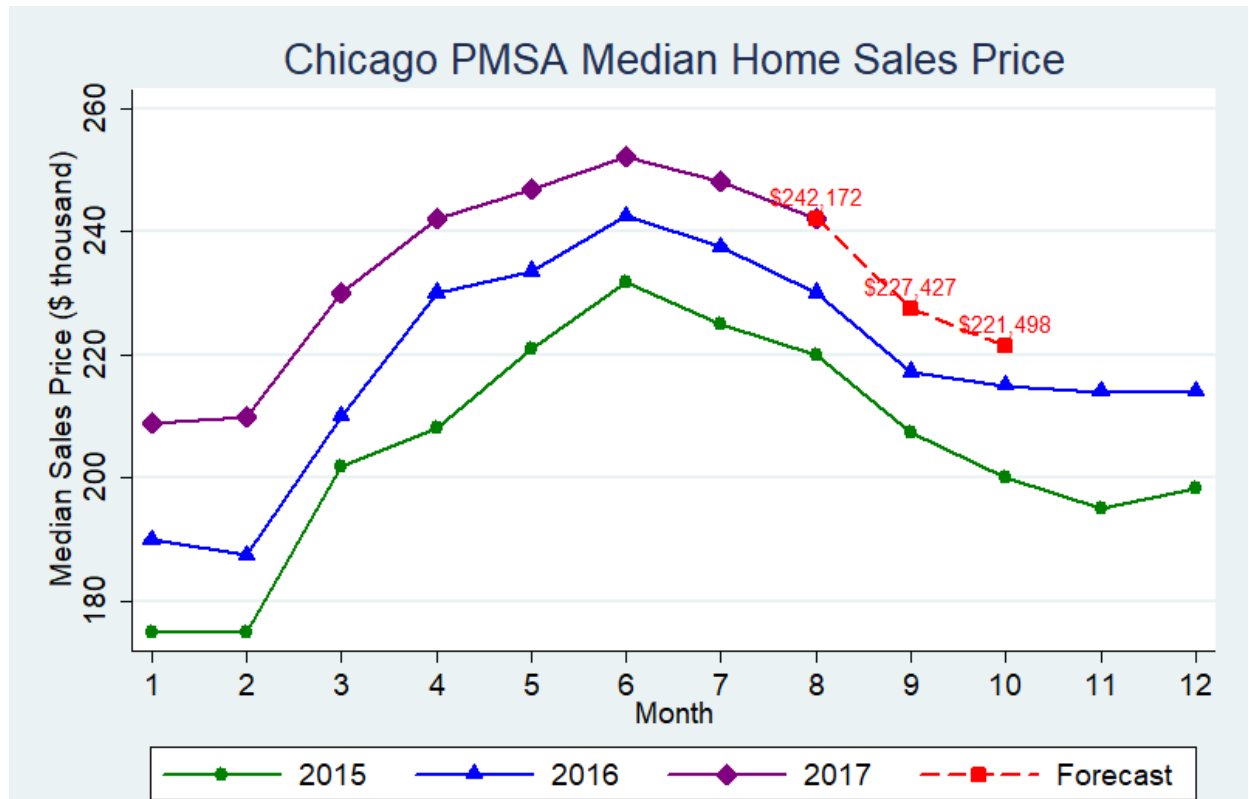
\*Annual recovery rate is the average of *annual* change rates in past months

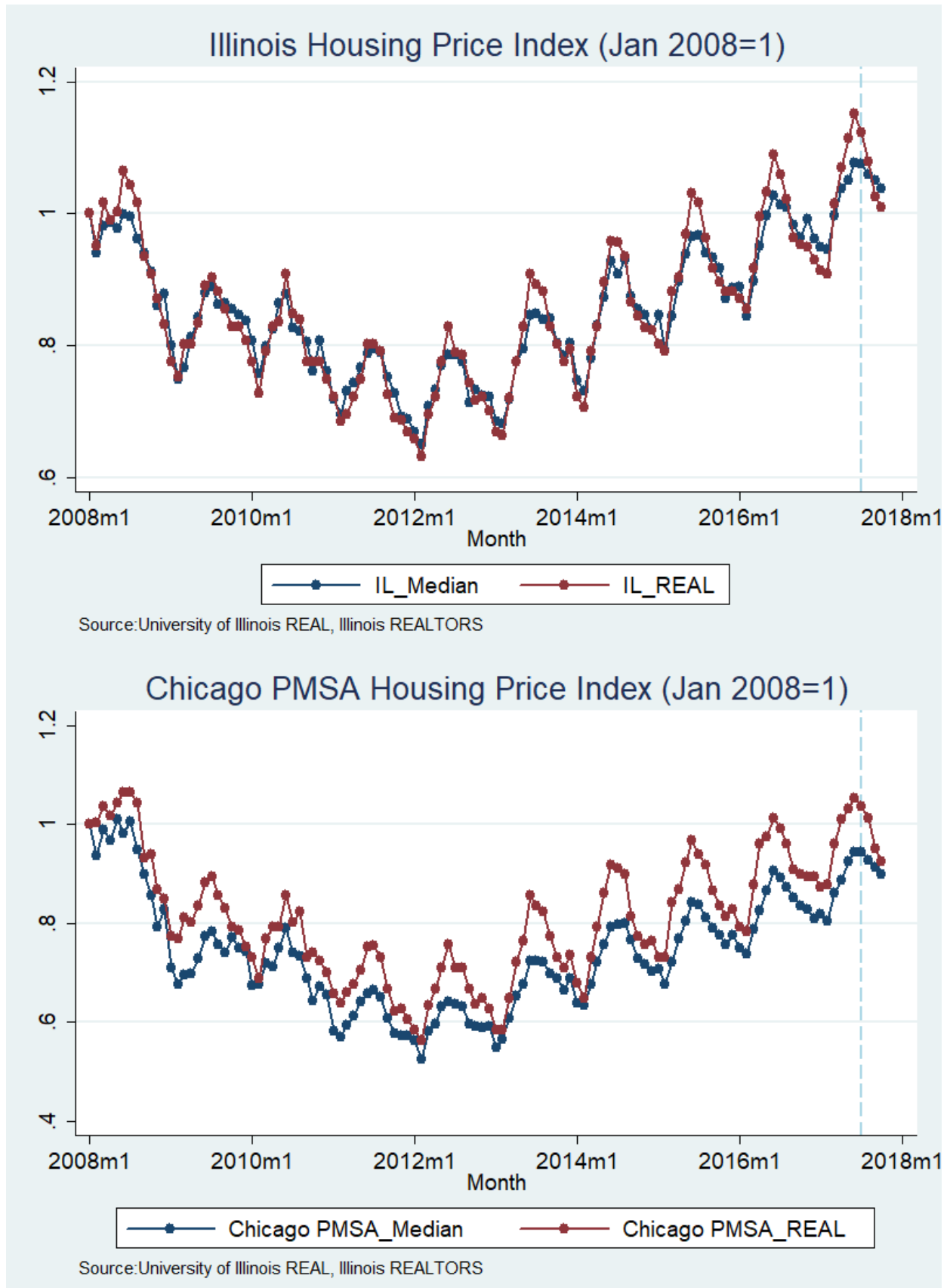
\*\* Years to recover is calculated using the following formula:

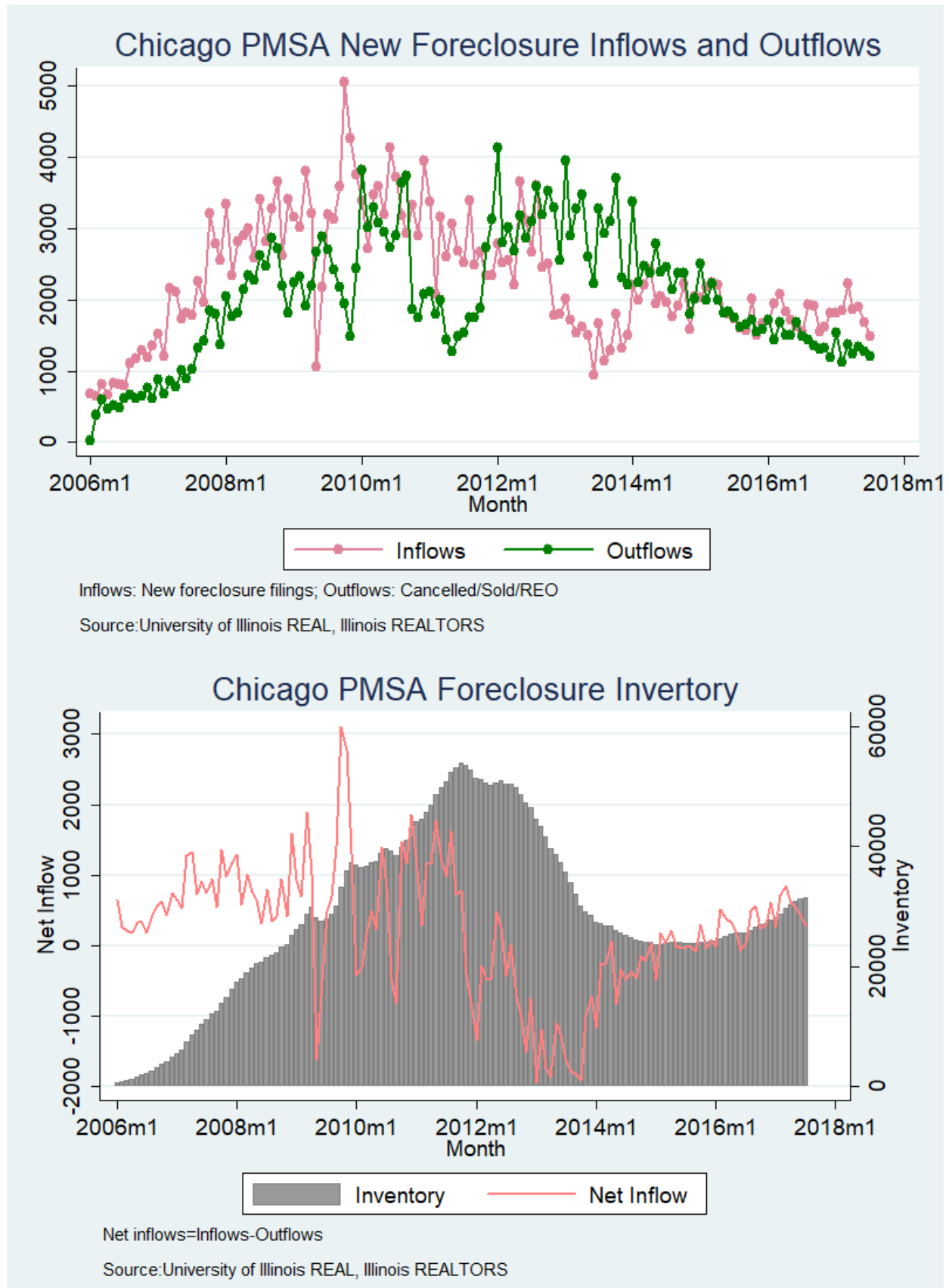
$Price_{July2017} * (1 + \text{recovery rate})^{\text{years}} = Price_{July2008}$ . Prices used in the formula are inflation adjusted. The recovery rate is applied as a constant annual change rate to recoup the differences between the current month and its corresponding month in 2008.

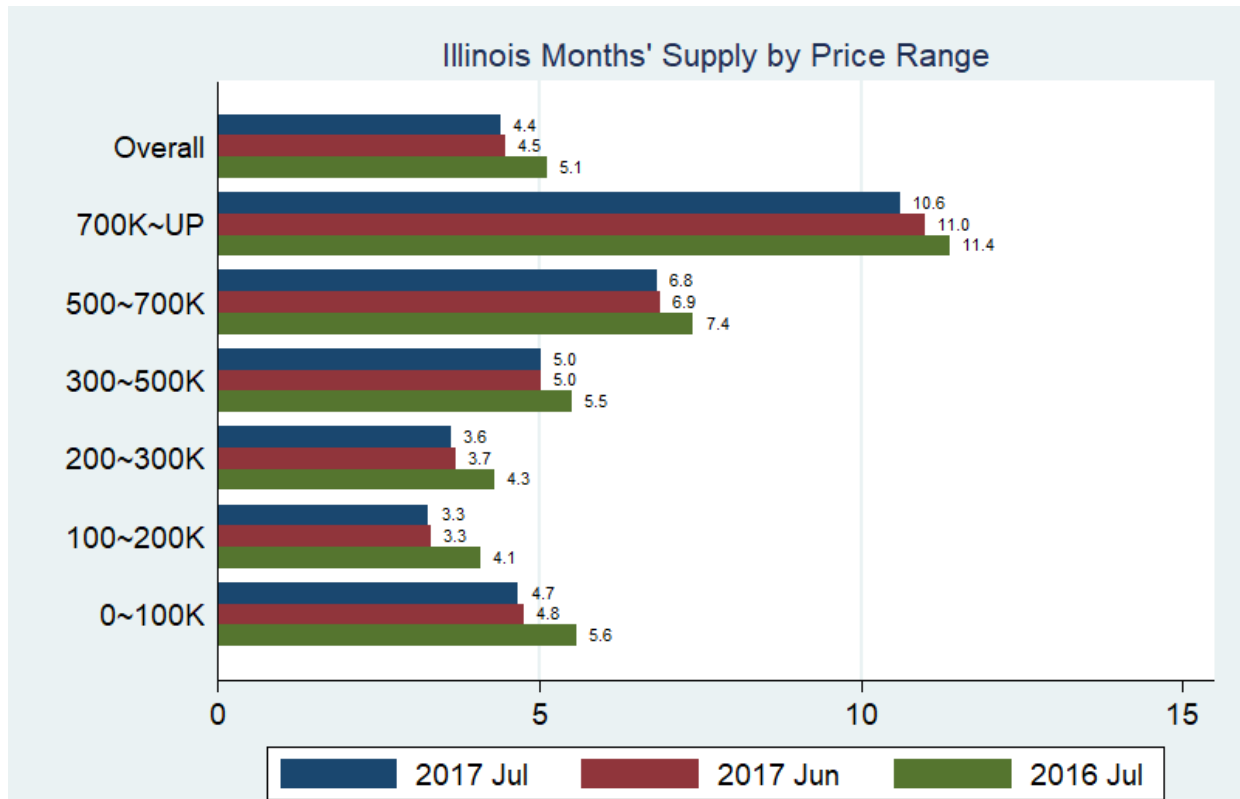




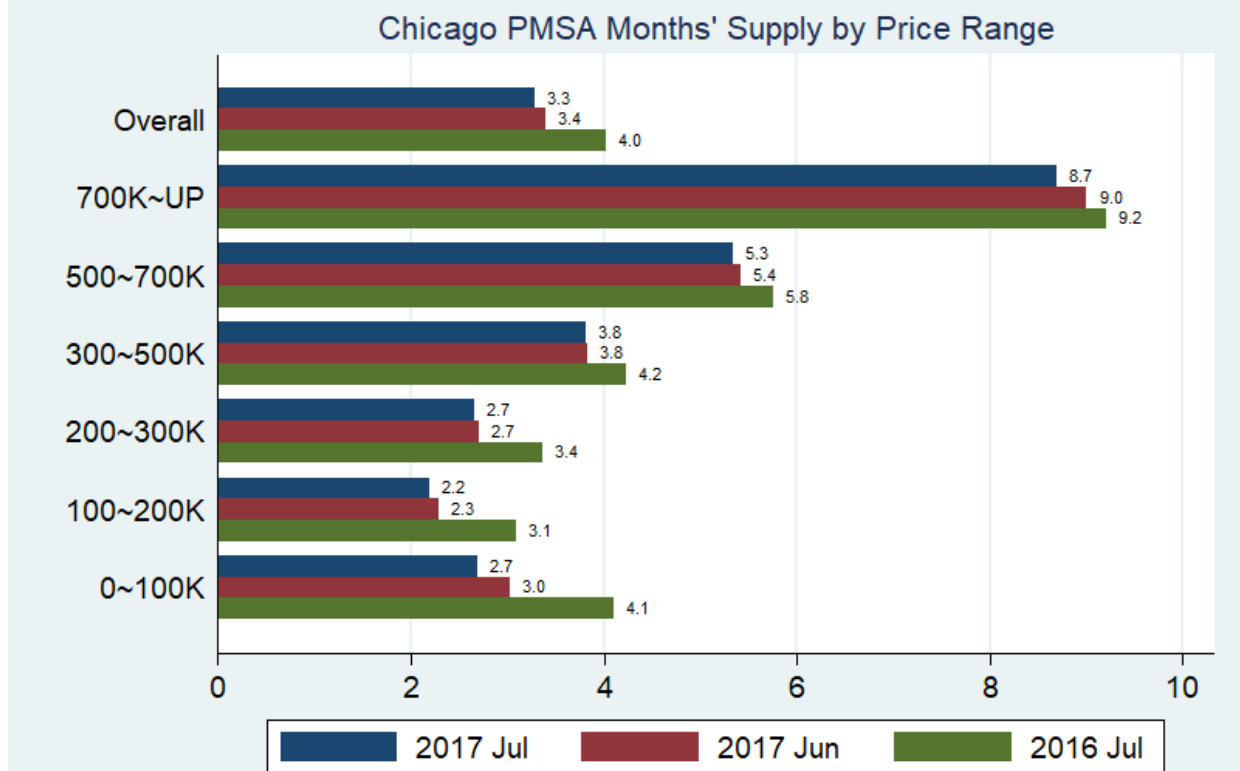




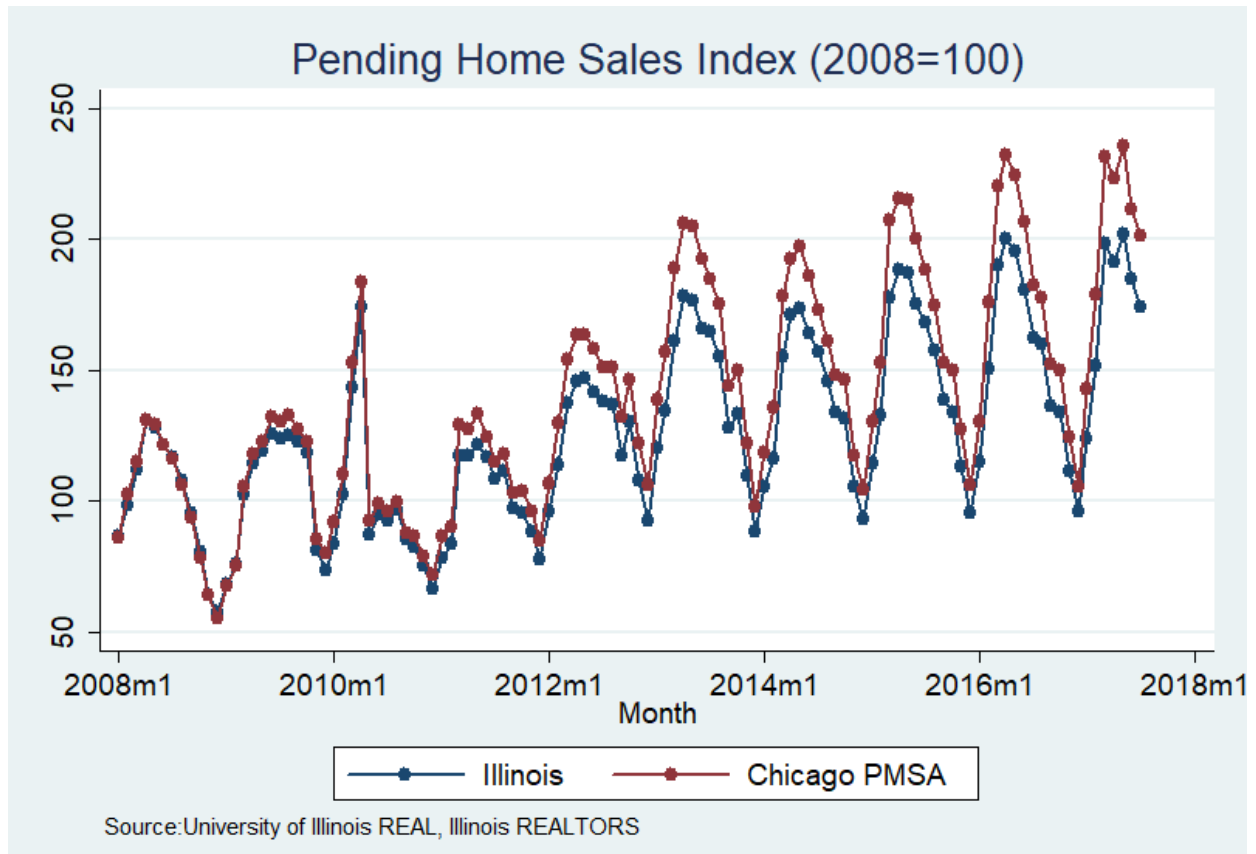


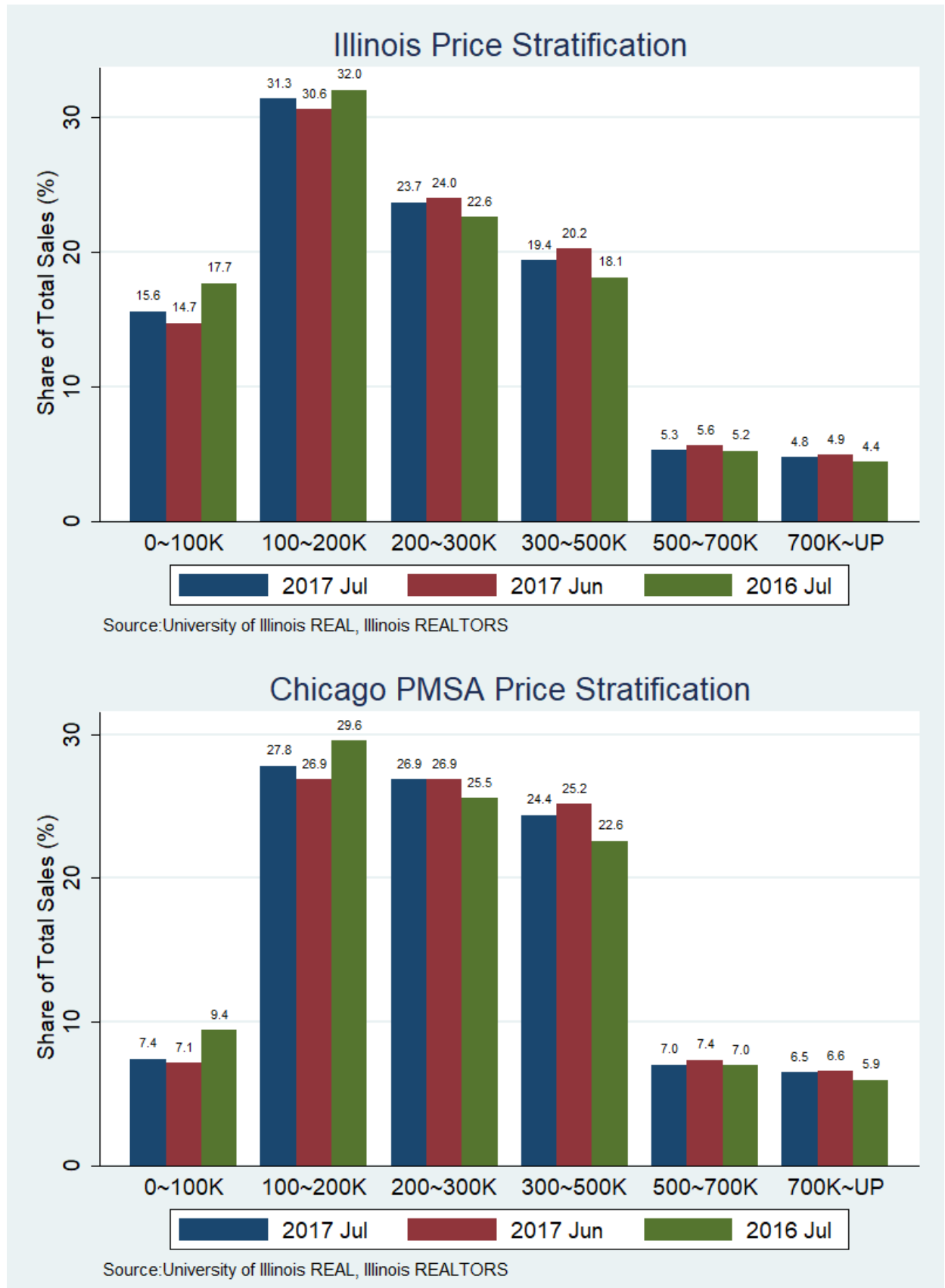


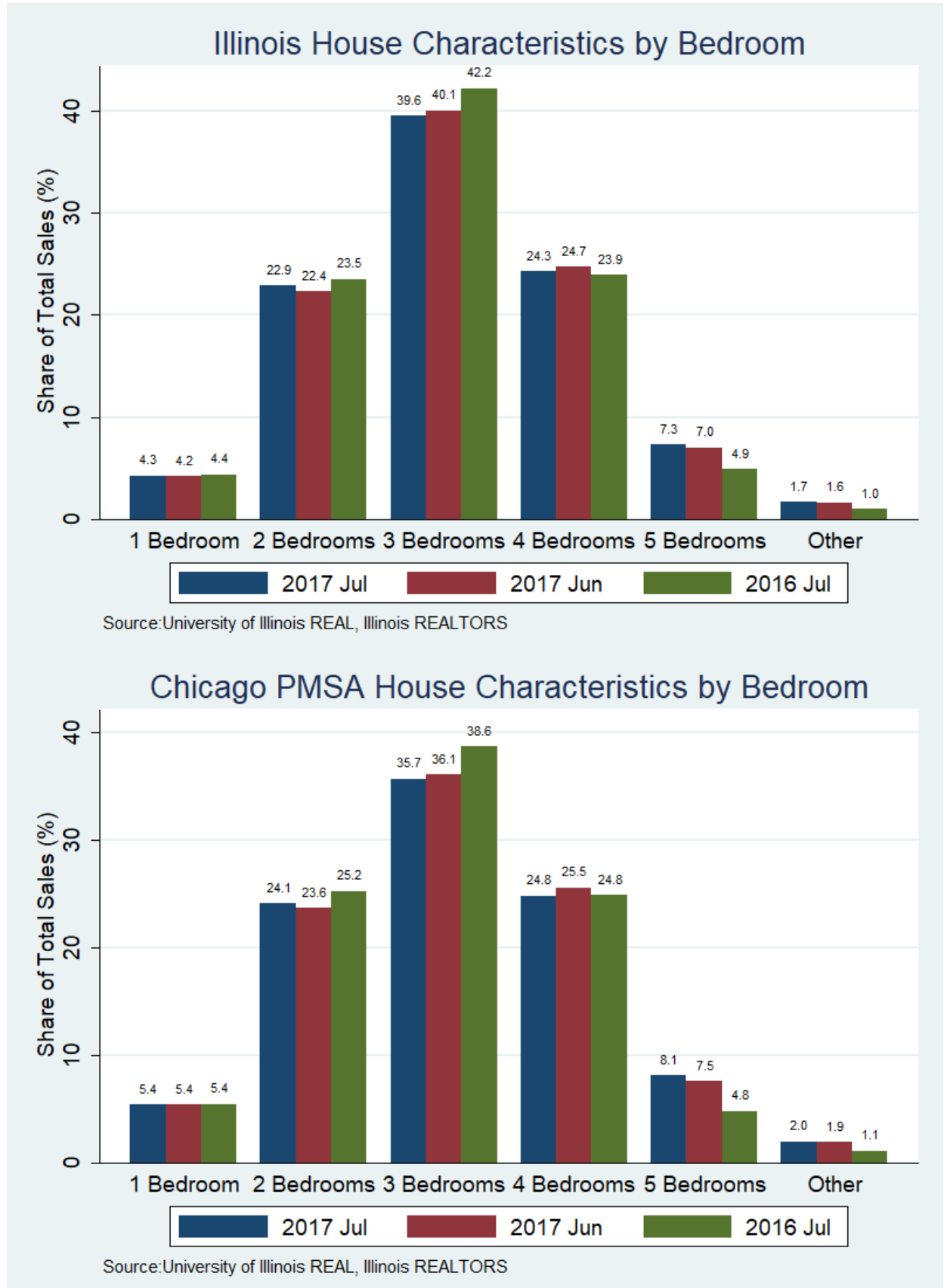
Source: University of Illinois REAL, Illinois REALTORS



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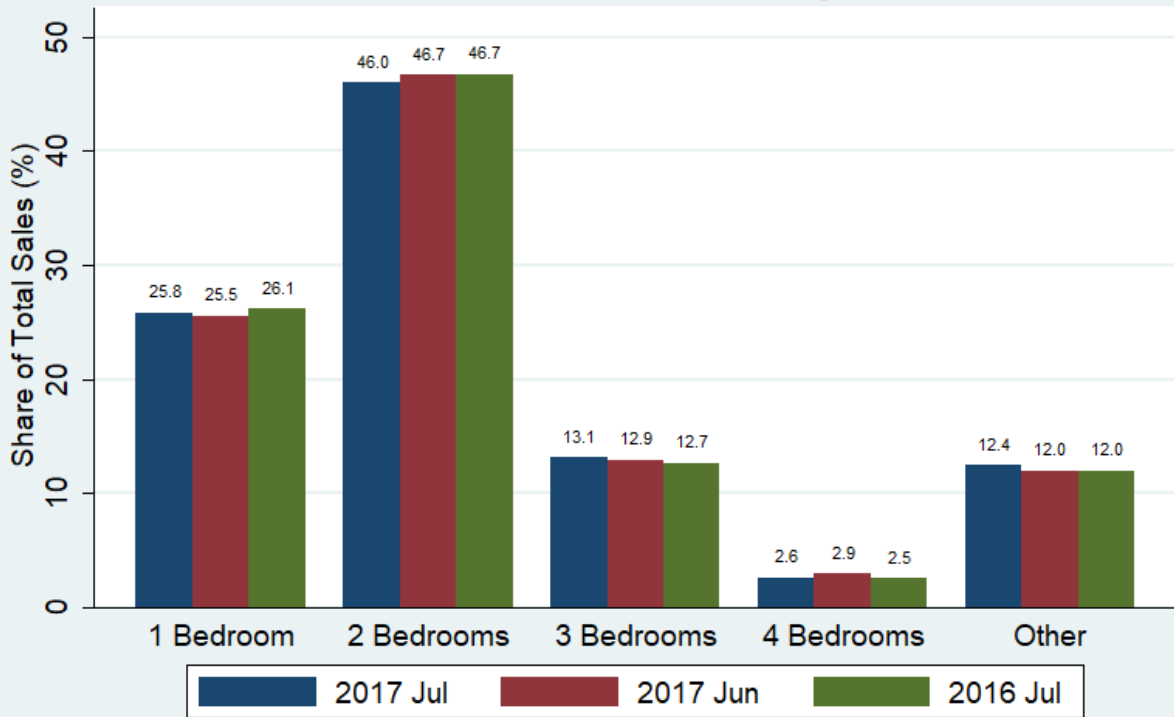






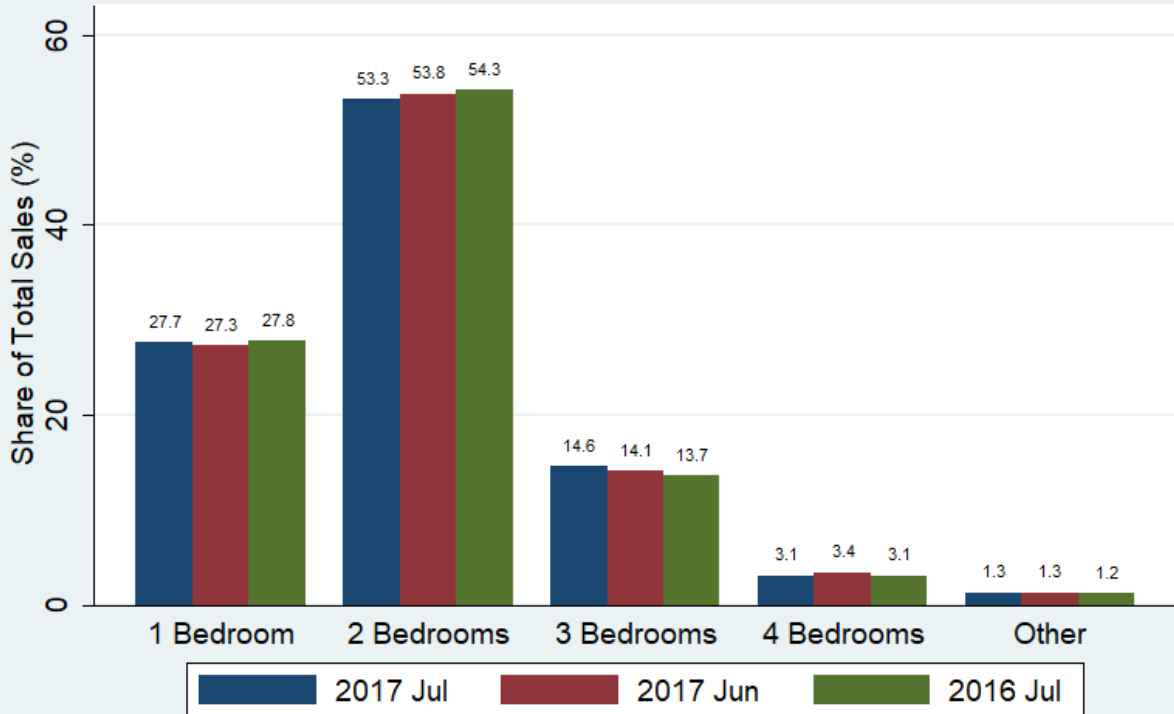


### Illinois House Characteristics by Bathroom



Source: University of Illinois REAL, Illinois REALTORS

### Chicago PMSA House Characteristics by Bathroom



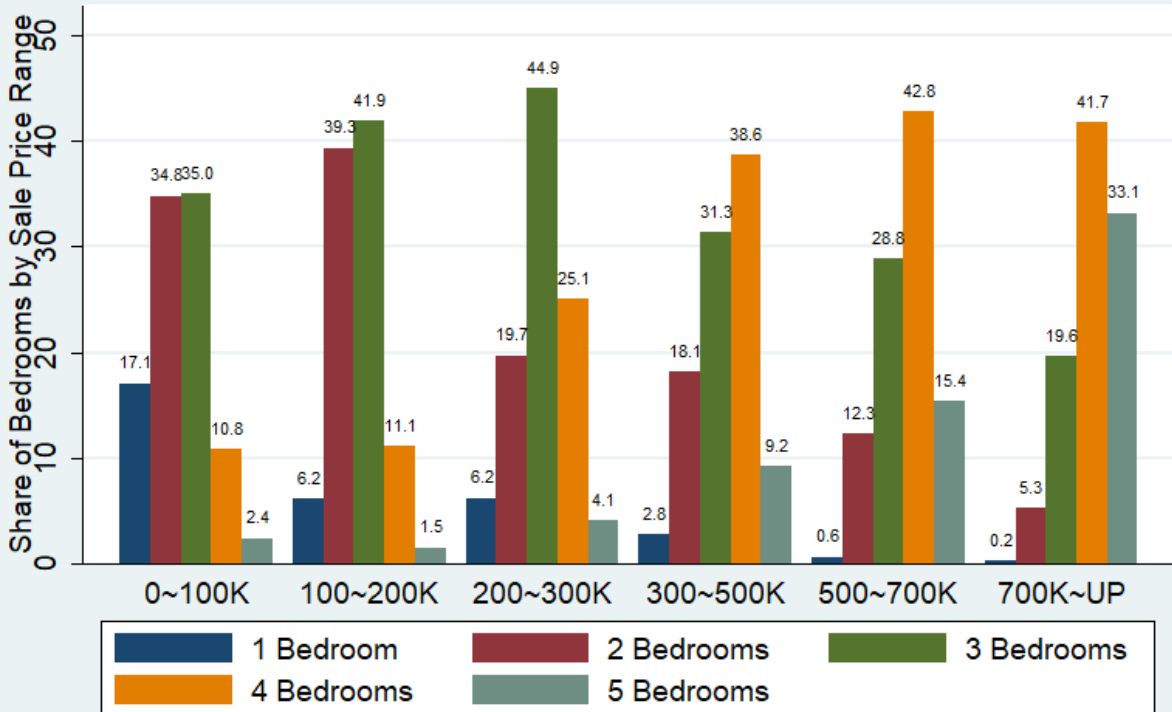
Source: University of Illinois REAL, Illinois REALTORS

### Illinois Bedroom Shares by Sale Price Stratification



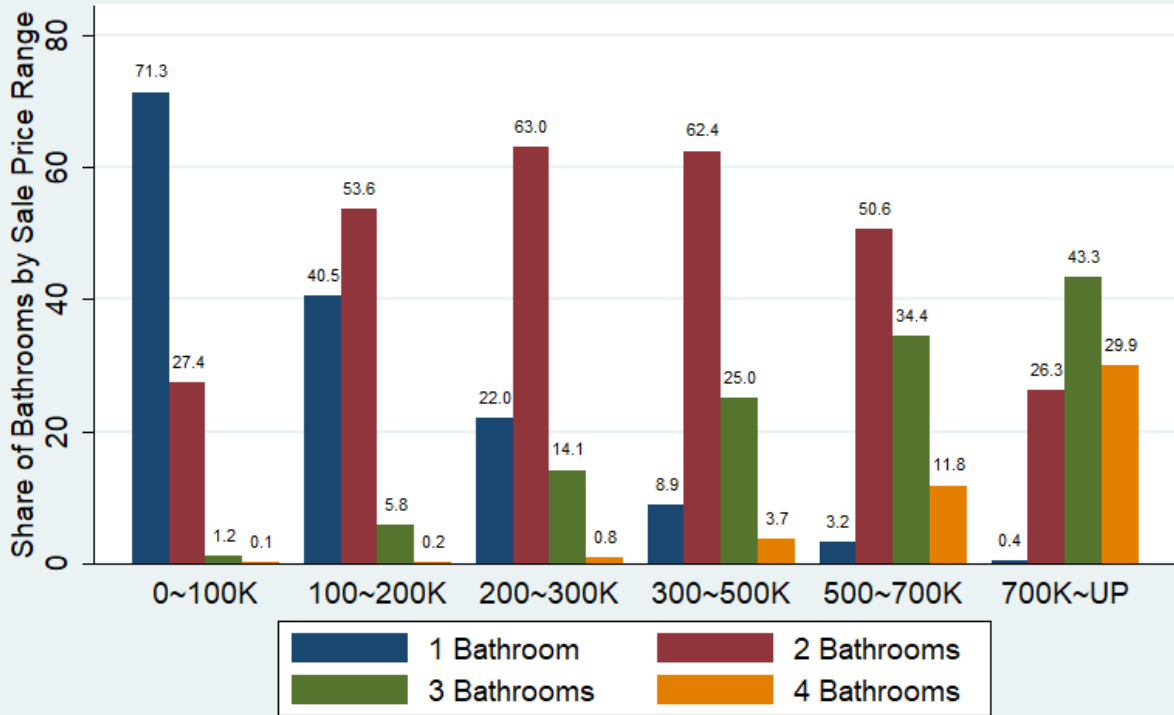
Source: University of Illinois REAL, Illinois REALTORS

### Chicago PMSA Bedroom Shares by Sale Price Stratification



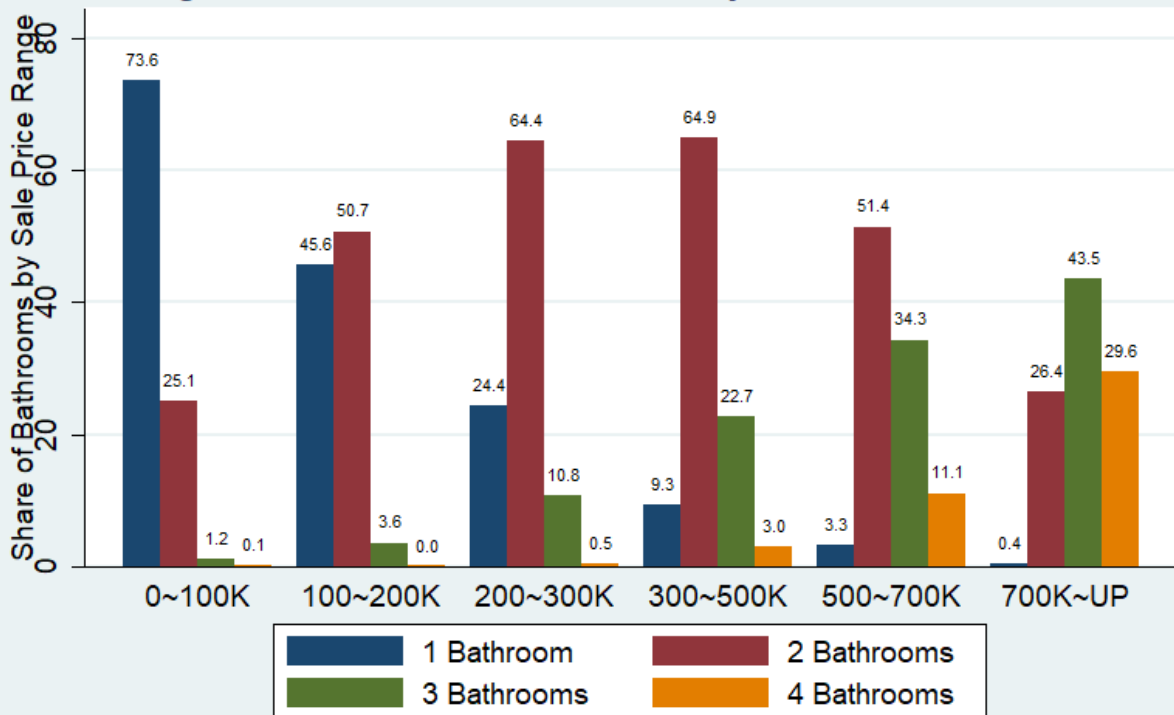
Source: University of Illinois REAL, Illinois REALTORS

### Illinois Bathroom Shares by Sale Price Stratification



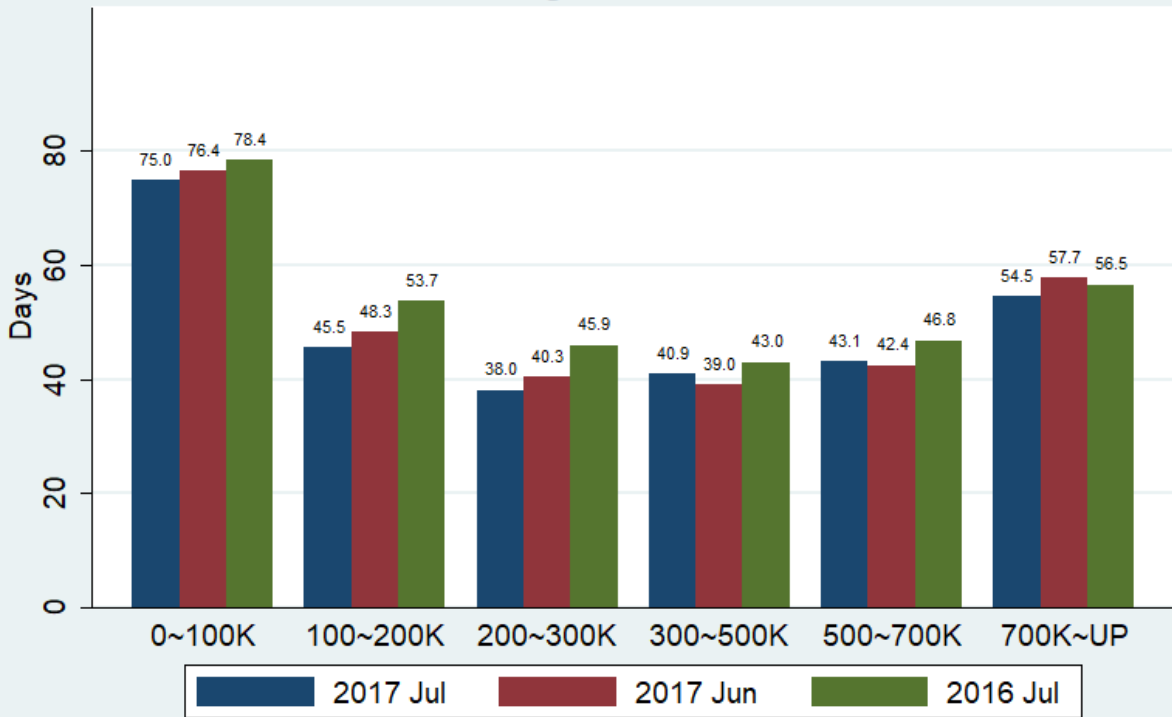
Source: University of Illinois REAL, Illinois REALTORS

### Chicago PMSA Bathroom Shares by Sale Price Stratification



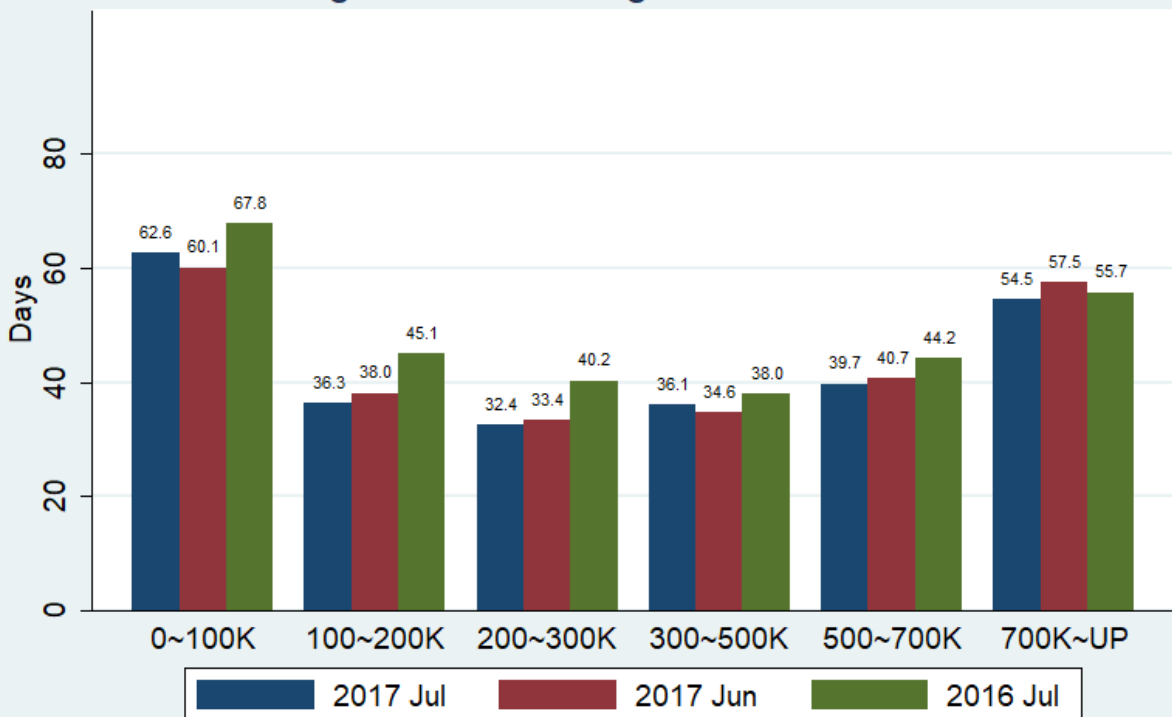
Source: University of Illinois REAL, Illinois REALTORS

### 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

