

Housing Price Forecasts

Illinois and Chicago PMSA, November 2017

Presented To

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The Housing Market

In October, both sales and median prices experienced annual increases. 12,796 houses were sold in Illinois, declining by -7.4% from a month ago but up 0.3% from a year ago. In the Chicago PMSA, 8,994 houses were sold, a decrease of -7.7% from a month ago but with a similar gain to Illinois of 0.3% from a year ago. The median price was \$185,000 in Illinois, up 3.9% from October last year; the comparable figure for the Chicago PMSA was \$222,500, up 3.5% from this time last year.

In October, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 9.6%. 7,985 regular sales were made, 2.3% more than last year. 950 foreclosed properties were sold, 13.6% less than last year. The median price was \$231,000 for regular property sales, 0.9% more than last year; the comparable figure for the foreclosed properties was \$160,000, up 21.0% from this time last year.

Illinois and Chicago PMSA both have already recovered to their pre-bubble levels. The median sales price in October 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 October 2008 median sales price was \$155,000 (in \$2008) and \$176,570 (in \$2017); the current price level was 105% of the 2008 level after adjusting (119% before adjusting). In the Chicago PMSA, the October 2008 median sales price was \$189,900 (in \$2008) and \$216,327 (in \$2017); the comparable figure for price recovery in October 2017 is 103% after adjustment (117% before adjusting).

The sales forecast for November, December and January 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 4.8% to 6.5%; the comparative figures for the Chicago PMSA are an increase in the range 3.7% to 5.0%. On a monthly basis, the three-month average sales are forecast to decrease in the range -7.2% to -9.8% for Illinois and decrease in the range -6.9% to -9.4% for the Chicago PMSA.

The pending home sales index¹ is a leading indicator based on contract signings. This October, the number of homes put under contract was greater than last year. The pending home sales index is 148.9 (2008=100) in Illinois, up 11.1% from a year ago. In the Chicago PMSA, the comparable figure is 171.0, up 14.3% from a year ago. At the latest average annual pending sales rate, Illinois had enough housing inventory for 4.2 months² (down from 4.8 months a year ago). In the Chicago PMSA, the comparable figure was 3.2 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 lowest price ranges (<100K) experienced the largest changes.

The median price forecast indicates moderate annual growth in both Illinois and the Chicago PMSA for November, December and January. In Illinois, the median price is forecast to rise by 3.7% in November 4.3% in December and 4.0% in December. For the Chicago PMSA, the comparable figures are 2.8% in November 3.1% in December and 2.5% in January. As a

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.

complement to the median housing price index (HPI), the REAL HPI³ 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 5.7% in November 6.7% in December and 7.2% in January. The comparable figures for the Chicago PMSA are 6.3% in November 6.6% in December and 6.2% in January. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month.

In October, two consumer sentiment indices both substantially increased. The Conference Board Consumer Confidence Index survey explained that the jumps in the measures of the present situation and expectations signal Americans are becoming more upbeat about the economy and employment bases on improvements in the labor market and the continuing increase in stock prices. Improvement in household confidence helps underpin their spending, since households account for 70% of the spending on final goods and services in the economy. The University of Michigan Consumer Sentiment Index revealed that more than half of all survey respondents expected good times in the year ahead and uninterrupted growth over the next five years, dispelling lingering doubts about the near-term strength of the national economy. On the other hand, the more housing specific sentiment index, the Fannie Mae Home Purchase Sentiment Index (HPSI), decreased and their survey explained that the modest decrease is driven largely by decreases in “favorable views” of the current home-buying and home-selling climates. Indicators of broader economic and personal financial sentiment remain relatively steady.

The Housing Market – Current Condition

- In October, both sales and median prices experienced annual increases. 12,796 houses were sold in Illinois, changing by -7.4% from a month ago and 0.3% from a year ago. In the Chicago PMSA, 8,994 houses were sold, changing by -7.7% from a month ago and 0.3% from a year ago. The median price was \$185,000 in Illinois, up 3.9% from October last year; the comparable figure for the Chicago PMSA was \$222,500, up 3.5% from this time last year. (Reference: Illinois and Chicago PMSA Total Home Sales and Median Home Sales Price figures; Forecast for November 2017 report table)
- In October, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 9.6%. 7,985 regular sales were made, 2.3% more than last year. 950 foreclosed properties were sold, 13.6% less than last year. The median price was \$231,000 for regular property sales, 0.9% more than last year; the comparable figure for the foreclosed properties was \$160,000, up 21.0% from this time last year. (Reference: Ratio of Foreclosed Sales over Total Sales, Sales & Median Prices: Foreclosed vs. Regular figures)
- In October, at the latest average annual pending sales rate, Illinois had enough housing inventory for 4.2 months⁴ (down from 4.8 months a year ago). In the Chicago PMSA, the comparable figure was 3.2 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 lowest price ranges (<100K) experienced the largest changes. (Reference: Illinois and Chicago PMSA Annual Months’ Supply by Price Range figures)
- In October, 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

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.

decreased to 19.8% from 21.9% a year ago; the comparative figure for the Chicago PMSA showed a decrease to 9.7% from 12.6% 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 November, December and January. In Illinois, the median price is forecast to rise by 3.7% in November 4.3% in December and 4.0% in December. For the Chicago PMSA, the comparable figures are 2.8% in November 3.1% in December and 2.5% in January. (Reference: Forecast for November 2017 report table)
- As a complement to the median housing price index (HPI), the REAL HPI⁵ 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 5.7% in November 6.7% in December and 7.2% in January. The comparable figures for the Chicago PMSA are 6.3% in November 6.6% in December and 6.2% in January. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month. (Reference: Housing Price Index)
- The sales forecast for November, December and January 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 4.8% to 6.5%; the comparative figures for the Chicago PMSA are an increase in the range 3.7% to 5.0%. On a monthly basis, the three-month average sales are forecast to decrease in the range -7.2% to -9.8% for Illinois and decrease in the range -6.9% to -9.4% for the Chicago PMSA. (Reference: Forecast for November 2017 report table)
- The pending home sales index⁶ is a leading indicator based on contract signings. This October, the number of homes put under contract was greater than last year. The pending home sales index is 148.9 (2008=100) in Illinois, up 11.1% from a year ago. In the Chicago PMSA, the comparable figure is 171.0, up 14.3% from a year ago. (Reference: Illinois and Chicago PMSA Pending Home Sales Index figure)
- In October 2017, 1,608 houses were newly filed for foreclosure in the Chicago PMSA (up 4.1% and up 12.3% respectively from a year and a month ago). 1,391 foreclosures were completed⁷ (up 8.6% and up 1.9% respectively from a year and a month ago). As of October 2017, there are 33,308 homes at some stage of foreclosure — the foreclosure inventory. The monthly average net flows of foreclosures (foreclosure inflows - outflows) were 419 in the past 6 months, 516 in the last 12 months and 379 in the last 24 months. (Reference: Chicago PMSA Foreclosure Inflows and Outflows, and Inventory figures).

The Economy

- In October 2017, according to the Bureau of Labor Statistics (BLS) Employment Situation report, the national unemployment rate declined to 4.1% and nonfarm payroll 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

experienced a gain of 261,000 jobs. Employment in food services and drinking places increased sharply over the month (+89,000), mostly offsetting a decline in September that largely reflected the impact of Hurricanes Irma and Harvey. Employment also increased in professional and business services (+50,000), manufacturing (+24,000), and health care (+22,000).

- In September 2017, according to the Illinois Department of Employment Security (IDES) news release, the Illinois unemployment remained unchanged at 5.0%. Non-farm payroll jobs decreased by -10,800 over the month. The largest declines were in three sectors; trade, transportation, and utilities (-4,200), education and health services (-3,400), and leisure and hospitality (-3,300). Furthermore, the job growth in August was revised from the preliminary estimate of -3,700 jobs to -2,600 jobs.
- In September 2017, the one-year-ahead forecast for Illinois indicates that the non-farm employment will decrease at a rate between -0.36% and -0.04%, corresponding to job losses between -21,600 and -2,700. The largest contributors to the forecast decline are trade, transportation, and utilities, government, and manufacturing.
- In October 2017, the Mortgage Bankers Association (MBA) Builder Application Survey (BAS) data shows mortgage applications for new home purchases increased 16.1 percent compared to a year ago. “October registered the strongest growth rate in applications so far this year, following September’s hurricane related decrease,” said Lynn Fisher, MBA’s Vice President of Research and Economics. “Overall, applications reached near August levels. Texas mirrored the national pattern, and Florida fell just 4 percent short of its August total.”
- In October 2017, according to the data released by Freddie Mac, mortgage rates reached their highest levels since July, pushed higher by rising bond yields. “Rates increased as the market responded to news of a Senate budget plan which may positively impact tax reform progress and more speculation around the future leadership of the Federal Reserve,” said Joel Kan, an economist with the Mortgage Bankers Association (MBA).

Longer-term Outlook

- In October, two consumer sentiment indices both substantially increased. The Conference Board Consumer Confidence Index increased to 125.9 from 120.6 last month. Jumps in the measure of the present situation and expectations signal Americans are becoming more upbeat about the economy and employment as the labor market improves and stock prices climb to records. Improvement in household confidence helps underpin their spending, the biggest part of the economy. The University of Michigan Consumer Sentiment Index also climbed to the strongest since the start of 2004 (100.7 from 95.1 last month). Chief economist Richard Curtin said more than half of all survey respondents expected good times in the year ahead and uninterrupted growth over the next five years, dispelling lingering doubts about the near-term strength of the national economy.
- In October, Fannie Mae Home Purchase Sentiment Index (HPSI) decreased to 85.2 from 88.3 last month. The modest decrease is driven in large part by decreases in favorable views of the current home-buying and home-selling climates. Indicators of broader economic and personal financial sentiment remain relatively steady. 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) decreased to 97.9 in September from 103.1 in

August. The decrease is mainly attributed to the negative construction job growth and to the decline of retail activities in the Chicago area.

“While consumer sentiment about the economy appears positive, there is still hesitation about the housing market,” noted Geoffrey J.D. Hewings, Director of the Regional Economics Applications Laboratory. “However mortgage applications have increased and prices and sales in both Illinois and Chicago increased on an annual basis, a trend that is forecast to continue into 2018.”

Forecast for November 2017 report

PERCENTAGE CHANGE FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Aug-17	-1.7%	-2.2%		3.0%	2.9%			
Sep-17	-2.8%	-3.5%		-16.1%	-17.9%			
Oct-17	0.3%	0.3%		-7.4%	-7.7%			
3 Month Avg.	-1.5%	-1.9%		-6.9%	-7.7%			
SUMMARY OF THE FORECAST INTERVALS FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Nov-17	0.6%	0.9%	-0.2%	-0.3%	-7.7%	-10.4%	-7.2%	-9.8%
Dec-17	5.5%	7.4%	4.1%	5.6%	6.7%	9.1%	4.2%	5.7%
Jan-18	9.5%	12.9%	8.3%	11.2%	-19.7%	-26.6%	-17.2%	-23.3%
3 Month Avg.	4.8%	6.5%	3.7%	5.0%	-7.2%	-9.8%	-6.9%	-9.4%
SUMMARY OF THE FORECAST FOR THE MEDIAN PRICE								
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Aug-17	\$200,000	\$239,000	Aug-16	\$191,000	\$230,000			
Sep-17	\$192,000	\$230,000	Sep-16	\$180,000	\$217,250			
Oct-17	\$185,000	\$222,500	Oct-16	\$178,000	\$215,000			
Nov-17	\$184,141	\$219,966	Nov-16	\$177,500	\$214,000			
Dec-17	\$181,538	\$220,711	Dec-16	\$174,000	\$214,000			
Jan-18	\$177,842	\$214,193	Jan-17	\$171,000	\$209,000			
ANNUAL PERCENTAGE CHANGE OF THE MEDIAN PRICE								
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Aug-17	4.7%	3.9%	Aug-16	6.1%	4.5%			
Sep-17	6.7%	5.9%	Sep-16	5.0%	4.7%			
Oct-17	3.9%	3.5%	Oct-16	6.3%	7.5%			
Nov-17	3.7%	2.8%	Nov-16	7.6%	9.7%			
Dec-17	4.3%	3.1%	Dec-16	5.5%	7.9%			
Jan-18	4.0%	2.5%	Jan-17	4.9%	10.0%			

Median Prices and Recovery

	Illinois		Chicago PMSA	
	[\$2008]	[\$2017]	[\$2008]	[\$2017]
October 2008 Median Price	\$155,000	\$176,570	\$189,900	\$216,327
October 2017 Median Price	\$162,400	\$185,000	\$195,319	\$222,500
Price Ratio (October 17/ October 08)	Adjusted	1.05	Adjusted	1.03
	Unadjusted	1.19	Unadjusted	1.17

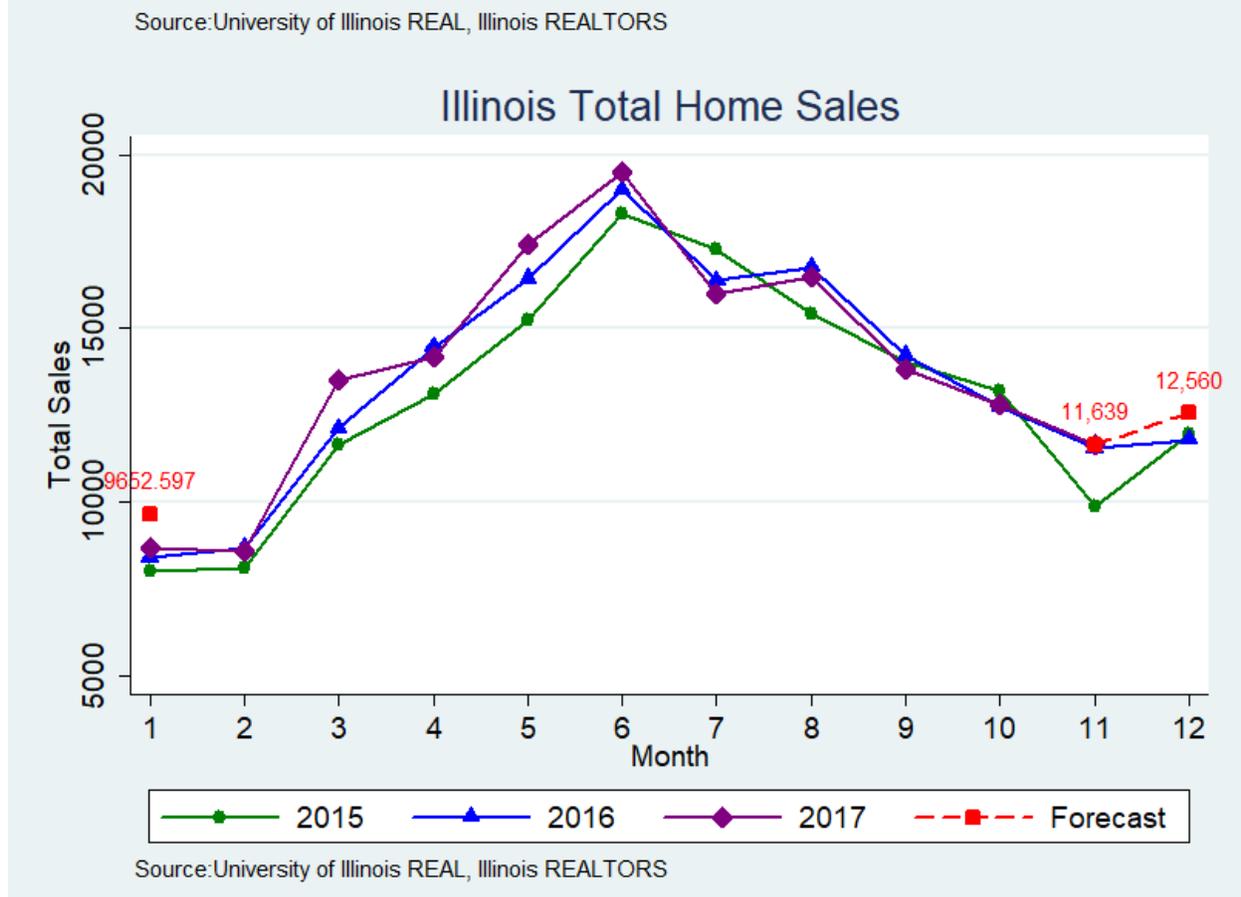
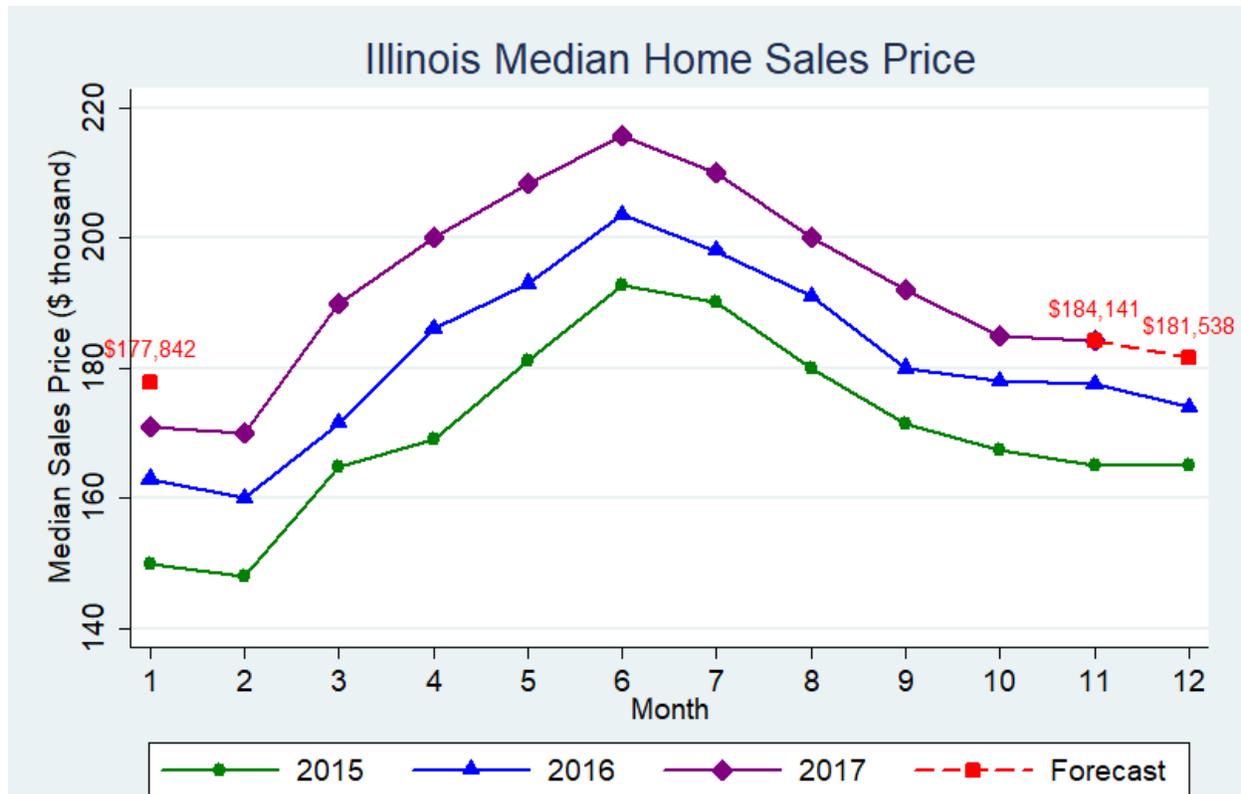
Recovery Forecasts using *Annually Growth Rates*

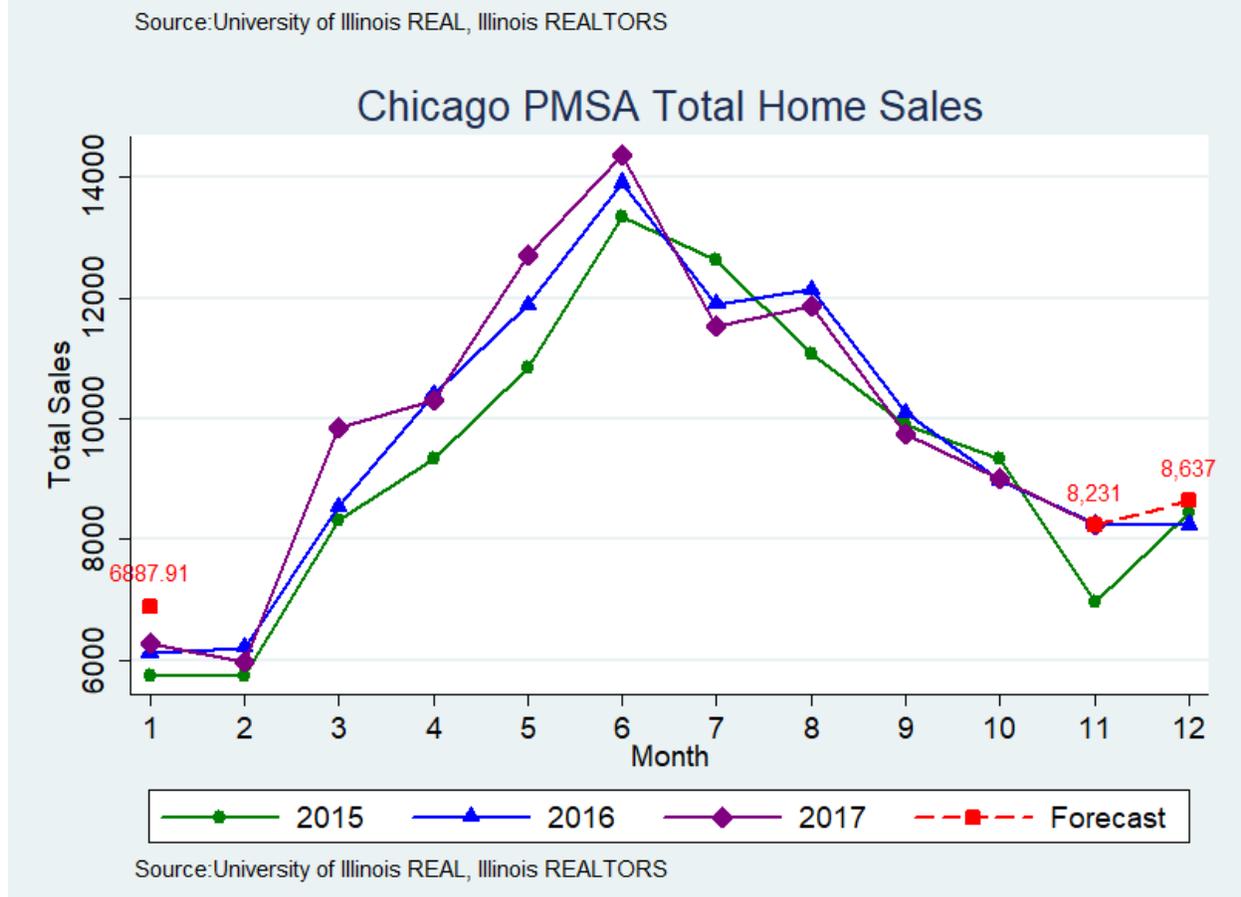
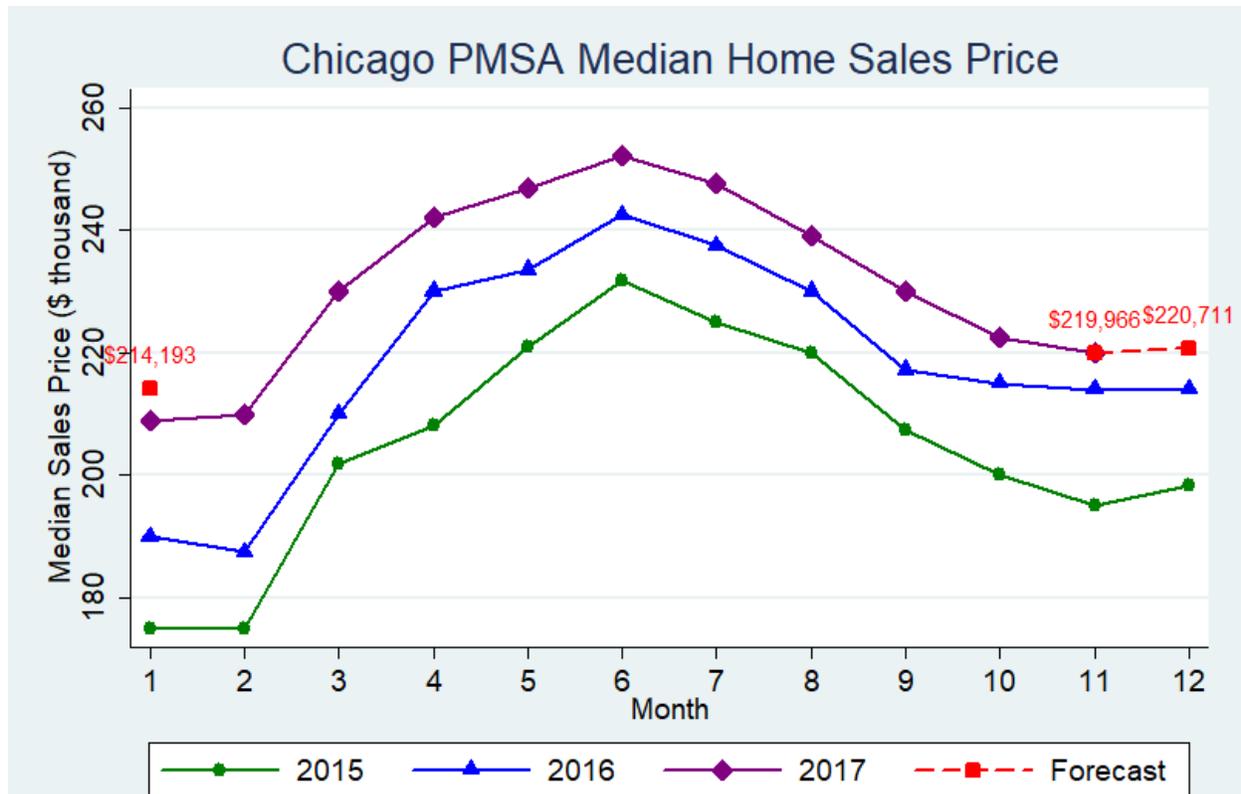
	Illinois	Chicago PMSA		
	Annual Recovery Rate*	Years to Recover**	Recovery Rate	Years to Recover
Current Month	4.2%	-1.1	2.4%	-1.2
Past 3 months	4.8%	-1.0	2.8%	-1.0
Past 6 months	5.2%	-0.9	4.5%	-0.6
Past 9 months	4.7%	-1.0	5.4%	-0.5
Past 12 months	4.6%	-1.0	5.0%	-0.6

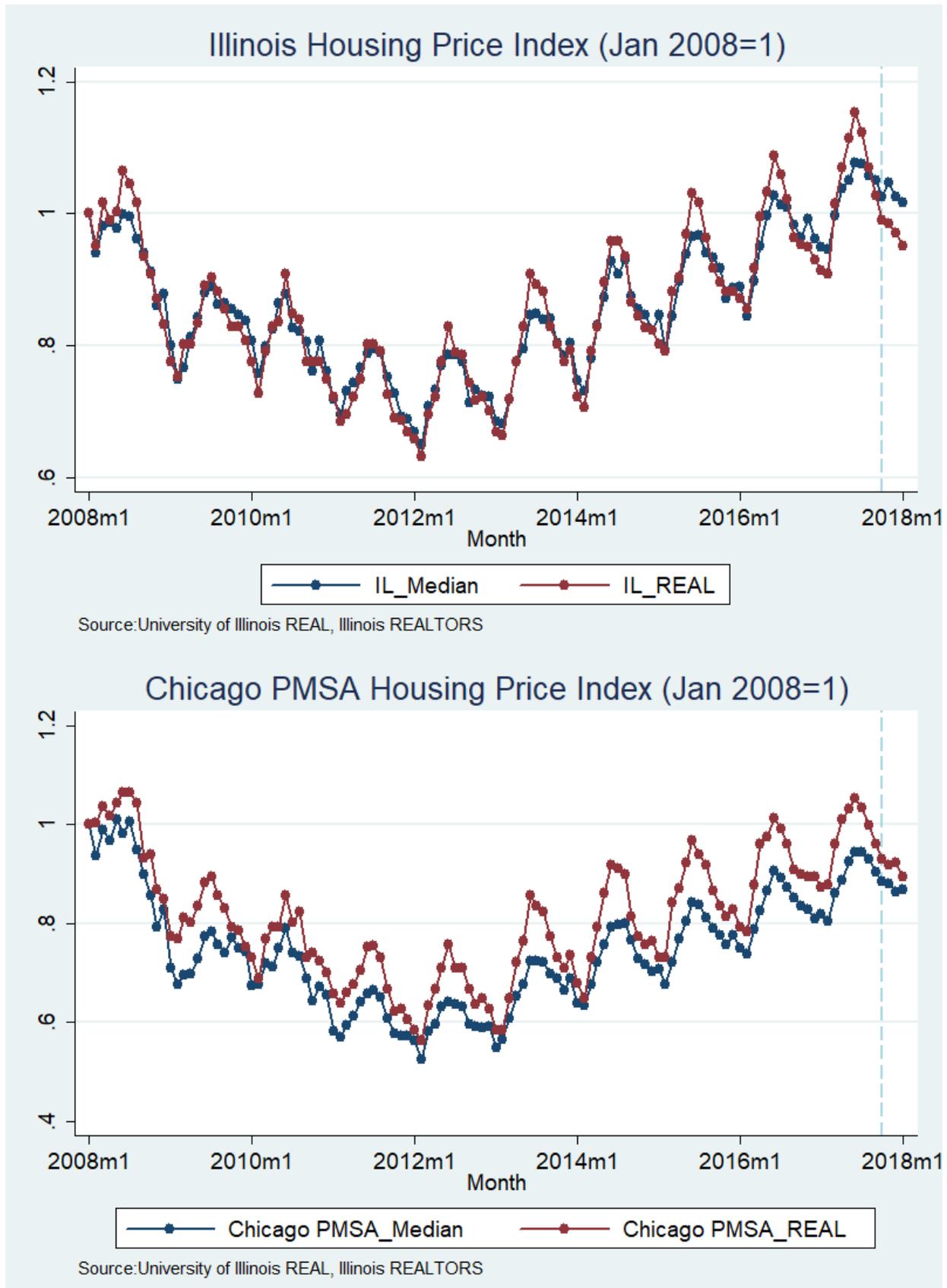
*Annual recovery rate is the average of *annual* change rates in past months

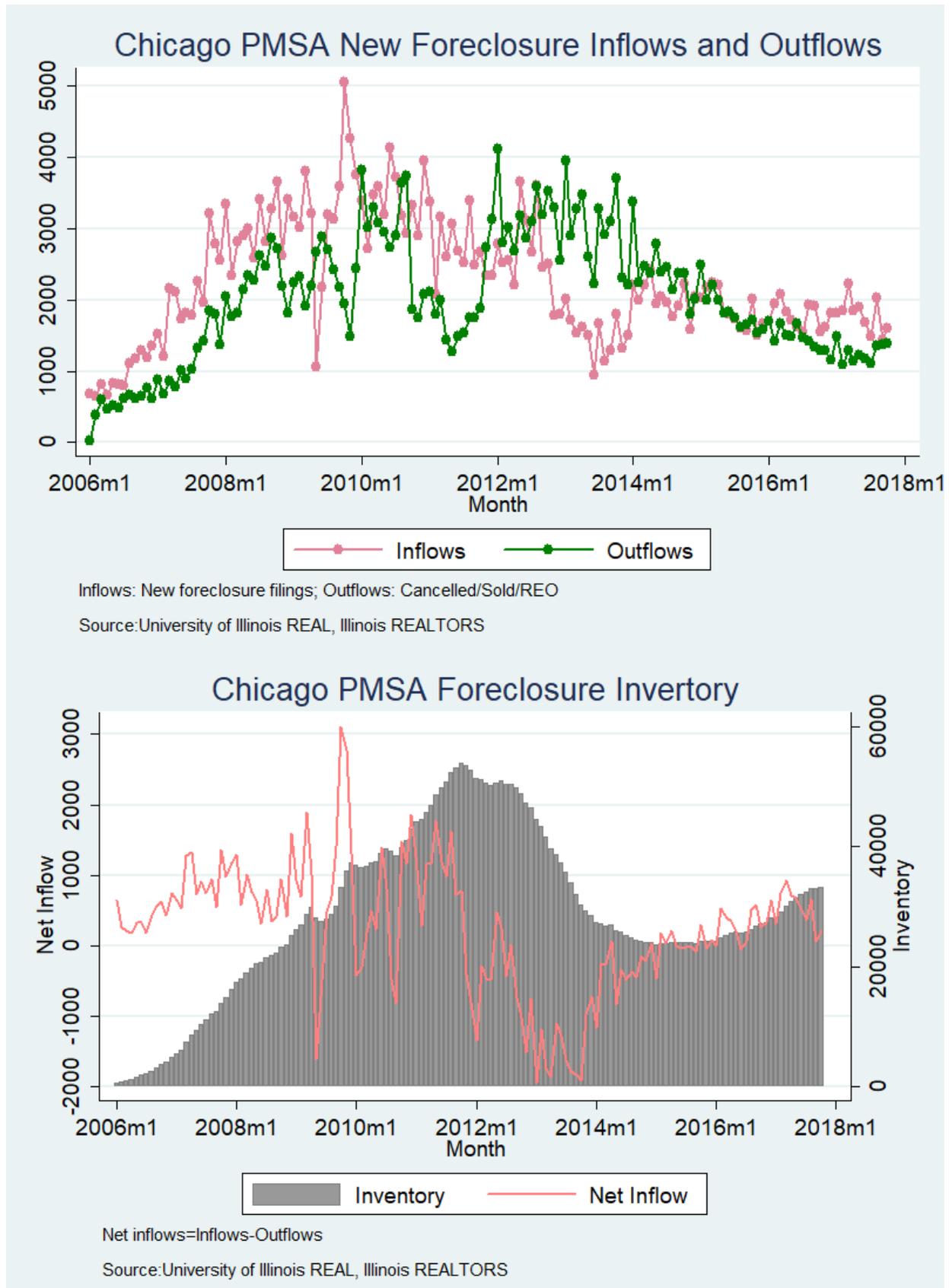
** Years to recover is calculated using the following formula:

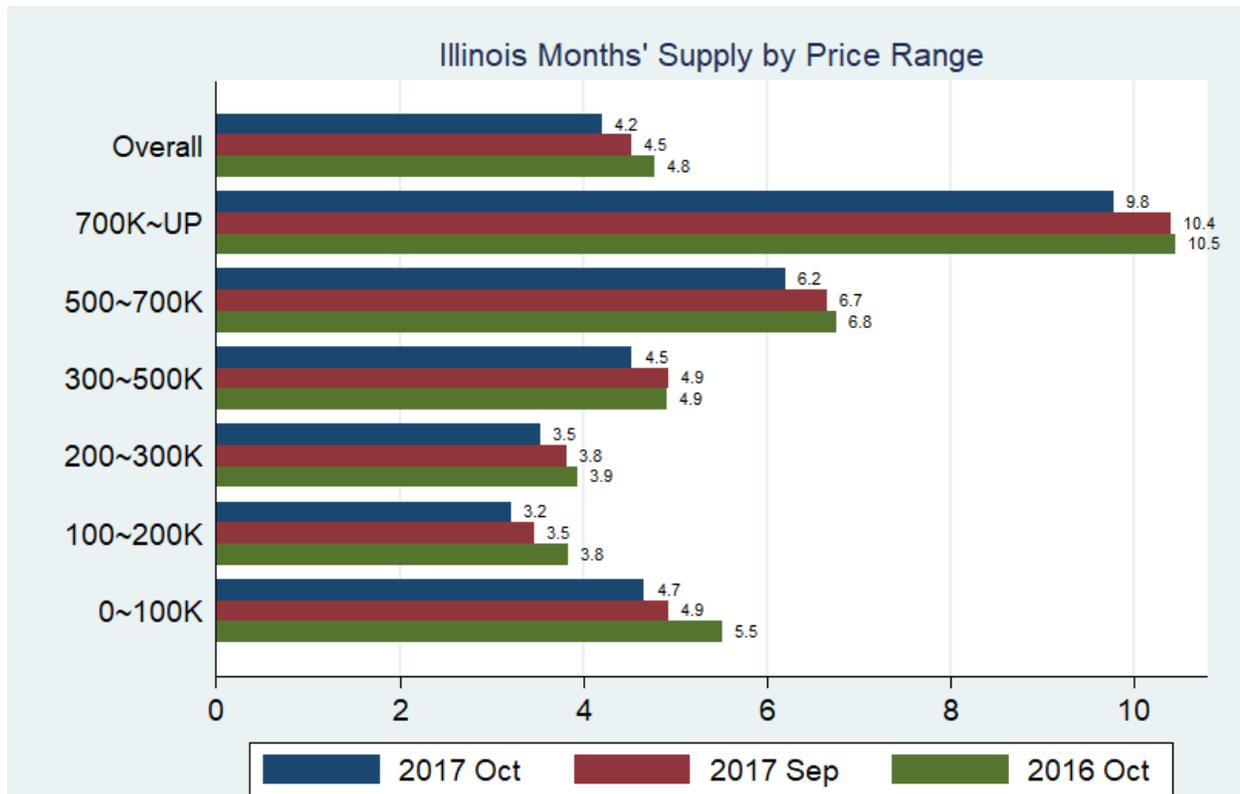
$Price_{\text{October}2017} * (1 + \text{recovery rate})^{\text{years}} = Price_{\text{October}2008}$. Prices used in the formula are inflation adjusted. The recovery rate is applied as a constant annual change rate to recoup the differences between the current month and its corresponding month in 2008.



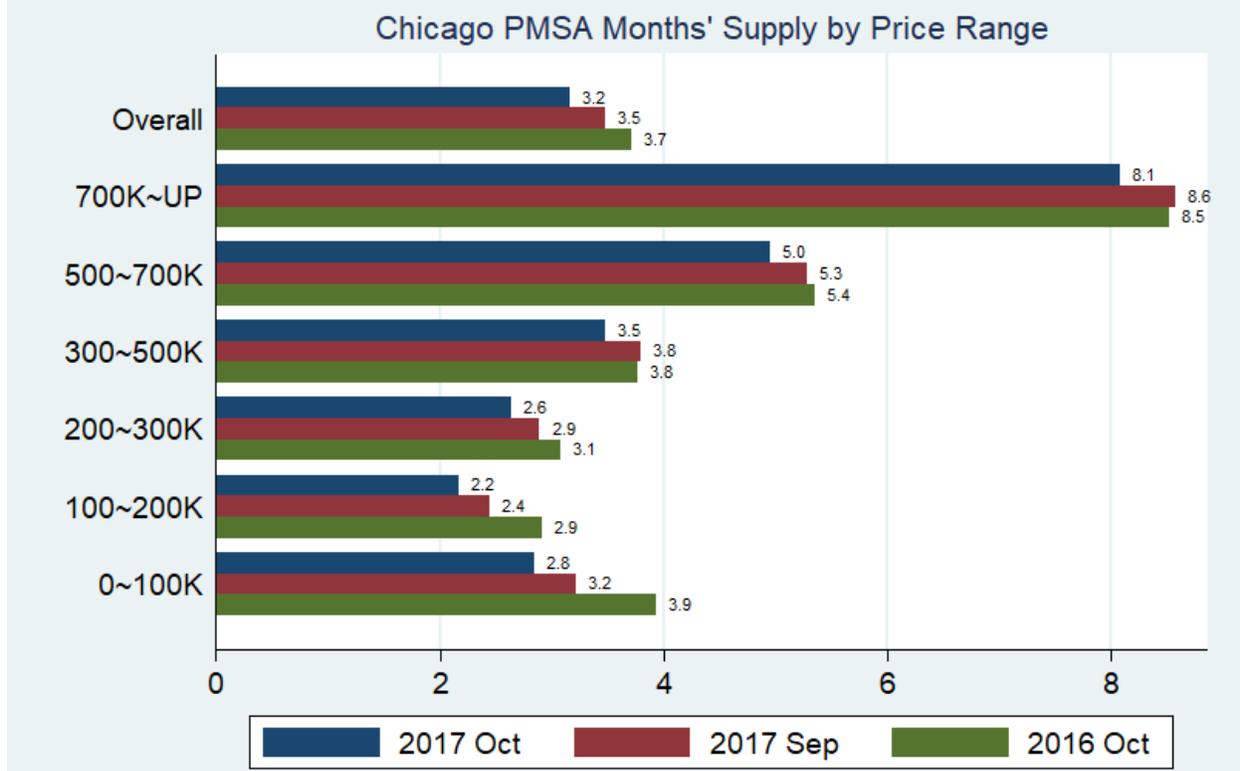




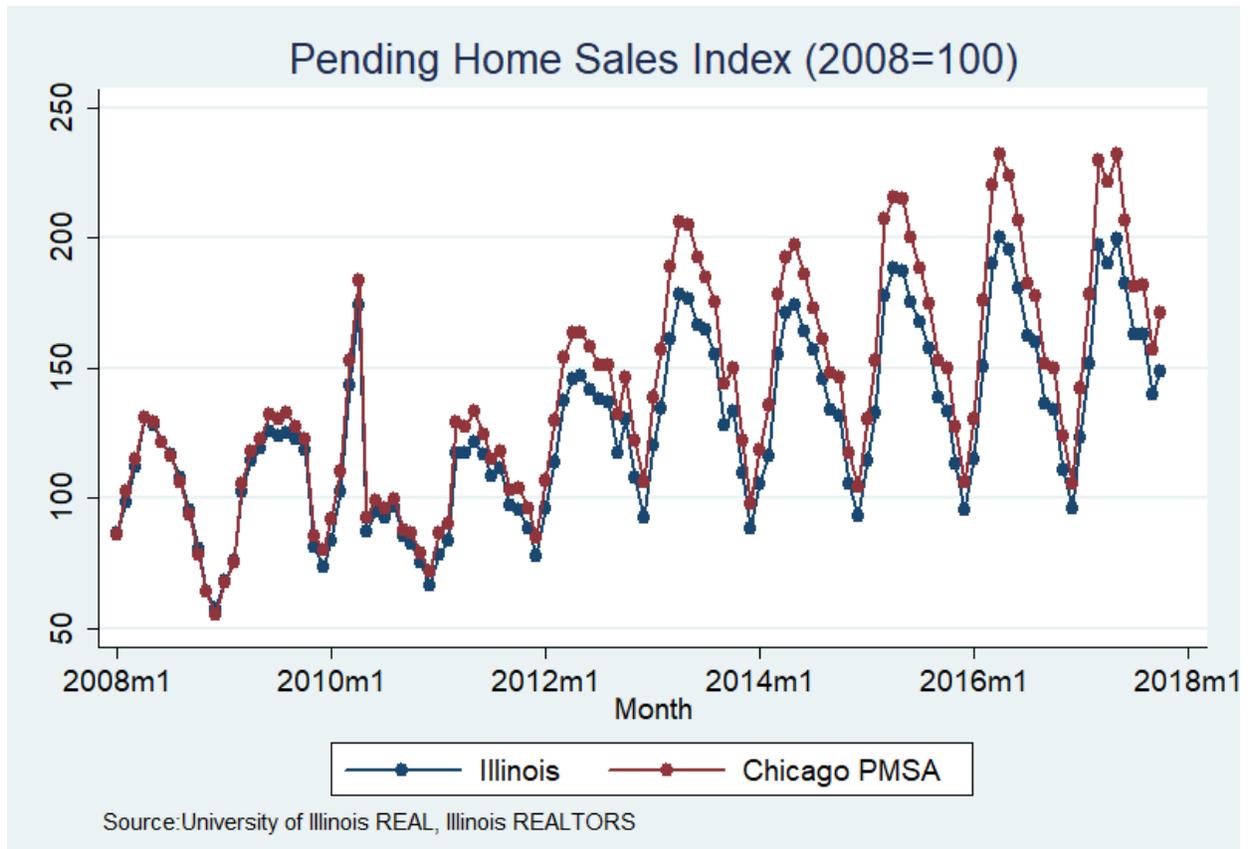




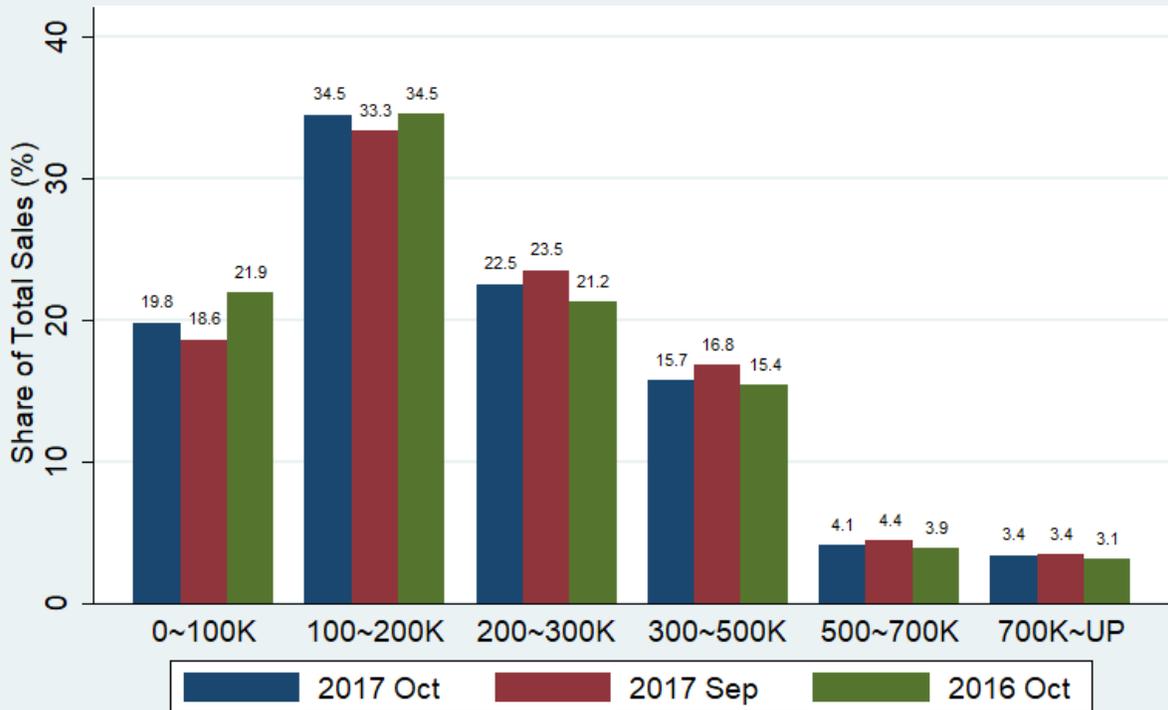
Source: University of Illinois REAL, Illinois REALTORS



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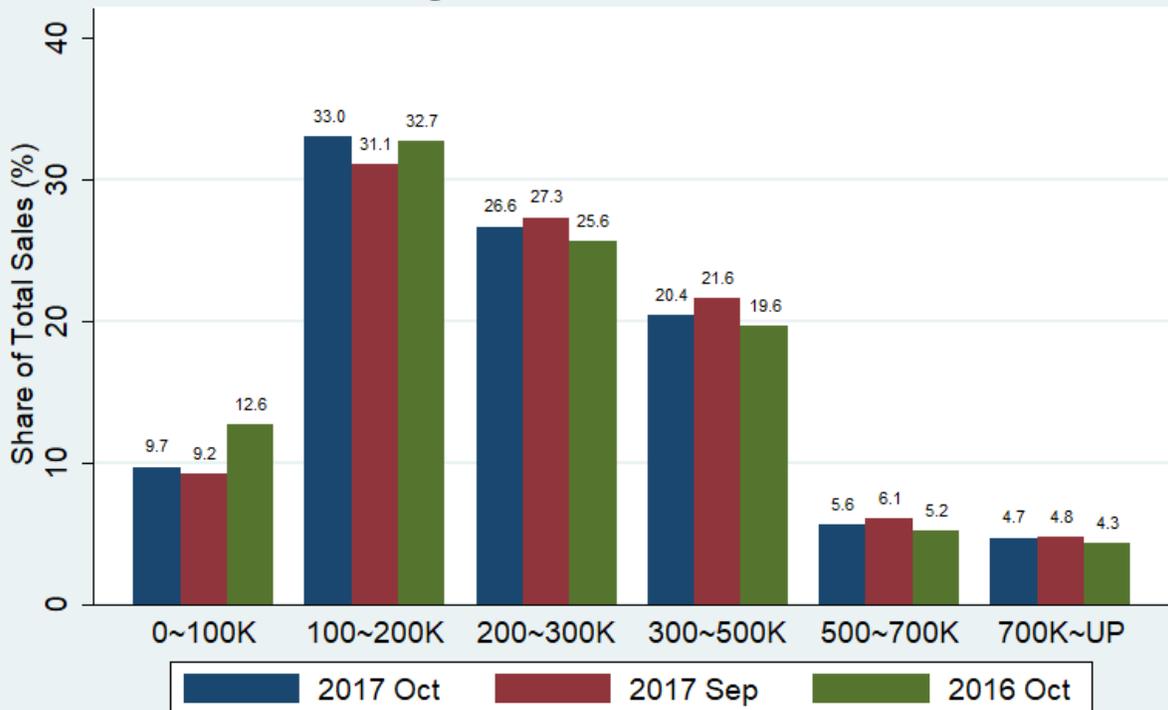


Illinois Price Stratification



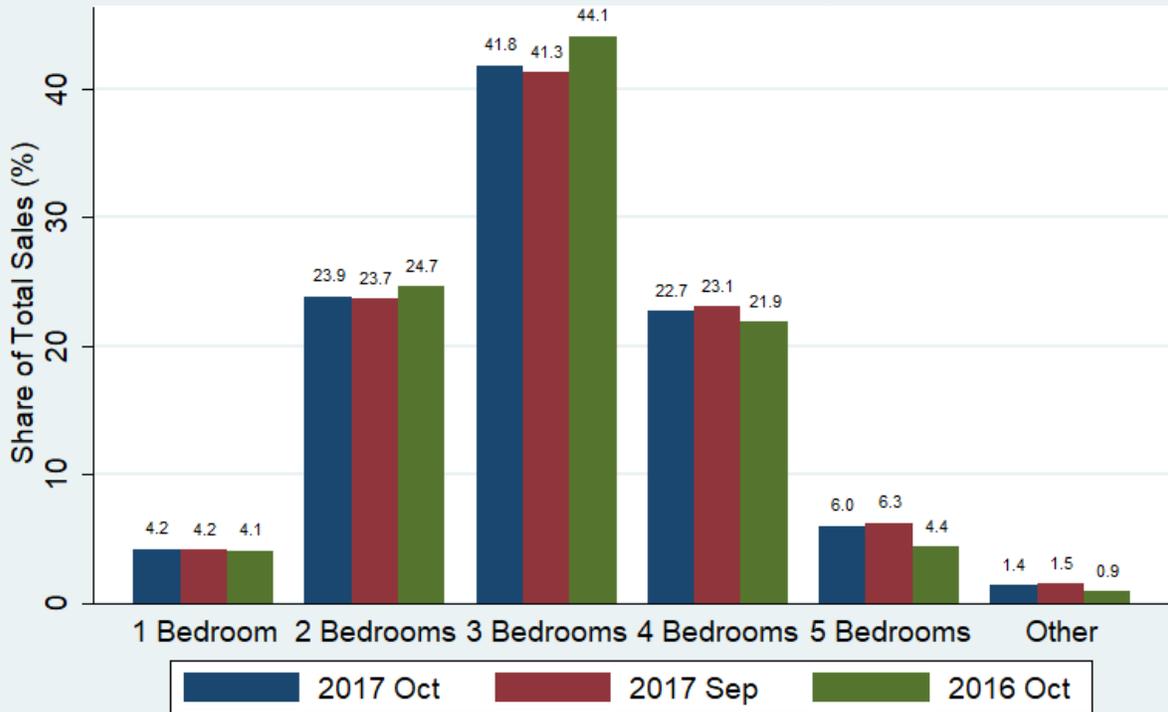
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Chicago PMSA Price Stratification



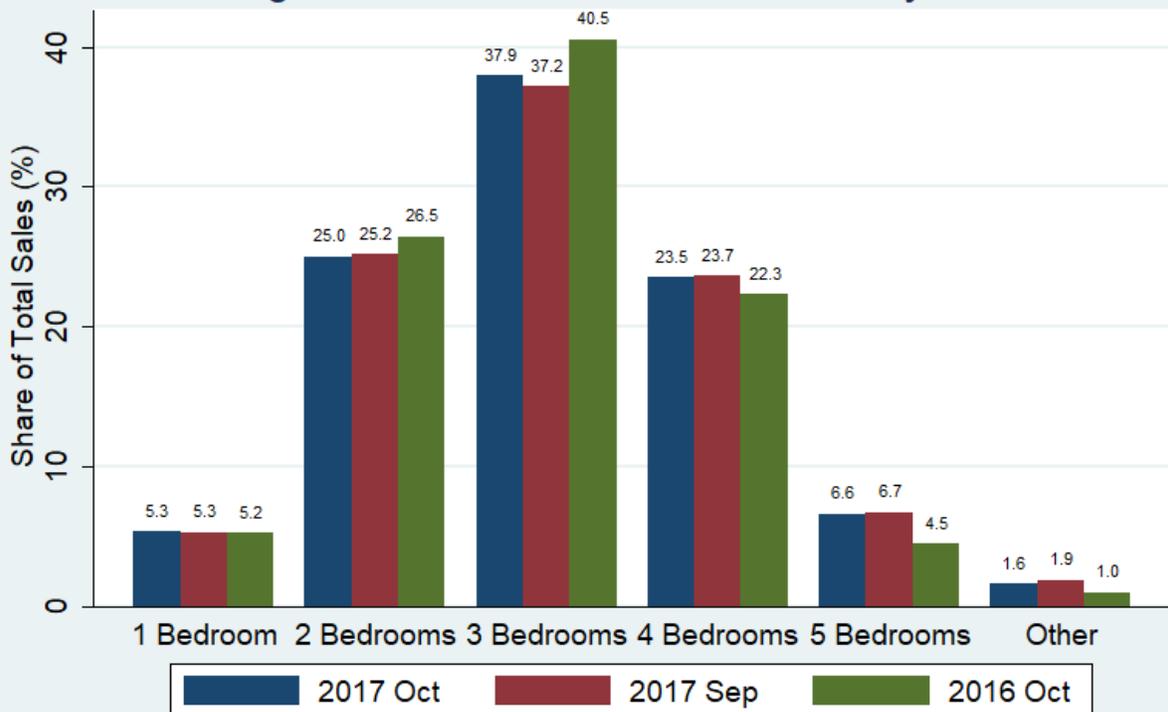
Source: University of Illinois REAL, Illinois REALTORS

Illinois House Characteristics by Bedroom



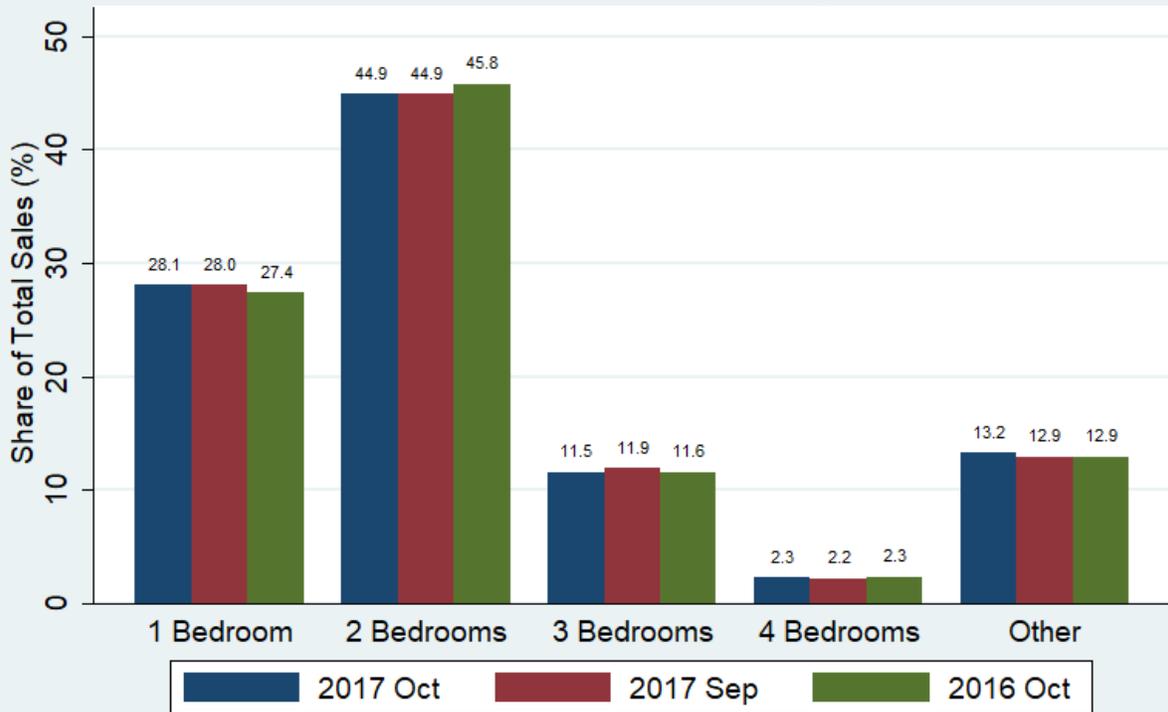
Source: University of Illinois REAL, Illinois REALTORS

Chicago PMSA House Characteristics by Bedroom



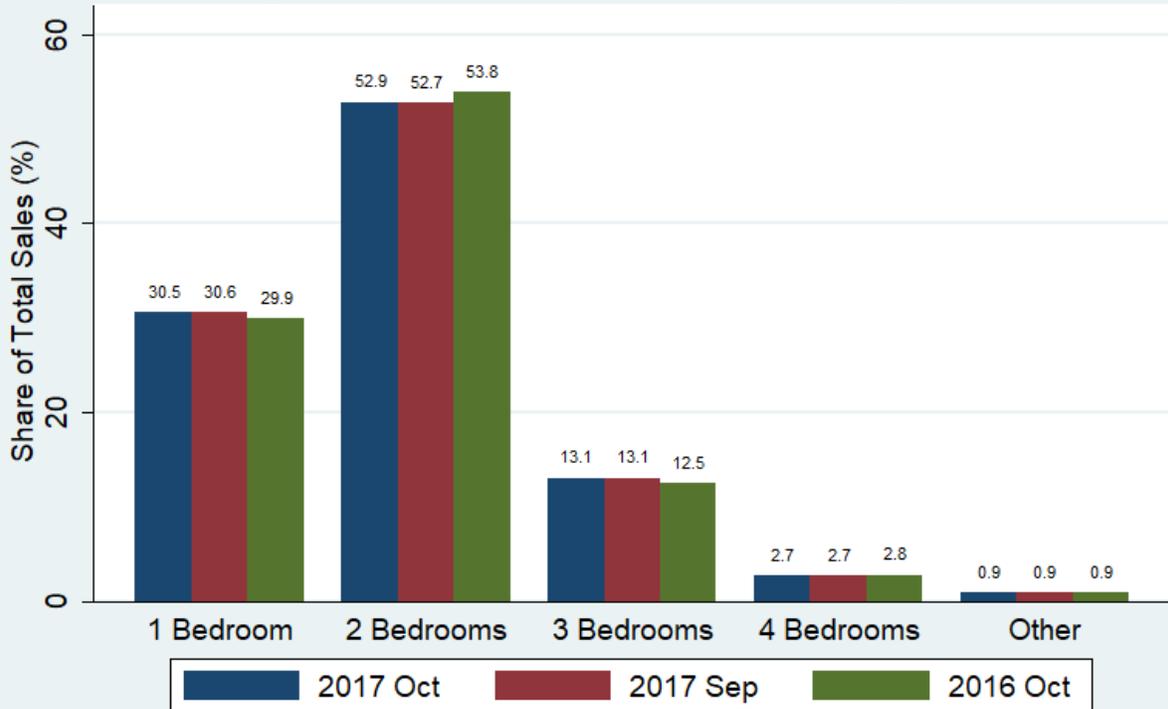
Source: University of Illinois REAL, Illinois REALTORS

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

Illinois Bedroom Shares by Sale Price Stratification



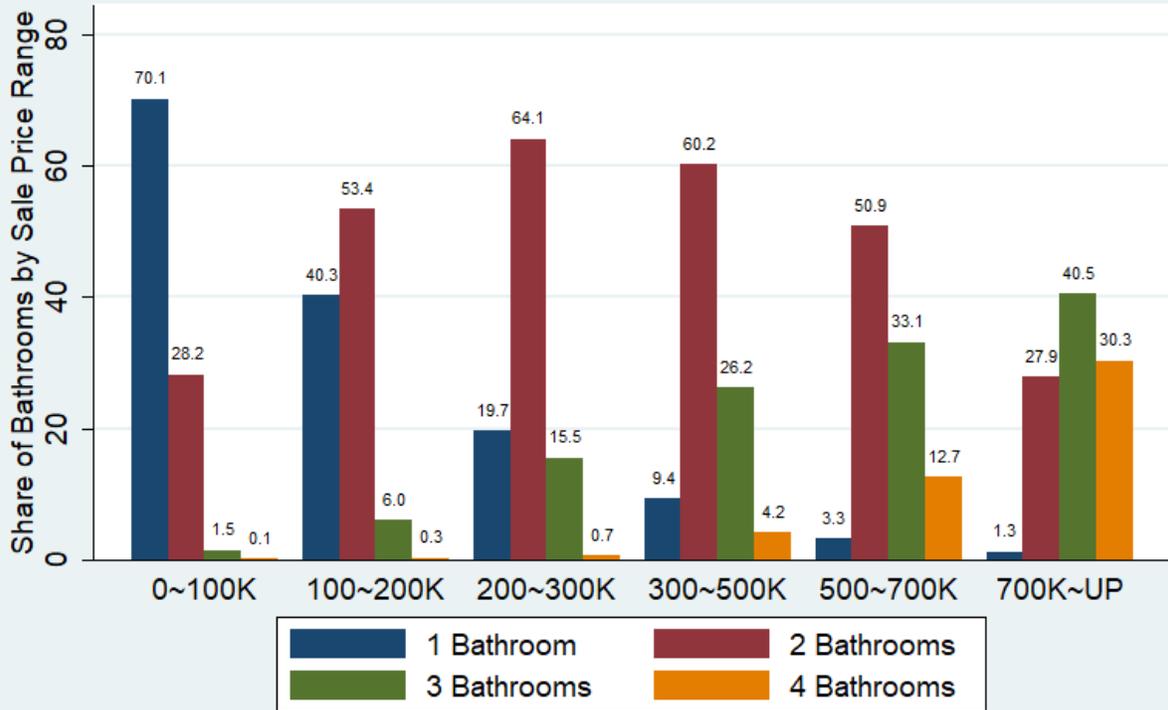
Source: University of Illinois REAL, Illinois REALTORS

Chicago PMSA Bedroom Shares by Sale Price Stratification



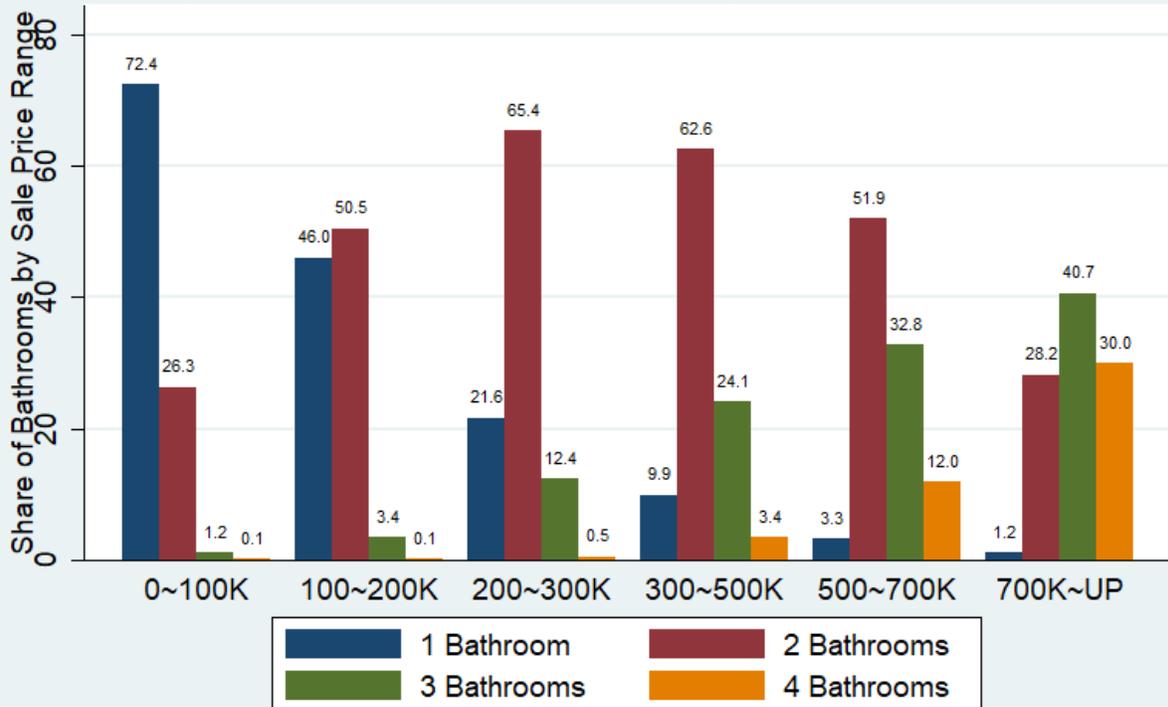
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Illinois Bathroom Shares by Sale Price Stratification



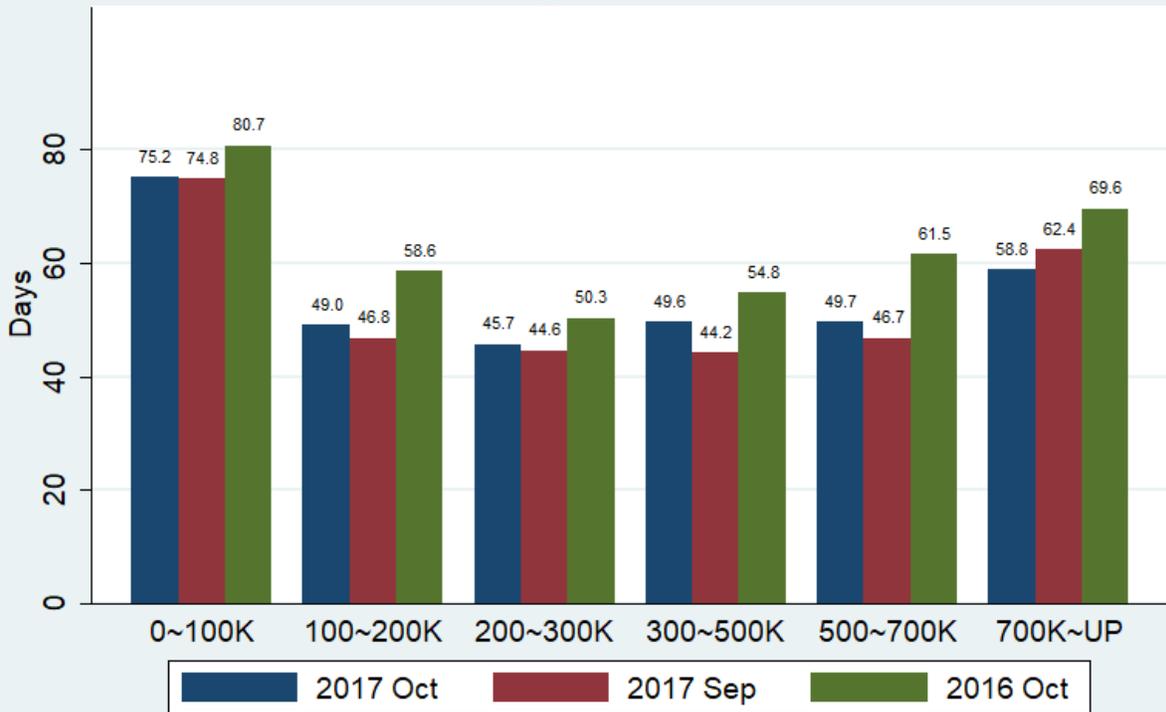
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Chicago PMSA Bathroom Shares by Sale Price Stratification



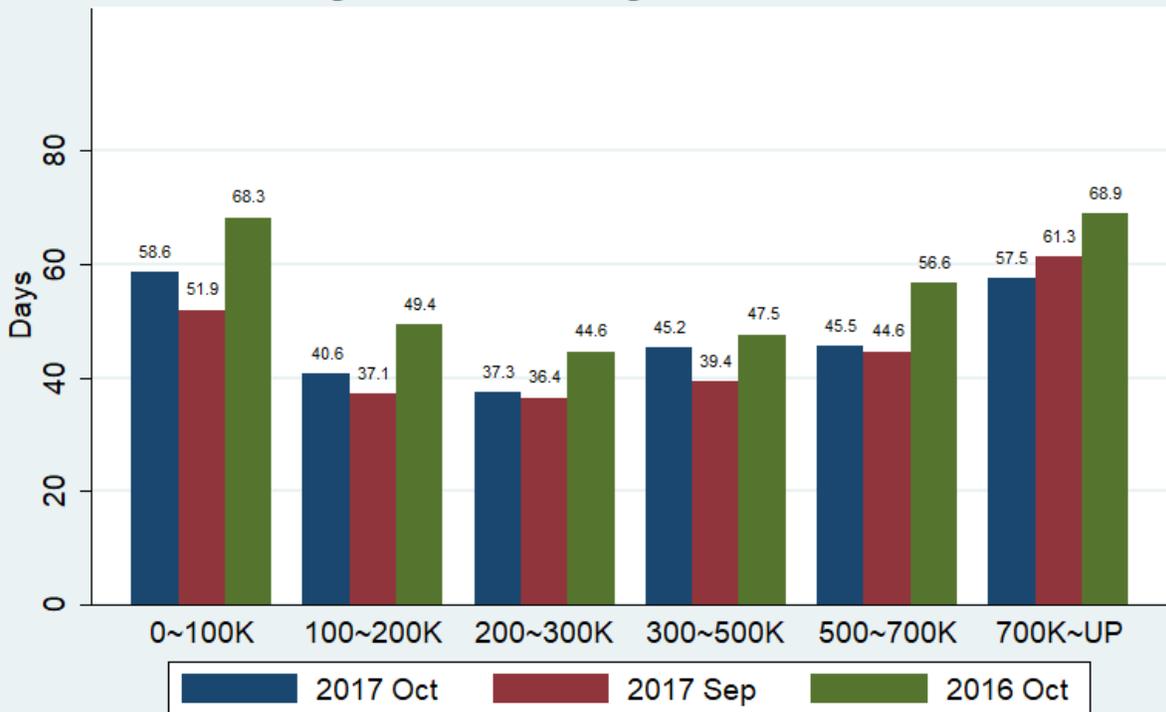
Source: University of Illinois REAL, Illinois REALTORS

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

