

Housing Price Forecasts

Illinois and Chicago PMSA, May 2017

Presented To

Illinois Realtors®

From

R | E | A | L

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

May 24, 2017

Contact: Geoffrey Hewings 217-333-4740 (hewings@illinois.edu)
Jiyoung Chae 217-244-7226 (jchae3@illinois.edu)

Housing Price Forecast: Illinois and Chicago PMSA, May 2017

The Housing Market

In April, median prices continued to experience moderate growth while sales declined on an annual basis. 13,958 houses were sold in Illinois, an increase of 3.5% from a month ago and a decline of 3.4% from a year ago. In the Chicago PMSA, 10,157 houses were sold, increasing by 3.4% from a month ago and decreasing by 2.3% from a year ago. The median price was \$200,000 in Illinois, up 7.5% from April last year; the comparable figure for the Chicago PMSA was \$242,000, up 5.2% from this time last year.

In April, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 13.4%. 9,016 regular sales were made, 0.7% less than last year. 1,086 foreclosed properties were sold, 12.9% less than last year. The median price was \$255,000 for regular property sales, 4.1% more than last year; the comparable figure for the foreclosed properties was \$160,163, up 23.3% from this time last year.

The median sales price in April 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 April 2008 median sales price was \$150,000 (in \$2008) and \$172,177 (in \$2017); the current price level was 116% of the 2008 level after adjusting (133% before adjusting). In the Chicago PMSA, the April 2008 median sales price was \$192,000 (in \$2008) and \$220,387 (in \$2017); the comparable figure for price recovery in April 2017 is 110% after adjustment (126% 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 May, June and July 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 0.4% to 0.6%; the comparative figures for the Chicago PMSA are a decrease in the range -1.7% to -2.2%. On a monthly basis, the three-month average sales are forecast to increase in the range 5.4%-7.3% for Illinois and increase by 4.6%-6.2% for the Chicago PMSA.

The pending home sales index¹ is a leading indicator based on contract signings. This April, the number of homes put under contract was greater than last year. The pending home sales index is 201.7 (2008=100) in Illinois, up 0.7% from a year ago. In the Chicago PMSA, the comparable figure is 242.4, up 4.4% from a year ago. At the latest average annual pending sales rate, Illinois had enough housing inventory for 4.0 months² (down from 4.8 months a year ago). In the Chicago PMSA, the comparable figure was 2.9 months (down from 3.7 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 May, June and July. In Illinois, the median price is forecast to rise by 9.3% in May,

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.

9.2% in June and 10.9% in July. For the Chicago PMSA, the comparable figures are 8.4% in May, 8.6% in June and 8.8% in July. As a complement to the median housing price index (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 -8.5% in May, -8.4% in June and -7.0% in July. The comparable figures for the Chicago PMSA are -7.7% in May, -11.5% in June and -10.1% in July. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month.

In April, the Conference Board Consumer Confidence Index decreased while the University of Michigan Consumer Sentiment Index slightly increased. According to the Conference Board Consumer Confidence Index, their survey revealed that consumers’ assessment of current conditions eased and consumers were somewhat less optimistic about the short-term outlook for business conditions, employment and income prospects. The survey from the University of Michigan revealed that there is widespread agreement among consumers on their very positive assessments of the current state of the economy as well as widespread disagreement on future economic prospects. The more housing specific sentiment index, the Fannie Mae Home Purchase Sentiment Index (HPSI) also increased largely due to increased confidence about the stability of their jobs, and increased housing demand.

The Housing Market – Current Condition

- In April, median prices continued to experience moderate growth while sales declined on the annual basis. 13,958 houses were sold in Illinois, changing by 3.5% from a month ago and -3.4% from a year ago. In the Chicago PMSA, 10,157 houses were sold, increasing by 3.4% from a month ago and decreasing by 2.3% from a year ago. The median price was \$200,000 in Illinois, up 7.5% from April last year; the comparable figure for the Chicago PMSA was \$242,000, up 5.2% from this time last year. (Reference: Illinois and Chicago PMSA Total Home Sales and Median Home Sales Price figures; Forecast for May 2017 report table)
- In April, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 13.4%. 9,016 regular sales were made, 0.7% less than last year. 1,086 foreclosed properties were sold, 12.9% less than last year. The median price was \$255,000 for regular property sales, 4.1% more than last year; the comparable figure for the foreclosed properties was \$160,163, up 23.3% from this time last year. (Reference: Ratio of Foreclosed Sales over Total Sales, Sales & Median Prices: Foreclosed vs. Regular figures)
- In April, at the latest average annual pending sales rate, Illinois had enough housing inventory for 4.0 months⁴ (down from 4.8 months a year ago). In the Chicago PMSA, the comparable figure was 2.9 months (down from 3.7 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 April, 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 18.0% from 21.1% a year ago; the comparative figure for the Chicago PMSA

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.

showed a decrease to 8.9% from 12.3% 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 May, June and July. In Illinois, the median price is forecast to rise by 9.3% in May, 9.2% in June and 10.9% in July. For the Chicago PMSA, the comparable figures are 8.4% in May, 8.6% in June and 8.8% in July. (Reference: Forecast for May 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 -8.5% in May, -8.4% in June and -7.0% in July. The comparable figures for the Chicago PMSA are -7.7% in May, -11.5% in June and -10.1% in July. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month. (Reference: Housing Price Index)
- The sales forecast for May, June and July 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 0.4% to 0.6%; the comparative figures for the Chicago PMSA are a decrease in the range -1.7% to -2.2%. On a monthly basis, the three-month average sales are forecast to increase in the range 5.4%-7.3% for Illinois and increase by 4.6%-6.2% for the Chicago PMSA. (Reference: Forecast for May 2017 report table)
- The pending home sales index⁶ is a leading indicator based on contract signings. This April, the number of homes put under contract was greater than last year. The pending home sales index is 201.7 (2008=100) in Illinois, up 0.7% from a year ago. In the Chicago PMSA, the comparable figure is 242.4, up 4.4% from a year ago. (Reference: Illinois and Chicago PMSA Pending Home Sales Index figure)
- In April 2017, 1,856 houses were newly filed for foreclosure in the Chicago PMSA (up 1.1% and down 16.3% respectively from a year and a month ago). 1,313 foreclosures were completed⁷ (down 13.5% and down 10.2% respectively from a year and a month ago). As of April 2017, there are 29,488 homes at some stage of foreclosure — the foreclosure inventory. The monthly average net flows of foreclosures (foreclosure inflows - outflows) were 487 in the past 6 months, 356 in the last 12 months and 233 in the last 24 months. (Reference: Chicago PMSA Foreclosure Inflows and Outflows, and Inventory figures).

The Economy

- In April 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 211,000 jobs. The employment gains in April were spearheaded by leisure and hospitality (55,000), followed by health care and social services, and food services and drinking places (26,000).

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 April 2017, according to the Illinois Department of Employment Security (IDES) news release, the Illinois unemployment rate dropped to 4.7%. Non-farm payroll jobs decreased by -7,200 over the month. The largest gains were in three sectors, education and health services (2,600), manufacturing (1,900) and information services (1,300). Furthermore, the job growth in March was revised from the preliminary estimate of -8,900 jobs to -7,700 jobs.
- In March 2017, the one-year-ahead forecast for Illinois indicates that the non-farm employment will increase at a rate between 0.26% and 0.95%, corresponding to job gains between 15,500 and 57,200. Financial Activities, Education and Health and Leisure and Hospitality are forecast to be the leading growth sectors.
- In April 2017, according to the Scotsman Guide, overall housing starts fell in April month over month and ran slightly ahead of the pace a year ago. Single-family starts edged up month over month and are solidly ahead of last year's pace, although the numbers continue to disappoint housing analysts. At least 250,000 more single-family starts are needed annually above the current level to relieve inventory shortages, according to some analysts. Lawrence Yun, chief economist for the National Association of Realtors, noted that "The intensifying housing shortage will push up home prices and rents, easily above wage growth and the broad consumer price inflation. This continued slow pace of construction of new homes is a major bottleneck to a faster economic and housing recovery."

Longer-term Outlook

- In April, one consumer sentiment index decreased while the other slightly increased. The Conference Board Consumer Confidence Index decreased to 120.3 from 124.9 last month after increasing sharply over the past two months. Their survey explained that consumers' assessment of current conditions eased and consumers were somewhat less optimistic about the short-term outlook for business conditions, employment and income prospects. The University of Michigan Consumer Sentiment Index slightly increased to 97.0 from 96.9 last month. Their survey revealed that there is widespread agreement among consumers on their very positive assessments of the current state of the economy as well as widespread disagreement on future economic prospects.
- In April, Fannie Mae Home Purchase Sentiment Index (HPSI) increased to 86.7 from 84.5 last month. This upward trend was mainly driven by increased confidence about the stability of their jobs, and increased 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 96.0 in March from 95.5 in February. The increase is attributed to positive job growth in nonmanufacturing and to the improvement of retail activities in the Chicago area.

"While sales will continue the usual early summer upward growth, there are some sharp differences in the forecasts for median prices" said Geoffrey J.D. Hewings, director of the Regional Economics Applications Laboratory at the University of Illinois. "The forecasts for median price indicate continued positive changes, but the REAL Housing Price Index (HPI), which compares specific housing characteristics, suggests declines and may also be reflecting the employment losses in the state over the past two months."

Forecast for May 2017 report

PERCENTAGE CHANGE FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Feb-17	-1.6%	-4.0%		-1.3%	-5.0%			
Mar-17	11.3%	15.0%		57.5%	64.8%			
Apr-17	-3.4%	-2.3%		3.5%	3.4%			
3 Month Avg.	2.1%	3.2%		17.2%	17.6%			
SUMMARY OF THE FORECAST INTERVALS FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
May-17	-1.4%	-1.8%	-1.8%	-2.5%	13.6%	18.3%	12.3%	16.6%
Jun-17	-0.9%	-1.2%	-3.9%	-5.2%	13.7%	18.6%	12.1%	16.4%
Jul-17	3.7%	5.0%	1.1%	1.5%	-7.8%	-10.5%	-7.8%	-10.6%
3 Month Avg.	0.4%	0.6%	-1.7%	-2.2%	5.4%	7.3%	4.6%	6.2%
SUMMARY OF THE FORECAST FOR THE MEDIAN PRICE								
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Feb-17	\$170,000	\$210,000	Feb-16	\$160,000	\$187,500			
Mar-17	\$189,900	\$230,000	Mar-16	\$171,500	\$210,000			
Apr-17	\$200,000	\$242,000	Apr-16	\$186,000	\$230,000			
May-17	\$210,931	\$253,024	May-16	\$193,000	\$233,500			
Jun-17	\$222,868	\$263,331	Jun-16	\$204,000	\$242,500			
Jul-17	\$219,522	\$258,362	Jul-16	\$198,000	\$237,500			
ANNUAL PERCENTAGE CHANGE OF THE MEDIAN PRICE								
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Feb-17	6.3%	12.0%	Feb-16	8.2%	7.1%			
Mar-17	10.7%	9.5%	Mar-16	3.9%	4.1%			
Apr-17	7.5%	5.2%	Apr-16	10.1%	10.5%			
May-17	9.3%	8.4%	May-16	6.6%	5.7%			
Jun-17	9.2%	8.6%	Jun-16	6.0%	4.7%			
Jul-17	10.9%	8.8%	Jul-16	4.2%	5.6%			

Median Prices and Recovery

	Illinois		Chicago PMSA	
	[\$2008]	[\$2017]	[\$2008]	[\$2017]
April 2008 Median Price	\$150,000	\$172,177	\$192,000	\$220,387
April 2017 Median Price	\$174,239	\$200,000	\$210,829	\$242,000
Price Ratio (April 17/ April 08)	Adjusted	1.16	Adjusted	1.10
	Unadjusted	1.33	Unadjusted	1.26

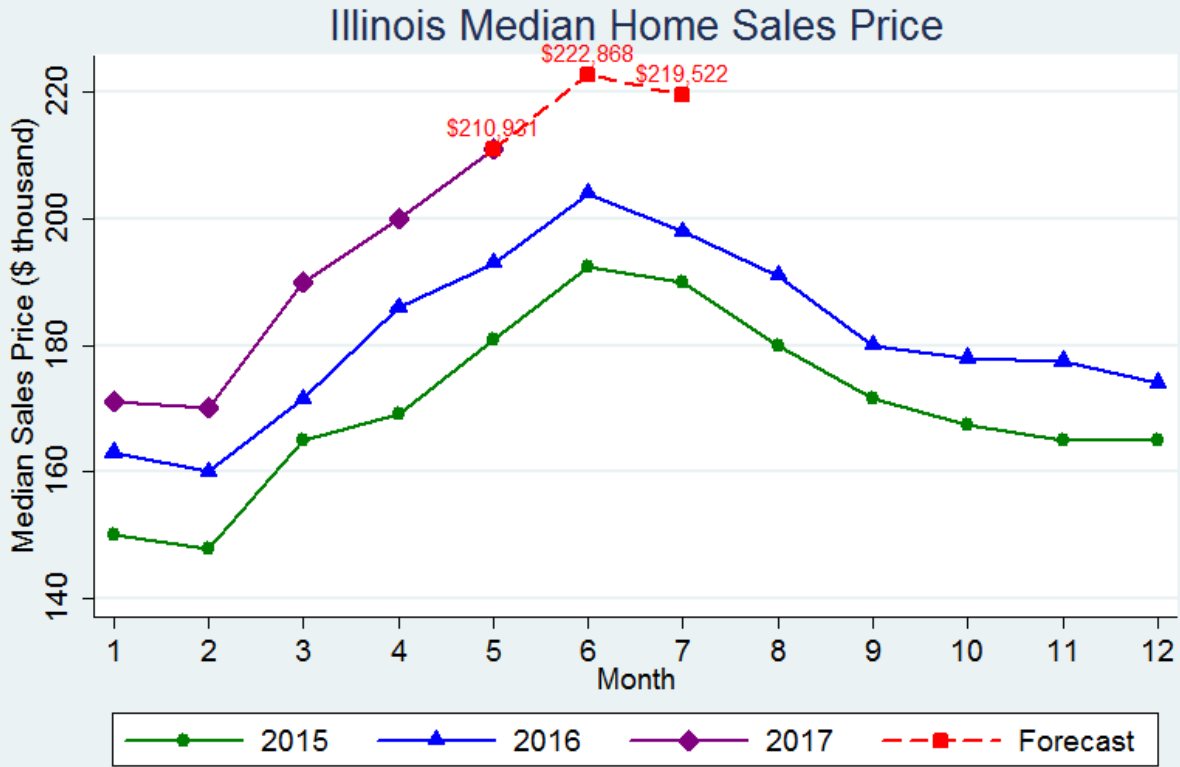
Recovery Forecasts using *Annually Growth Rates*

	Illinois	Chicago PMSA		
	Annual Recovery Rate*	Years to Recover**	Recovery Rate	Years to Recover
Current Month	5.2%	-3.0	2.9%	-3.2
Past 3 months	5.5%	-2.8	6.3%	-1.5
Past 6 months	4.7%	-3.3	6.6%	-1.5
Past 9 months	4.6%	-3.4	5.8%	-1.7
Past 12 months	4.6%	-3.4	5.4%	-1.8

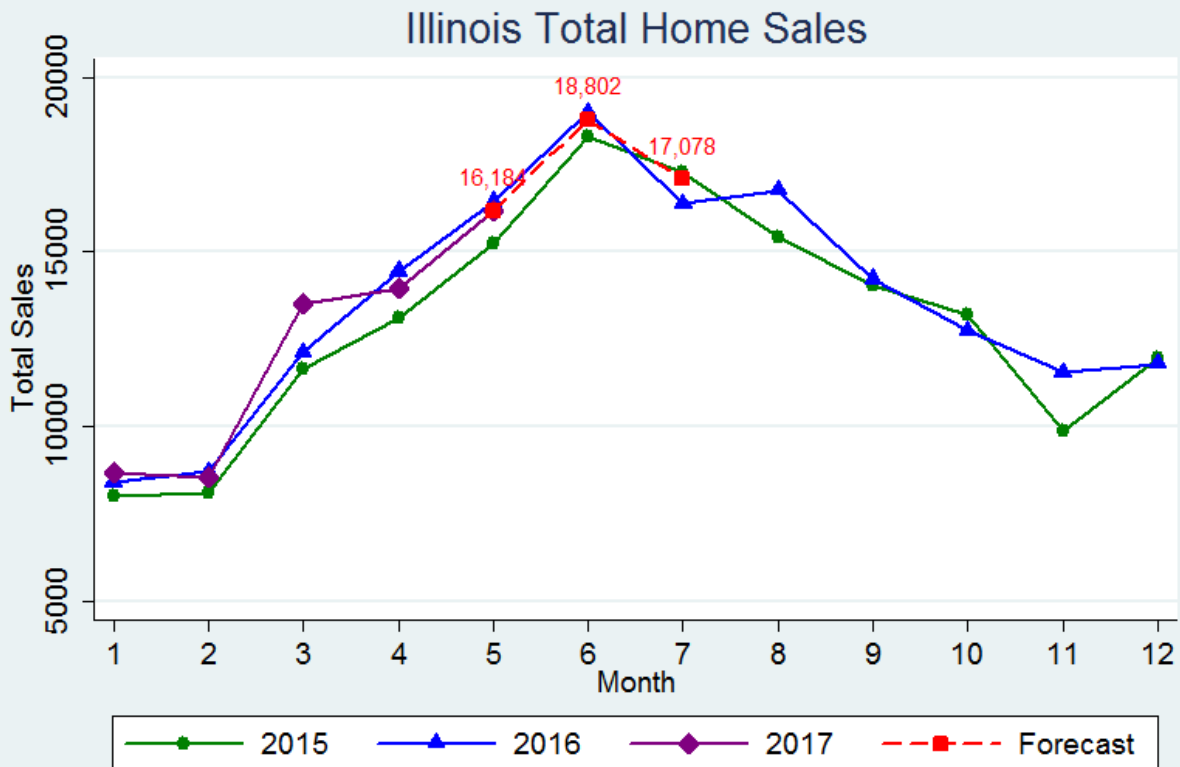
*Annual recovery rate is the average of *annual* change rates in past months

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

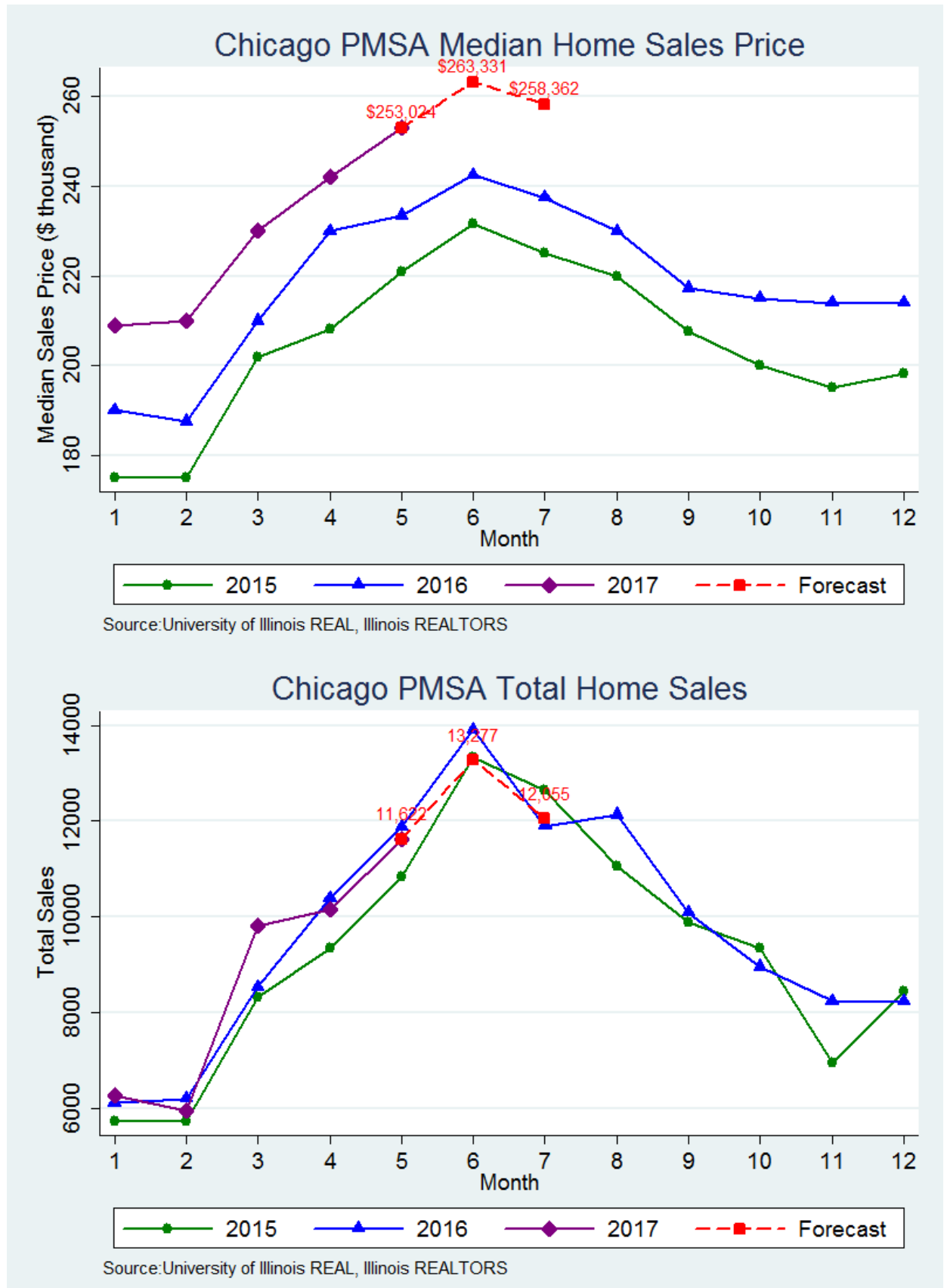
$Price_{\text{April}2017} * (1 + \text{recovery rate})^{\text{years}} = Price_{\text{April}2008}$. Prices used in the formula are inflation adjusted. The recovery rate is applied as a constant annual change rate to recoup the differences between the current month and its corresponding month in 2008.

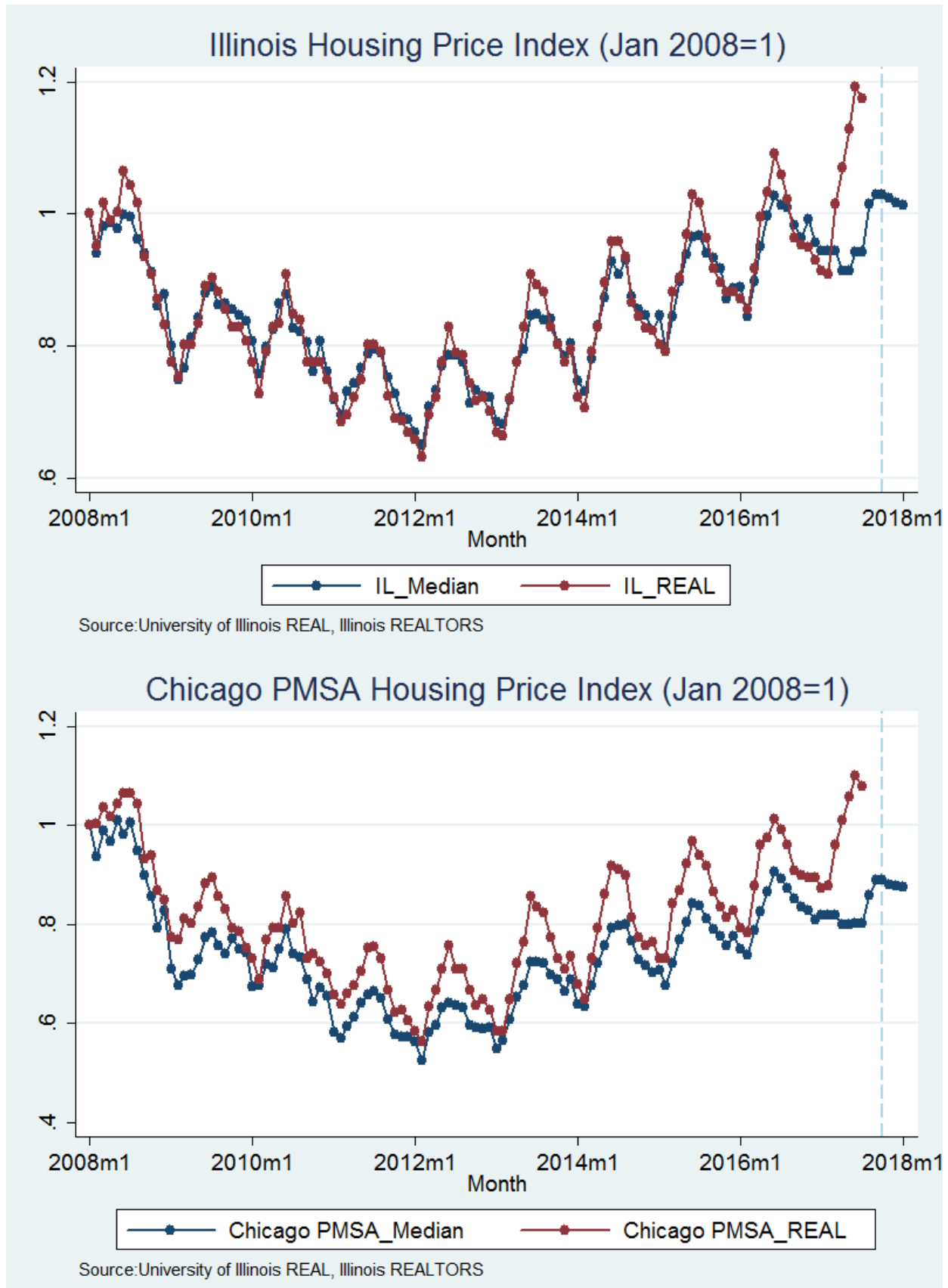


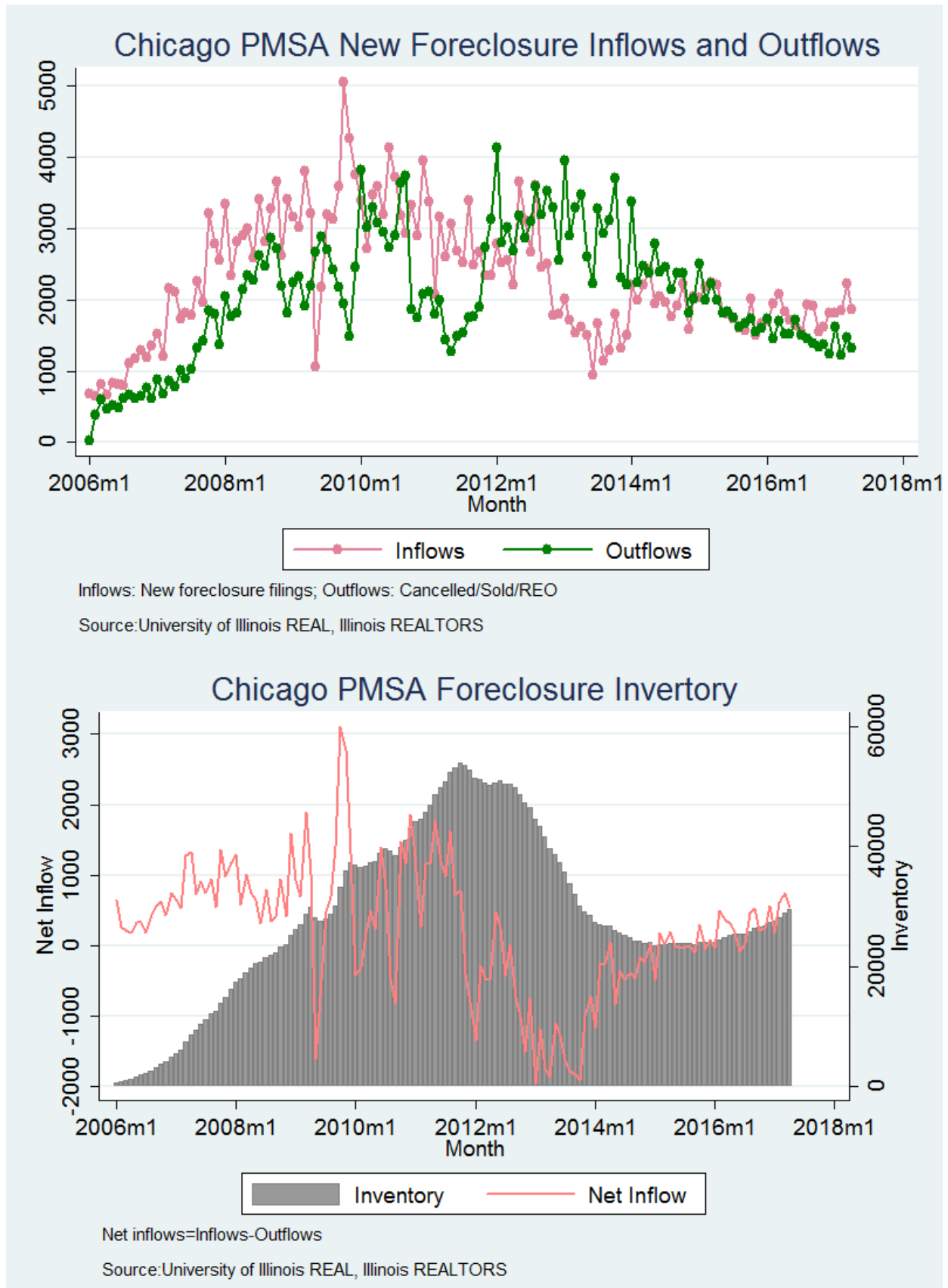
Source: University of Illinois REAL, Illinois REALTORS

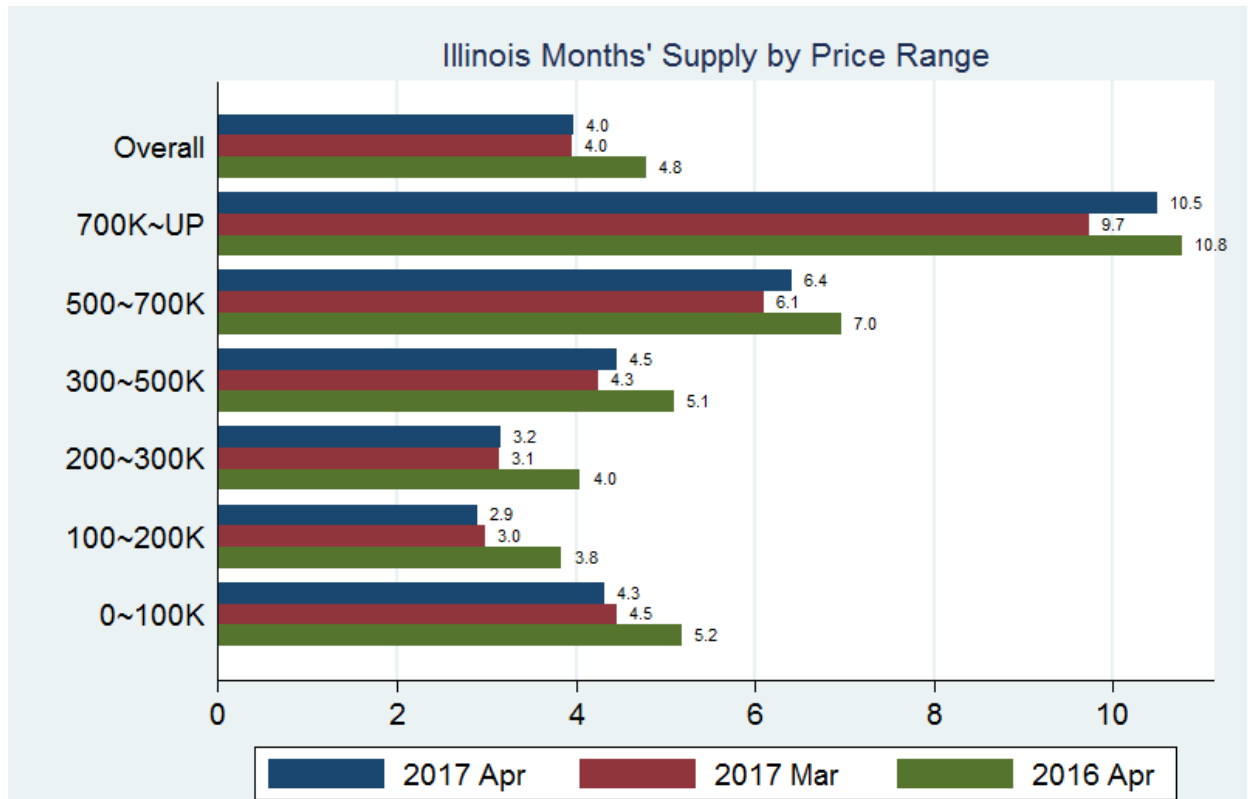


Source: University of Illinois REAL, Illinois REALTORS

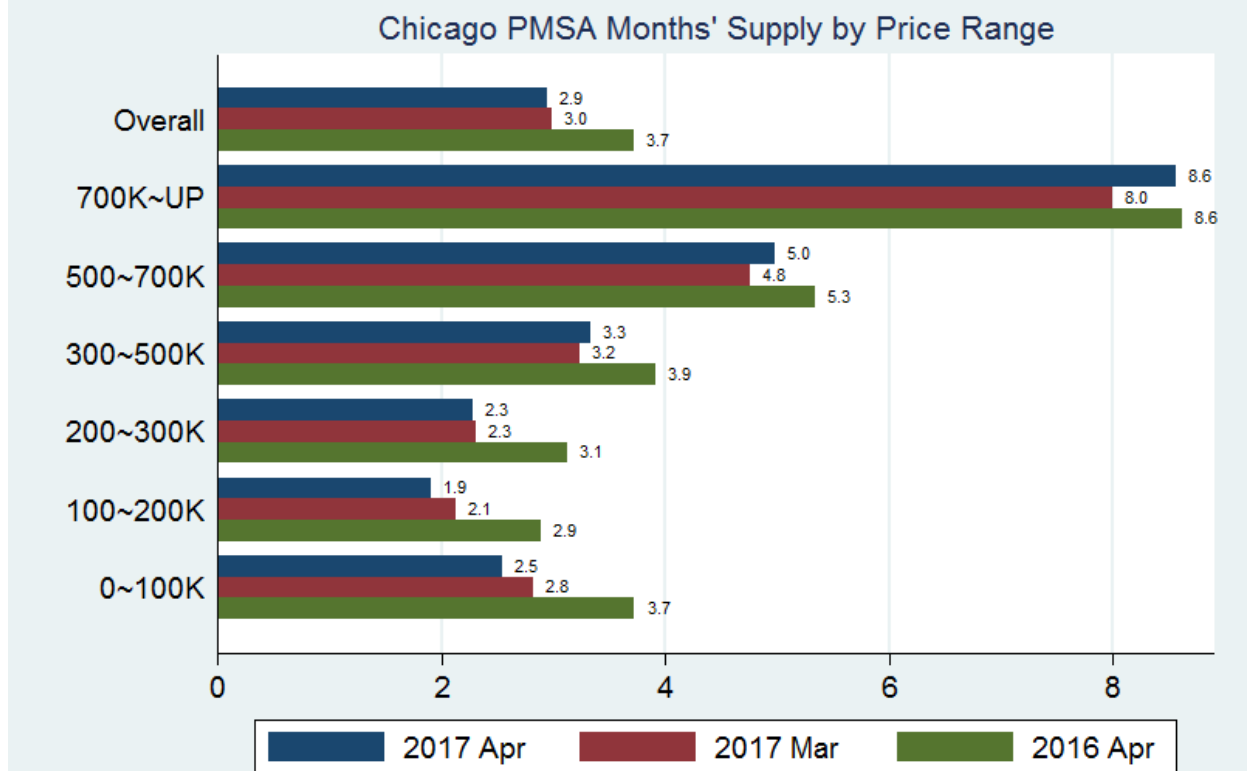




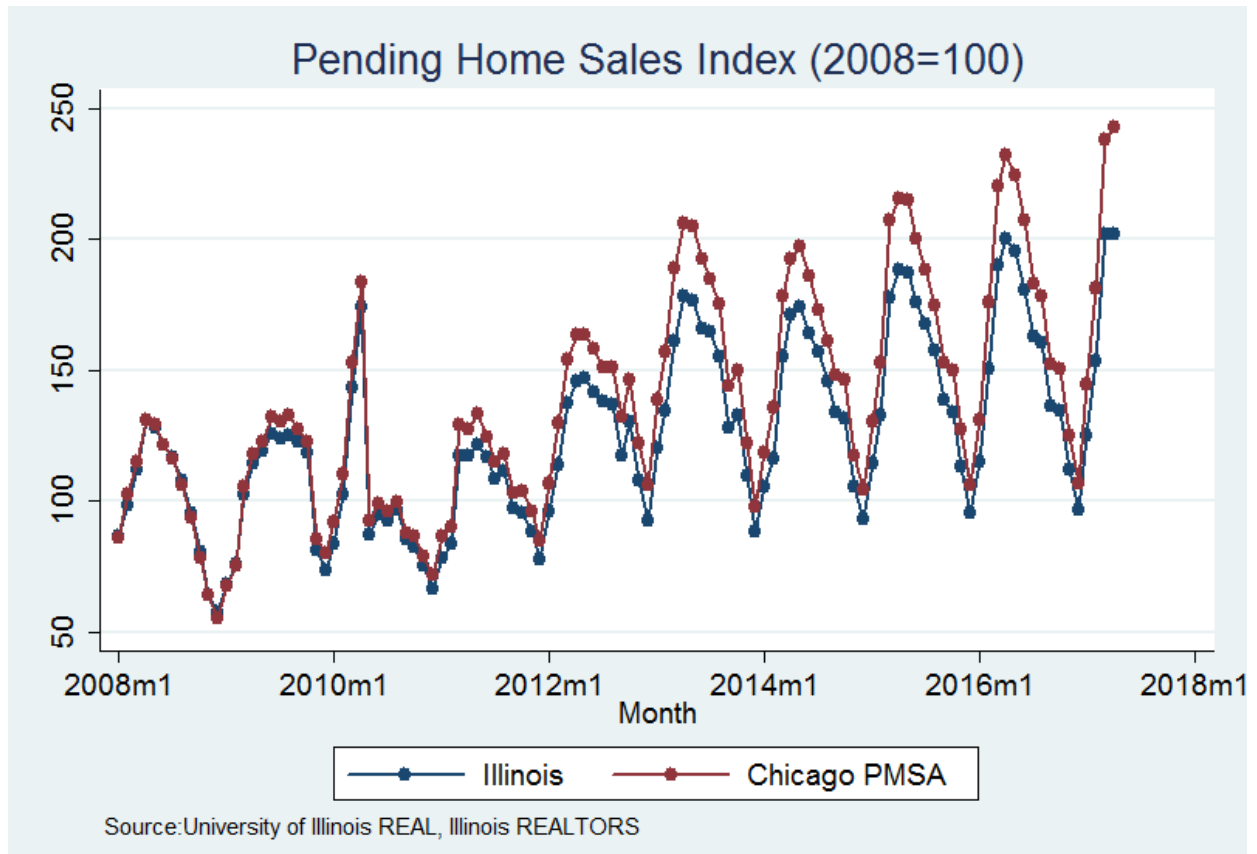


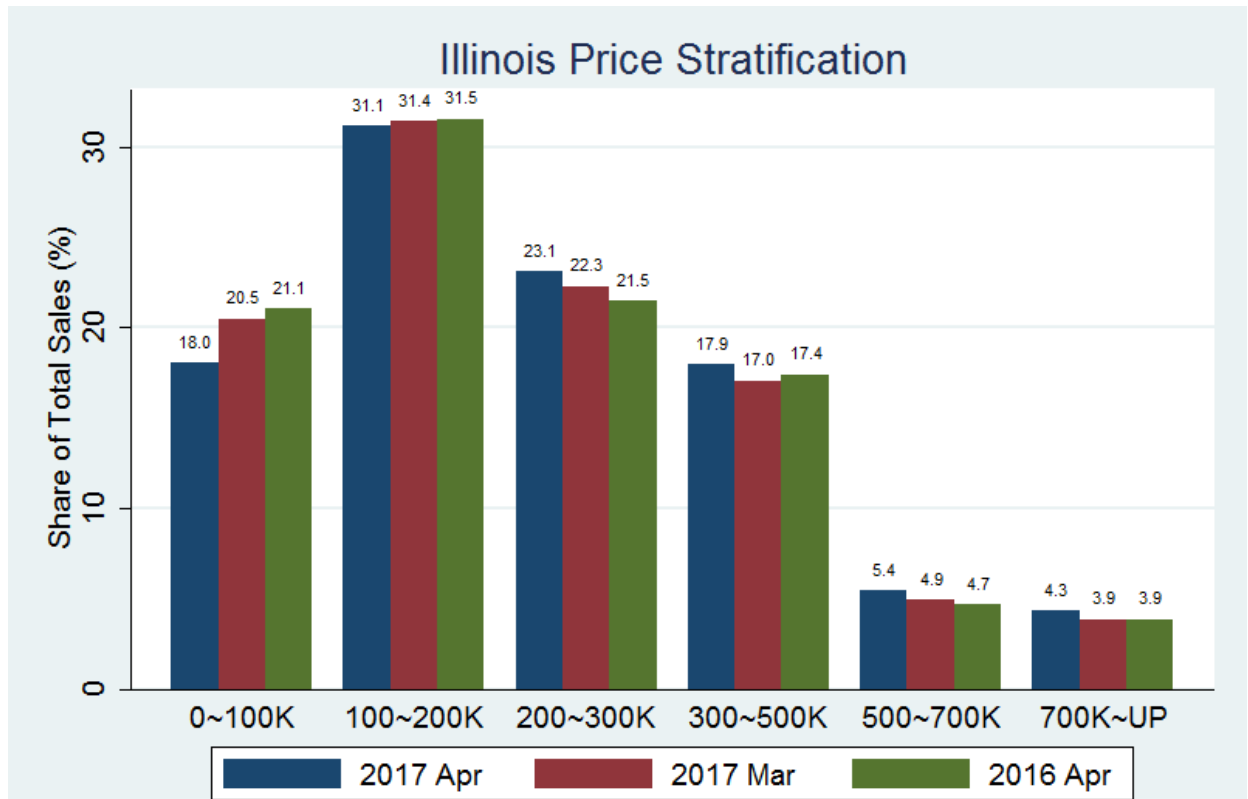


Source: University of Illinois REAL, Illinois REALTORS

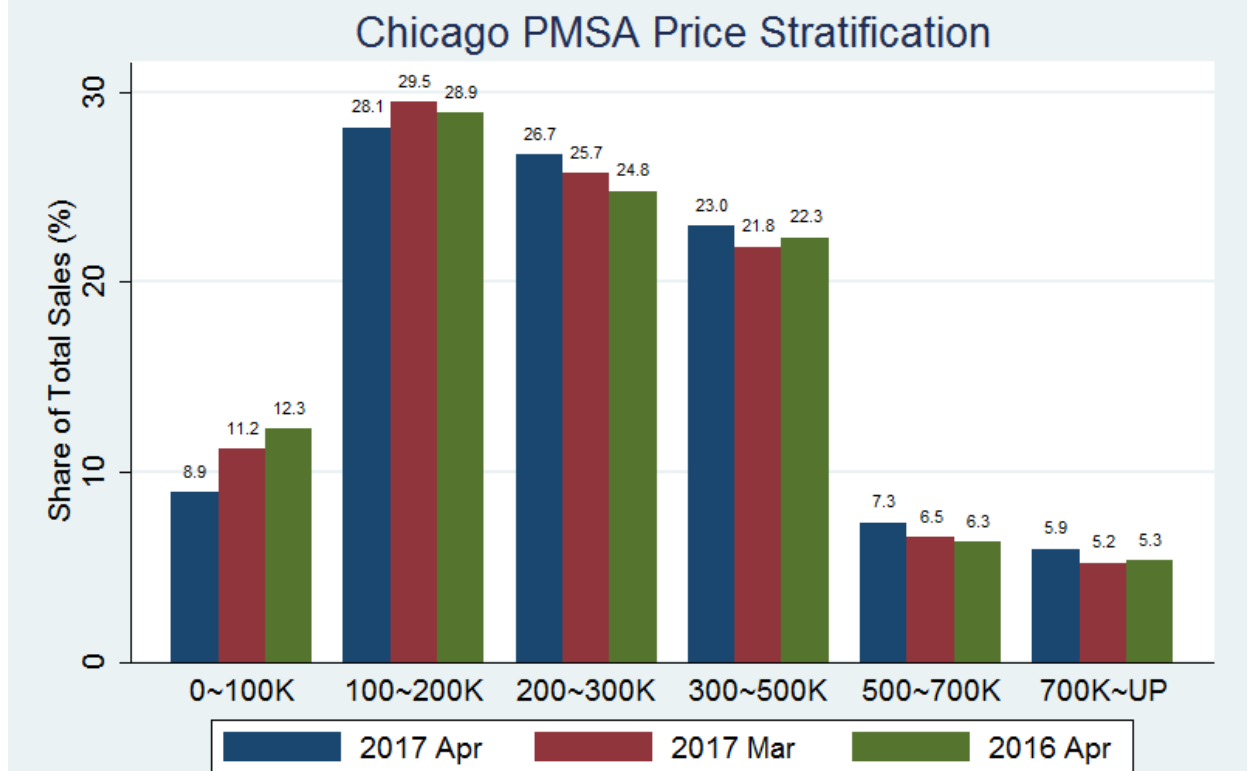


Source: University of Illinois REAL, Illinois REALTORS



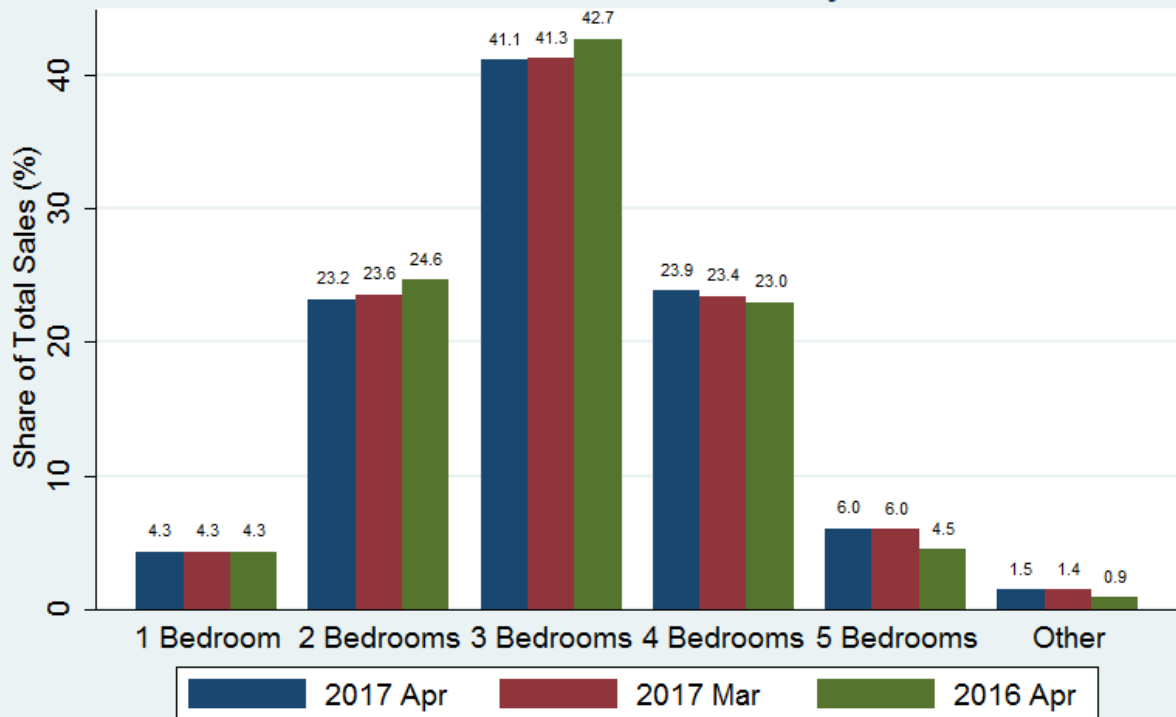


Source: University of Illinois REAL, Illinois REALTORS



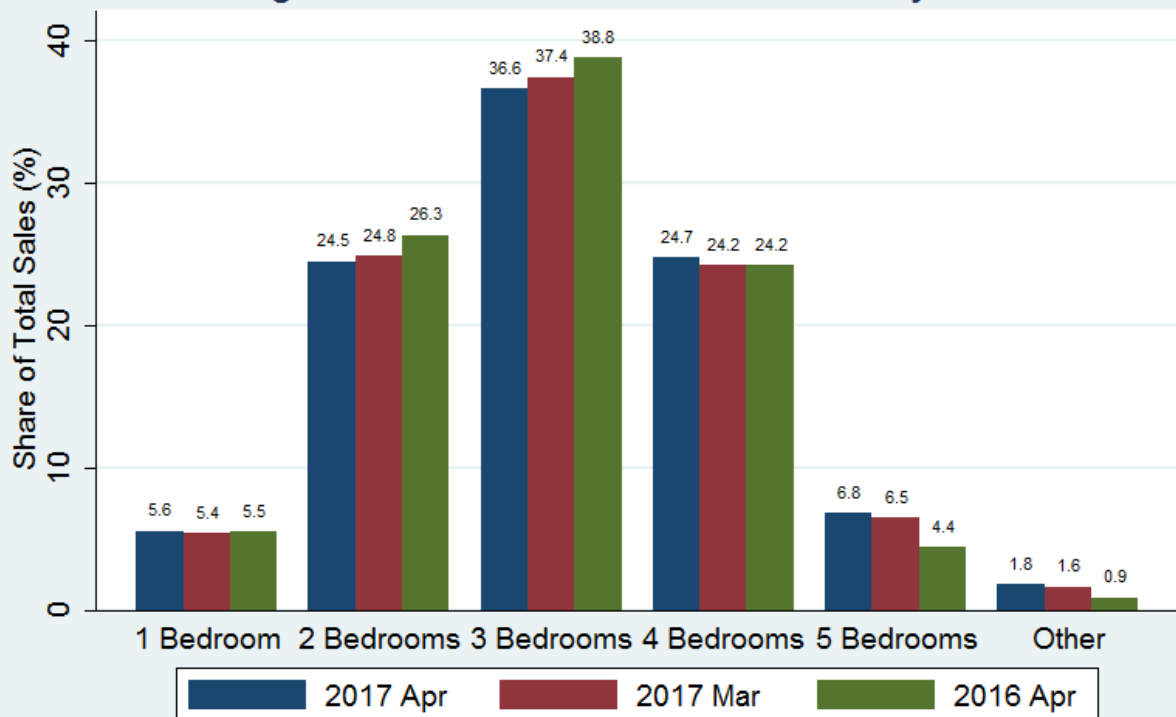
Source: University of Illinois REAL, Illinois REALTORS

Illinois House Characteristics by Bedroom



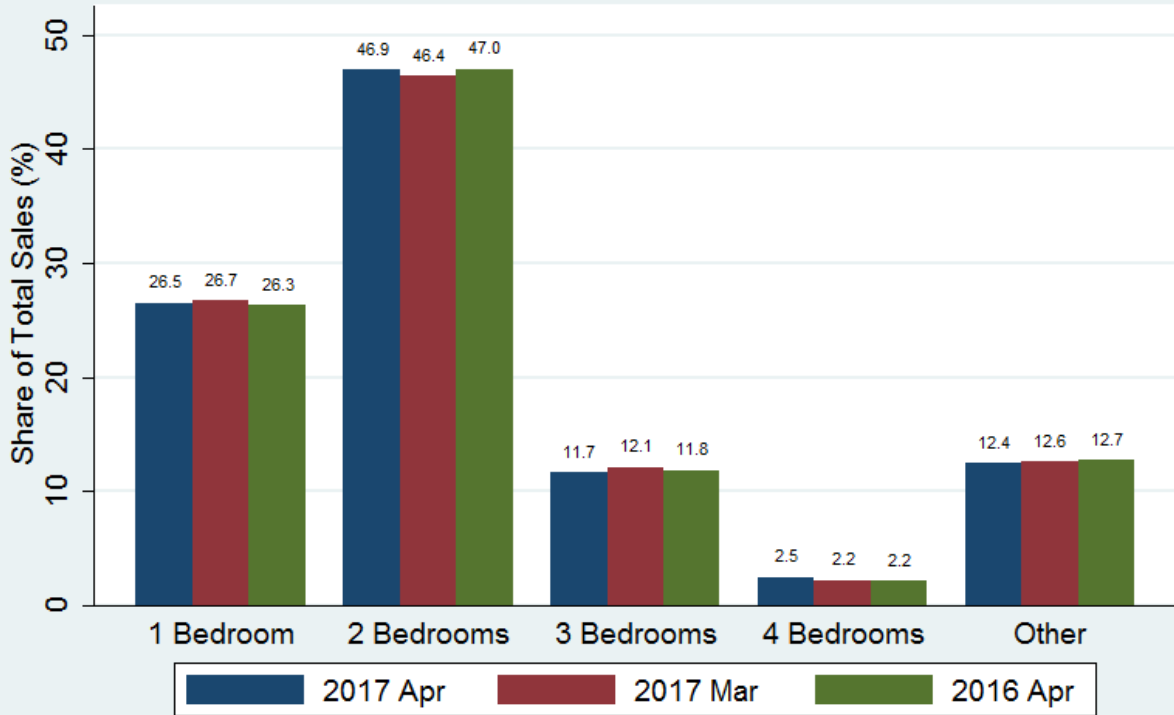
Source: University of Illinois REAL, Illinois REALTORS

Chicago PMSA House Characteristics by Bedroom



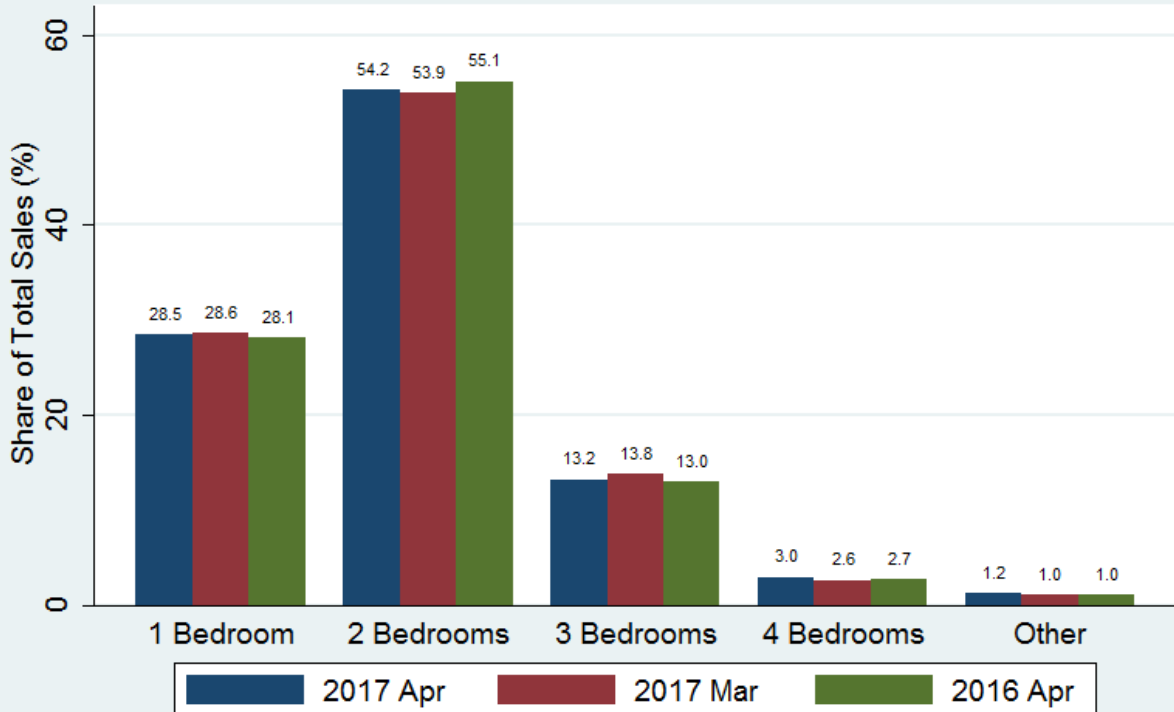
Source: University of Illinois REAL, Illinois REALTORS

Illinois House Characteristics by Bathroom

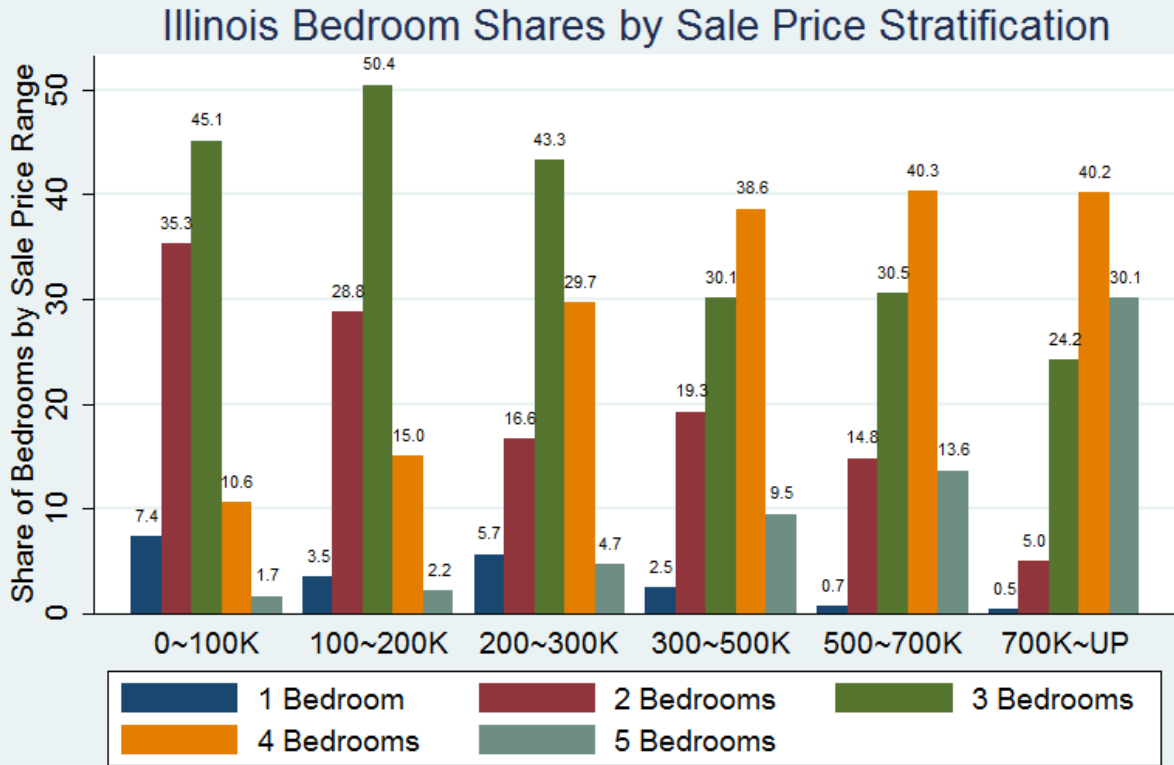


Source: University of Illinois REAL, Illinois REALTORS

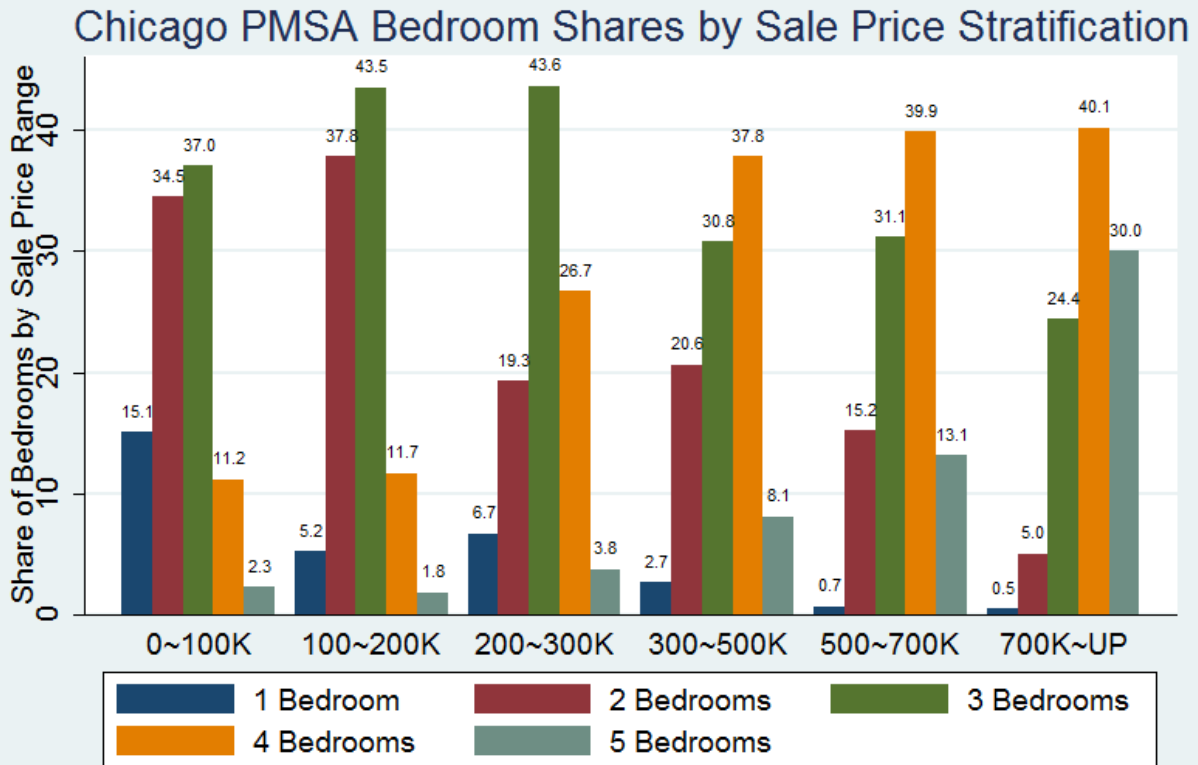
Chicago PMSA House Characteristics by Bathroom



Source: University of Illinois REAL, Illinois REALTORS

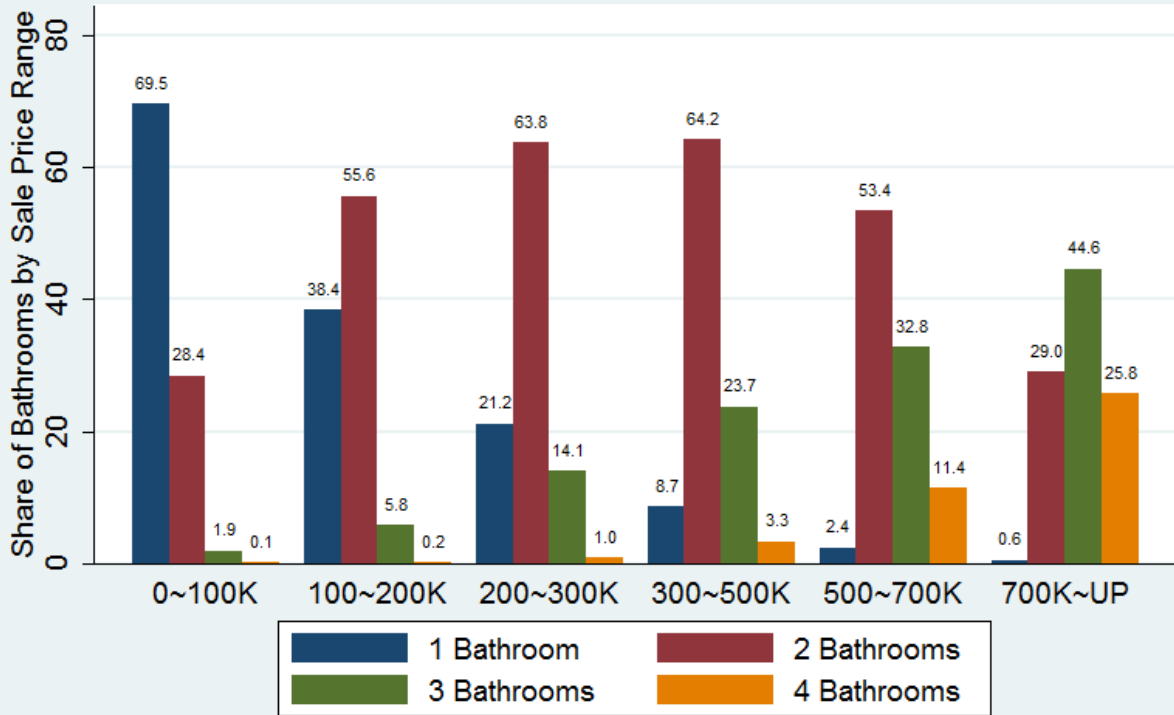


Source: University of Illinois REAL, Illinois REALTORS



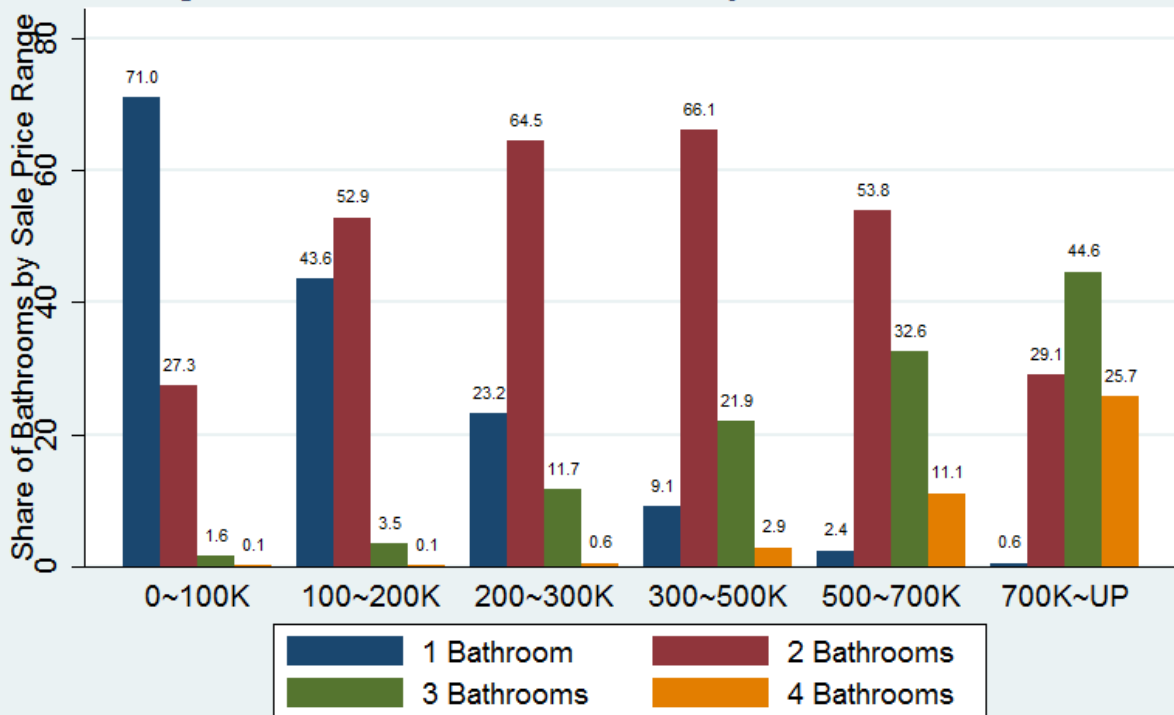
Source: University of Illinois REAL, Illinois REALTORS

Illinois Bathroom Shares by Sale Price Stratification



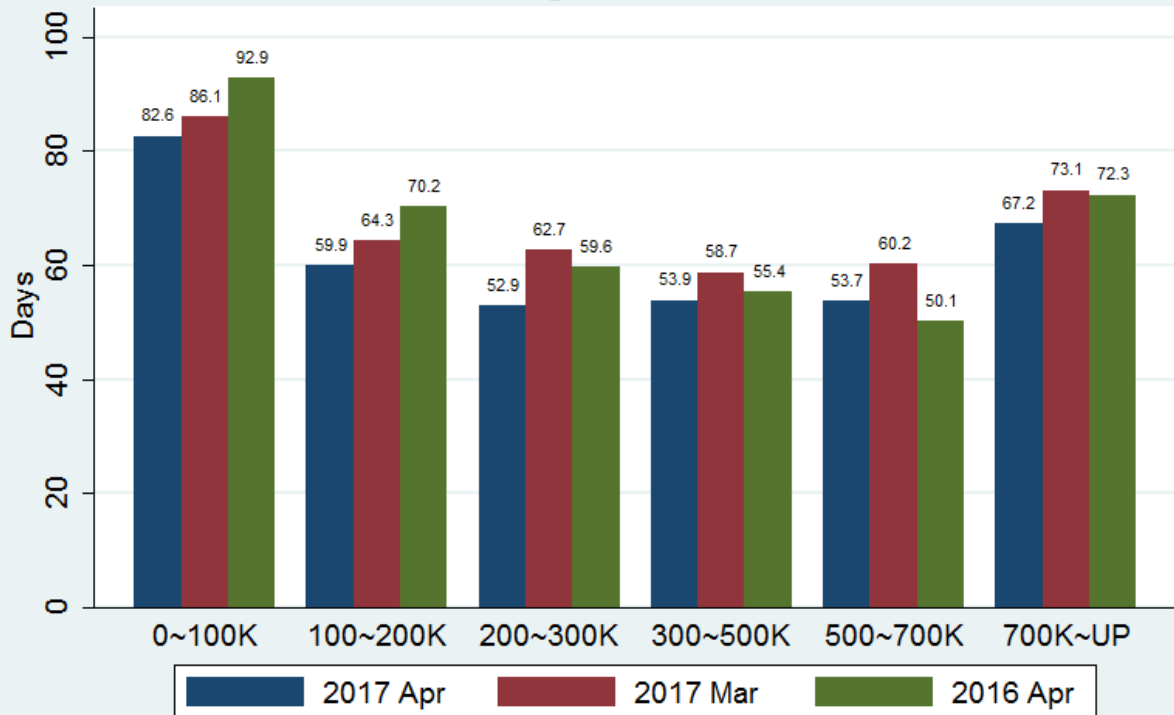
Source: University of Illinois REAL, Illinois REALTORS

Chicago PMSA Bathroom Shares by Sale Price Stratification



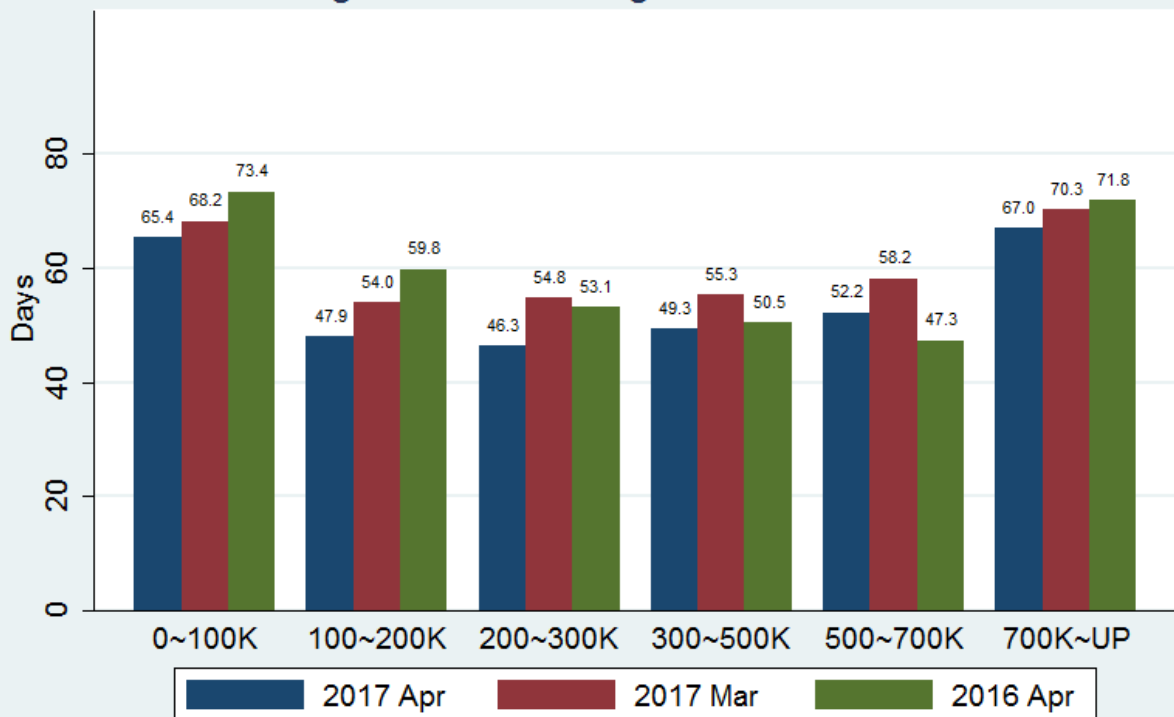
Source: University of Illinois REAL, Illinois REALTORS

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

