

Housing Price Forecasts

Illinois and Chicago PMSA, June 2017

Presented To

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The Housing Market

In May, both sales and median prices experienced moderate annual increases. 17,077 houses were sold in Illinois, an increase of 20.7% from a month ago and 3.8% from a year ago. In the Chicago PMSA, 12,491 houses were sold, increasing by 21.4% from a month ago and increasing by 5.1% from a year ago. The median price was \$209,000 in Illinois, up 8.5% from May last year; the comparable figure for the Chicago PMSA was \$246,900, up 5.6% from this time last year.

In May, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 10.7%. 11,316 regular sales were made, 6.9% more than last year. 1,098 foreclosed properties were sold, 10.1% less than last year. The median price was \$256,220 for regular property sales, 4.6% more than last year; the comparable figure for the foreclosed properties was \$160,000, up 10.7% from this time last year.

The median sales price in May 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 May 2008 median sales price was \$156,000 (in \$2008) and \$178,573 (in \$2017); the current price level was 117% of the 2008 level after adjusting (134% before adjusting). In the Chicago PMSA, the May 2008 median sales price was \$200,000 (in \$2008) and \$228,940 (in \$2017); the comparable figure for price recovery in May 2017 is 108% after adjustment (123% 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 June, July and August 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 1.3% to 1.8%; the comparative figures for the Chicago PMSA are increases in the range 3.2% to 4.4%. On a monthly basis, the three-month average sales are forecast to decrease by -0.1% for Illinois and increase by 0.3% for the Chicago PMSA.

The pending home sales index¹ is a leading indicator based on contract signings. This May, the number of homes put under contract was greater than last year. The pending home sales index is 215.8 (2008=100) in Illinois, up 10.5% from a year ago. In the Chicago PMSA, the comparable figure is 259.5, up 15.8% from a year ago. At the latest average annual pending sales rate, Illinois had enough housing inventory for 4.1 months² (down from 4.9 months a year ago). In the Chicago PMSA, the comparable figure was 3.0 months (down from 3.8 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 June, July and August. In Illinois, the median price is forecast to rise by 8.5% in June, 9.7% in July and 10.2% in August. For the Chicago PMSA, the comparable figures are 5.9% in June, 6.0% in July and 7.0% in August. As a complement to the median housing price index

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

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.

(HPI), the REAL HPI³ 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 -8.4% in June, -7.0% in July and 0.6% in August. The comparable figures for the Chicago PMSA are -11.5% in June, -10.1% in July and -1.8% in August. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month.

In May, the Conference Board Consumer Confidence Index decreased while the University of Michigan Consumer Sentiment Index is virtually unchanged. According to the Conference Board Consumer Confidence Index, their survey revealed that while consumers’ appraisal of current conditions held steady in May, they were less optimistic about the short-term outlook for business conditions, employment and income prospects. The more housing specific sentiment index, the Fannie Mae Home Purchase Sentiment Index (HPSI) also decreased largely due to decreased housing demand.

The Housing Market – Current Condition

- In May, both sales and median prices experienced moderate annual increases. 17,077 houses were sold in Illinois, changing by 20.7% from a month ago and 3.8% from a year ago. In the Chicago PMSA, 12,491 houses were sold, increasing by 21.4% from a month ago and increasing by 5.1% from a year ago. The median price was \$209,000 in Illinois, up 8.5% from May last year; the comparable figure for the Chicago PMSA was \$246,900, up 5.6% from this time last year. (Reference: Illinois and Chicago PMSA Total Home Sales and Median Home Sales Price figures; Forecast for June 2017 report table)
- In May, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 10.7%. 11,316 regular sales were made, 6.9% more than last year. 1,098 foreclosed properties were sold, 10.1% less than last year. The median price was \$256,220 for regular property sales, 4.6% more than last year; the comparable figure for the foreclosed properties was \$160,000, up 10.7% from this time last year. (Reference: Ratio of Foreclosed Sales over Total Sales, Sales & Median Prices: Foreclosed vs. Regular figures)
- In May, at the latest average annual pending sales rate, Illinois had enough housing inventory for 4.1 months⁴ (down from 4.9 months a year ago). In the Chicago PMSA, the comparable figure was 3.0 months (down from 3.8 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 May, 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 16.3% from 19.0% a year ago; the comparative figure for the Chicago PMSA showed a decrease to 7.6% from 10.9% a year ago. (Reference: Illinois and Chicago PMSA Price Stratification figures)

The Housing Market – Forecast and Future Condition

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

⁴ 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.

- The median price forecast indicates moderate annual growth in both Illinois and the Chicago PMSA for June, July and August. In Illinois, the median price is forecast to rise by 8.5% in June, 9.7% in July and 10.2% in August. For the Chicago PMSA, the comparable figures are 5.9% in June, 6.0% in July and 7.0% in August. (Reference: Forecast for June 2017 report table)
- As a complement to the median housing price index (HPI), the REAL HPI⁵ 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 -8.4% in June, -7.0% in July and 0.6% in August. The comparable figures for the Chicago PMSA are -11.5% in June, -10.1% in July and -1.8% in August. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month. (Reference: Housing Price Index)
- The sales forecast for June, July and August 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 1.3% to 1.8%; the comparative figures for the Chicago PMSA are an increase in the range 3.2% to 4.4%. On a monthly basis, the three-month average sales are forecast to decrease by -0.1% for Illinois and increase by 0.3% for the Chicago PMSA. (Reference: Forecast for June 2017 report table)
- The pending home sales index⁶ is a leading indicator based on contract signings. This May, the number of homes put under contract was greater than last year. The pending home sales index is 215.8 (2008=100) in Illinois, up 10.5% from a year ago. In the Chicago PMSA, the comparable figure is 259.5, up 15.8% from a year ago. (Reference: Illinois and Chicago PMSA Pending Home Sales Index figure)
- In May 2017, 1,894 houses were newly filed for foreclosure in the Chicago PMSA (up 10.8% and 2.0% respectively from a year and a month ago). 1,378 foreclosures were completed⁷ (down 8.6% and up 6.7% respectively from a year and a month ago). As of May 2017, there are 30,286 homes at some stage of foreclosure — the foreclosure inventory. The monthly average net flows of foreclosures (foreclosure inflows - outflows) were 556 in the past 6 months, 402 in the last 12 months and 265 in the last 24 months. (Reference: Chicago PMSA Foreclosure Inflows and Outflows, and Inventory figures).

The Economy

- In May 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 138,000 jobs. The employment gains in May were spearheaded by professional and business services (38,000), followed by food services and drinking places (30,000), and health care (24,000).
- 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.

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

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

⁷ Including cancelled foreclosures and auctions

- In May 2017, the one-year-ahead forecast for Illinois indicates that the non-farm employment will change at a rate between -0.10% and 0.63%, corresponding to job gains between -6,100 and 38,200. Financial Activities, Education and Health and Leisure and Hospitality are forecast to be the leading growth sectors.
- In May 2017, mortgage applications for new homes rose solidly in May, the Mortgage Bankers Association (MBA) reported. Applications were up 4% over the month and 15% year over year, the trade group said. Lynn Fisher, MBA's vice president of research and economics, noted that “While March has signaled the peak in applications for new homes for the last two years, we may see more sustained activity throughout the balance of this year as demand for new homes continues to increase and strong house price growth continues to motivate homebuilding.”

Longer-term Outlook

- In May, one consumer sentiment index decreased while the other is virtually unchanged. The Conference Board Consumer Confidence Index decreased to 117.9 from 119.4 last month. Their survey explained that while consumers’ appraisal of current conditions held steady in May, they were less optimistic about the short-term outlook for business conditions, employment and income prospects. The University of Michigan Consumer Sentiment Index remained largely unchanged (97.1 from 97.0 last month).
- In May, Fannie Mae Home Purchase Sentiment Index (HPSI) decreased to 86.2 from 86.7 last month. Their survey indicates that consumers believe it is a great time to sell a house and a bad time to buy one, and also believe that mortgage rates will go down, and also expect home prices to continue to rise. 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 96.7 in April from 96.3 in March. The rise is attributed to positive job growth in manufacturing and to an increase in nationwide economic activities measured by the Chicago Fed National Activity Index (CFNAI).

“The market appears to be in a “wait and see” mode in both Illinois and Chicago” noted Geoffrey J.D. Hewings, Director of the Regional Economics Applications Laboratory. “The state’s economy has stuttered and the fiscal cloud hanging over the state has seen enhanced net out-migration that has contributed to a dampening of demand.”

Forecast for June 2017 report

PERCENTAGE CHANGE FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Mar-17	11.5%	15.2%		57.6%	64.9%			
Apr-17	-2.1%	-1.0%		4.7%	4.6%			
May-17	3.8%	5.1%		20.7%	21.4%			
3 Month Avg.	4.0%	5.9%		23.5%	25.0%			
SUMMARY OF THE FORECAST INTERVALS FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Jun-17	-0.5%	-0.7%	0.3%	0.4%	9.0%	12.1%	10.0%	13.5%
Jul-17	3.3%	4.5%	6.5%	8.8%	-8.4%	-11.4%	-7.0%	-9.5%
Aug-17	1.4%	1.9%	3.3%	4.5%	0.2%	0.3%	-1.3%	-1.8%
3 Month Avg.	1.3%	1.8%	3.2%	4.4%	-0.1%	-0.1%	0.3%	0.3%
SUMMARY OF THE FORECAST FOR THE MEDIAN PRICE								
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Mar-17	\$189,900	\$230,000	Mar-16	\$171,250	\$210,000			
Apr-17	\$200,000	\$242,000	Apr-16	\$186,000	\$230,000			
May-17	\$209,000	\$246,900	May-16	\$193,000	\$233,900			
Jun-17	\$221,019	\$256,739	Jun-16	\$203,694	\$242,500			
Jul-17	\$217,344	\$251,667	Jul-16	\$198,180	\$237,500			
Aug-17	\$210,510	\$246,099	Aug-16	\$191,000	\$230,000			
ANNUAL PERCENTAGE CHANGE OF THE MEDIAN PRICE								
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Mar-17	10.9%	9.5%	Mar-16	3.8%	4.1%			
Apr-17	7.5%	5.2%	Apr-16	10.1%	10.5%			
May-17	8.3%	5.6%	May-16	6.6%	5.7%			
Jun-17	8.5%	5.9%	Jun-16	5.7%	4.7%			
Jul-17	9.7%	6.0%	Jul-16	4.3%	5.6%			
Aug-17	10.2%	7.0%	Aug-16	6.1%	4.5%			

Median Prices and Recovery

	Illinois		Chicago PMSA	
	[\$2008]	[\$2017]	[\$2008]	[\$2017]
May 2008 Median Price	\$156,000	\$178,573	\$200,000	\$228,940
May 2017 Median Price	\$182,581	\$209,000	\$215,341	\$246,900
Price Ratio (May 17/ May 08)	Adjusted	1.17	Adjusted	1.08
	Unadjusted	1.34	Unadjusted	1.23

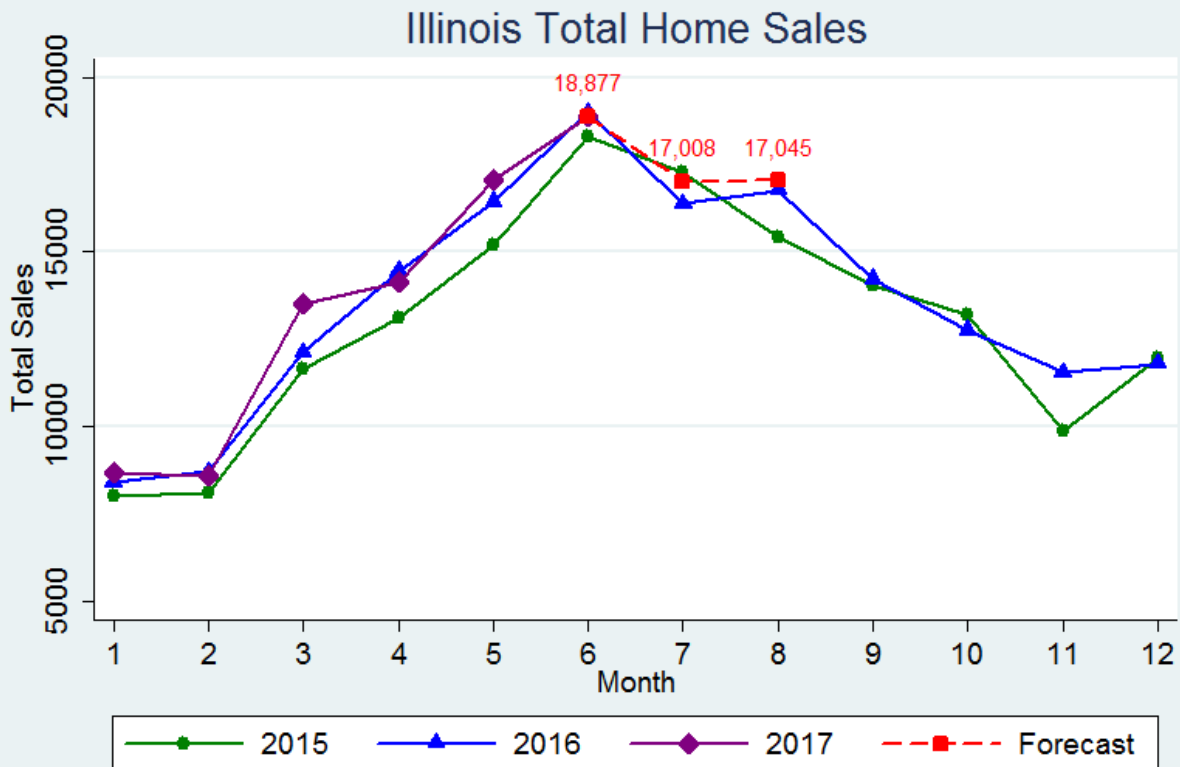
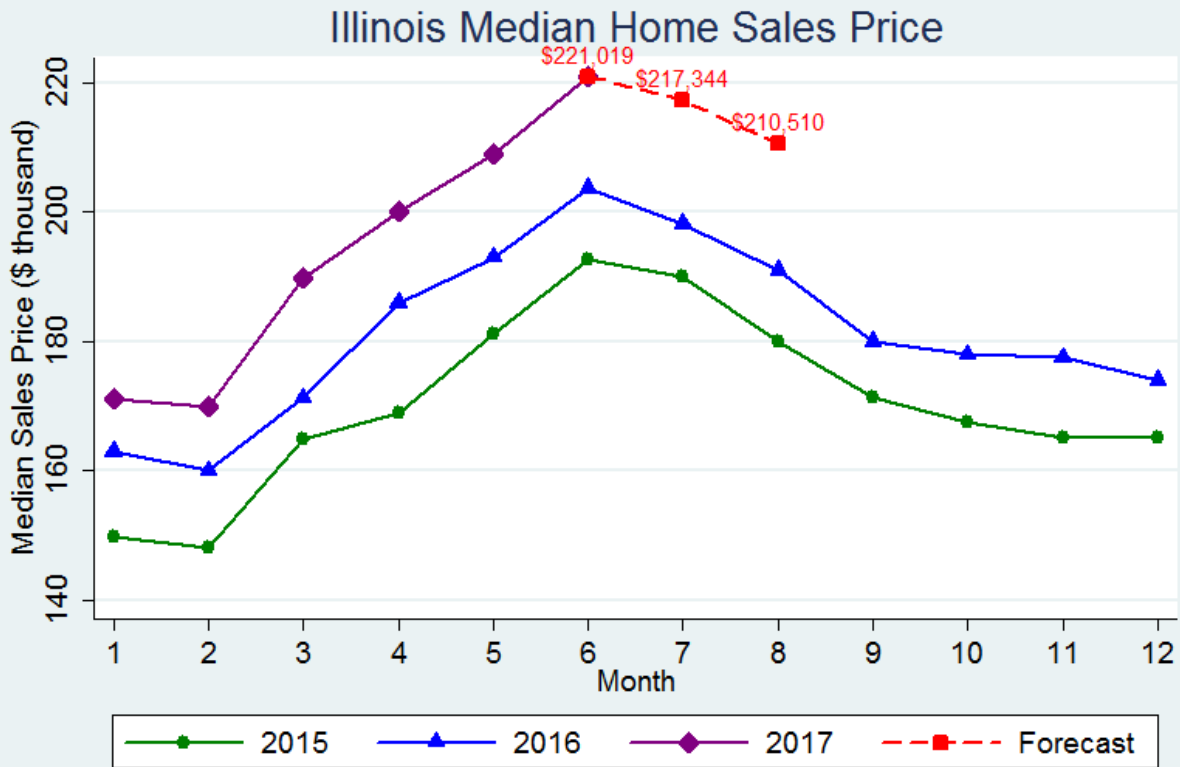
Recovery Forecasts using *Annually Growth Rates*

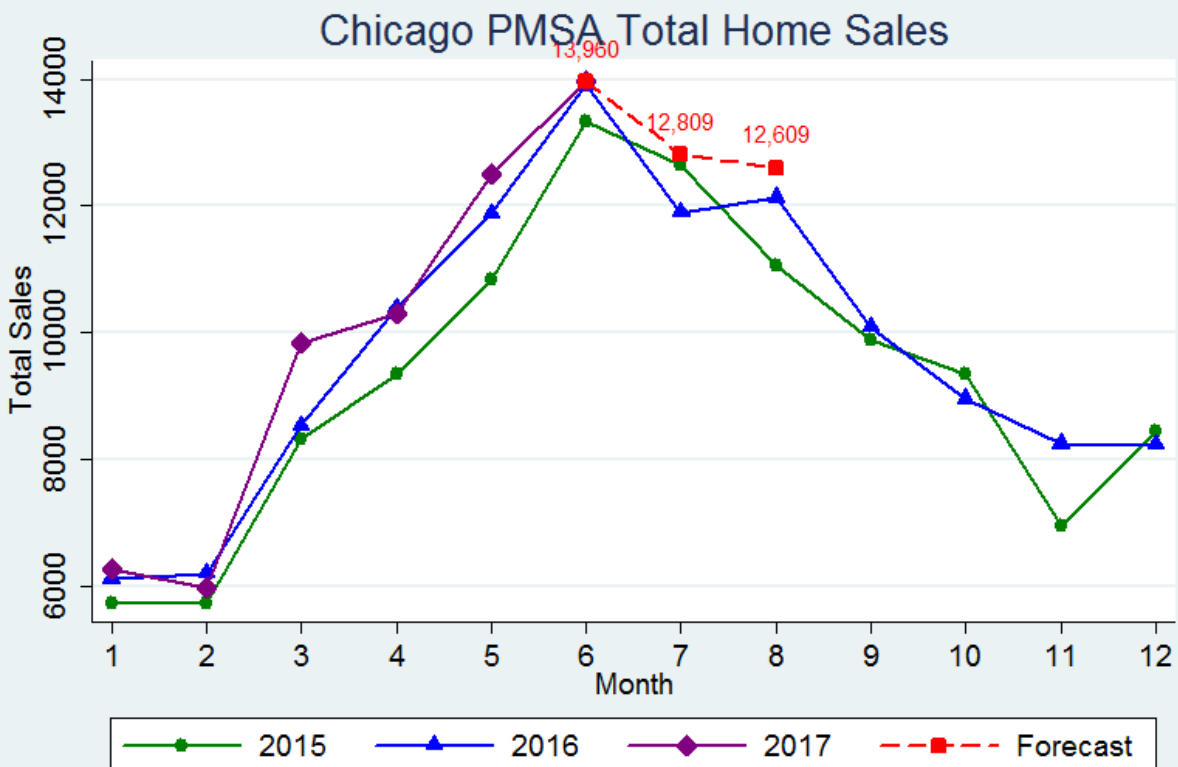
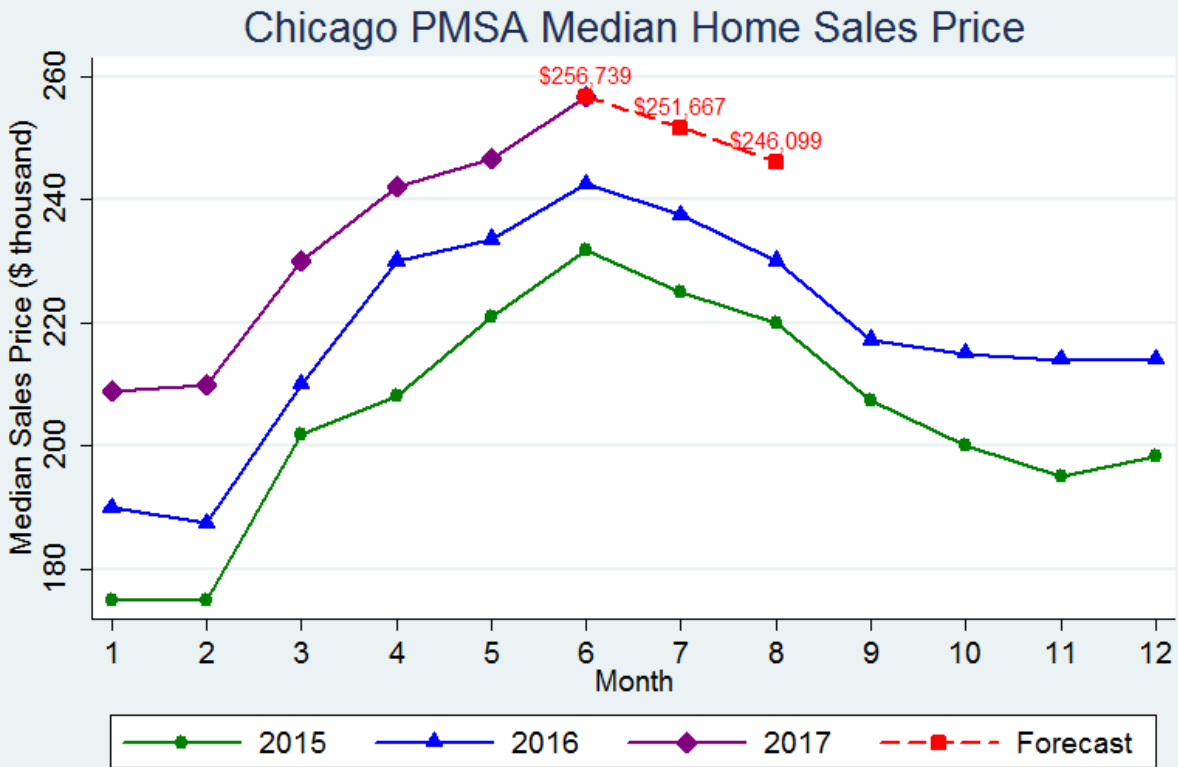
	Illinois	Chicago PMSA		
	Annual Recovery Rate*	Years to Recover**	Recovery Rate	Years to Recover
Current Month	6.3%	-2.6	3.6%	-2.1
Past 3 months	6.6%	-2.5	4.5%	-1.7
Past 6 months	4.8%	-3.4	5.9%	-1.3
Past 9 months	4.7%	-3.4	5.8%	-1.3
Past 12 months	4.6%	-3.5	5.3%	-1.4

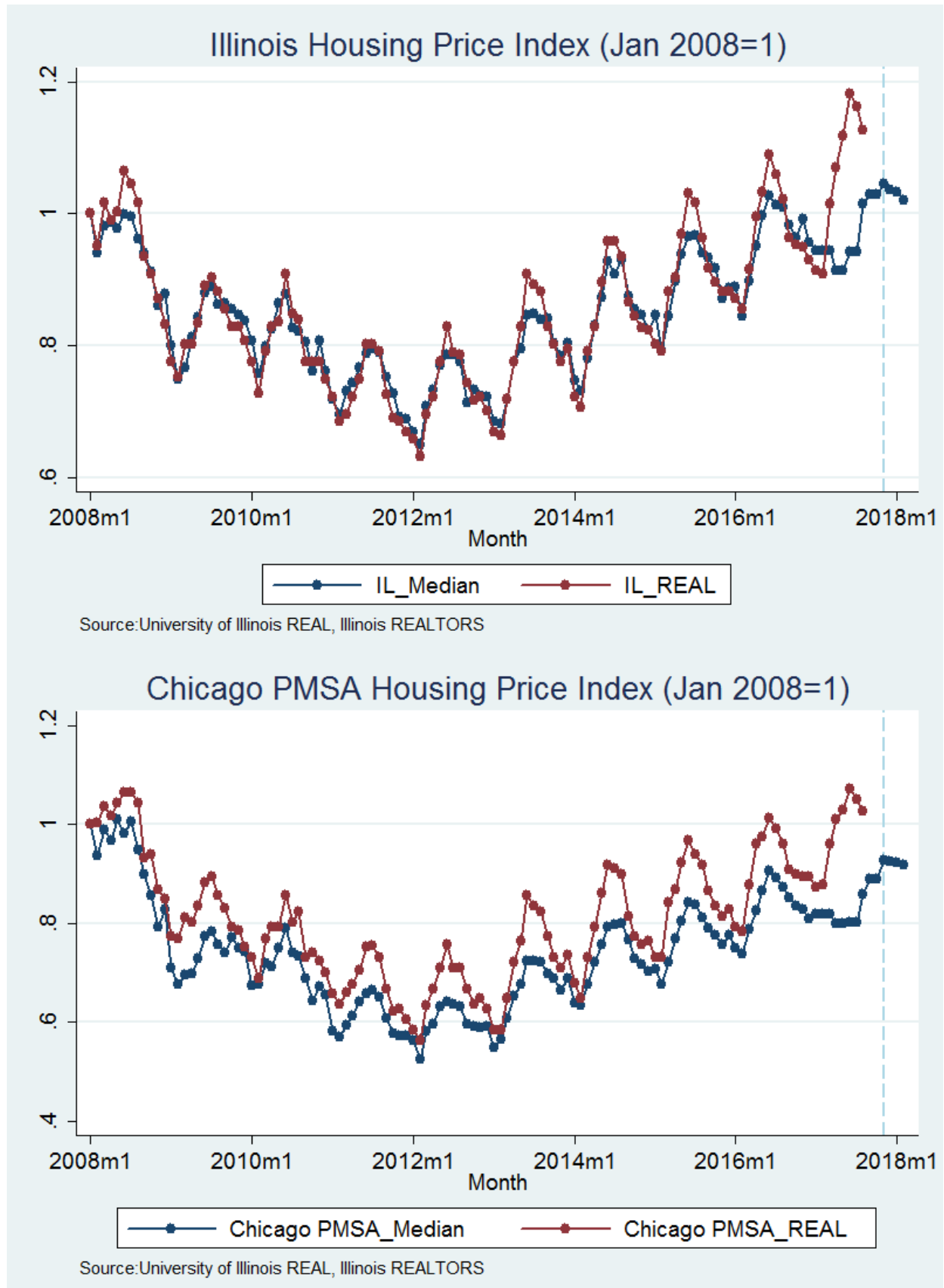
*Annual recovery rate is the average of *annual* change rates in past months

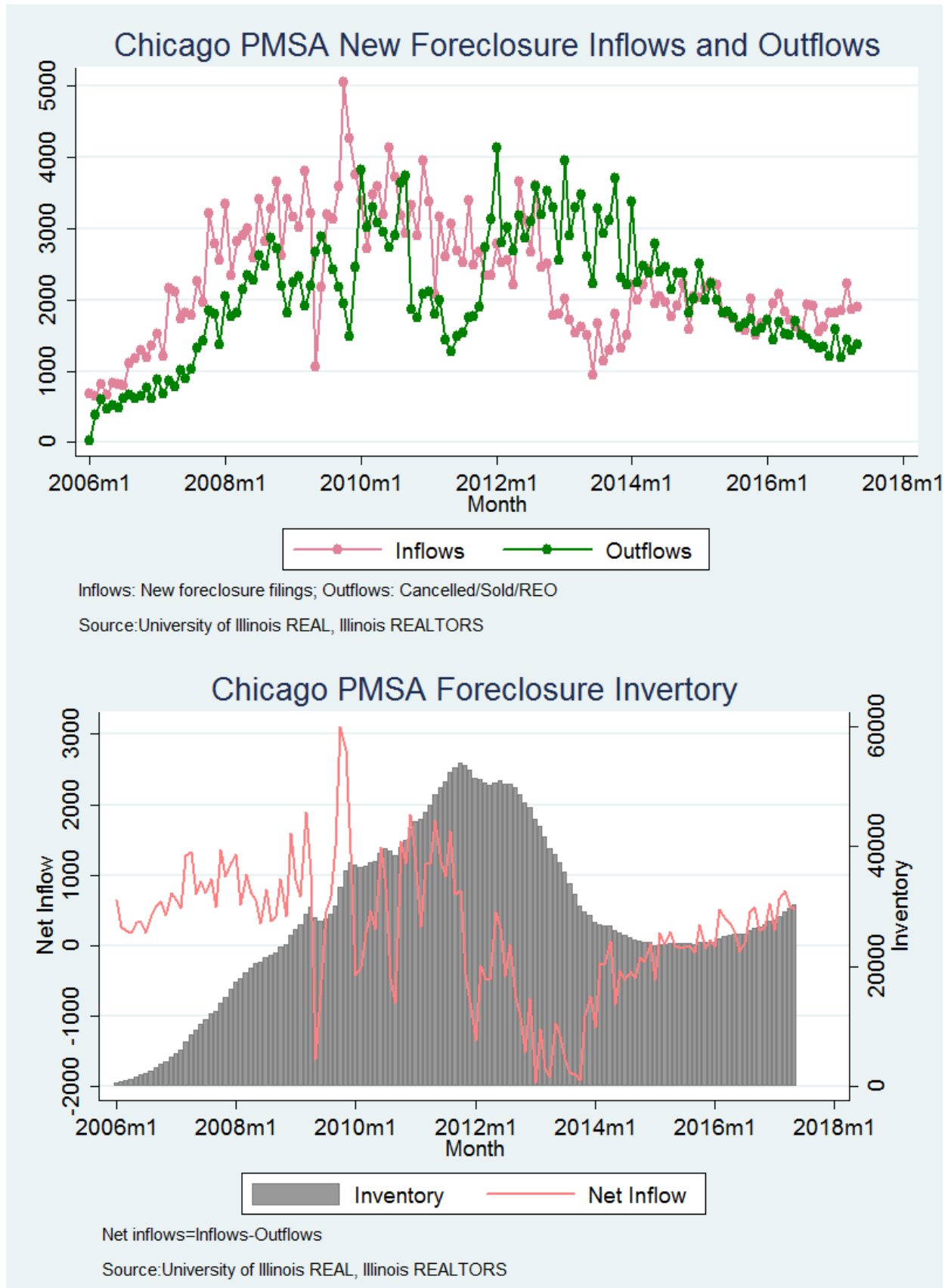
** Years to recover is calculated using the following formula:

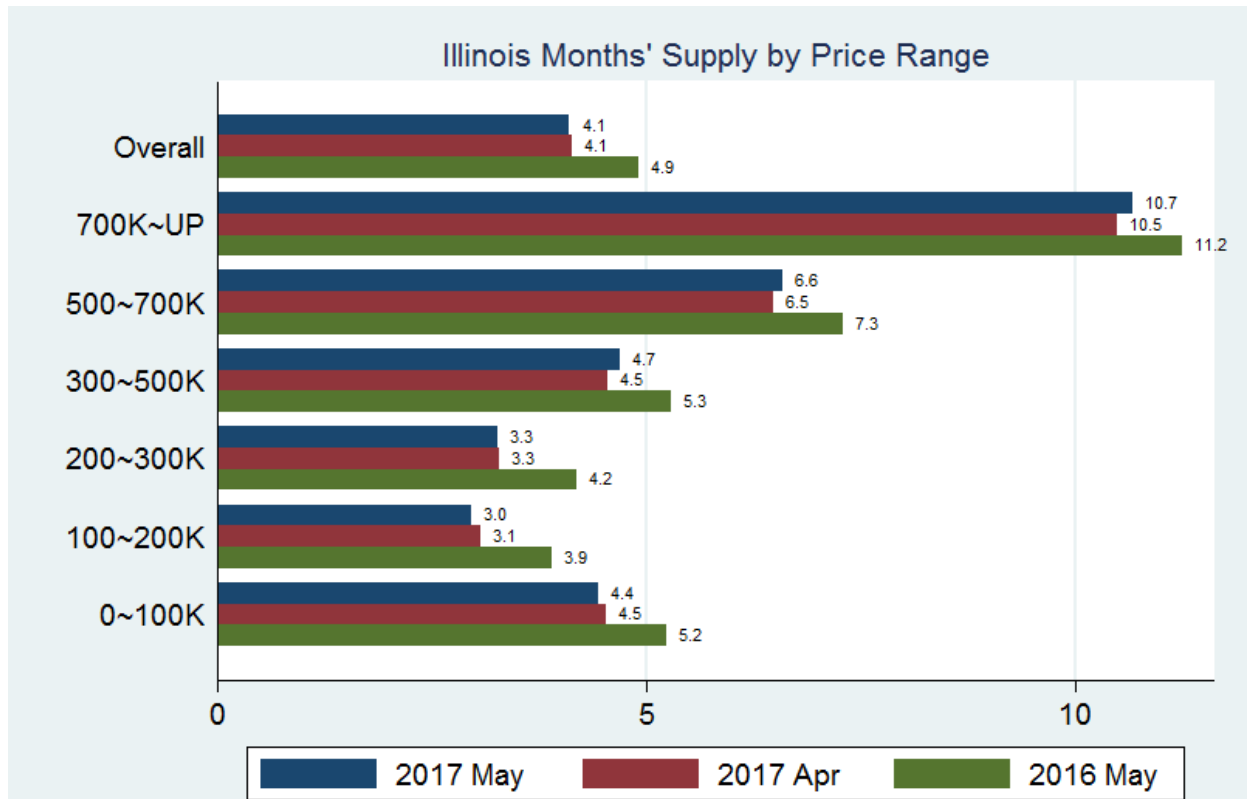
$Price_{May2017} * (1 + \text{recovery rate})^{\text{years}} = Price_{May2008}$. Prices used in the formula are inflation adjusted. The recovery rate is applied as a constant annual change rate to recoup the differences between the current month and its corresponding month in 2008.



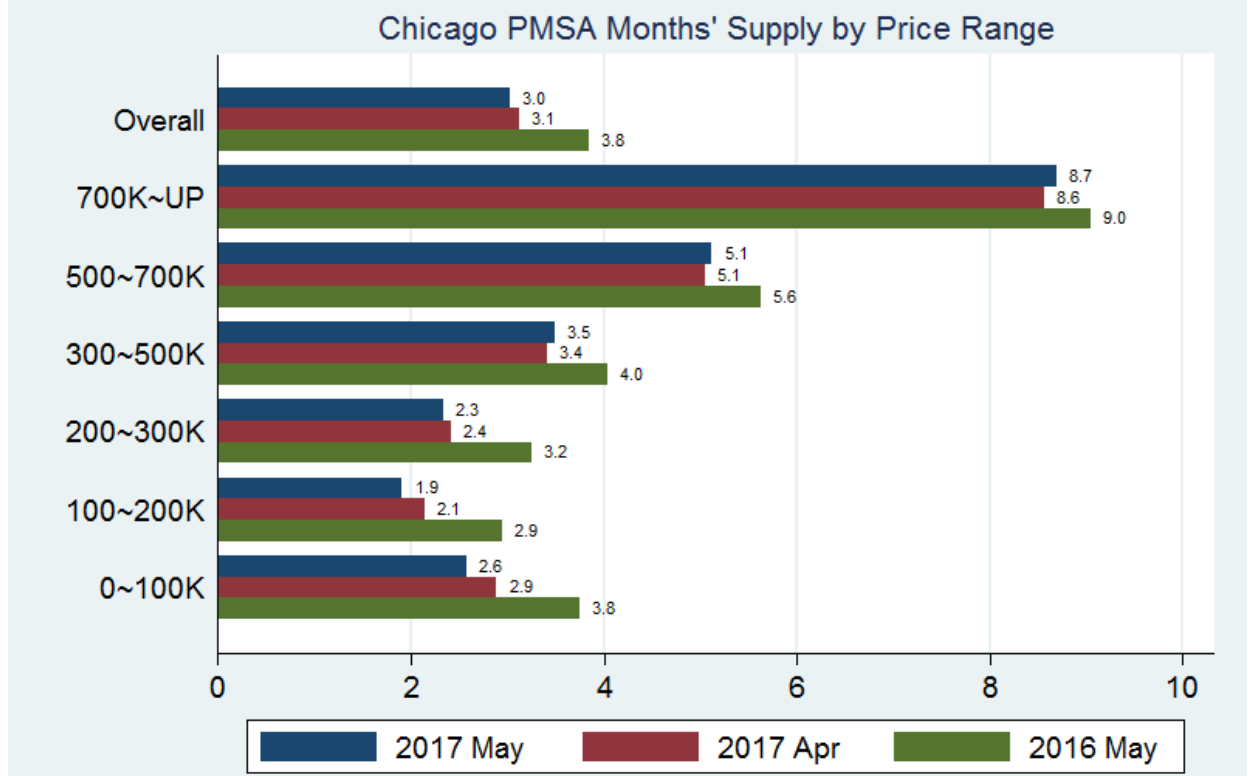




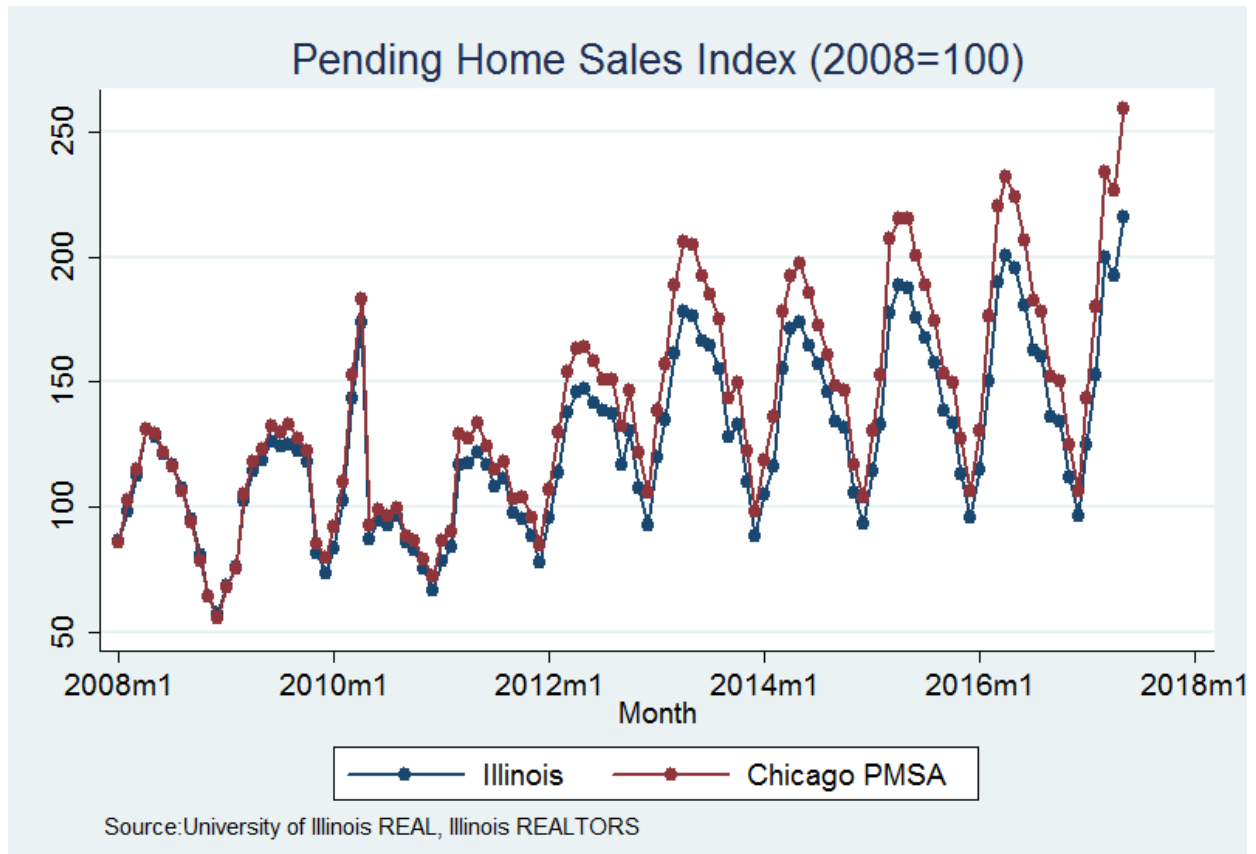


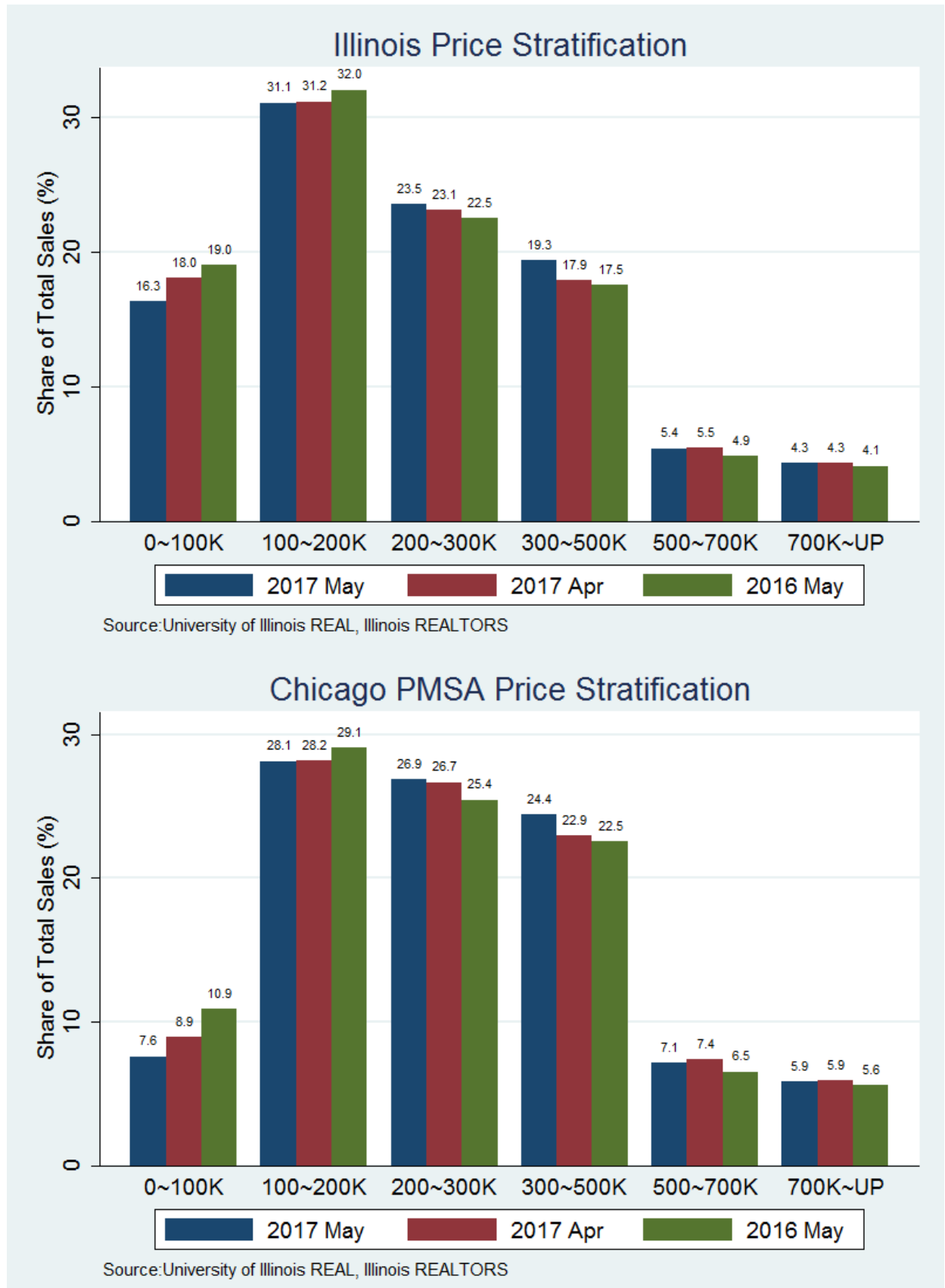


Source: University of Illinois REAL, Illinois REALTORS

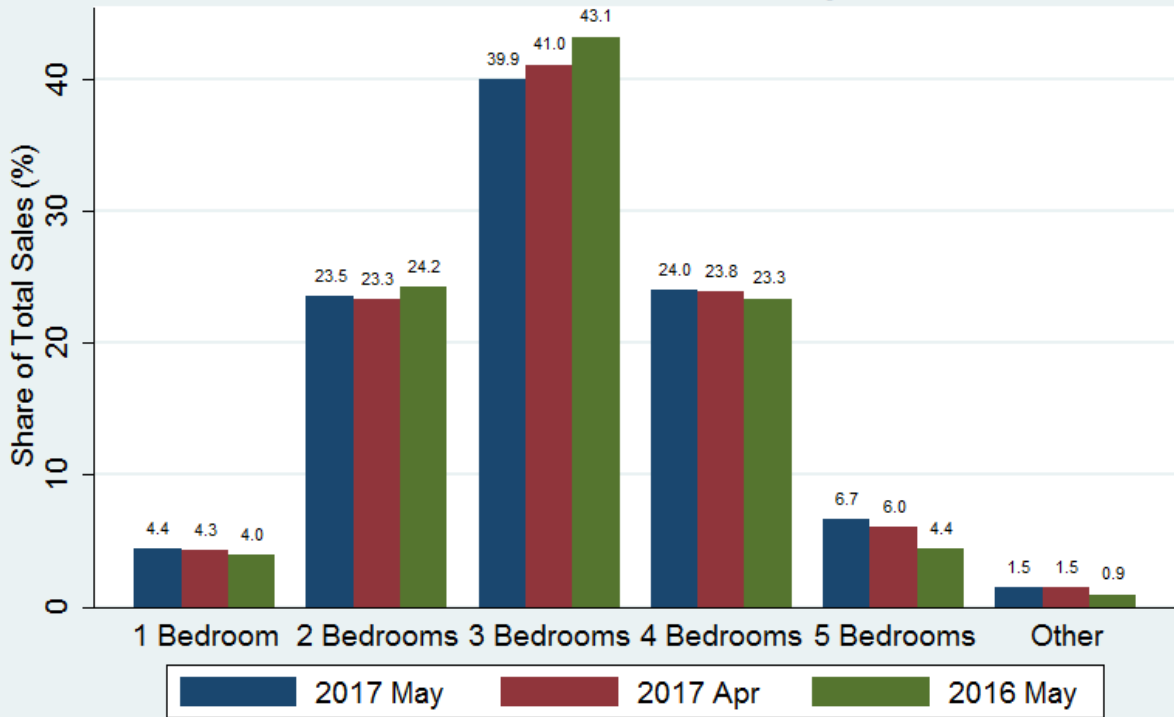


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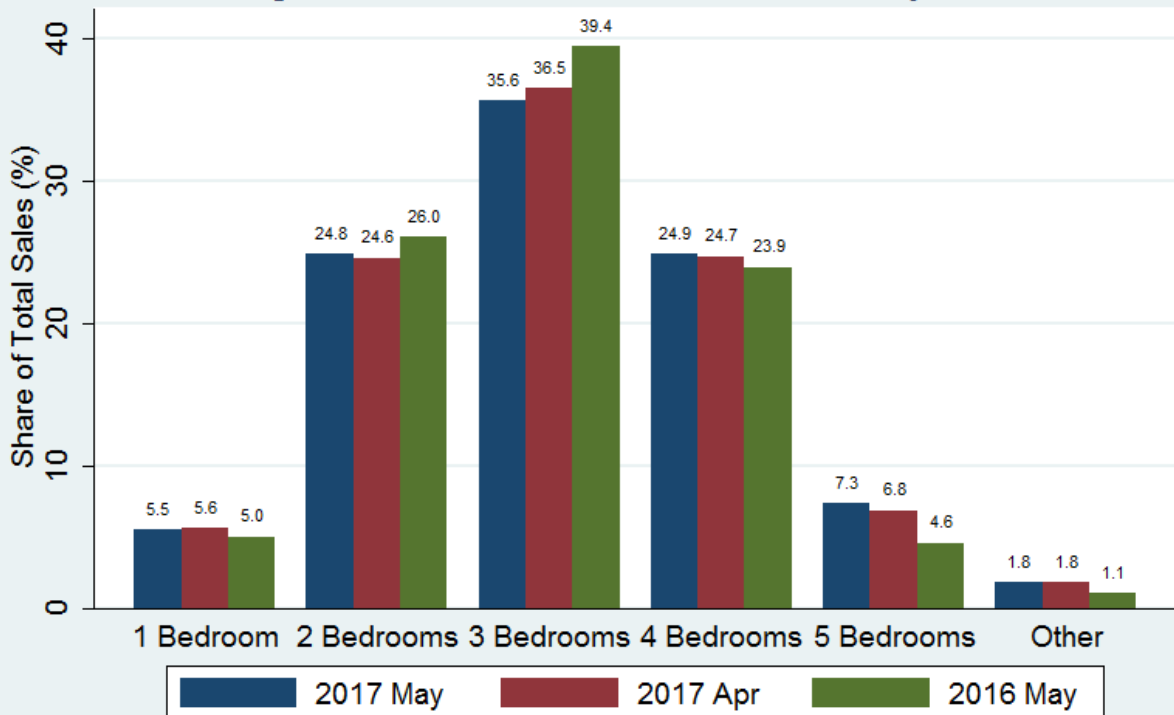


Illinois House Characteristics by Bedroom

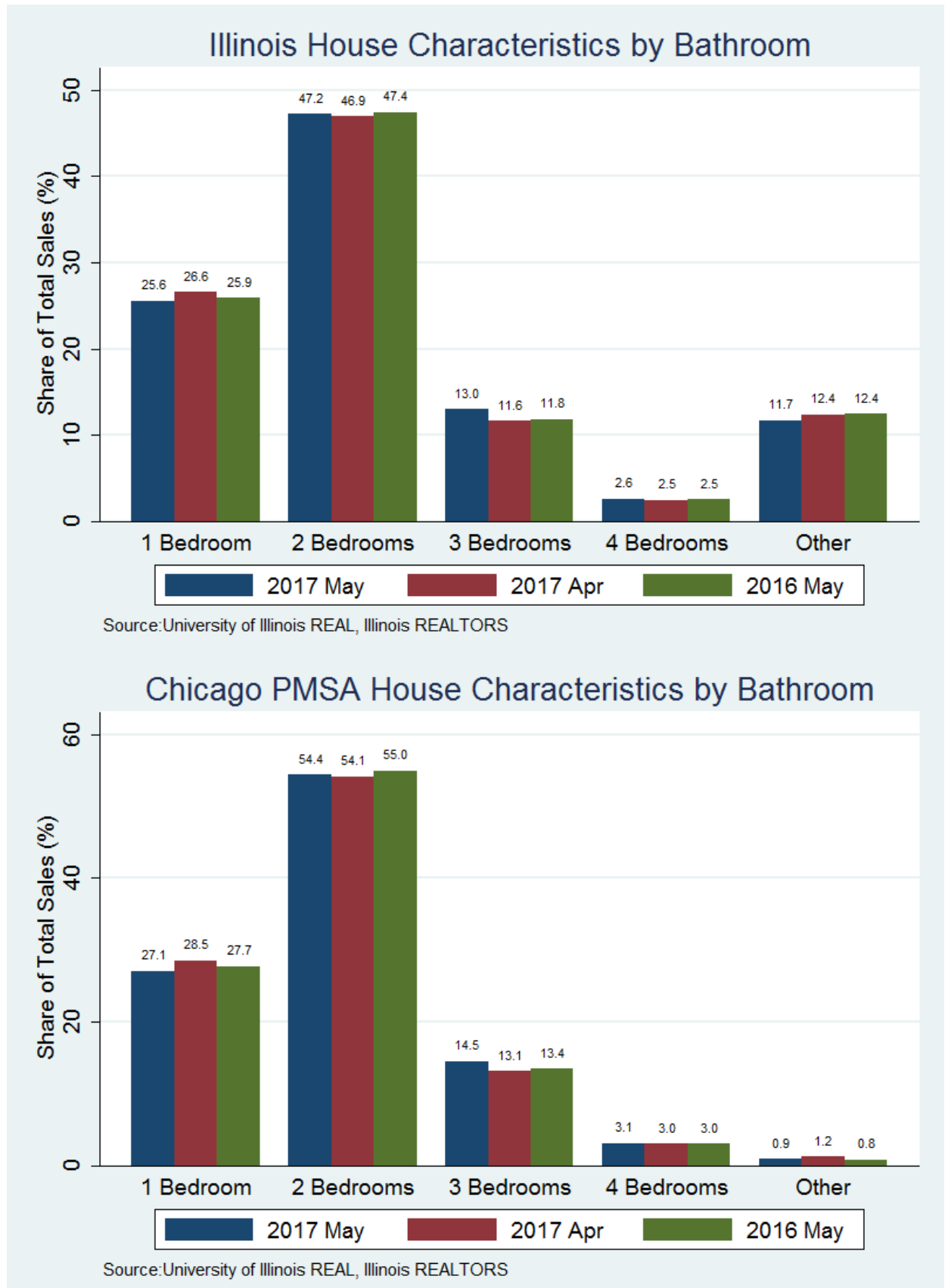


Source: University of Illinois REAL, Illinois REALTORS

Chicago PMSA House Characteristics by Bedroom



Source: University of Illinois REAL, Illinois REALTORS

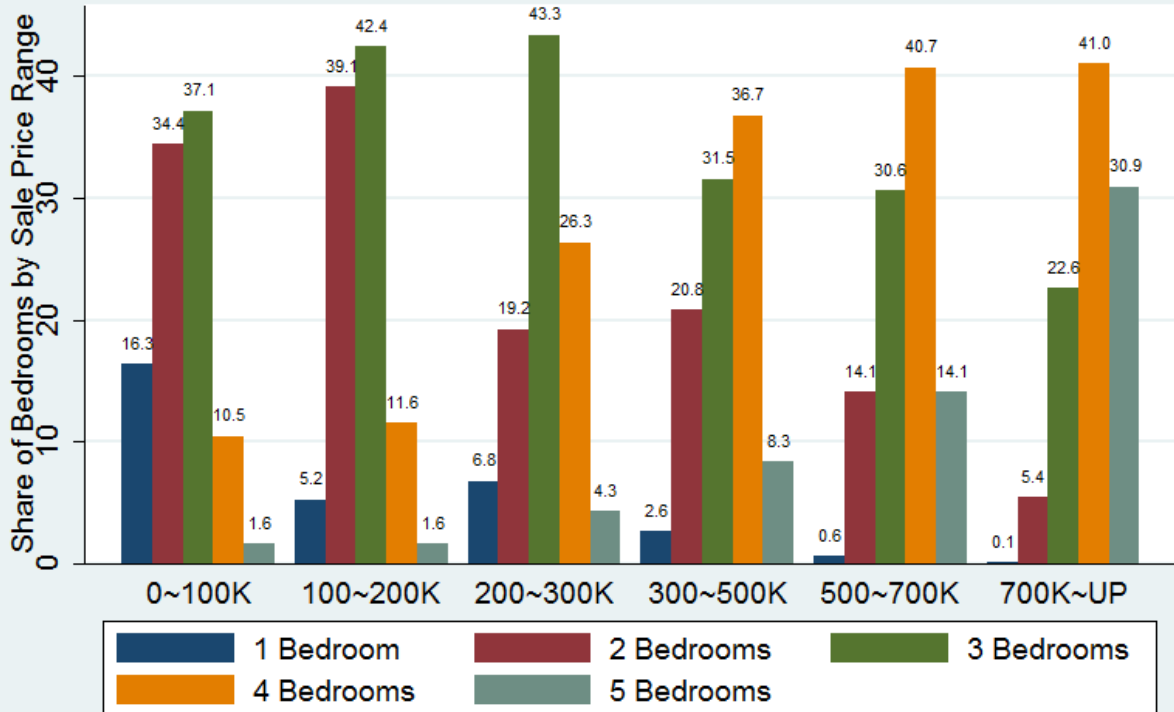


Illinois Bedroom Shares by Sale Price Stratification



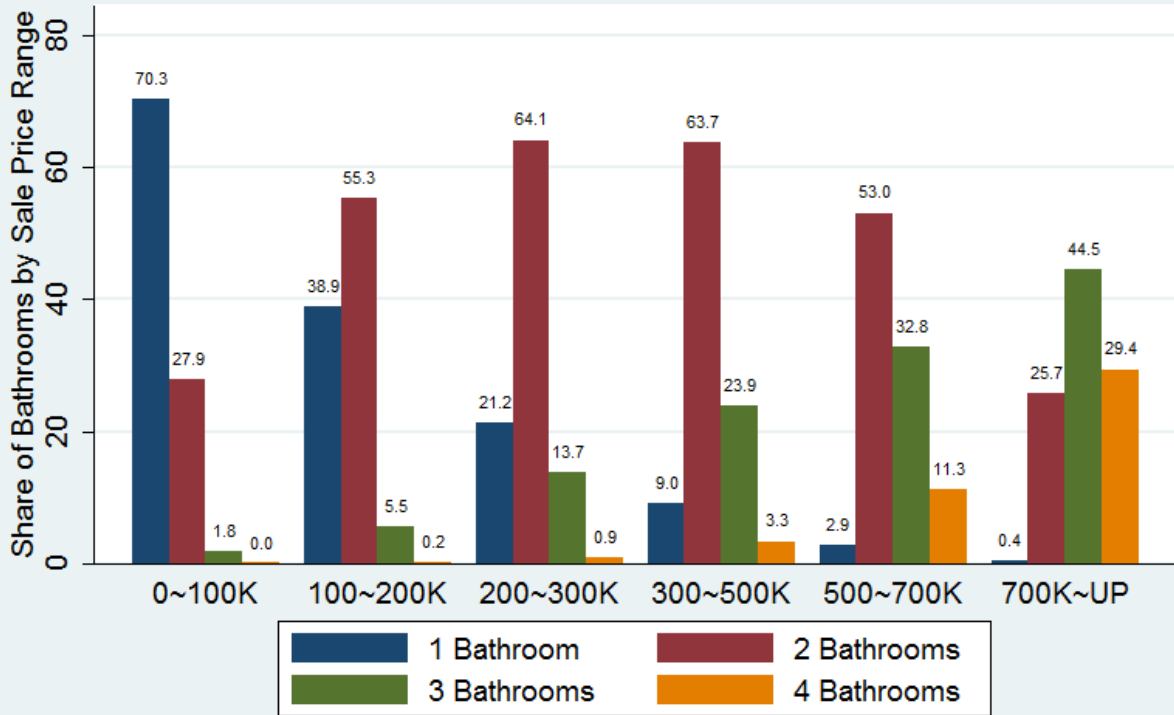
Source: University of Illinois REAL, Illinois REALTORS

Chicago PMSA Bedroom Shares by Sale Price Stratification



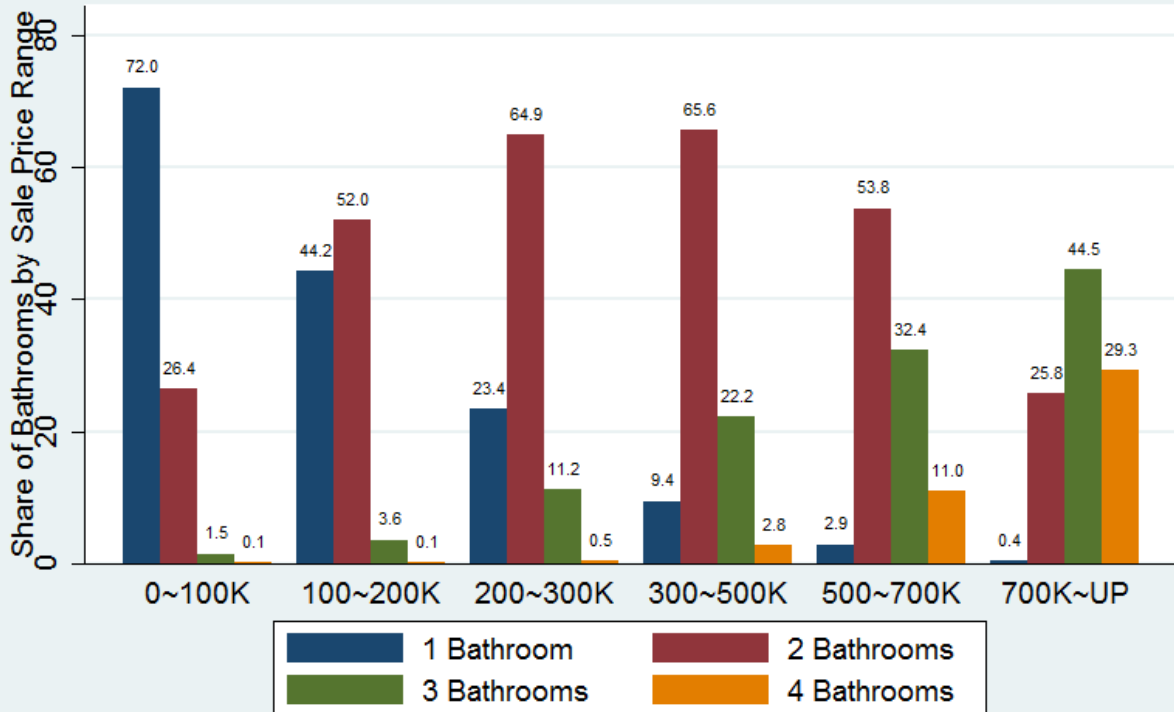
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Illinois Bathroom Shares by Sale Price Stratification



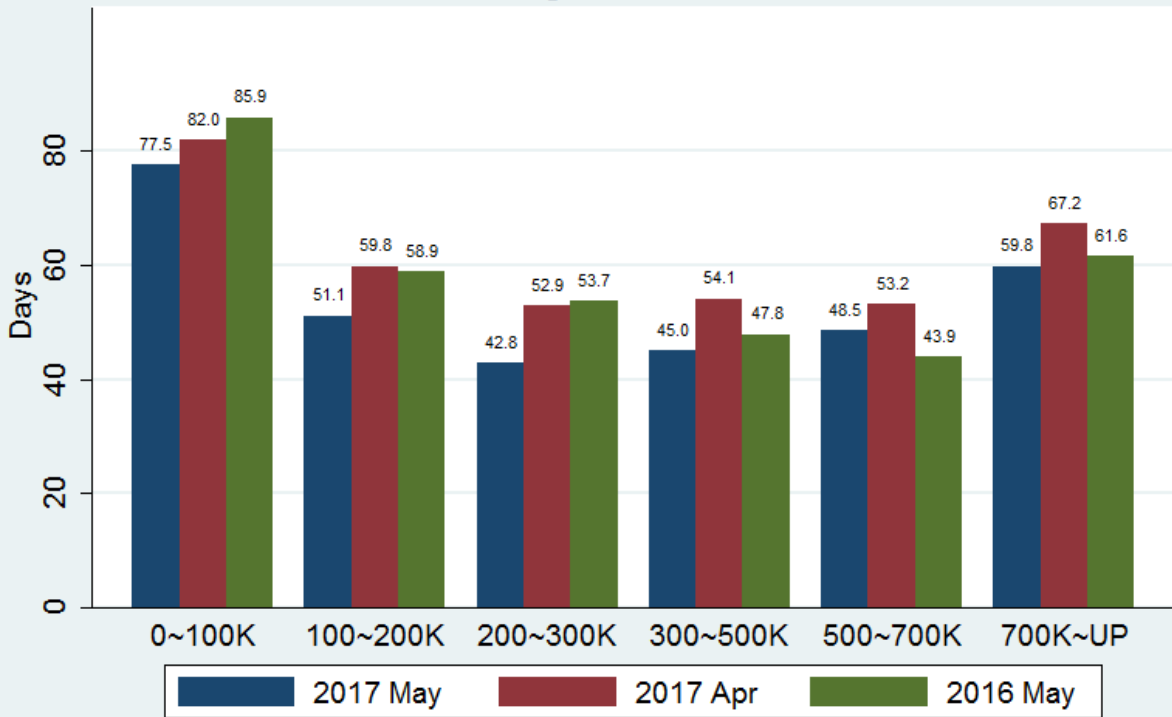
Source: University of Illinois REAL, Illinois REALTORS

Chicago PMSA Bathroom Shares by Sale Price Stratification



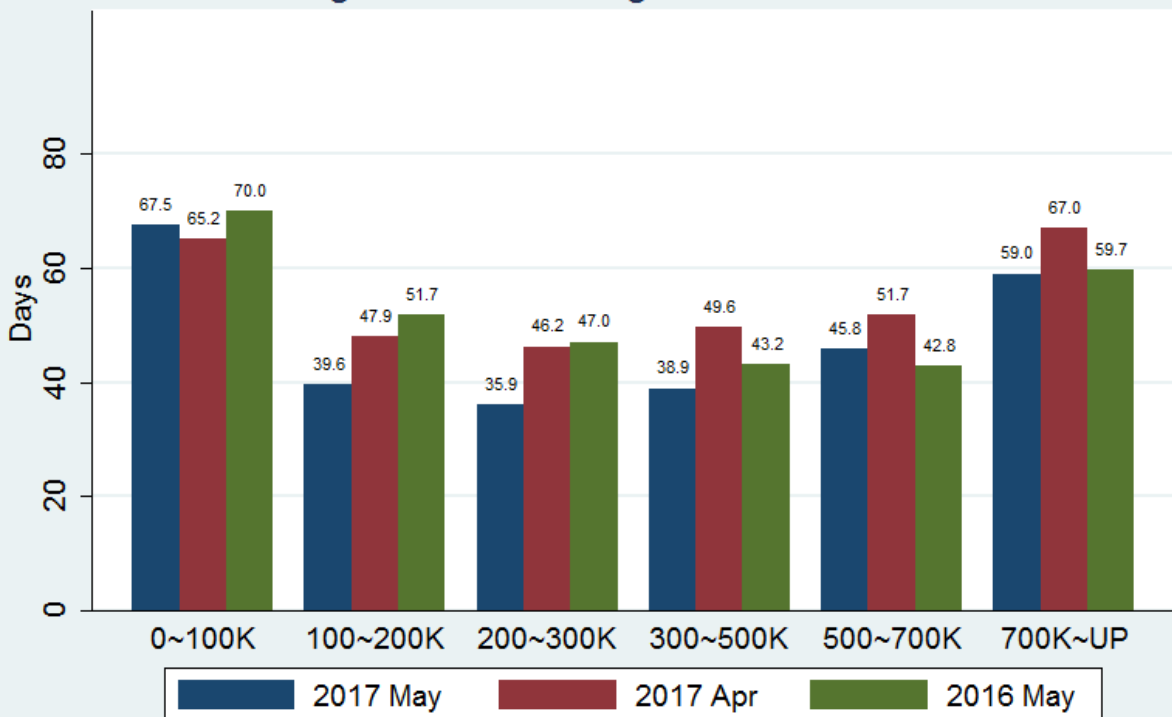
Source: University of Illinois REAL, Illinois REALTORS

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

