

Housing Price Forecasts

Illinois and Chicago PMSA, September 2017

Presented To
Illinois Realtors®

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Housing Price Forecast: Illinois and Chicago PMSA, September 2017

The Housing Market

In August, median prices continue to experience positive growth while sales experienced negative annual change. 16,196 houses were sold in Illinois, changing by 1.6% from a month ago and -3.4% from a year ago. In the Chicago PMSA, 11,660 houses were sold, changing by 1.3% from a month ago and -3.9% from a year ago. The median price was \$200,456 in Illinois, up 5.0% from August last year; the comparable figure for the Chicago PMSA was \$239,900, up 4.3% from this time last year.

In August, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 8.4%. 10,566 regular sales were made, 2.0% less than last year. 1,013 foreclosed properties were sold, 15.4% less than last year. The median price was \$249,900 for regular property sales, 3.0% more than last year; the comparable figure for the foreclosed properties was \$155,000, up 5.2% from this time last year.

Illinois and Chicago PMSA both have already recovered to their pre-bubble levels. The median sales price in August 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 August 2008 median sales price was \$165,000 (in \$2008) and \$186,906 (in \$2017); the current price level was 107% of the 2008 level after adjusting (121% before adjusting). In the Chicago PMSA, the August 2008 median sales price was \$205,000 (in \$2008) and \$232,216 (in \$2017); the comparable figure for price recovery in August 2017 is 103% after adjustment (117% before adjusting).

The sales forecast for September, October and November 2017 suggests increases on a yearly basis and decreases on a monthly basis for Illinois, a typical pattern for this time of the year. Annually for Illinois, the three-month average forecasts point to an increase in the range 3.2% to 4.4%; the comparative figures for the Chicago PMSA are an increase in the range 3.5% to 4.7%. On a monthly basis, the three-month average sales are forecast to decrease in the range -7.9% to -10.7% for Illinois and decrease in the range -8.1% to -11.0% for the Chicago PMSA.

The pending home sales index¹ is a leading indicator based on contract signings. This August, the number of homes put under contract was greater than last year. The pending home sales index is 173.0 (2008=100) in Illinois, up 8.1% from a year ago. In the Chicago PMSA, the comparable figure is 200.1, up 12.5% from a year ago. At the latest average annual pending sales rate, Illinois had enough housing inventory for 4.4 months² (down from 5.0 months a year ago). In the Chicago PMSA, the comparable figure was 3.3 months (down from 3.9 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 September, October and November. In Illinois, the median price is forecast to rise by 5.5% in September, 4.9% in October and 4.2% in November. For the Chicago PMSA, the comparable figures are 5.4% in September, 4.2% in October and 3.0% in November. 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 6.2% in September, 6.8% in October and 5.8% in November. The comparable figures for the Chicago PMSA are 7.5% in September, 8.2% in October and 8.6% in November. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month.

In August, two consumer sentiment indices both increased. The Conference Board Consumer Confidence Index survey explained that consumers’ appraisal of current conditions improved in August and those saying business conditions are “good” increased moderately. Consumers’ assessment of the labor market was also more upbeat. The University of Michigan Consumer Sentiment Index survey indicated that the renewed strength was mainly due to consumers’ favorable assessments of their own financial situations. Low unemployment, inflation, and interest rates, as well as renewed gains in the value of their homes and stock portfolios, pushed personal financial evaluations to near all-time peaks. The more housing specific sentiment index, the Fannie Mae Home Purchase Sentiment Index (HPSI) also increased and their survey explained that the rise can be attributed primarily to increases in two of the six HPSI components: the good time to sell component and the mortgage rates expectations component.

The Housing Market – Current Condition

- In August, median prices continue to experience positive growth while sales experienced negative annual change. 16,196 houses were sold in Illinois, changing by 1.6% from a month ago and -3.4% from a year ago. In the Chicago PMSA, 11,660 houses were sold, changing by 1.3% from a month ago and -3.9% from a year ago. The median price was \$200,456 in Illinois, up 5.0% from August last year; the comparable figure for the Chicago PMSA was \$239,900, up 4.3% from this time last year. (Reference: Illinois and Chicago PMSA Total Home Sales and Median Home Sales Price figures; Forecast for September 2017 report table)
- In August, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 8.4%. 10,566 regular sales were made, 2.0% less than last year. 1,013 foreclosed properties were sold, 15.4% less than last year. The median price was \$249,900 for regular property sales, 3.0% more than last year; the comparable figure for the foreclosed properties was \$155,000, up 5.2% from this time last year. (Reference: Ratio of Foreclosed Sales over Total Sales, Sales & Median Prices: Foreclosed vs. Regular figures)
- In August, at the latest average annual pending sales rate, Illinois had enough housing inventory for 4.4 months⁴ (down from 5.0 months a year ago). In the Chicago PMSA, the comparable figure was 3.3 months (down from 3.9 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 August, 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 18.5% 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 7.6% from 10.5% 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 September, October and November. In Illinois, the median price is forecast to rise by 5.5% in September, 4.9% in October and 4.2% in November. For the Chicago PMSA, the comparable figures are 5.4% in September, 4.2% in October and 3.0% in November. (Reference: Forecast for September 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 6.2% in September, 6.8% in October and 5.8% in November. The comparable figures for the Chicago PMSA are 7.5% in September, 8.2% in October and 8.6% in November. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month. (Reference: Housing Price Index)
- The sales forecast for September, October and November 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 3.2% to 4.4%; the comparative figures for the Chicago PMSA are an increase in the range 3.5% to 4.7%. On a monthly basis, the three-month average sales are forecast to decrease in the range -7.9% to -10.7% for Illinois and decrease in the range -8.1% to -11.0% for the Chicago PMSA. (Reference: Forecast for September 2017 report table)
- The pending home sales index⁶ is a leading indicator based on contract signings. This August, the number of homes put under contract was greater than last year. The pending home sales index is 173.0 (2008=100) in Illinois, up 8.1% from a year ago. In the Chicago PMSA, the comparable figure is 200.1, up 12.5% from a year ago. (Reference: Illinois and Chicago PMSA Pending Home Sales Index figure)
- In August 2017, 2,033 houses were newly filed for foreclosure in the Chicago PMSA (up 5.6% and up 37.1% respectively from a year and a month ago). 1,446 foreclosures were completed⁷ (up 1.0% and up 22.4% respectively from a year and a month ago). As of August 2017, there are 32,455 homes at some stage of foreclosure — the foreclosure inventory. The monthly average net flows of foreclosures (foreclosure inflows - outflows) were 582 in the past 6 months, 525 in the last 12 months and 355 in the last 24 months. (Reference: Chicago PMSA Foreclosure Inflows and Outflows, and Inventory figures).

The Economy

- In August 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 156,000 jobs. The employment gains in August were spearheaded by manufacturing (36,000), followed by construction (28,000), and professional and technical services (22,000).

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 August 2017, according to the Illinois Department of Employment Security (IDES) news release, the Illinois unemployment rate increased to 5.0%. Non-farm payroll jobs decreased by -3,700 over the month. The largest declines were in three sectors, leisure and hospitality (-9,900), professional and business services (-3,300) and manufacturing (-3,000). Furthermore, the job growth in July was revised from the preliminary estimate of +2,100 jobs to +600 jobs.
- In July 2017, the one-year-ahead forecast for Illinois indicates that the non-farm employment will increase at a rate between 0.33% and 0.56%, corresponding to job gains between 19,900 and 34,100. Education and health, professional and business services, and leisure and hospitality are forecast to be the leading growth sectors.
- In August 2017, mortgage applications for new-home purchases rose solidly, according to the Mortgage Bankers Association (MBA). “Mortgage applications for new homes rebounded a bit in August, as lower than expected interest rates and growth in existing home prices continue to fuel demand, sustaining year to date growth in applications of more than 7 percent compared to 2016,” said Lynn Fisher, MBA’s vice president of research and economics. However, more than a third of the applications came from Texas and Florida. “It is unclear what impact hurricanes Harvey and Irma will have on housing starts in the region in coming months, but it is likely that recent new home sales will be delayed in breaking ground,” Fisher said.
- In August 2017, CoreLogic reported that homes are now overvalued in more than a third of the nation’s 100 largest metros and nearly half of the country’s top 50 markets. “The combination of steadily rising purchase demand along with very tight inventory of unsold homes should keep upward pressure on home prices for the remainder of this year,” said Frank Martell, president of CoreLogic in a news release. They also reported that most economists believe that prices will continue to rise and further erode affordability as buyers compete for limited inventories for sale.

Longer-term Outlook

- In August, two consumer sentiment indices both increased. The Conference Board Consumer Confidence Index increased to 122.9 from 120.0 last month. Their survey explained that consumers’ appraisal of current conditions improved in August and those saying business conditions are “good” increased moderately. Consumers’ assessment of the labor market was also more upbeat. The University of Michigan Consumer Sentiment Index increased moderately (96.8 from 93.4 last month). Their survey indicated that the renewed strength was mainly due to consumers’ favorable assessments of their own financial situations. Lows in unemployment, inflation, and interest rates, as well as renewed gains in the value of their homes and stock portfolios, pushed personal financial evaluations to near all-time peaks.
- In August, Fannie Mae Home Purchase Sentiment Index (HPSI) increased to 88.0 from 86.8 last month. Their survey indicated the rise can be attributed primarily to increases in two of the six HPSI components: the good time to sell component and the mortgage rates expectations component. The net share who reported that now is a good time to sell a home rose moderately and the net share of those who believe mortgage rates will go down also increased. 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 97.1 in July from 96.9 in June. The rise is mainly attributed to the positive non-manufacturing job growth in the Chicago area.

“The uncertainty in the Illinois economy over the last two years has contributed to a dampening of housing demand in contrast to the generally positive outlook in the rest of the country,” noted Geoffrey J.D. Hewings, Director of the Regional Economics Applications Laboratory. “At the same time, declines in inventory are still exerting upward pressure on housing prices and thus reducing affordability.”

Forecast for September 2017 report

PERCENTAGE CHANGE FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Jun-17	2.6%	3.3%		12.1%	13.1%			
Jul-17	-2.6%	-3.3%		-18.2%	-19.9%			
Aug-17	-3.4%	-3.9%		1.6%	1.3%			
3 Month Avg.	-1.0%	-1.1%		-2.2%	-2.7%			
SUMMARY OF THE FORECAST INTERVALS FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Sep-17	0.5%	0.7%	0.8%	1.0%	-9.9%	-13.5%	-10.8%	-14.6%
Oct-17	5.6%	7.6%	6.0%	8.1%	-4.2%	-5.6%	-4.9%	-6.6%
Nov-17	3.9%	5.3%	4.1%	5.6%	-9.5%	-12.8%	-8.4%	-11.3%
3 Month Avg.	3.2%	4.4%	3.5%	4.7%	-7.9%	-10.7%	-8.1%	-11.0%
SUMMARY OF THE FORECAST FOR THE MEDIAN PRICE								
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Jun-17	\$215,101	\$252,000	Jun-16	\$203,500	\$242,500			
Jul-17	\$210,000	\$247,500	Jul-16	\$198,000	\$237,500			
Aug-17	\$200,456	\$239,900	Aug-16	\$191,000	\$230,000			
Sep-17	\$189,981	\$228,912	Sep-16	\$180,000	\$217,250			
Oct-17	\$186,673	\$224,039	Oct-16	\$178,000	\$215,000			
Nov-17	\$184,908	\$220,339	Nov-16	\$177,500	\$214,000			
ANNUAL PERCENTAGE CHANGE OF THE MEDIAN PRICE								
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Jun-17	5.7%	3.9%	Jun-16	5.5%	4.7%			
Jul-17	6.1%	4.2%	Jul-16	4.2%	5.6%			
Aug-17	5.0%	4.3%	Aug-16	6.1%	4.5%			
Sep-17	5.5%	5.4%	Sep-16	5.0%	4.7%			
Oct-17	4.9%	4.2%	Oct-16	6.3%	7.5%			
Nov-17	4.2%	3.0%	Nov-16	7.6%	9.7%			

Median Prices and Recovery

	Illinois		Chicago PMSA	
	[\$2008]	[\$2017]	[\$2008]	[\$2017]
August 2008 Median Price	\$165,000	\$186,906	\$205,000	\$232,216
August 2017 Median Price	\$176,962	\$200,456	\$211,783	\$239,900
Price Ratio (August 17/ August 08)	Adjusted	1.07	Adjusted	1.03
	Unadjusted	1.21	Unadjusted	1.17

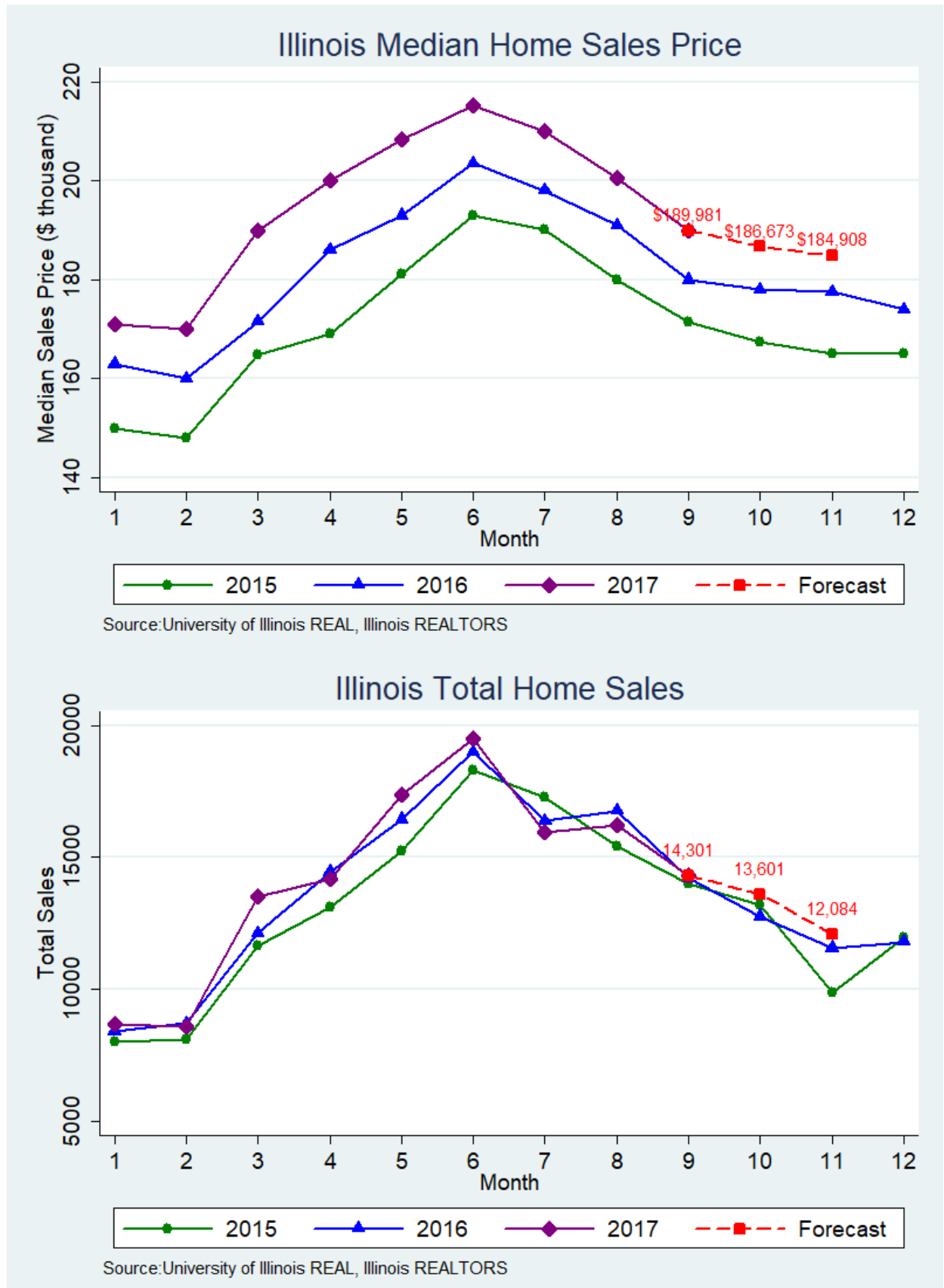
Recovery Forecasts using *Annually Growth Rates*

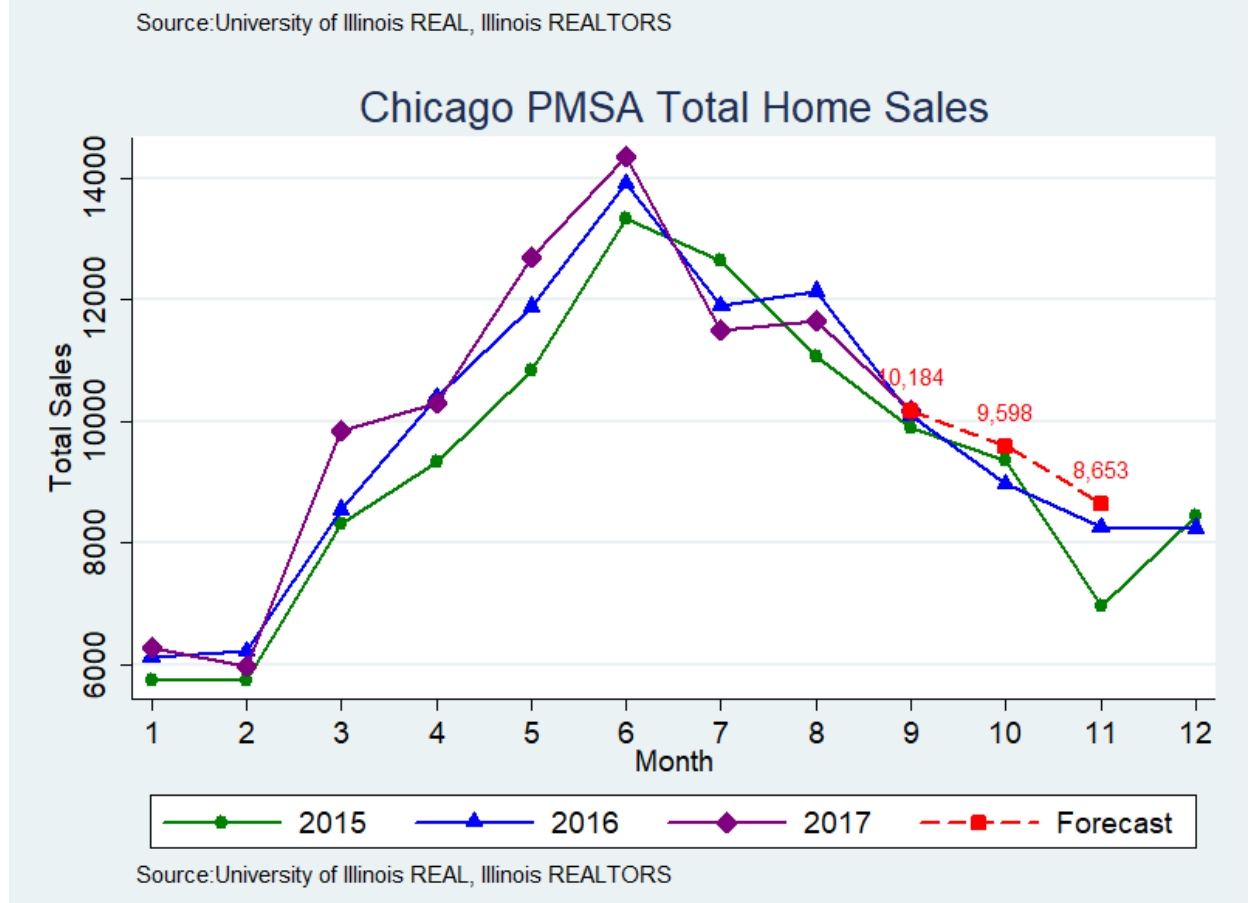
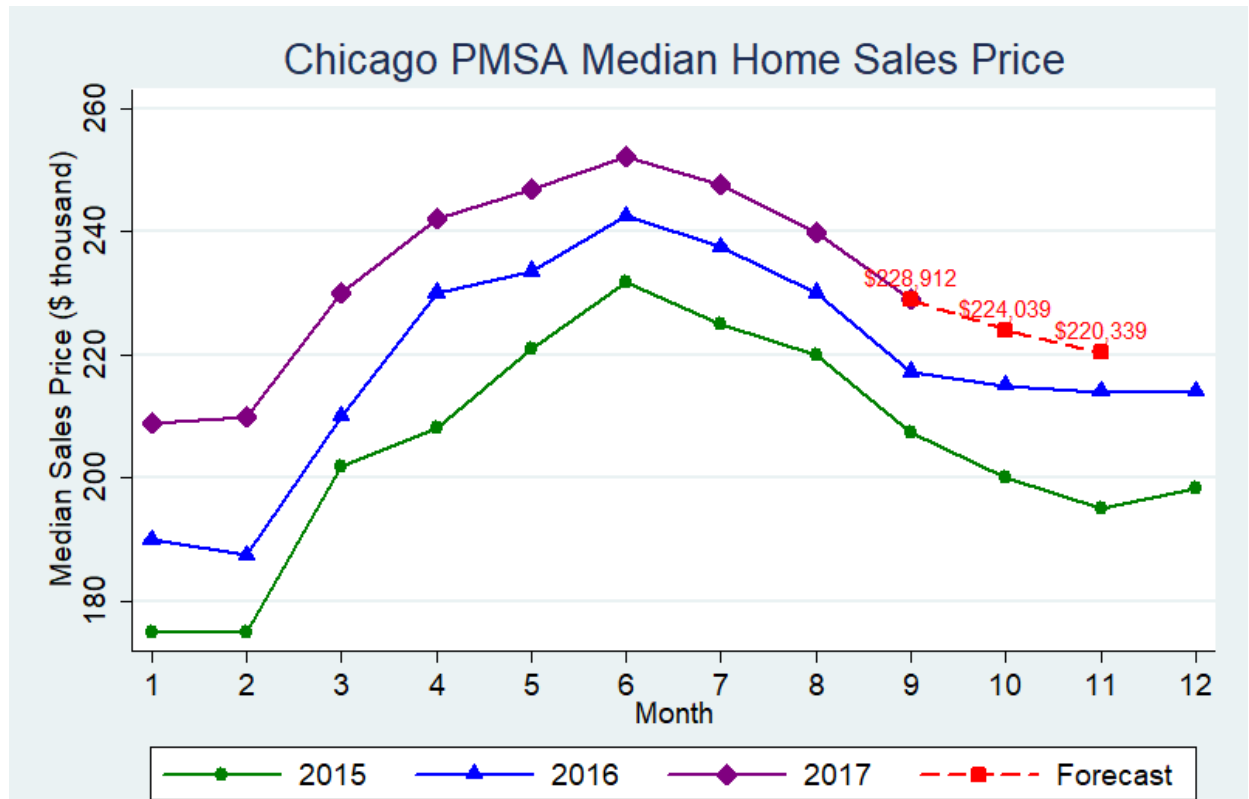
	Illinois	Chicago PMSA		
	Annual Recovery Rate*	Years to Recover**	Recovery Rate	Years to Recover
Current Month	4.2%	-1.7	2.4%	-1.4
Past 3 months	4.7%	-1.5	2.8%	-1.2
Past 6 months	5.1%	-1.4	4.5%	-0.7
Past 9 months	4.7%	-1.5	5.4%	-0.6
Past 12 months	4.6%	-1.6	5.0%	-0.7

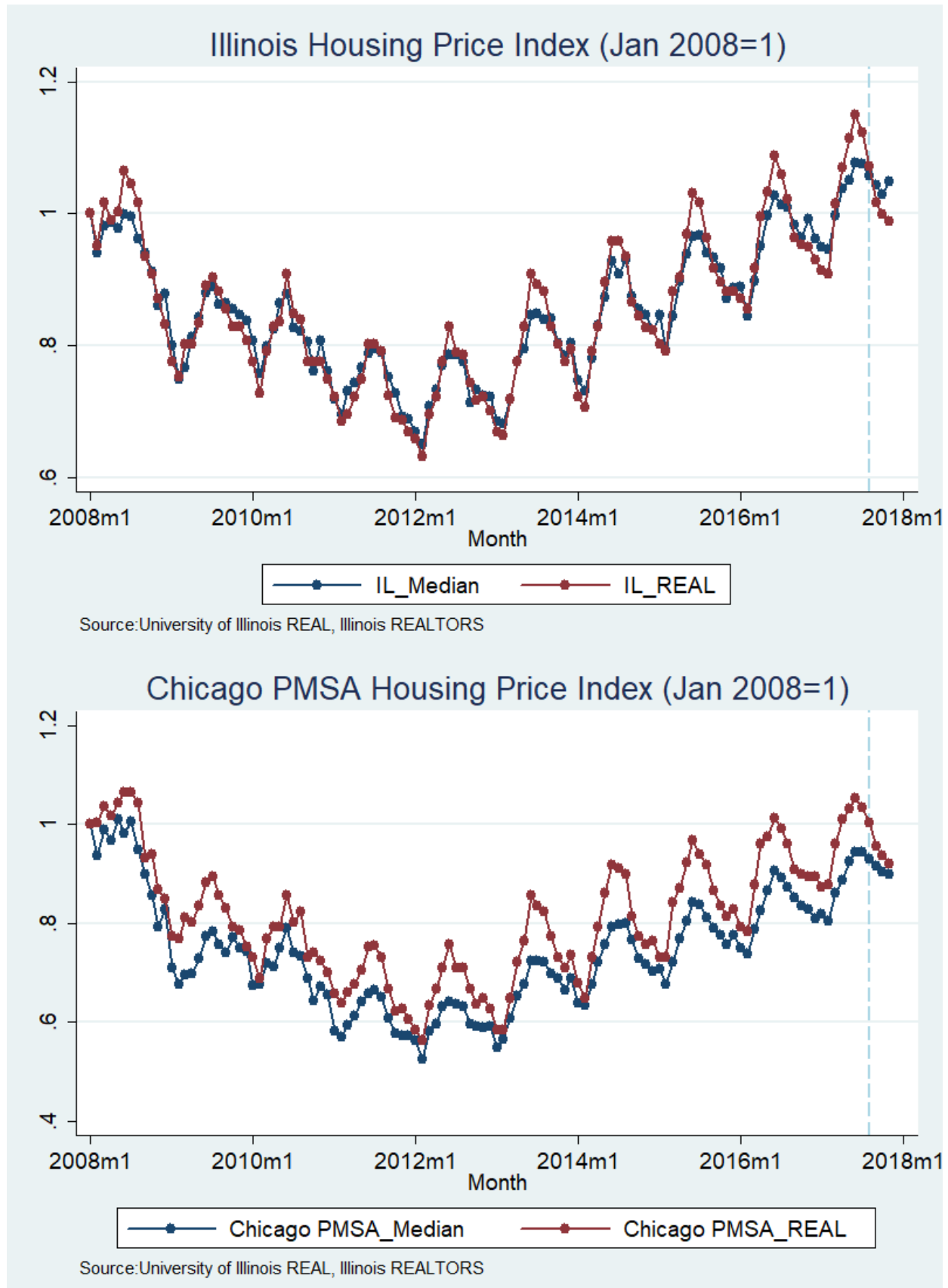
*Annual recovery rate is the average of *annual* change rates in past months

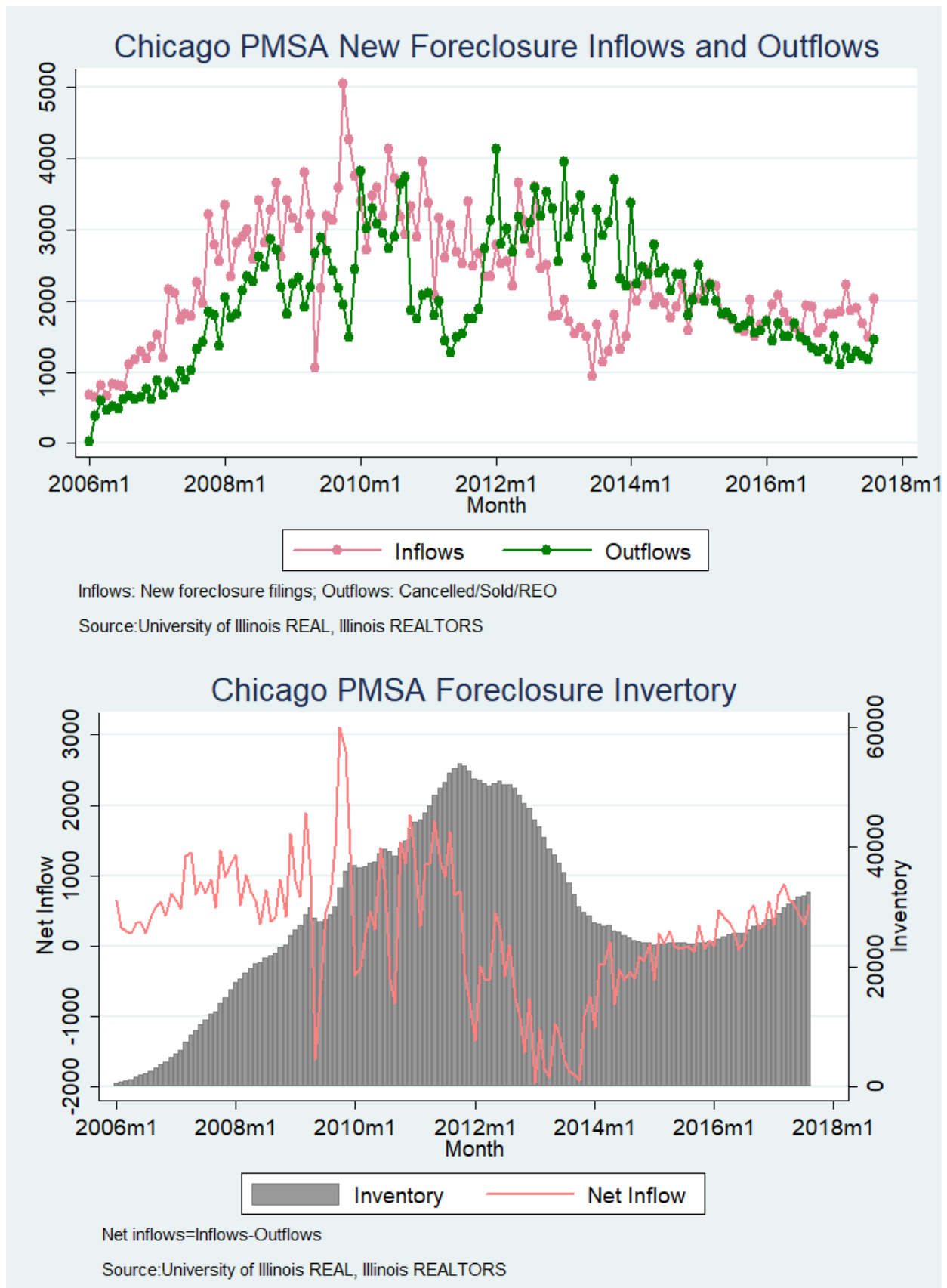
** Years to recover is calculated using the following formula:

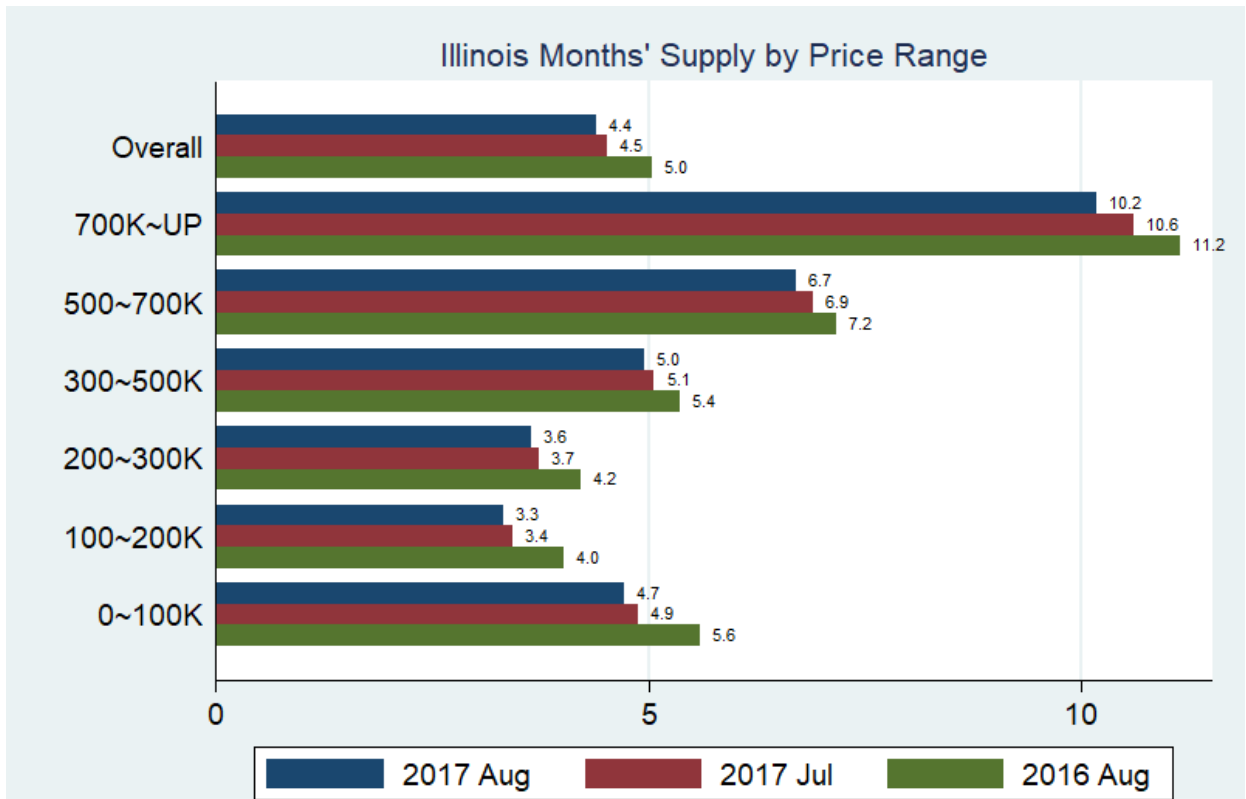
$Price_{August2017} * (1 + \text{recovery rate})^{\text{years}} = Price_{August2008}$. Prices used in the formula are inflation adjusted. The recovery rate is applied as a constant annual change rate to recoup the differences between the current month and its corresponding month in 2008.



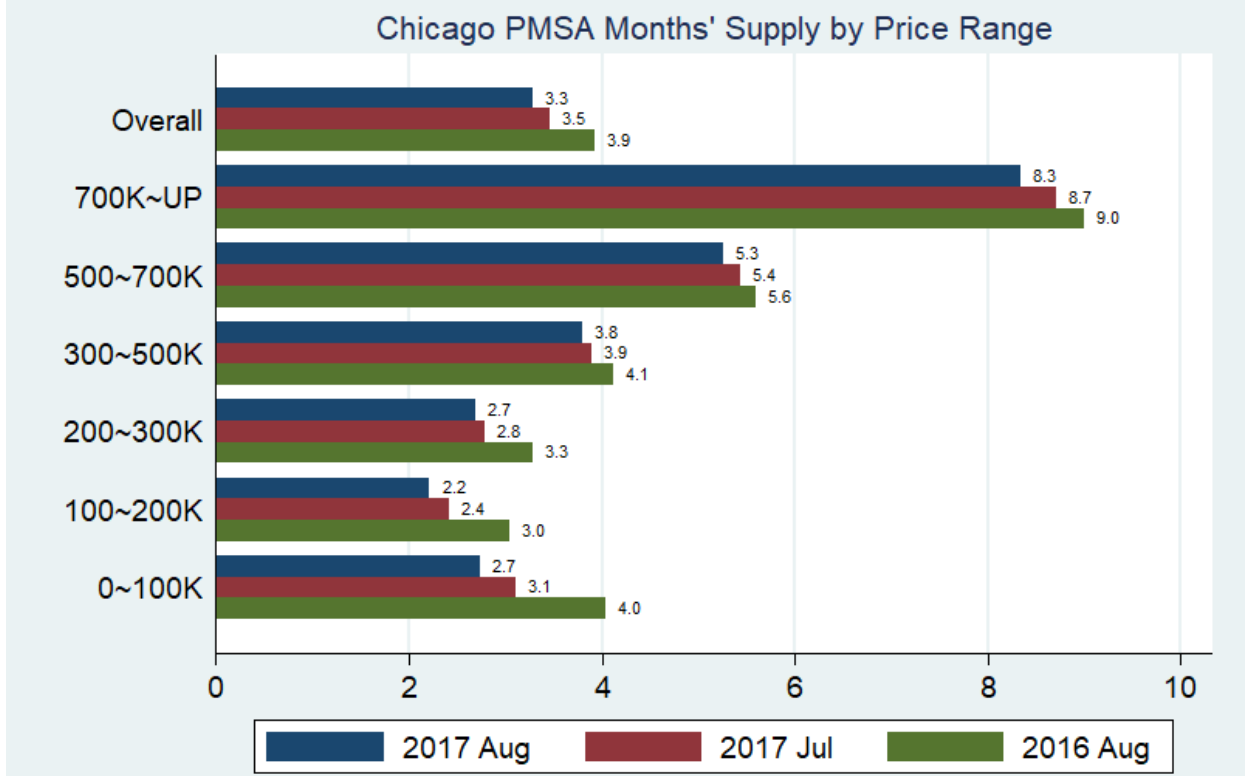




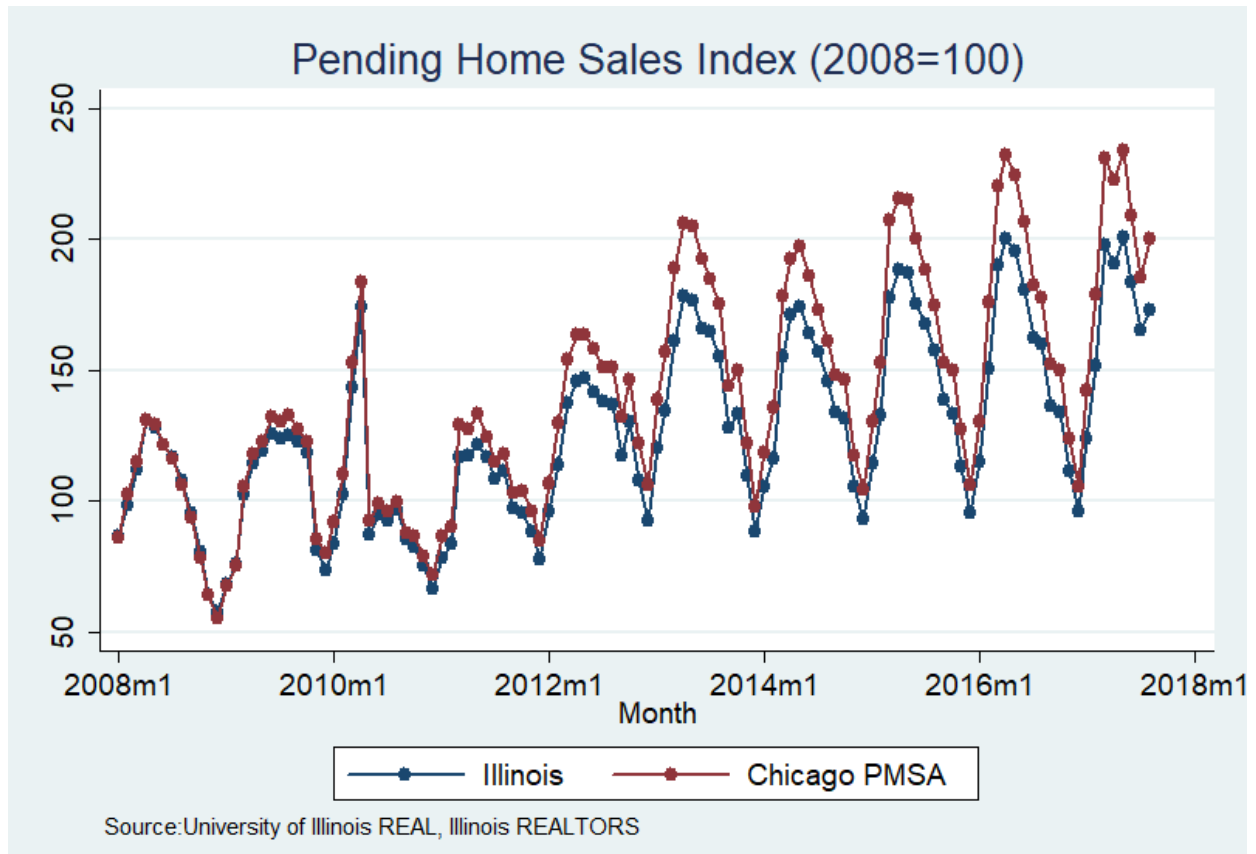


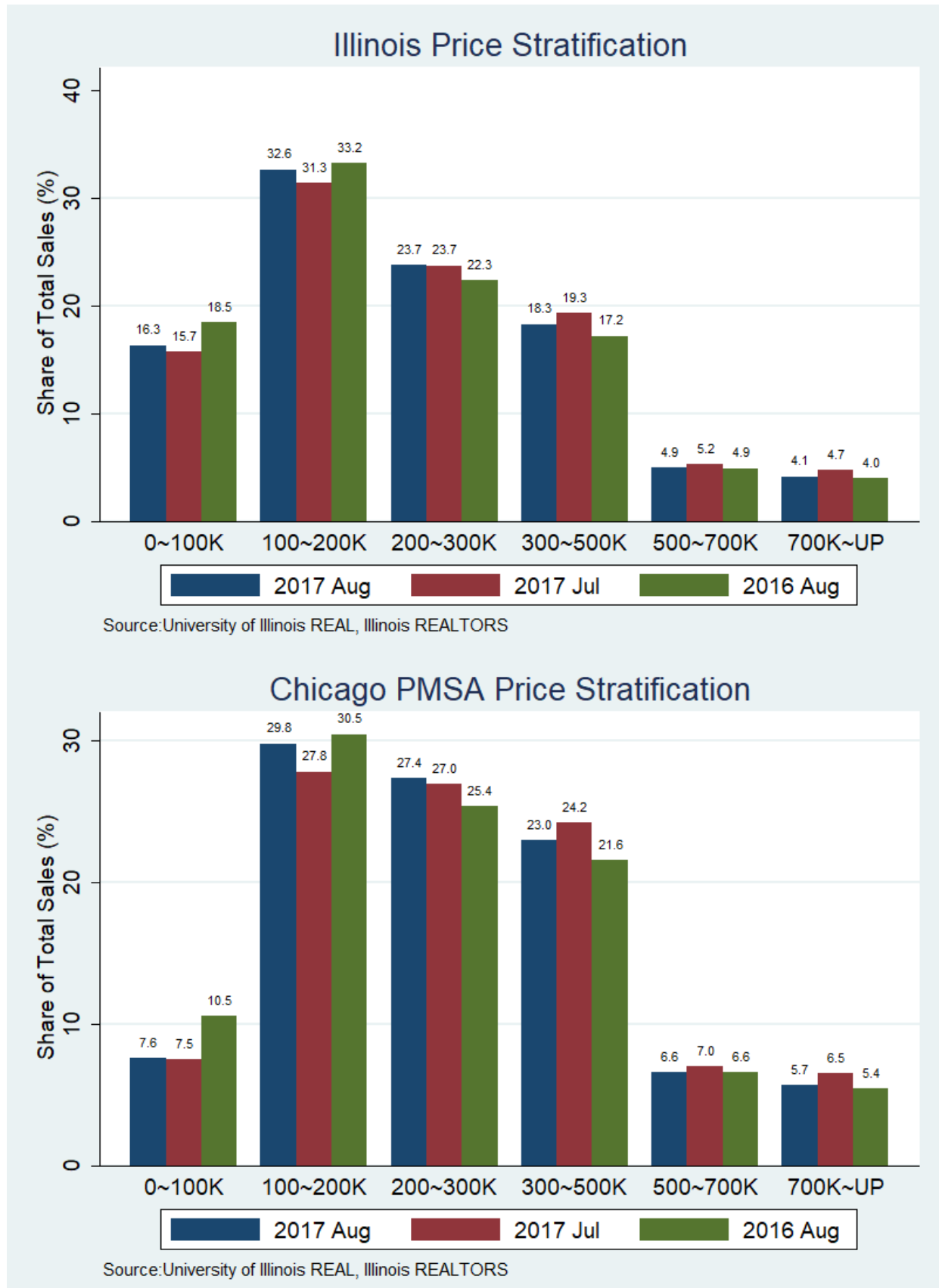


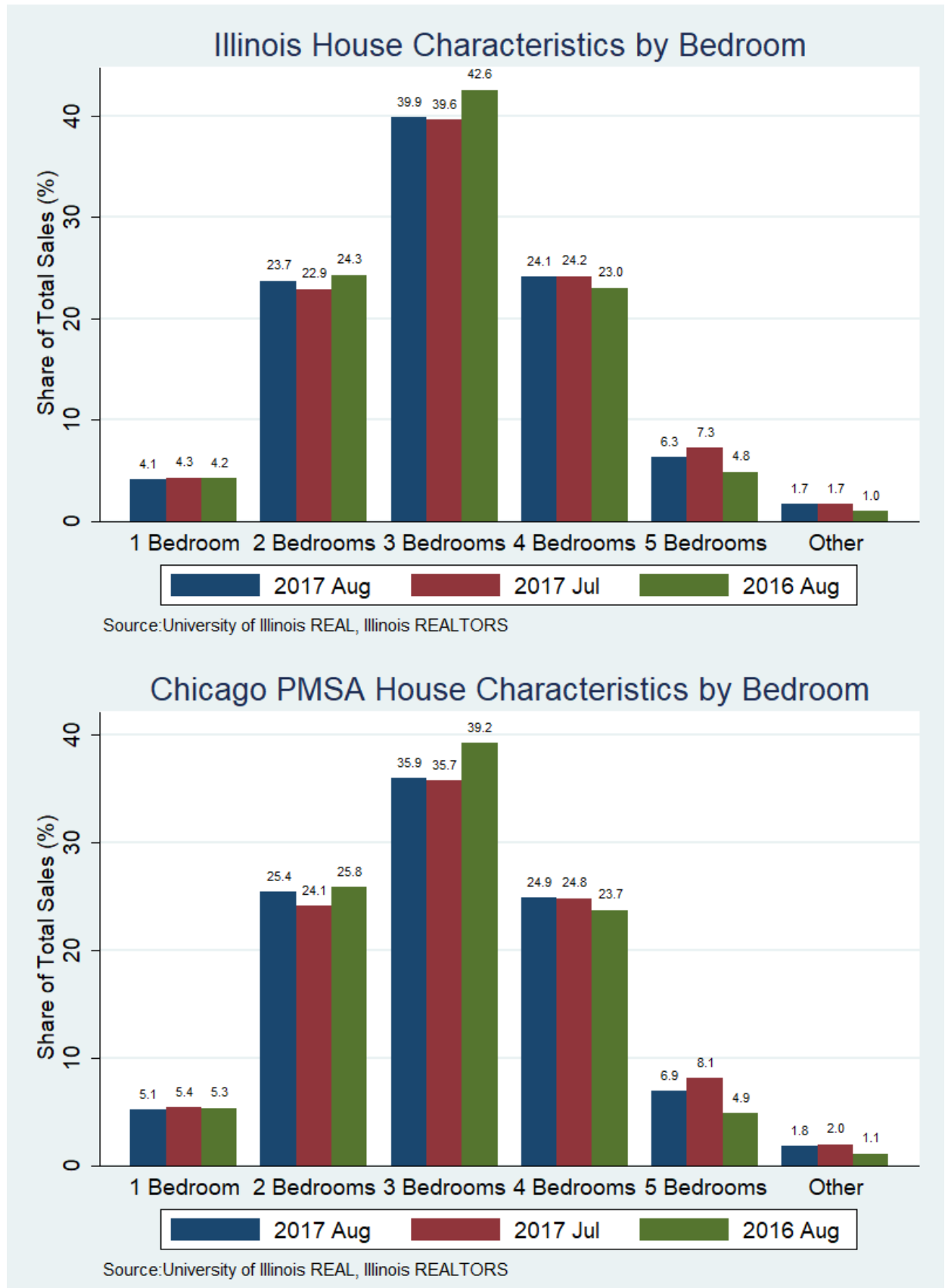
Source: University of Illinois REAL, Illinois REALTORS



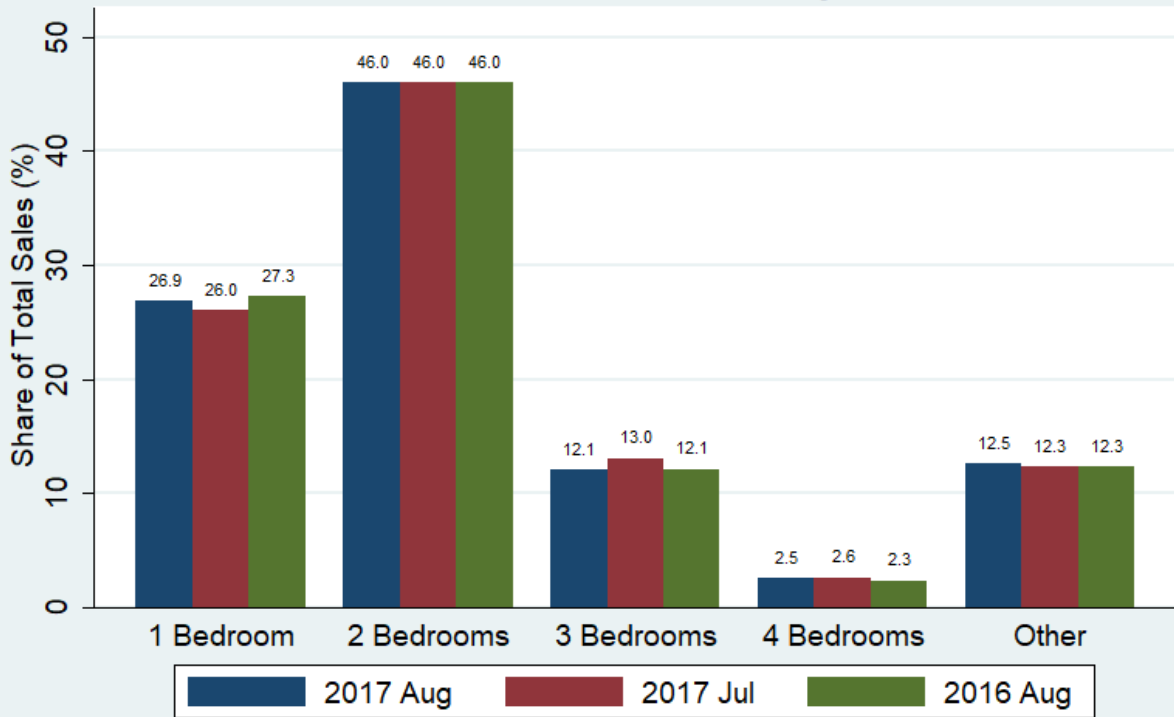
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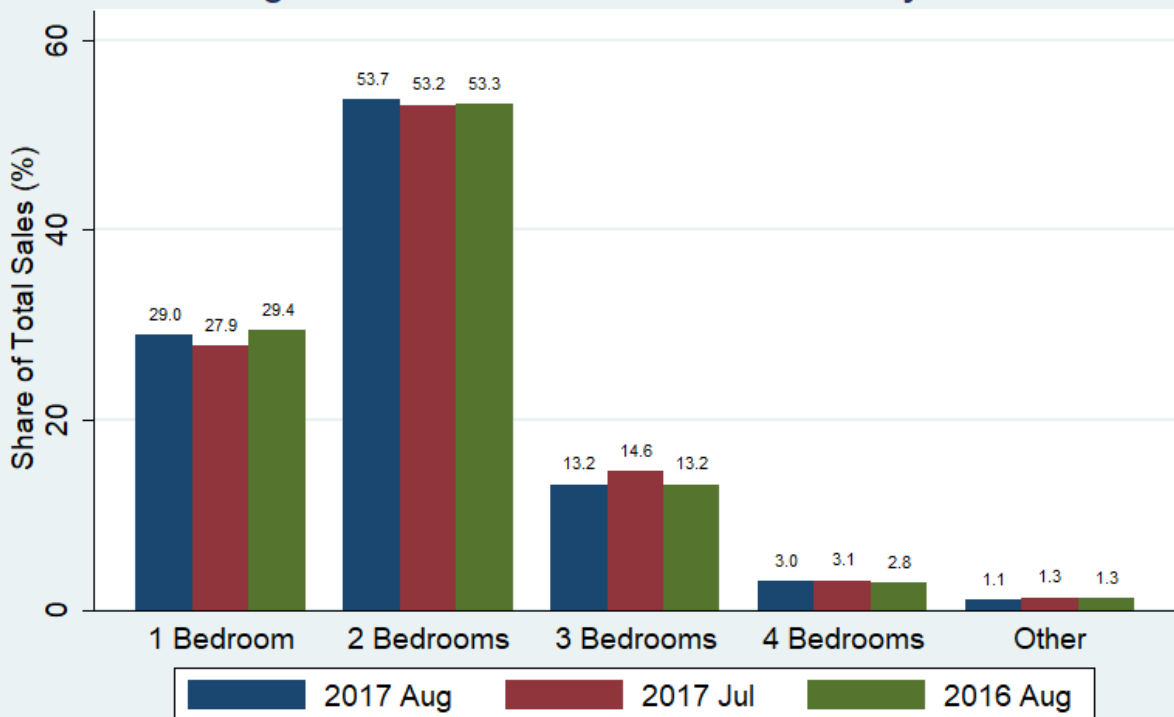


Illinois House Characteristics by Bathroom



Source: University of Illinois REAL, Illinois REALTORS

Chicago PMSA House Characteristics by Bathroom



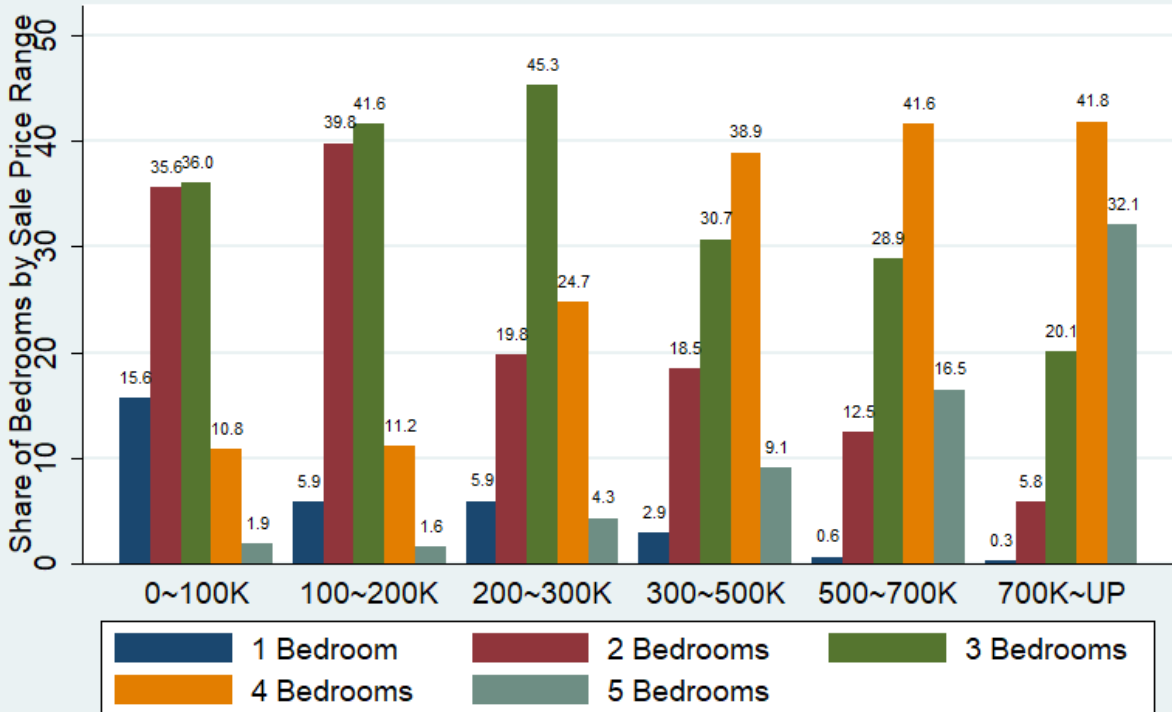
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Illinois Bedroom Shares by Sale Price Stratification



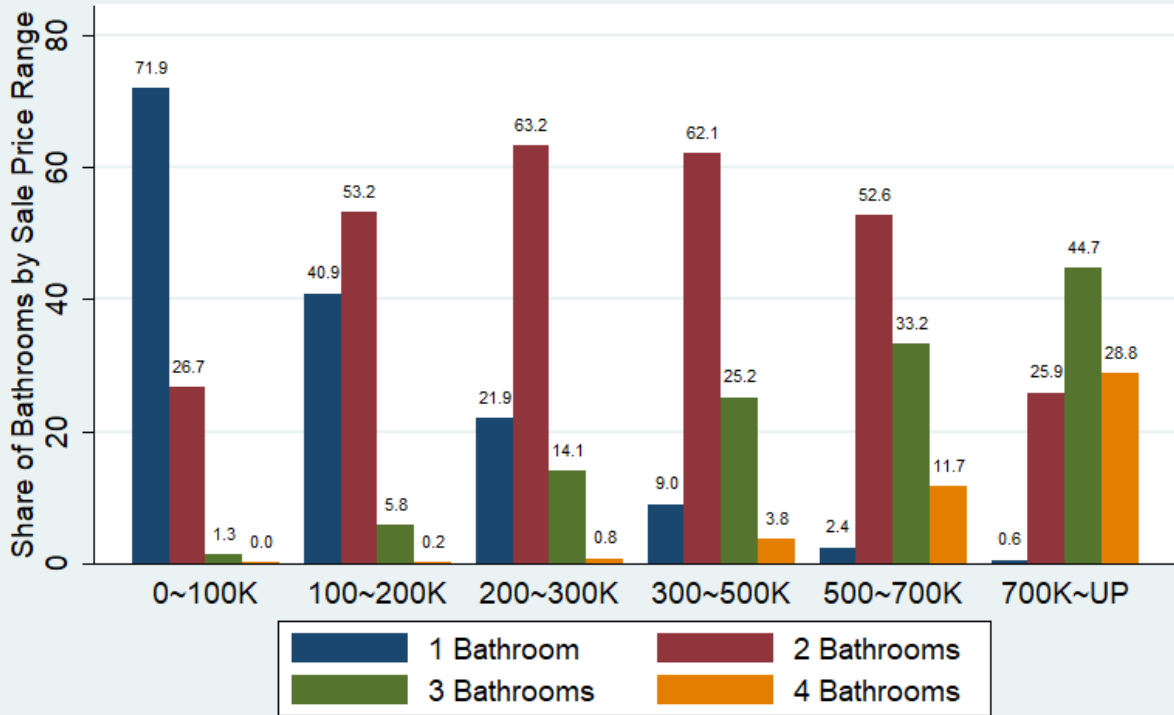
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Chicago PMSA Bedroom Shares by Sale Price Stratification



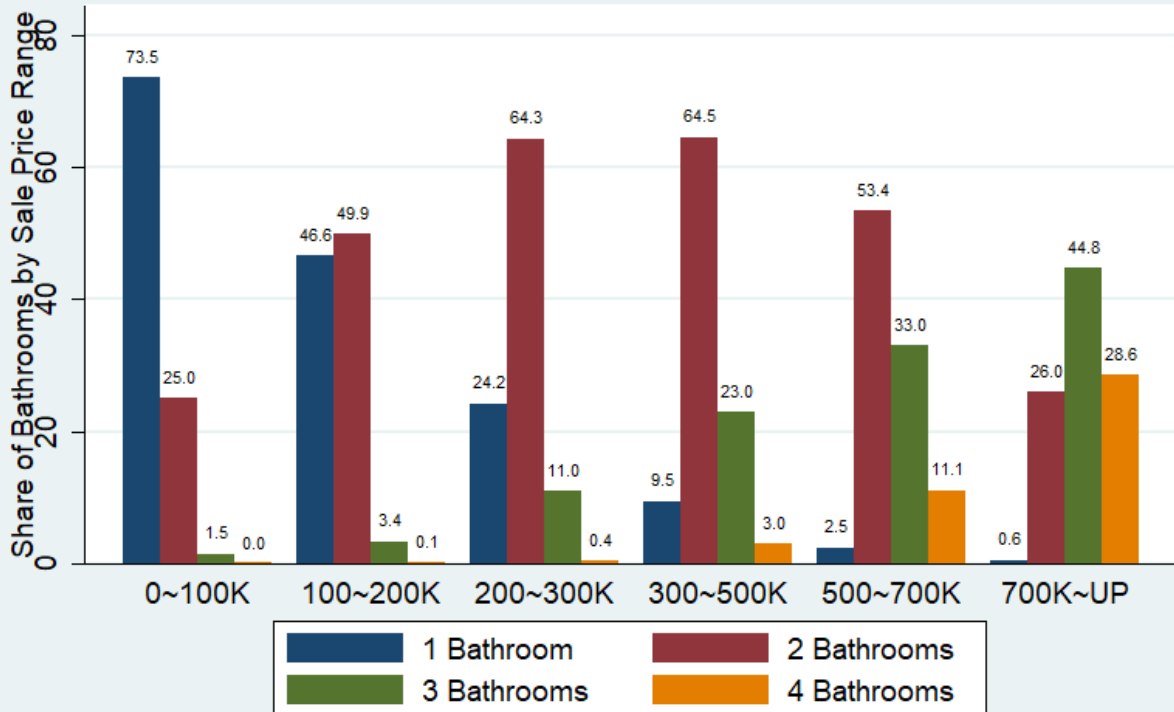
Source: University of Illinois REAL, Illinois REALTORS

Illinois Bathroom Shares by Sale Price Stratification



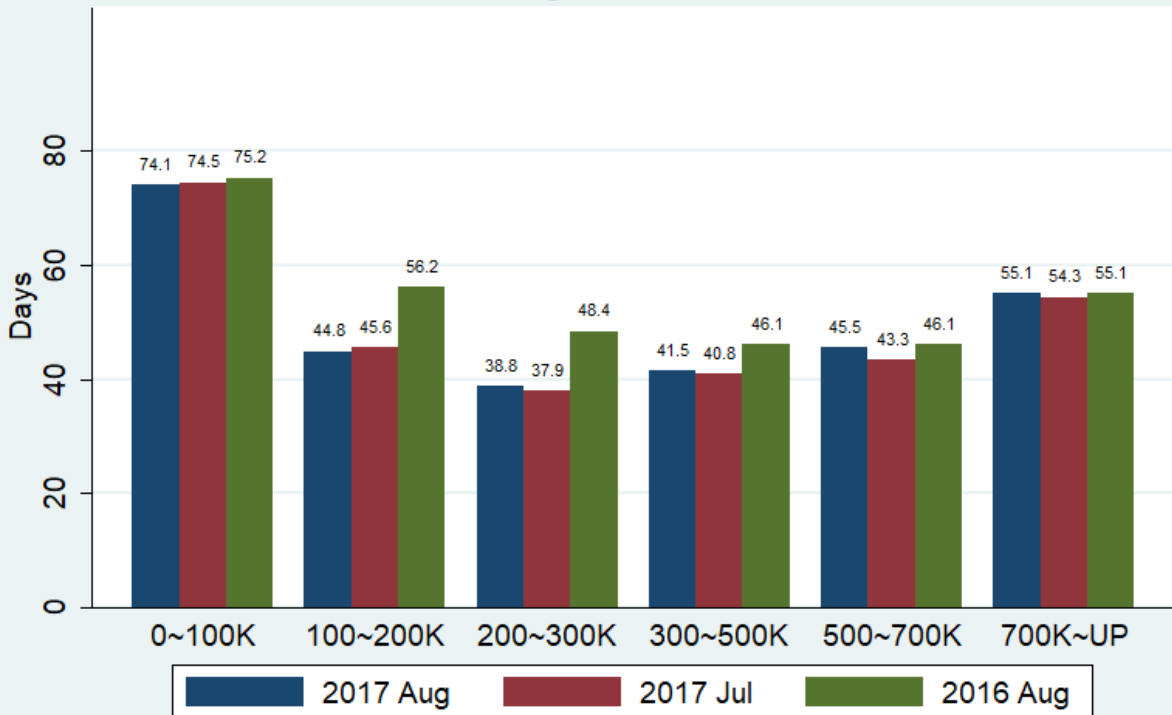
Source: University of Illinois REAL, Illinois REALTORS

Chicago PMSA Bathroom Shares by Sale Price Stratification



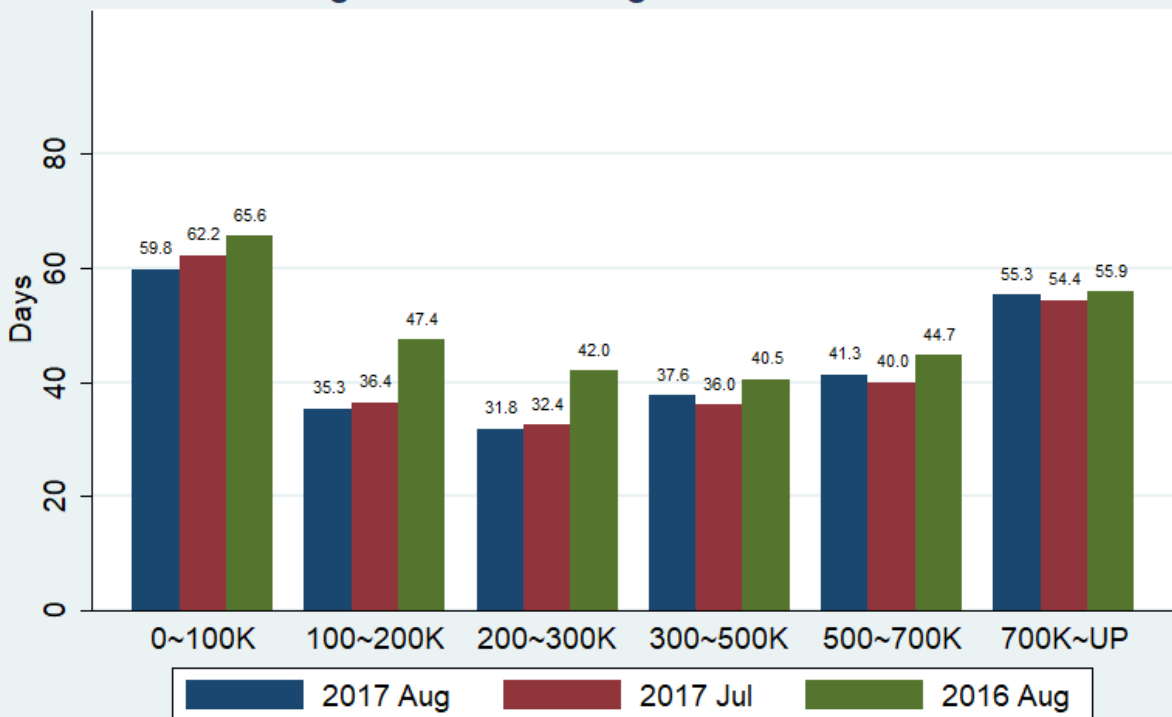
Source: University of Illinois REAL, Illinois REALTORS

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

