

# Housing Price Forecasts

## Illinois and Chicago PMSA, July 2017

Presented To  
**Illinois Realtors®**

From

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

### **The Housing Market**

In June, both sales and median prices experienced annual increases. 19,066 houses were sold in Illinois, changing by 10.0% from a month ago and 0.3% from a year ago. In the Chicago PMSA, 14,052 houses were sold, increasing by 10.9% from a month ago and increasing by 1.0% from a year ago. The median price was \$216,000 in Illinois, up 5.9% from June last year; the comparable figure for the Chicago PMSA was \$252,500, up 4.1% from this time last year.

In June, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 9.2%. 12,826 regular sales were made, 1.5% more than last year. 1,130 foreclosed properties were sold, 5.4% less than last year. The median price was \$263,000 for regular property sales, 4.2% more than last year; the comparable figure for the foreclosed properties was \$160,825, up 15.1% from this time last year.

The median sales price in June 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 June 2008 median sales price was \$166,500 (in \$2008) and \$188,980 (in \$2017); the current price level was 114% of the 2008 level after adjusting (130% before adjusting). In the Chicago PMSA, the June 2008 median sales price was \$211,200 (in \$2008) and \$239,715 (in \$2017); the comparable figure for price recovery in June 2017 is 105% after adjustment (120% 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 July, August and September 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 3.9% to 5.3%; the comparative figures for the Chicago PMSA are an increase in the range 6.2% to 8.4%. On a monthly basis, the three-month average sales are forecast to decrease in the range -6.3% to -8.5 for Illinois and decrease in the range -6.5% to -8.8% for the Chicago PMSA.

The pending home sales index<sup>1</sup> is a leading indicator based on contract signings. This June, the number of homes put under contract was greater than last year. The pending home sales index is 197.2 (2008=100) in Illinois, up 9.3% from a year ago. In the Chicago PMSA, the comparable figure is 232.5, up 12.4% from a year ago. At the latest average annual pending sales rate, Illinois had enough housing inventory for 4.3 months<sup>2</sup> (down from 5.1 months a year ago). In the Chicago PMSA, the comparable figure was 3.2 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 July, August and September. In Illinois, the median price is forecast to rise by 7.1% in July, 7.8% in August and 8.6% in September. 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 4.2% in July, 5.1% in August and 4.6% in September. 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 change by -7.0% in July, 0.6% in August and 4.7% in September. The comparable figures for the Chicago PMSA are -10.1% in July, -1.8% in August and 4.5% in September. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month.

In June, 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 June and their assessment of the labor market was also more positive. On the contrary, the University of Michigan Consumer Sentiment Index revealed that prospects for the national economy recorded the greatest loss in June and more consumers anticipated a downturn sometime in the next five years than expected an uninterrupted expansion. The more housing specific sentiment index, the Fannie Mae Home Purchase Sentiment Index (HPSI) increased and their survey explained that consumers are growing more optimistic about their ability to get a mortgage, and lenders expect credit standards to ease further going forward.

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

- In June, both sales and median prices experienced annual increases. 19,066 houses were sold in Illinois, changing by 10.0% from a month ago and 0.3% from a year ago. In the Chicago PMSA, 14,052 houses were sold, increasing by 10.9% from a month ago and increasing by 1.0% from a year ago. The median price was \$216,000 in Illinois, up 5.9% from June last year; the comparable figure for the Chicago PMSA was \$252,500, up 4.1% from this time last year. (Reference: Illinois and Chicago PMSA Total Home Sales and Median Home Sales Price figures; Forecast for July 2017 report table)
- In June, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 9.2%. 12,826 regular sales were made, 1.5% more than last year. 1,130 foreclosed properties were sold, 5.4% less than last year. The median price was \$263,000 for regular property sales, 4.2% more than last year; the comparable figure for the foreclosed properties was \$160,825, up 15.1% from this time last year. (Reference: Ratio of Foreclosed Sales over Total Sales, Sales & Median Prices: Foreclosed vs. Regular figures)
- In June, at the latest average annual pending sales rate, Illinois had enough housing inventory for 4.3 months<sup>4</sup> (down from 5.1 months a year ago). In the Chicago PMSA, the comparable figure was 3.2 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 June, 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 14.7% from 17.2% 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 7.1% from 9.6% 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 July, August and September. In Illinois, the median price is forecast to rise by 7.1% in July, 7.8% in August and 8.6% in September. For the Chicago PMSA, the comparable figures are 4.2% in July, 5.1% in August and 4.6% in September. (Reference: Forecast for July 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 change by -7.0% in July, 0.6% in August and 4.7% in September. The comparable figures for the Chicago PMSA are -10.1% in July, -1.8% in August and 4.5% in September. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month. (Reference: Housing Price Index)
- The sales forecast for July, August and September 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 3.9% to 5.3%; the comparative figures for the Chicago PMSA are an increase in the range 6.2% to 8.4%. On a monthly basis, the three-month average sales are forecast to decrease in the range -6.3% to -8.5% for Illinois and decrease in the range -6.5% to -8.8% for the Chicago PMSA. (Reference: Forecast for July 2017 report table)
- The pending home sales index<sup>6</sup> is a leading indicator based on contract signings. This June, the number of homes put under contract was greater than last year. The pending home sales index is 197.2 (2008=100) in Illinois, up 9.3% from a year ago. In the Chicago PMSA, the comparable figure is 232.5, up 12.4% from a year ago. (Reference: Illinois and Chicago PMSA Pending Home Sales Index figure)
- In June 2017, 1,682 houses were newly filed for foreclosure in the Chicago PMSA (up 3.5% and down 11.2% respectively from a year and a month ago). 1,285 foreclosures were completed<sup>7</sup> (down 24.2% and down 5.7% respectively from a year and a month ago). As of June 2017, there are 30,990 homes at some stage of foreclosure — the foreclosure inventory. The monthly average net flows of foreclosures (foreclosure inflows - outflows) were 546 in the past 6 months, 459 in the last 12 months and 294 in the last 24 months. (Reference: Chicago PMSA Foreclosure Inflows and Outflows, and Inventory figures).

### **The Economy**

- In June 2017, according to the Bureau of Labor Statistics (BLS) Employment Situation report, the national unemployment rate was little changed at 4.4% and nonfarm payroll jobs experienced a gain of 222,000 jobs. The employment gains in June were spearheaded by health care (37,000), followed by professional and business services (35,000), and food services and drinking places (29,000).

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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 May 2017, according to the Illinois Department of Employment Security (IDES) news release, the Illinois unemployment rate dropped to 4.6%. Non-farm payroll jobs increased by 2,400 over the month. The largest gains were in three sectors, construction (4,000), education and health services (3,700) and information services (900). Furthermore, the job growth in April was revised from the preliminary estimate of -7,200 jobs to -7,300 jobs. (not updated)
- In June 2017, the one-year-ahead forecast for Illinois indicates that the non-farm employment will change at a rate between -0.13% and 0.05%, corresponding to job gains between -7,600 and 3,000. Education and Health, Leisure and Hospitality, and Information are forecast to be the leading growth sectors.
- In June 2017, according to Scotsman Guide News, home prices have been rising and newly listed homes are flying off the market at a record pace. Lawrence Yun, chief economist of the National Association of Realtors (NAR), however noted that “It is not a bubble where prices could decline measurably since the underwriting standards are much more stringent as reflected by very high credit scores of those loans that are being approved.” He rather showed concern for renters’ ability to buy, especially in some expensive markets such as Seattle and Denver. He mentioned that the inventory of homes for sale is at a historic low and the homeownership rate could decline even further. To relieve the shortages, he suggested an increase in new-home construction.
- In June 2017, Loop North News reported that housing advocates continue to worry about a shortage of Millennial first-time home buyers in the residential marketplace nationwide because of the burden of student loan debt. However, there are changes in the wind for young borrowers who managed to buy a home despite hefty student loan debt. Fannie Mae recently updated its Selling Guide to permit originators that sell loans to the mortgage giant to offer a new refinance option for paying off a student loan. “While these changes won’t change those feelings overnight, they may help the mortgage industry adapt to the financial realities of today’s aspiring homeowner,” according to Rohit Chopra, Senior Fellow at Consumer Federation of America and former assistant director of Consumer Financial Protection Bureau.

### **Longer-term Outlook**

- In June, one consumer sentiment index increased while the other declined moderately. The Conference Board Consumer Confidence Index increased to 118.9 from 117.6 last month. Their survey explained that consumers’ appraisal of current conditions improved in June and their assessment of the labor market was also more positive. On the other hand, the University of Michigan Consumer Sentiment Index decreased moderately (94.5 from 97.1 last month). Their survey indicates prospects for the national economy recorded the greatest loss in June and more consumers anticipated a downturn sometime in the next five years than expected an uninterrupted expansion.
- In June, Fannie Mae Home Purchase Sentiment Index (HPSI) increased to 88.3 from 86.2 last month. Their survey indicates that consumers are growing more optimistic about their ability to get a mortgage, and lenders expect credit standards to ease further going forward. 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 96.5 in May from 95.5 in April. The rise is attributed to positive job growth in construction and nonmanufacturing, and to the improvement of retail activities in the Chicago area.

“While the housing market continues to record gains in prices and sales, the inventory problem remains an important issue,” noted Geoffrey J.D. Hewings, Director of the Regional Economics Applications Laboratory. “Hopefully, now that the state has a budget, a recovering state economy will encourage more investment in housing – both new construction and investment by first-time buyers”

## Forecast for July 2017 report

PERCENTAGE CHANGE FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Apr-17	-2.0%	-0.9%		4.8%	4.6%			
May-17	5.3%	6.7%		22.4%	23.0%			
Jun-17	0.3%	1.0%		10.0%	10.9%			
3 Month Avg.	1.3%	2.3%		12.3%	12.8%			
SUMMARY OF THE FORECAST INTERVALS FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Jul-17	4.7%	6.3%	7.3%	9.9%	-8.0%	-10.9%	-6.8%	-9.3%
Aug-17	2.0%	2.7%	3.9%	5.3%	-0.5%	-0.7%	-1.5%	-2.0%
Sep-17	5.3%	7.2%	7.8%	10.6%	-10.1%	-13.7%	-11.2%	-15.2%
3 Month Avg.	3.9%	5.3%	6.2%	8.4%	-6.3%	-8.5%	-6.5%	-8.8%
SUMMARY OF THE FORECAST FOR THE MEDIAN PRICE								
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Apr-17	\$200,000	\$242,000	Apr-16	\$186,000	\$230,000			
May-17	\$209,000	\$246,910	May-16	\$193,000	\$233,500			
Jun-17	\$216,000	\$252,500	Jun-16	\$203,694	\$242,500			
Jul-17	\$212,251	\$247,579	Jul-16	\$198,090	\$237,500			
Aug-17	\$205,971	\$241,784	Aug-16	\$191,000	\$230,000			
Sep-17	\$195,497	\$227,142	Sep-16	\$180,000	\$217,250			
ANNUAL PERCENTAGE CHANGE OF THE MEDIAN PRICE								
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Apr-17	7.5%	5.2%	Apr-16	10.1%	10.5%			
May-17	8.3%	5.7%	May-16	6.6%	5.7%			
Jun-17	5.9%	4.1%	Jun-16	5.8%	4.7%			
Jul-17	7.1%	4.2%	Jul-16	4.3%	5.6%			
Aug-17	7.8%	5.1%	Aug-16	6.1%	4.5%			
Sep-17	8.6%	4.6%	Sep-16	5.0%	4.7%			

### Median Prices and Recovery

	Illinois		Chicago PMSA	
	[\$2008]	[\$2017]	[\$2008]	[\$2017]
<b>June 2008 Median Price</b>	\$166,500	\$188,980	\$211,200	\$239,715
<b>June 2017 Median Price</b>	\$190,306	\$216,000	\$222,464	\$252,500
Price Ratio (June 17/ June 08)	Adjusted	1.14	Adjusted	1.05
	Unadjusted	1.30	Unadjusted	1.20

### Recovery Forecasts using *Annually Growth Rates*

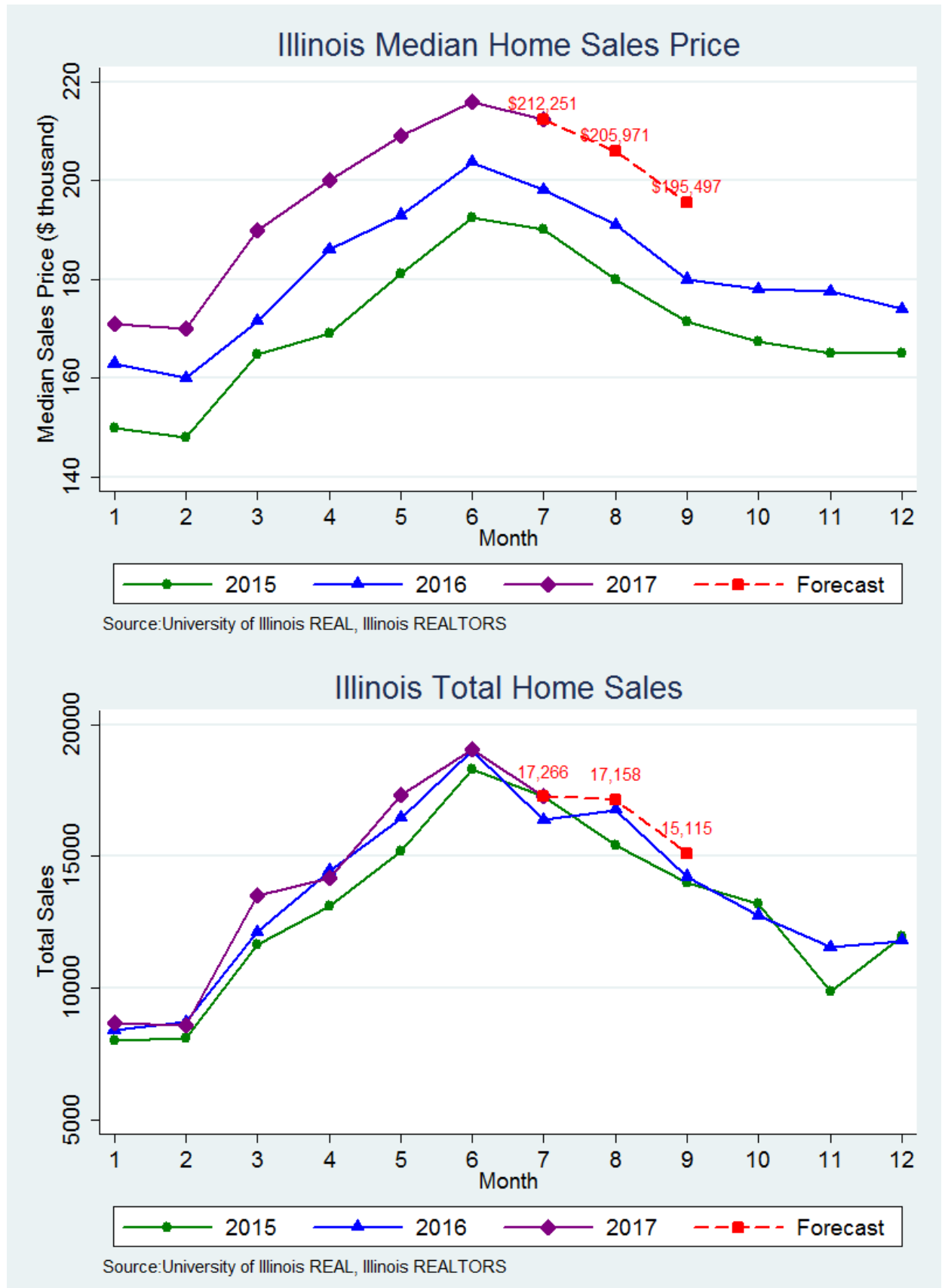
	Illinois	Chicago PMSA		
	Annual Recovery Rate*	Years to Recover**	Recovery Rate	Years to Recover
Current Month	4.4%	-3.1	2.5%	-2.1
Past 3 months	5.3%	-2.6	3.1%	-1.7
Past 6 months	4.9%	-2.8	5.4%	-1.0
Past 9 months	4.8%	-2.8	5.8%	-0.9
Past 12 months	4.6%	-3.0	5.3%	-1.0

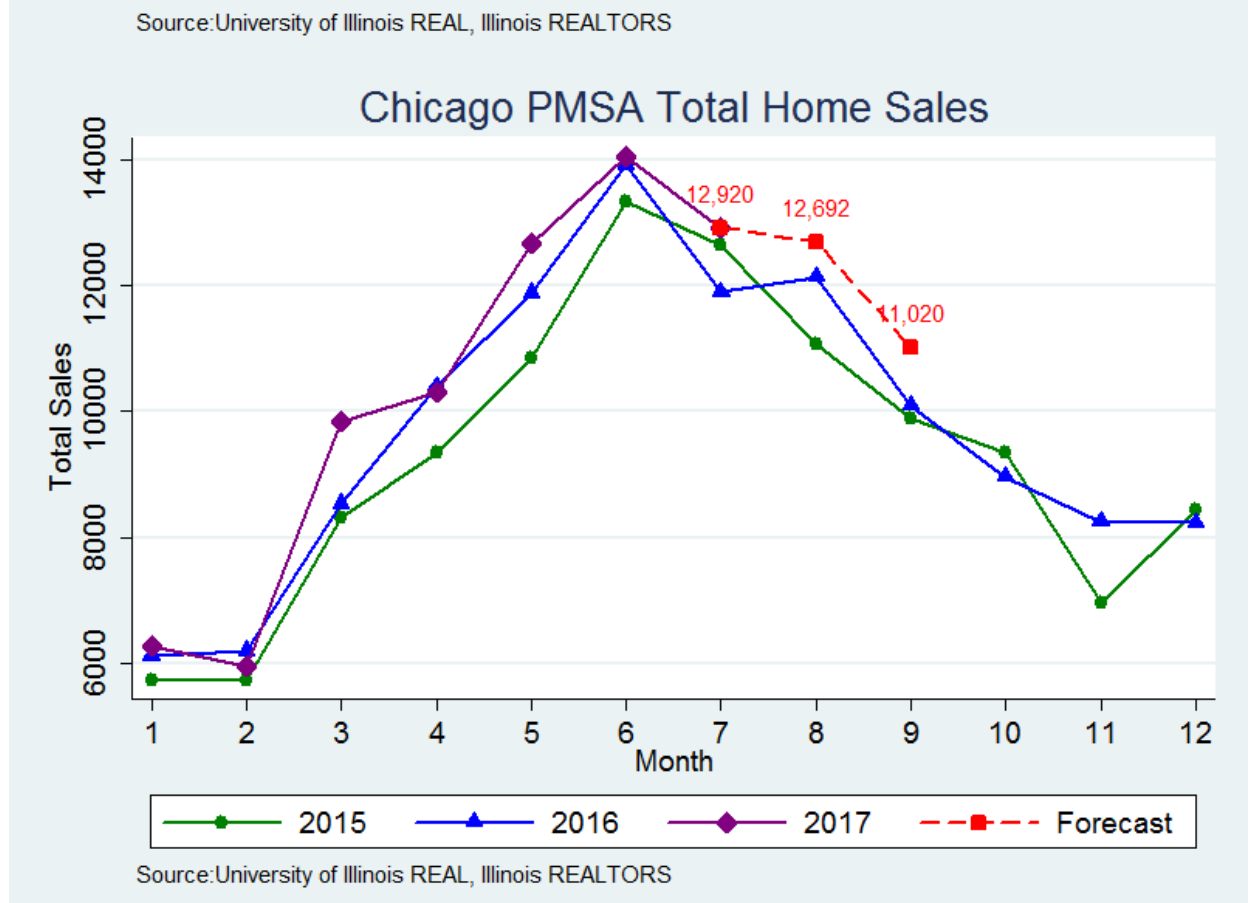
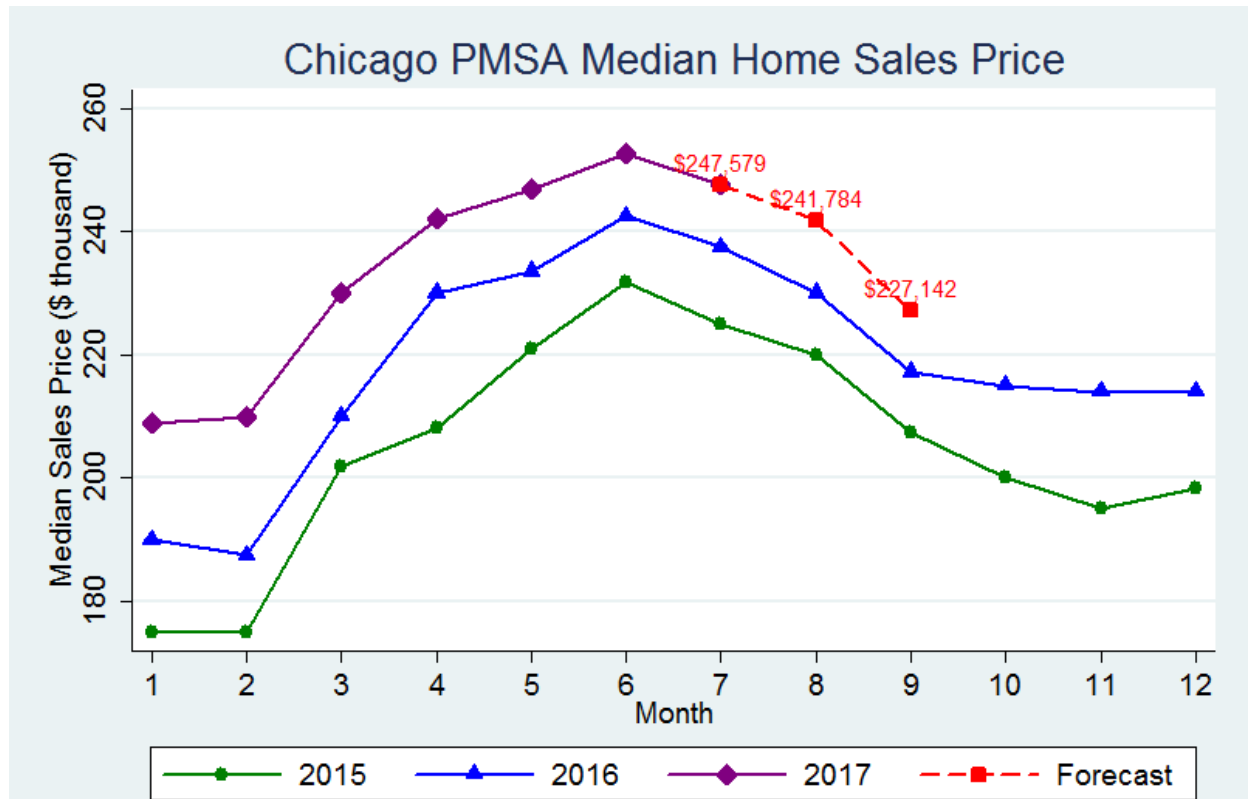
\*Annual recovery rate is the average of *annual* change rates in past months

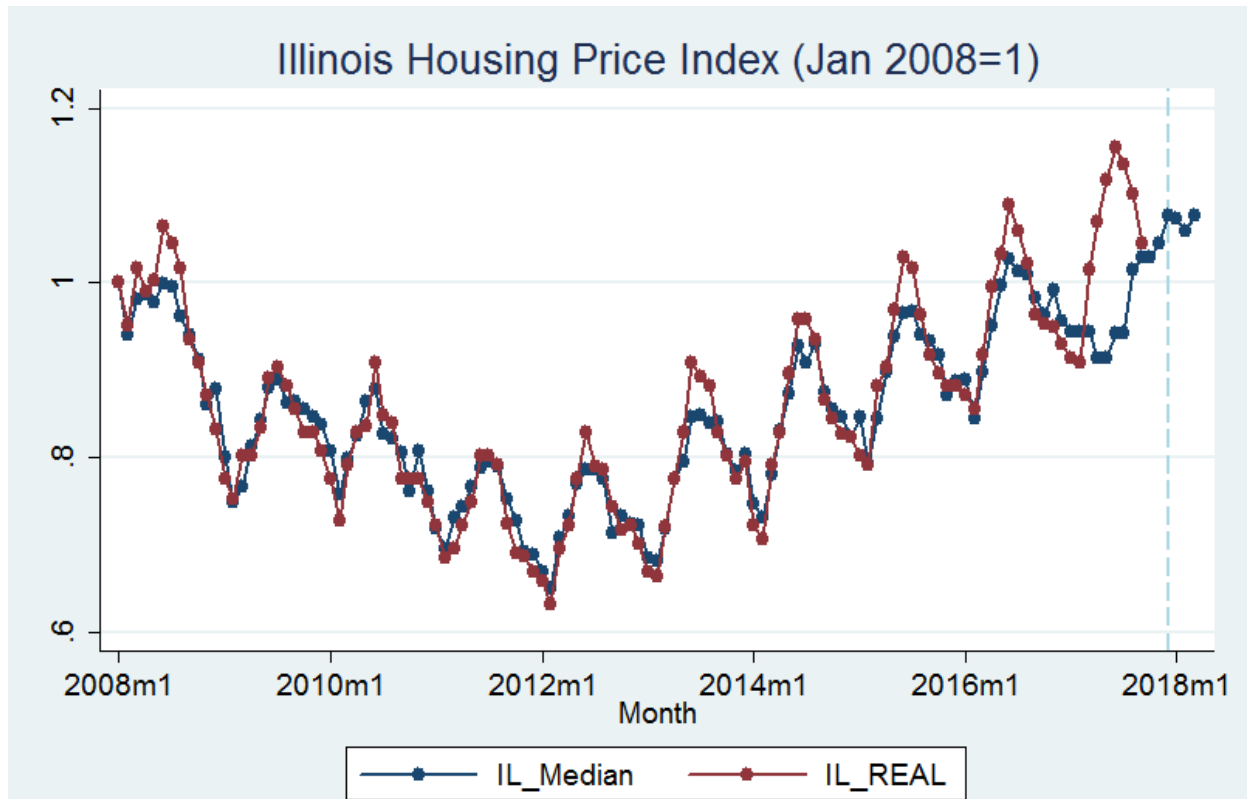
\*\* Years to recover is calculated using the following formula:

$Price_{June2017} * (1 + \text{recovery rate})^{\text{years}} = Price_{June2008}$ . 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.

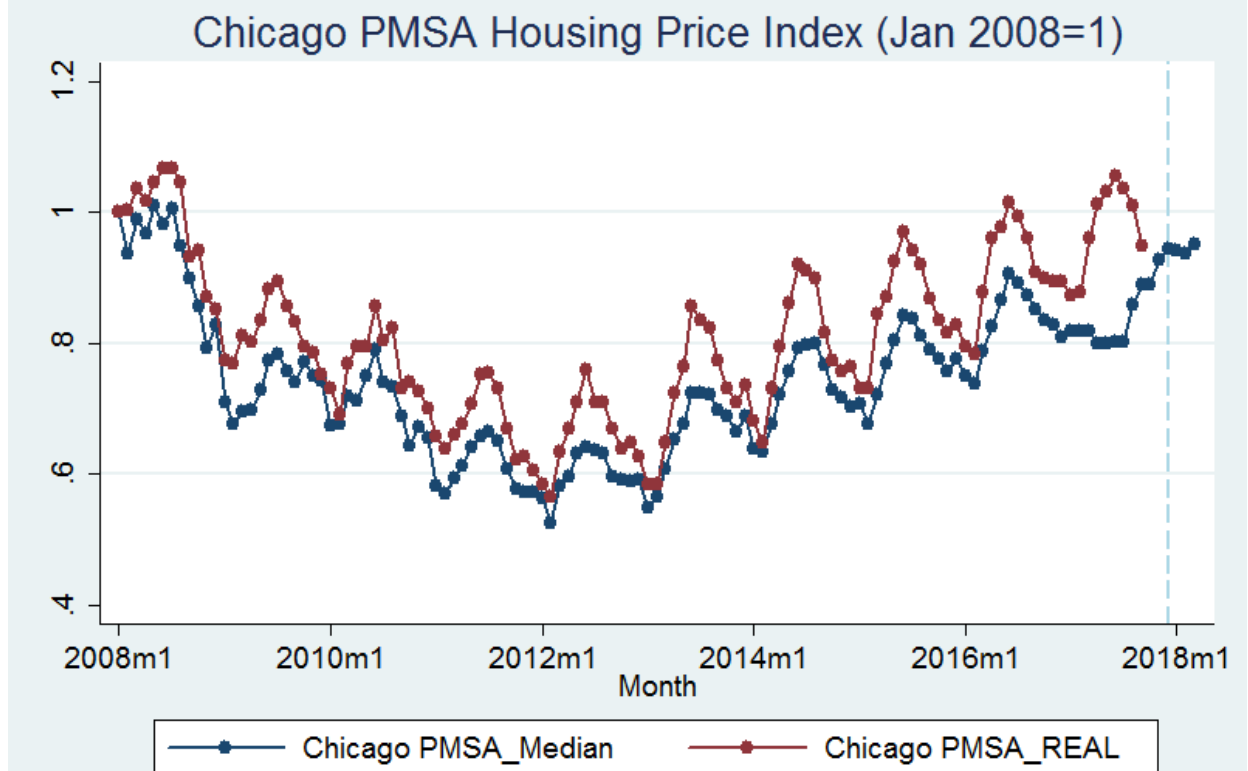




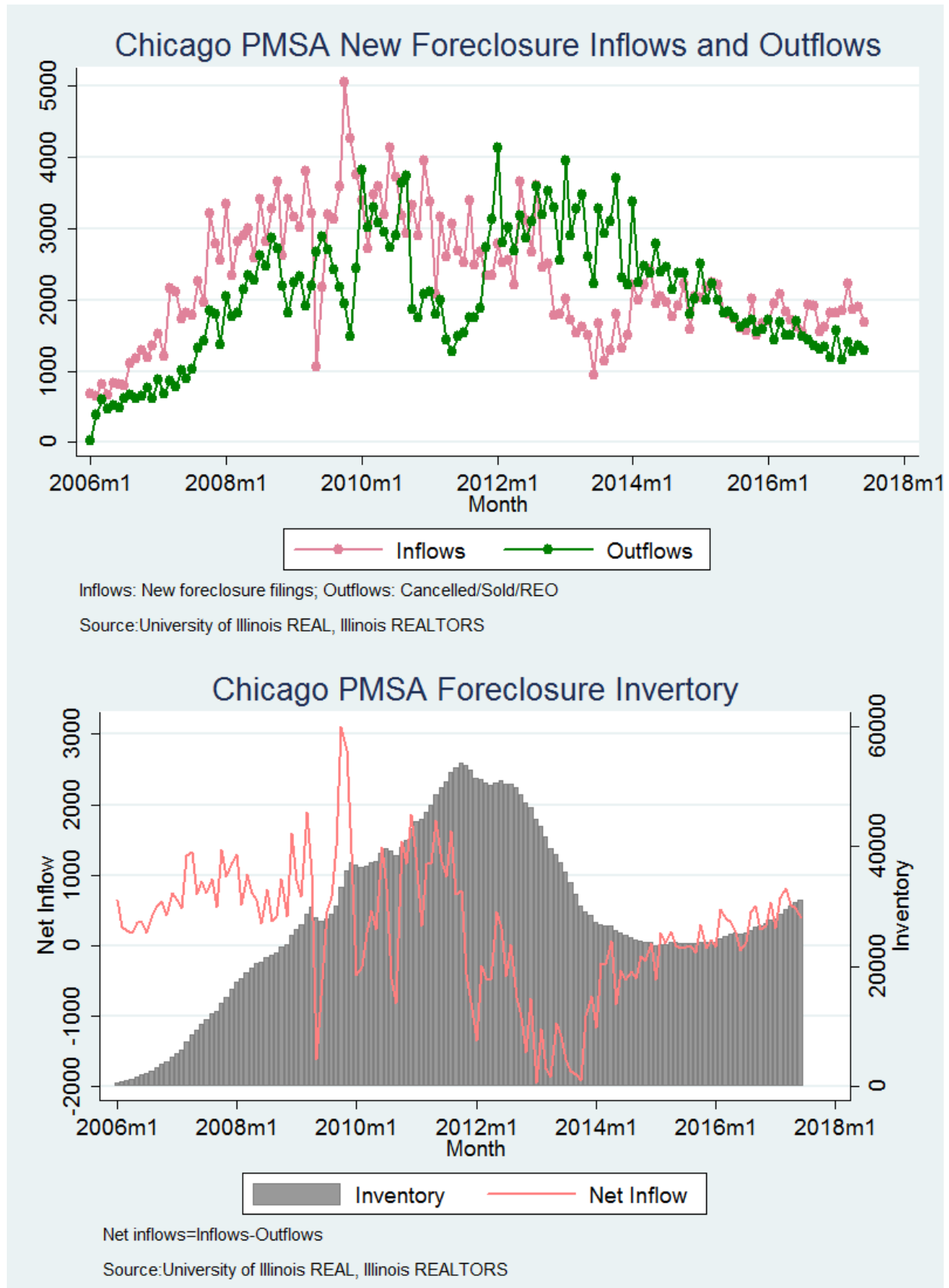


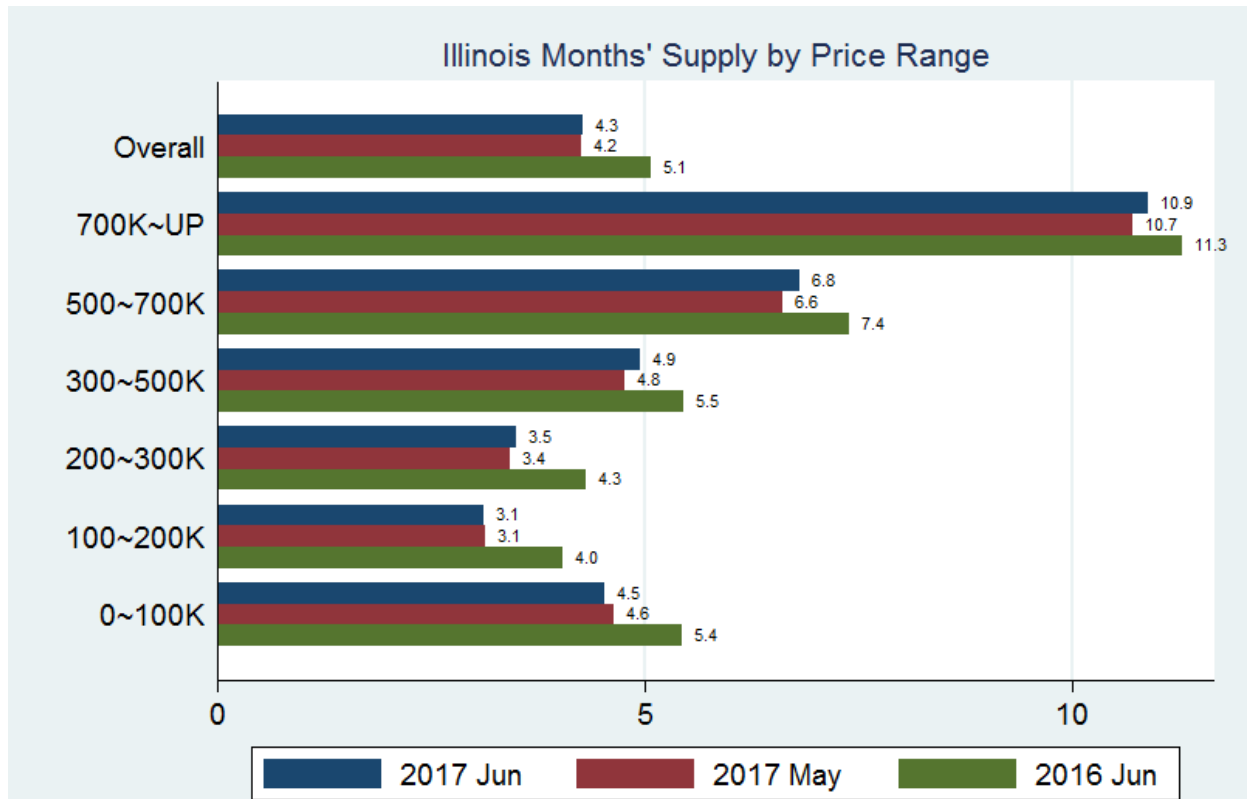


Source: University of Illinois REAL, Illinois REALTORS

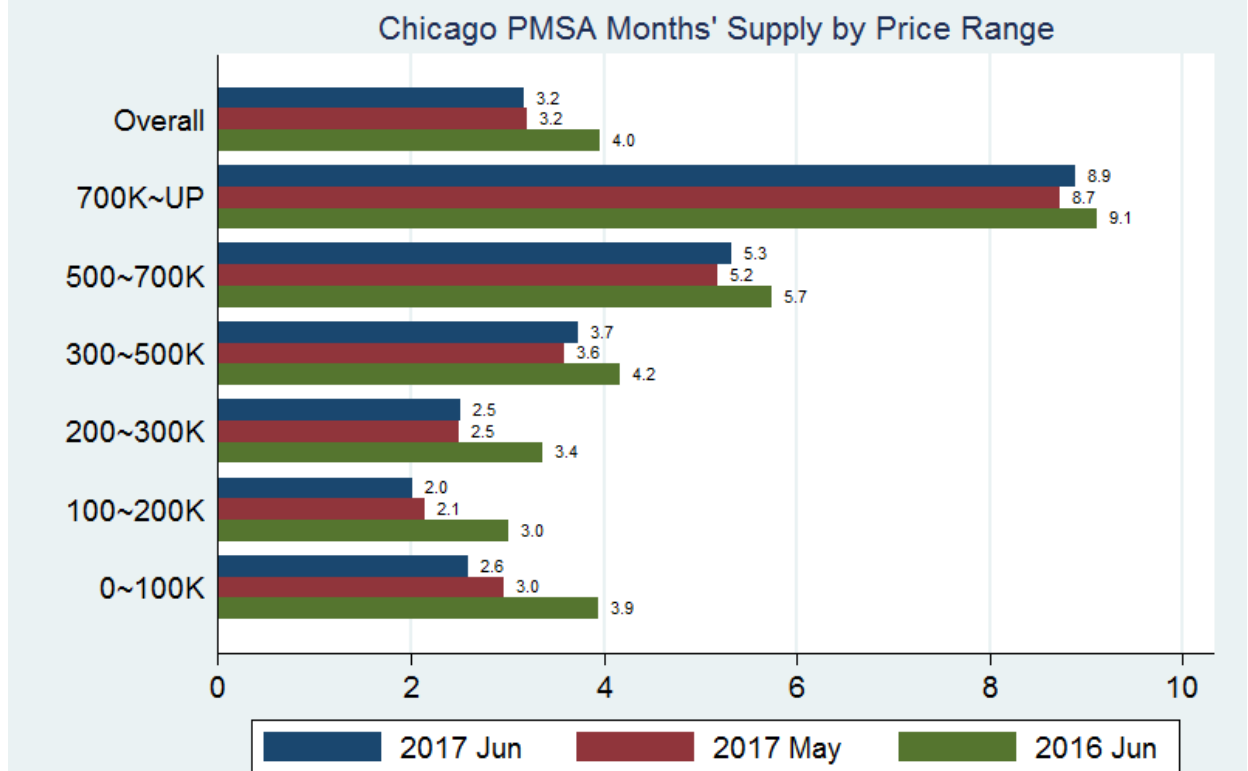


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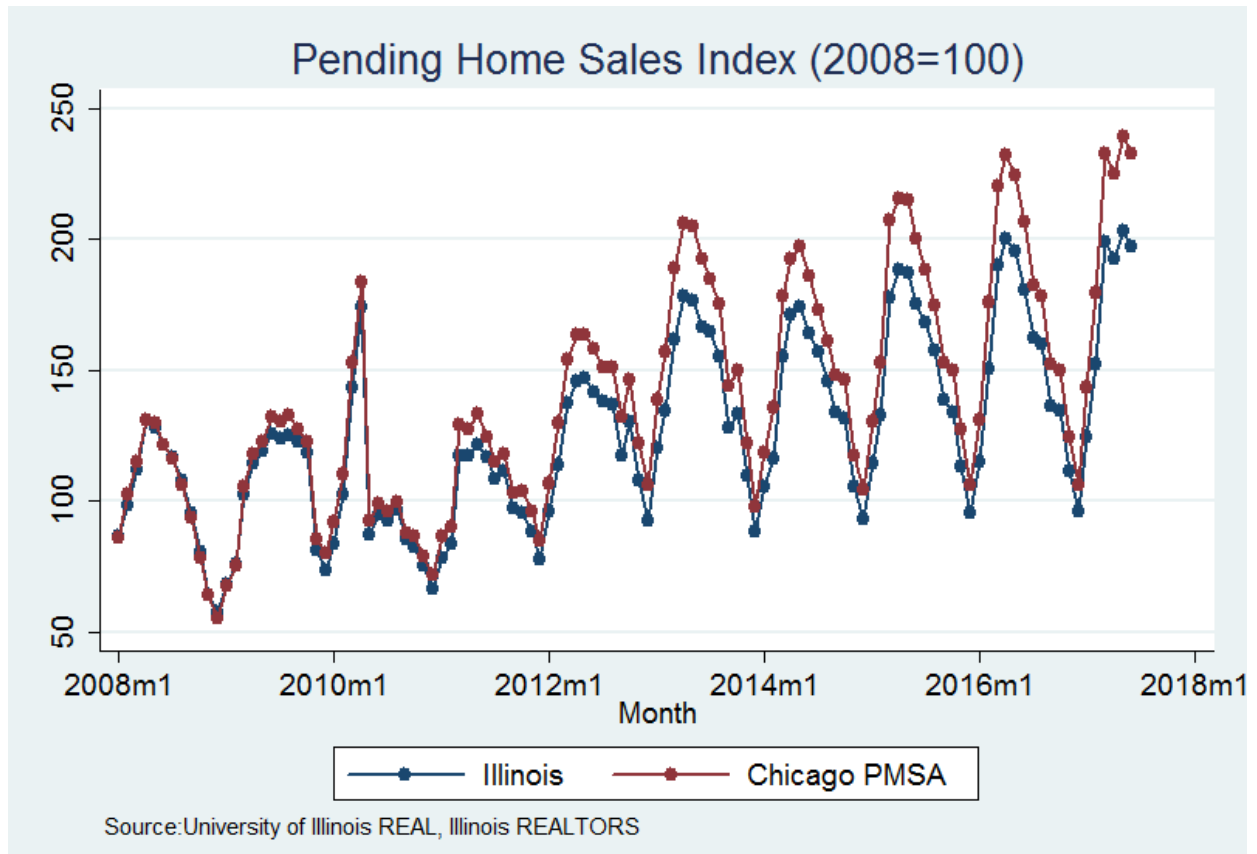


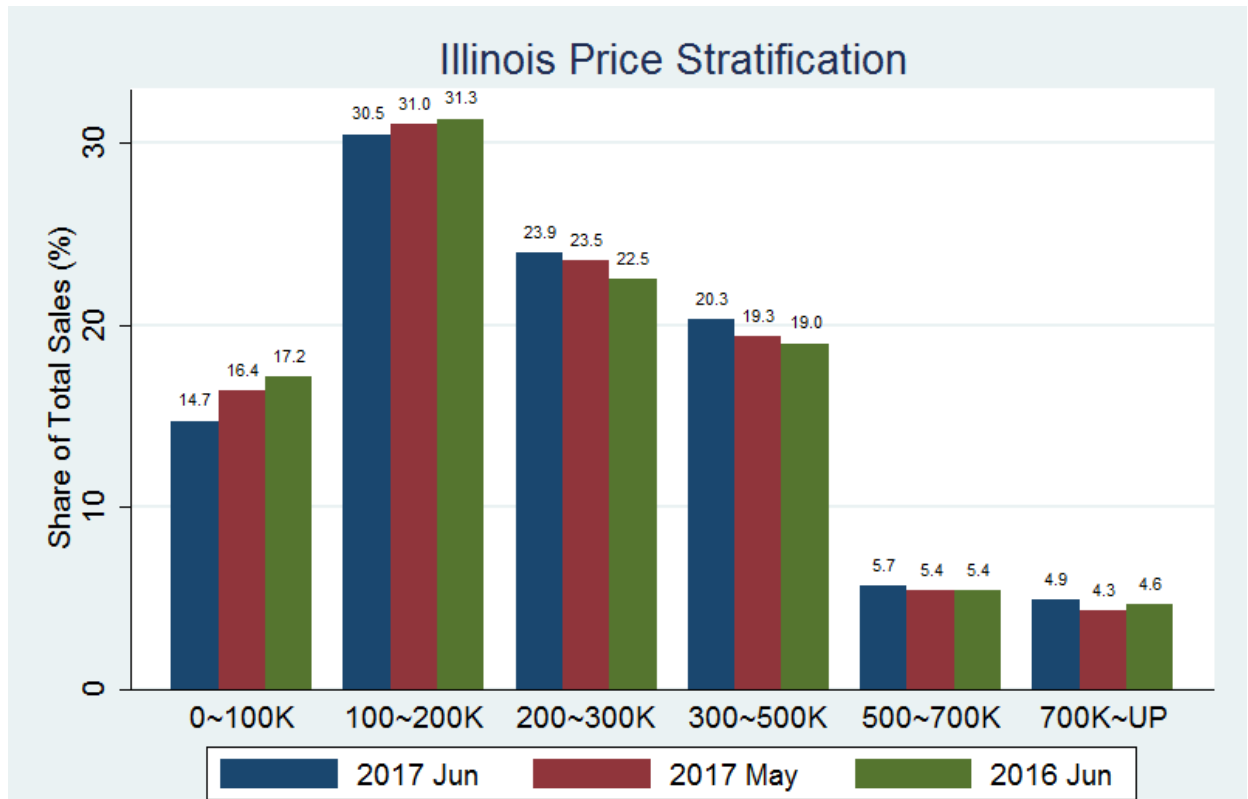


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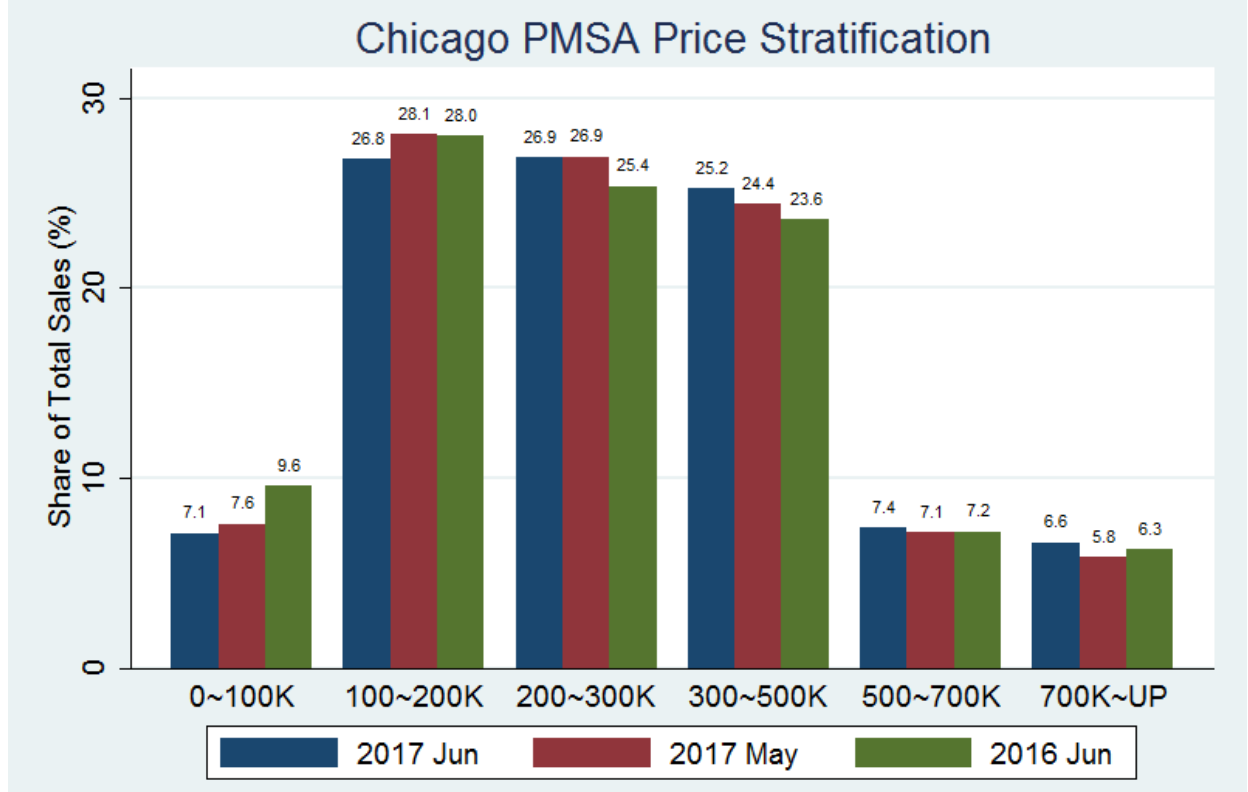


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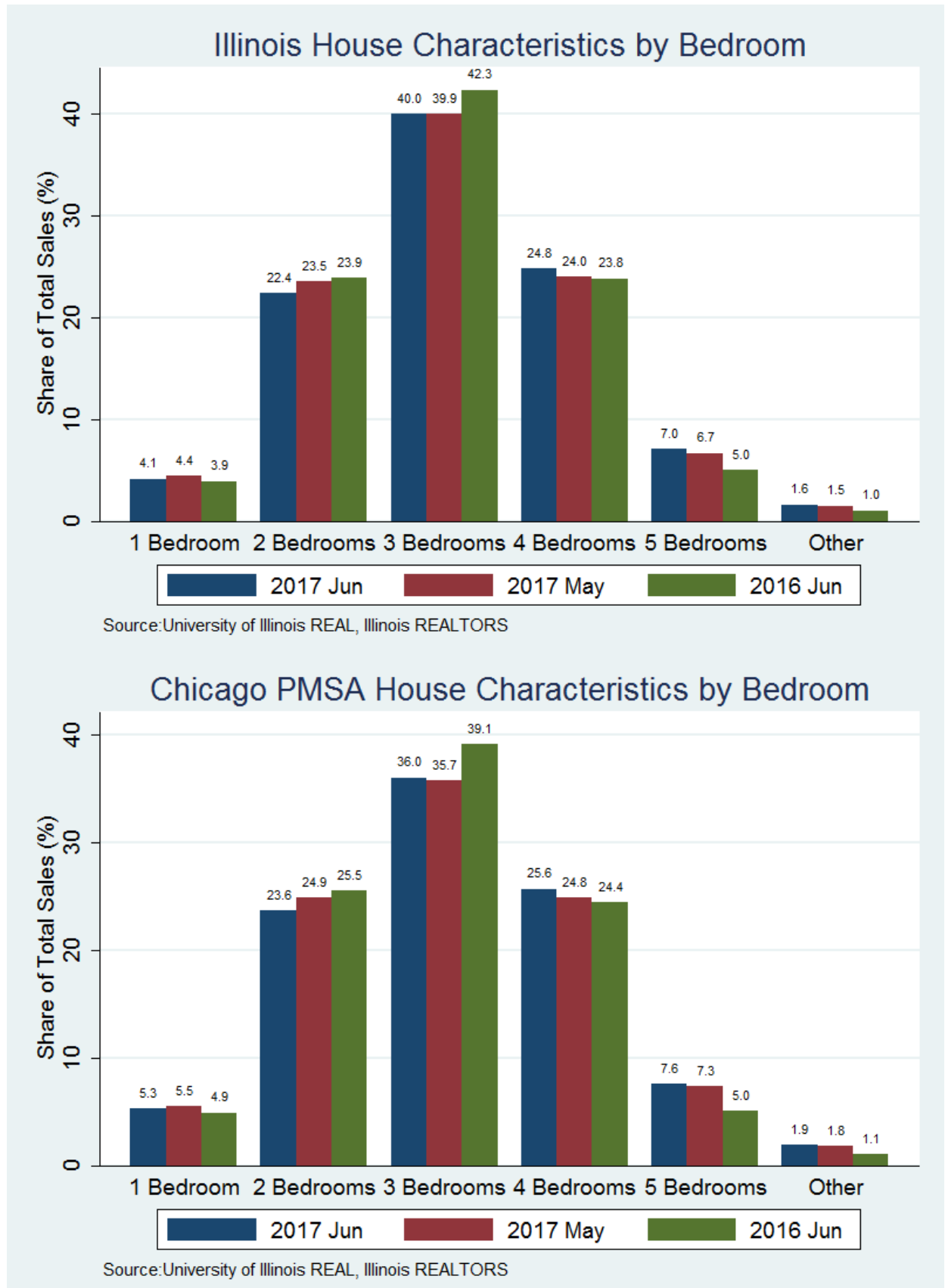




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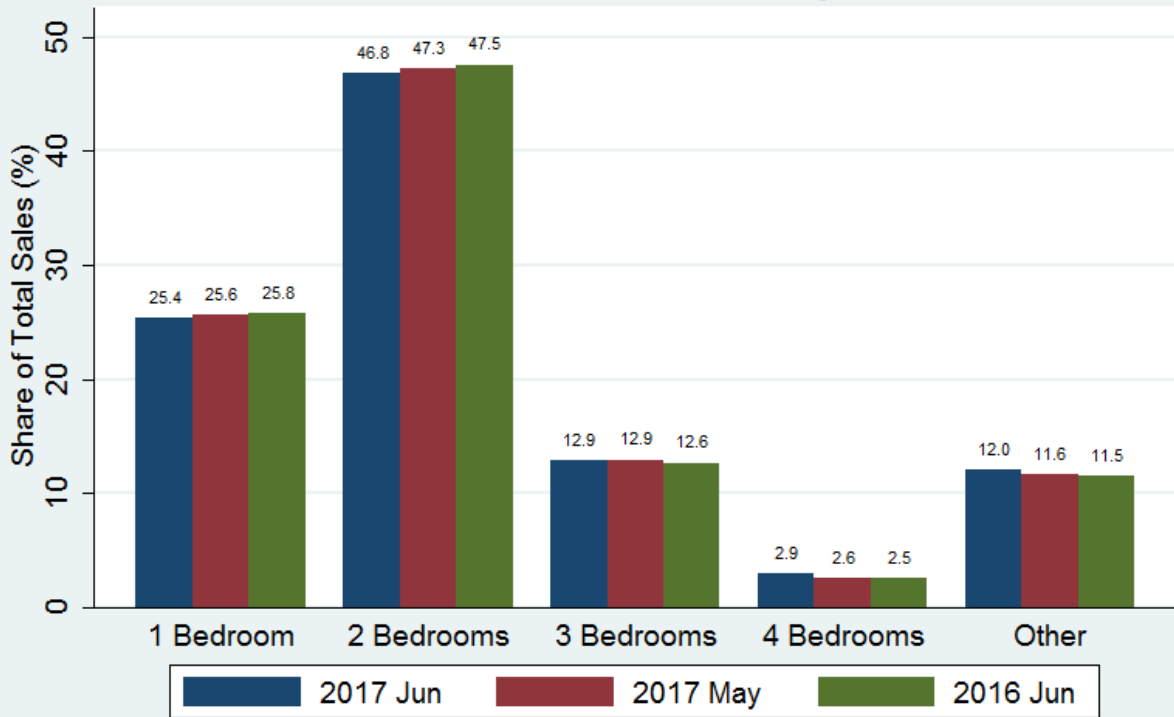


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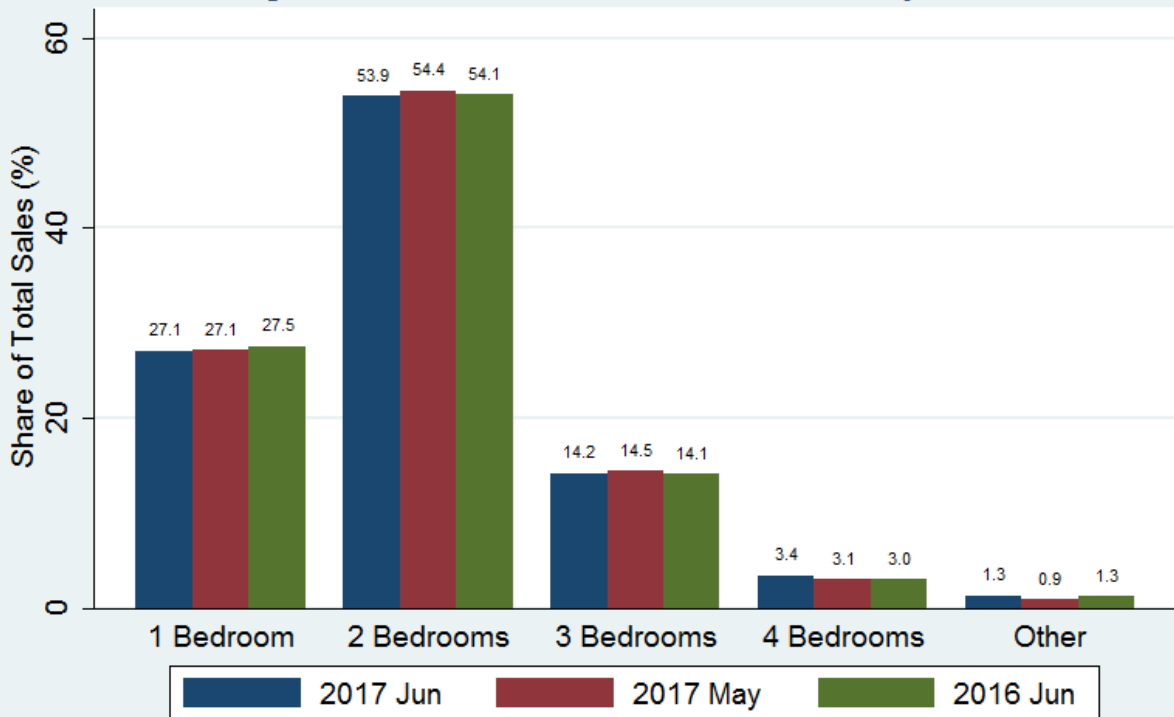


### Illinois House Characteristics by Bathroom



Source: University of Illinois REAL, Illinois REALTORS

### Chicago PMSA House Characteristics by Bathroom



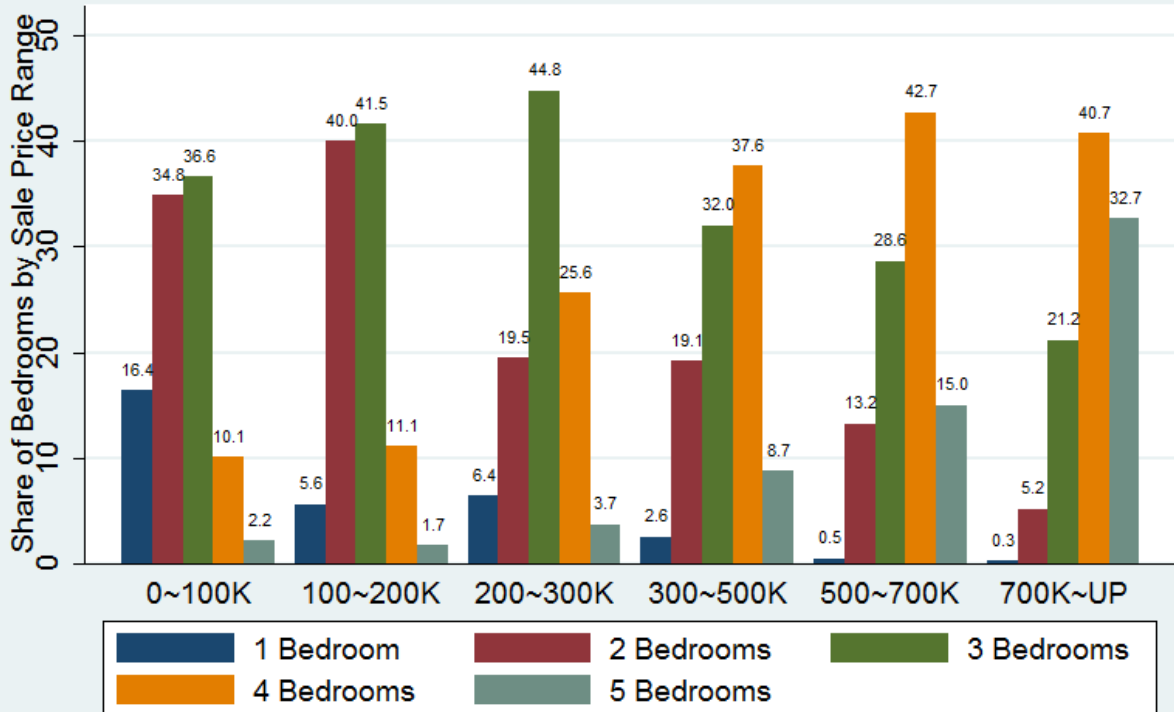
Source: University of Illinois REAL, Illinois REALTORS

### Illinois Bedroom Shares by Sale Price Stratification



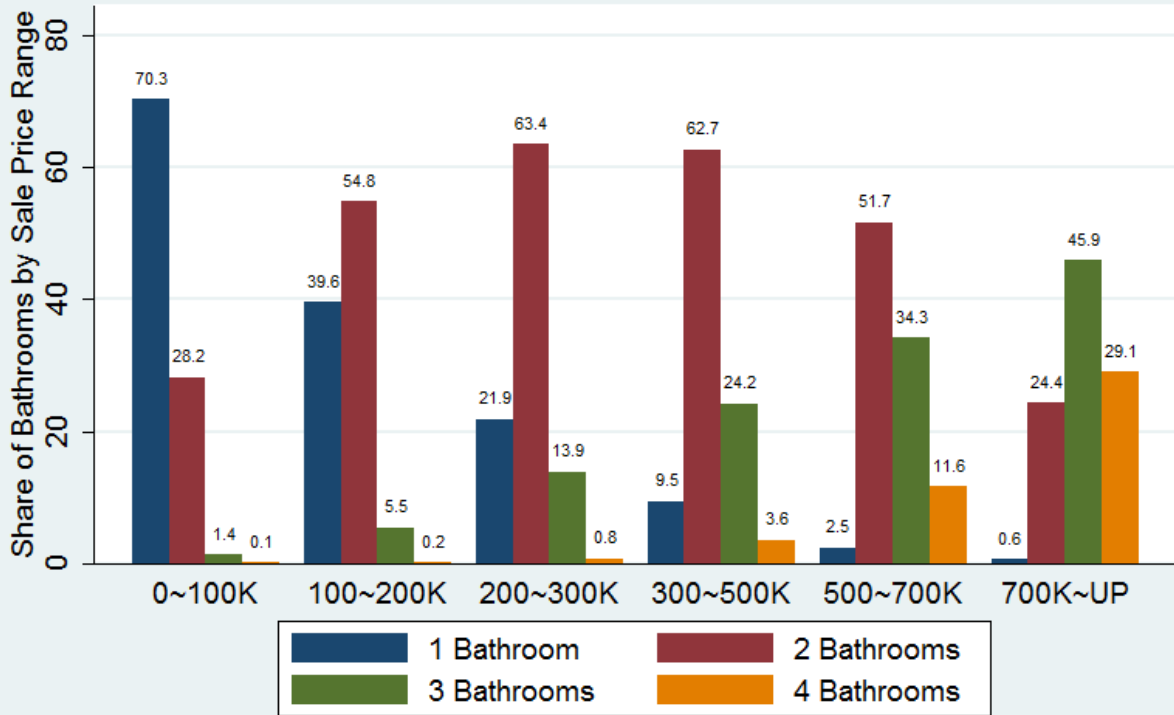
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### Chicago PMSA Bedroom Shares by Sale Price Stratification



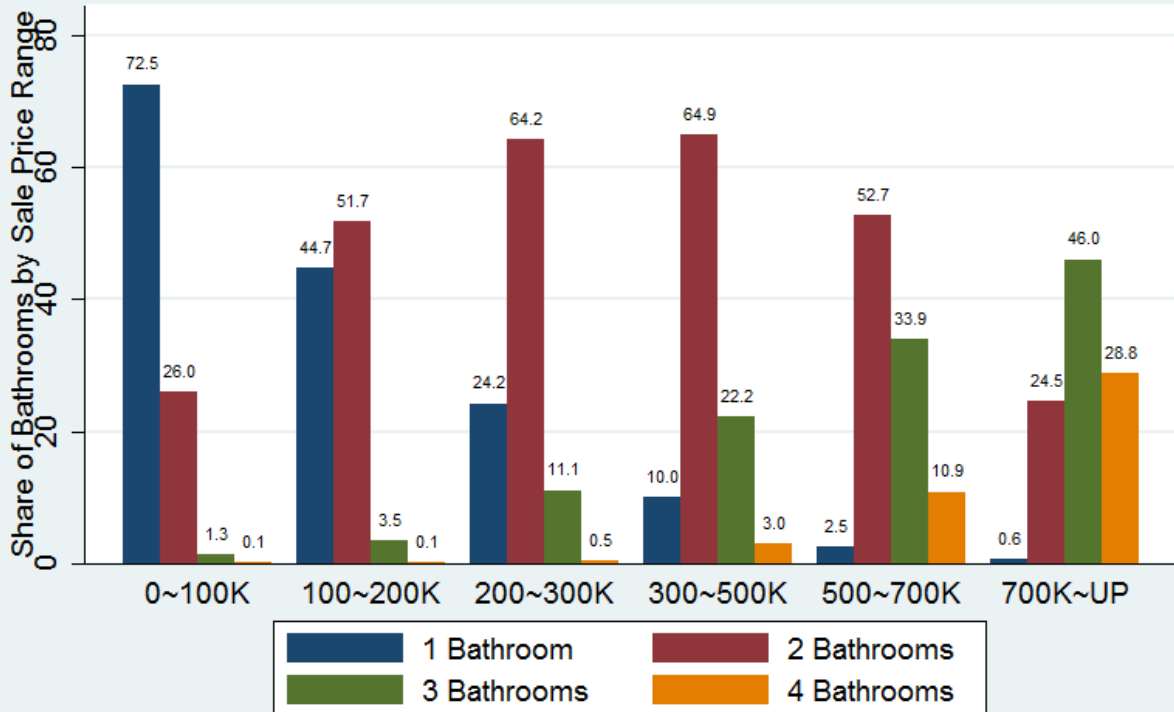
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### Illinois Bathroom Shares by Sale Price Stratification



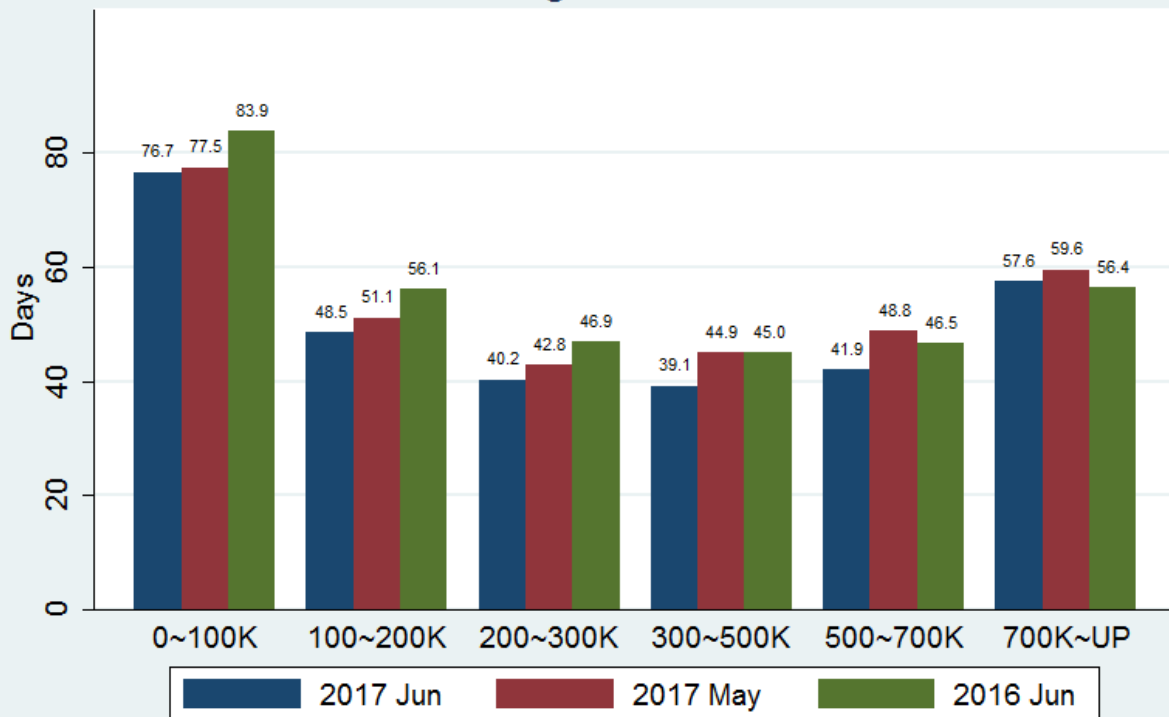
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### Chicago PMSA Bathroom Shares by Sale Price Stratification



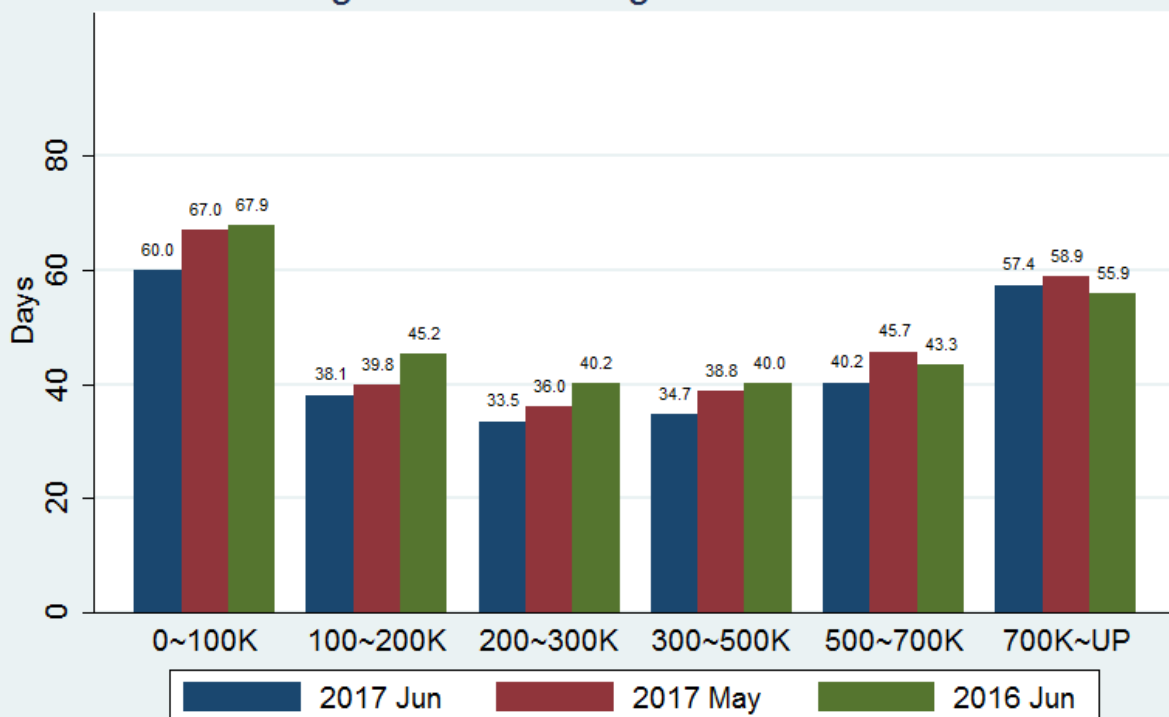
Source: University of Illinois REAL, Illinois REALTORS

### 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

