

Housing Price Forecasts

Illinois and Chicago PMSA, August 2018

Presented To
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Housing Price Forecast: Illinois and Chicago PMSA, August 2018

The Housing Market

In July, median prices continued to experience positive growth for both Illinois and the Chicago PMSA. Sales in Illinois experienced annual increase while in the Chicago PMSA, sales experienced a negative annual change. 16,007 houses were sold in Illinois, changing by -13.9 % from a month ago and 0.1% from a year ago. In the Chicago PMSA, 11,473 houses were sold, changing by -15.2% from a month ago and -0.5% from a year ago. The median price was \$214,900 in Illinois, up 2.3% from July last year; the comparable figure for the Chicago PMSA was \$252,000, up 1.8% from this time last year.

In July, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 7.5%. 10,560 regular sales were made, 0.4% more than last year. 830 foreclosed properties were sold, 12.7% less than last year. The median price was \$260,000 for regular property sales, 1.0% higher than last year; the comparable figure for the foreclosed properties was \$175,000, up 12.9% from this time last year.

According to average annual growth rates of prices in the past months, Illinois and Chicago PMSA both have already recovered to their pre-bubble price levels. The median sales price in July 2008 has been adjusted to 2018 values to enable calculation of the housing price recovery taking into account the effects of inflation. In Illinois, the July 2008 median sales price was \$169,000 (in \$2008) and \$197,775 (in \$2018); the current price level was 109% of the 2008 level after adjusting (127% before adjusting). In the Chicago PMSA, the July 2008 median sales price was \$214,000 (in \$2008) and \$250,436 (in \$2018); the comparable figure for price recovery in July 2018 is 101% after adjustment (118% before adjusting).

The sales forecast for August, September and October suggests increases on a yearly basis and decreases on a monthly basis for both Illinois and the Chicago PMSA. Annually for Illinois, the three-month average forecasts point to an increase in the range 1.9% to 2.6%; the comparative figures for the Chicago PMSA are an increase in the range 2.1% to 2.8%. On a monthly basis, the three-month average sales are forecast to decrease in the range -4.1% to -5.6% for Illinois and decrease in the range -4.4% to -5.9% for the Chicago PMSA.

The pending home sales index¹ is a leading indicator based on contract signings. This July, the number of homes put under contract was greater than last year. The pending home sales index is 179.3 (2008=100) in Illinois, up 10.9% from a year ago. In the Chicago PMSA, the comparable figure is 202.3, up 12.9% from a year ago. At the latest average annual pending sales rate, Illinois had enough housing inventory for 4.4 months² (down from 4.7 months a year ago). In the Chicago PMSA, the comparable figure was 3.4 months (down from 3.6 months a year ago). Months of supply for homes in lower price ranges (<500K) 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 August, September and October. In Illinois, the median price is forecast to rise by 3.6% in August 2.5% in September and 4.1% in October. For the Chicago PMSA, the comparable figures are 4.1% in August 2.6% in September and 3.1% in October. As a complement to the

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.

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 5.3% in August 5.8% in September and 6.6% in October. The comparable figures for the Chicago PMSA are 2.9% in August 3.7% in September and 4.3% in October. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month.

In July, the Conference Board Consumer Confidence Index increased while the University of Michigan Consumer Sentiment Index declined. The Conference Board Consumer Confidence Index survey revealed that consumers’ assessment of present-day conditions improved, suggesting that economic growth is still strong. However, while expectations continue to reflect optimism in the short-term economic outlook, back-to-back declines suggest consumers do not foresee growth accelerating. The University of Michigan Consumer Sentiment Index slightly decreased and the survey cited that the decline resulted from fears over the impact of tariffs on the domestic economy. The more housing specific sentiment index, the Fannie Mae Home Purchase Sentiment Index (HPSI) fell after reaching survey highs in April and May. The survey cited that home purchase sentiment seems to have reached a plateau, with potential home sellers likely struggling to find a home to buy amid slow supply growth, expectations for rising mortgage rates, and significant home price increases.

The Housing Market – Current Condition

- In July, median prices continued to experience positive growth for both Illinois and the Chicago PMSA. Sales in Illinois experienced annual increase while in the Chicago PMSA, sales experienced a negative annual change. 16,007 houses were sold in Illinois, changing by -13.9 % from a month ago and 0.1% from a year ago. In the Chicago PMSA, 11,473 houses were sold, changing by -15.2% from a month ago and -0.5% from a year ago. The median price was \$214,900 in Illinois, up 2.3% from July last year; the comparable figure for the Chicago PMSA was \$252,000, up 1.8% from this time last year. (Reference: Illinois and Chicago PMSA Total Home Sales and Median Home Sales Price figures; Forecast for August 2018 report table)
- In July, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 7.5%. 10,560 regular sales were made, 0.4% more than last year. 830 foreclosed properties were sold, 12.7% less than last year. The median price was \$260,000 for regular property sales, 1.0% higher than last year; the comparable figure for the foreclosed properties was \$175,000, up 12.9% from this time last year. (Reference: Ratio of Foreclosed Sales over Total Sales, Sales & Median Prices: Foreclosed vs. Regular figures)
- In July, at the latest average annual pending sales rate, Illinois had enough housing inventory for 4.4 months⁴ (down from 4.7 months a year ago). In the Chicago PMSA, the comparable figure was 3.4 months (down from 3.6 months a year ago). Months of supply for homes in lower price ranges (<500K) 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 July, 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 14.2% from 16.2% 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 5.6% from 7.6% 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 August, September and October. In Illinois, the median price is forecast to rise by 3.6% in August 2.5% in September and 4.1% in October. For the Chicago PMSA, the comparable figures are 4.1% in August 2.6% in September and 3.1% in October. (Reference: Forecast for August 2018 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 5.3% in August 5.8% in September and 6.6% in October. The comparable figures for the Chicago PMSA are 2.9% in August 3.7% in September and 4.3% in October. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month. (Reference: Housing Price Index)
- The sales forecast for August, September and October suggests increases on a yearly basis and decreases on a monthly basis for both Illinois and the Chicago PMSA. Annually for Illinois, the three-month average forecasts point to an increase in the range 1.9% to 2.6%; the comparative figures for the Chicago PMSA are an increase in the range 2.1% to 2.8%. On a monthly basis, the three-month average sales are forecast to decrease in the range -4.1% to -5.6% for Illinois and decrease in the range -4.4% to -5.9% for the Chicago PMSA. (Reference: Forecast for August 2018 report table)
- The pending home sales index⁶ is a leading indicator based on contract signings. This July, the number of homes put under contract was greater than last year. The pending home sales index is 179.3 (2008=100) in Illinois, up 10.9% from a year ago. In the Chicago PMSA, the comparable figure is 202.3, up 12.9% from a year ago. (Reference: Illinois and Chicago PMSA Pending Home Sales Index figure)
- In July 2018, 1,582 houses were newly filed for foreclosure in the Chicago PMSA (up 6.7% and up 31.5% respectively from a year and a month ago). 1,288 foreclosures were completed⁷ (up 27.7% and up 3.6% respectively from a year and a month ago). As of July 2018, there are 28,553 homes at some stage of foreclosure — the foreclosure inventory. The monthly average net flows of foreclosures (foreclosure inflows - outflows) were 378.3 in the past 6 months, 406.9 in the last 12 months and 499.4 in the last 24 months. (Reference: Chicago PMSA Foreclosure Inflows and Outflows, and Inventory figures).

The Economy

- In July 2018, according to the Bureau of Labor Statistics (BLS) Employment Situation report, the national unemployment rate decreased to 3.9% and nonfarm payroll jobs experienced a gain of 157,000 jobs. Employment increased in professional and business services (+51,000), manufacturing (+37,000), and health care and social assistance (+34,000).

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 July 2018, according to the Illinois Department of Employment Security (IDES) news release, the Illinois unemployment fell to 4.2%. Non-farm payroll jobs increased by +3,700 over the month. The largest gains were in three sectors; manufacturing (+2,400); leisure and hospitality (+2,000); and professional and business services (+1,900). The industry sectors with the largest payroll decline was: government (-1,700). Furthermore, the job growth in May was slightly revised from the preliminary estimate of +18,100 jobs to +17,200 jobs.
- In May 2018, the one-year-ahead forecast for Illinois indicates that the non-farm employment will change at a rate of 0.62% corresponding to job changes of 38,100. The largest contributors to the forecast increase are education and trade, transportation and utilities, and leisure and hospitality. (not updated)
- In July 2018, according to the Bank of the West 2018 Millennial Study, one in three millennials who buy homes are withdrawing from their retirement or taking out loans against their retirement accounts. The trend is alarming, says Bank of the West's Ryan Bailey, because those savings designed for retirement could face a long-term setback. A better approach would be to evaluate current personal spending and to consider scaling back the home purchase to something more affordable.
- In July 2018, according to Trulia, homeownership loses edge to renting; it now makes more financial sense to rent than buy in the nation's two most expensive markets — San Jose and San Francisco. In the six years that Trulia has conducted this study, this is the first time that it was cheaper to rent than buy in any of the metropolitan areas. The key factor is that house prices have increased steeply along with mortgage rates, while rents are remaining relatively stable.

Longer-term Outlook

- In July, the Conference Board Consumer Confidence Index increased while the University of Michigan Consumer Sentiment Index declined. The Conference Board Consumer Confidence Index increased to 127.4 from 127.1 last month. The survey revealed that consumers' assessment of present-day conditions improved, suggesting that economic growth is still strong. However, while expectations continue to reflect optimism in the short-term economic outlook, back-to-back declines suggest consumers do not foresee growth accelerating. The University of Michigan Consumer Sentiment Index fell to 97.9 from 98.2 last month. The survey cited that the decline resulted from fears over the impact of tariffs on the domestic economy.
- In July, Fannie Mae Home Purchase Sentiment Index (HPSI) fell to 86.5 from 90.7 last month, after reaching survey highs in April and May. The survey cited that home purchase sentiment seems to have reached a plateau, with potential home sellers likely struggling to find a home to buy amid slow supply growth, expectations for rising mortgage rates, and significant home price increases.
- The Chicago Business Activity Index (CBAI) increased to 107.1 in June from 105.6 in May. The increase is mainly attributed to the positive manufacturing and nonmanufacturing job growth and an improvement in nationwide economic activities measured by the Chicago Fed National Activity Index (CFNAI).

“Inventory on the market continues to fall in both Illinois and Chicago while pending sales continue to show strong increases,” noted Geoffrey J.D. Hewings, Director of the Regional Economics Applications Laboratory. “Longer-term consumer sentiment reflects the on-going

uncertainty about the outcome of trade negotiations although shorter-term sentiment continues to be positive.”

Forecast for August 2018 report

PERCENTAGE CHANGE FOR THE TOTAL NUMBER OF SALES								
		Annual			Monthly			
		Illinois		Chicago PMSA	Illinois		Chicago PMSA	
May-18		-1.0%		-1.1%	16.8%		17.3%	
Jun-18		-4.8%		-5.9%	7.9%		7.7%	
Jul-18		0.1%		-0.5%	-13.9%		-15.2%	
3 Month Avg.		-2.1%		-2.7%	2.5%		2.1%	
SUMMARY OF THE FORECAST INTERVALS FOR THE TOTAL NUMBER OF SALES								
		Annual			Monthly			
		Illinois		Chicago PMSA	Illinois		Chicago PMSA	
Aug-18		-0.8%	-1.1%	-1.3%	-1.7%	1.7%	2.3%	
Sep-18		2.7%	3.6%	3.1%	4.2%	-10.5%	-14.3%	
Oct-18		4.5%	6.1%	5.3%	7.2%	-3.4%	-4.5%	
3 Month Avg.		1.9%	2.6%	2.1%	2.8%	-4.1%	-5.6%	
		-4.4%	-5.9%					
SUMMARY OF THE FORECAST FOR THE MEDIAN PRICE								
	Illinois		Chicago PMSA			Illinois		Chicago PMSA
May-18	\$215,000		\$254,000		May-17	\$208,000		\$246,900
Jun-18	\$224,900		\$262,500		Jun-17	\$215,500		\$252,000
Jul-18	\$214,900		\$252,000		Jul-17	\$210,000		\$247,500
Aug-18	\$207,243		\$248,691		Aug-17	\$200,000		\$239,000
Sep-18	\$196,803		\$236,076		Sep-17	\$192,000		\$230,000
Oct-18	\$192,576		\$228,894		Oct-17	\$185,000		\$222,000
ANNUAL PERCENTAGE CHANGE OF THE MEDIAN PRICE								
	Illinois		Chicago PMSA			Illinois		Chicago PMSA
May-18	3.4%		2.9%		May-17	7.8%		5.7%
Jun-18	4.4%		4.2%		Jun-17	6.1%		3.9%
Jul-18	2.3%		1.8%		Jul-17	6.1%		4.1%
Aug-18	3.6%		4.1%		Aug-17	4.7%		3.9%
Sep-18	2.5%		2.6%		Sep-17	6.7%		5.9%
Oct-18	4.1%		3.1%		Oct-17	3.9%		3.3%

Median Prices and Recovery

	Illinois		Chicago PMSA	
	[\$2008]	[\$2018]	[\$2008]	[\$2018]
July 2008 Median Price	\$169,000	\$197,775	\$214,000	\$250,436
July 2018 Median Price	\$183,634	\$214,900	\$215,336	\$252,000
Price Ratio (July 18/ July 08)	Adjusted	1.09	Adjusted	1.01
	Unadjusted	1.27	Unadjusted	1.18

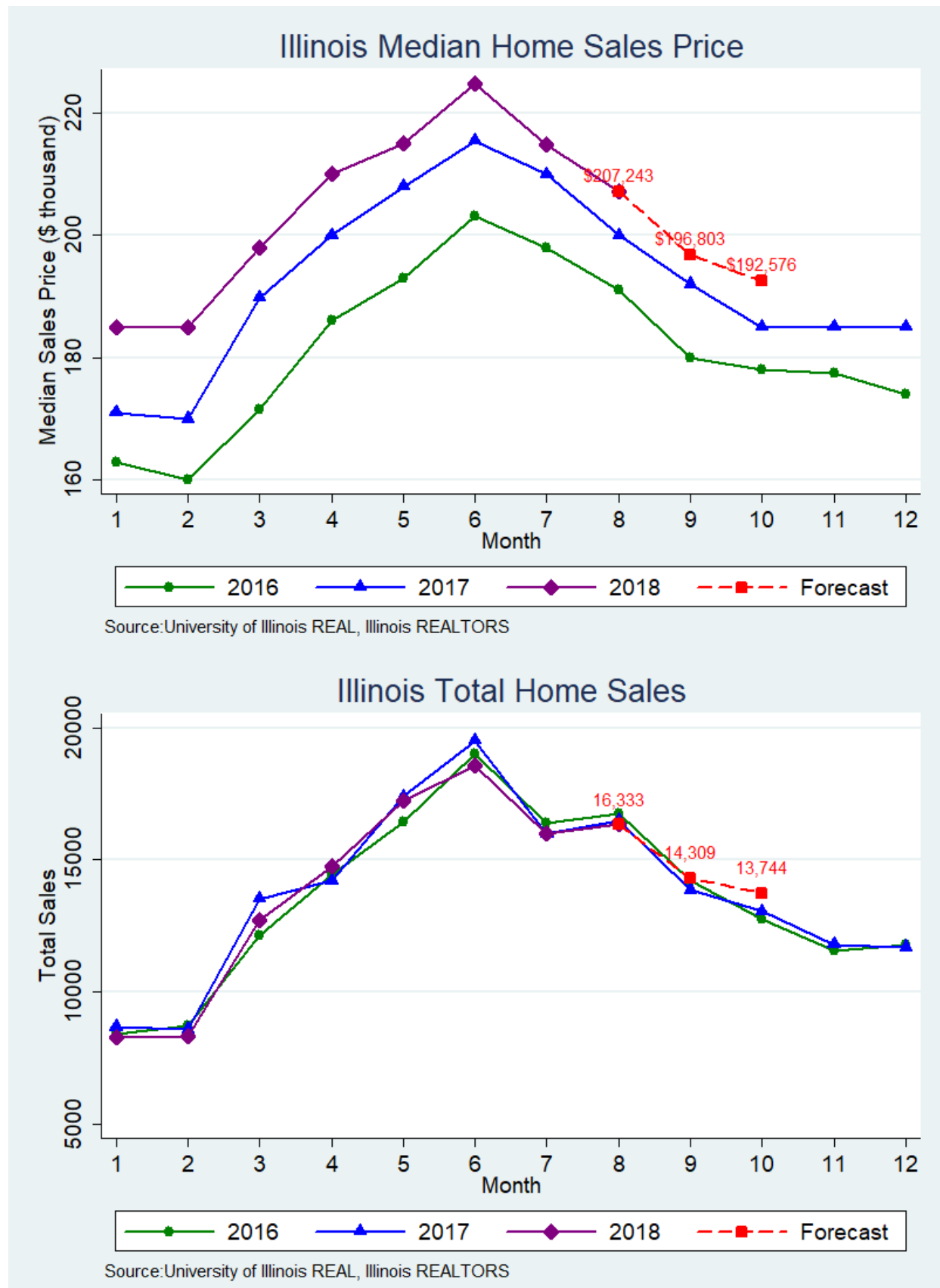
Recovery Forecasts using *Annually Growth Rates*

	Illinois	Chicago PMSA		
	Annual Recovery Rate*	Years to Recover**	Recovery Rate	Years to Recover
Current Month	-0.6%	13.5	-1.1%	0.6
Past 3 months	0.5%	-17.7	0.1%	-7.6
Past 6 months	2.1%	-4.0	1.5%	-0.4
Past 9 months	2.7%	-3.1	2.2%	-0.3
Past 12 months	2.8%	-3.0	2.2%	-0.3

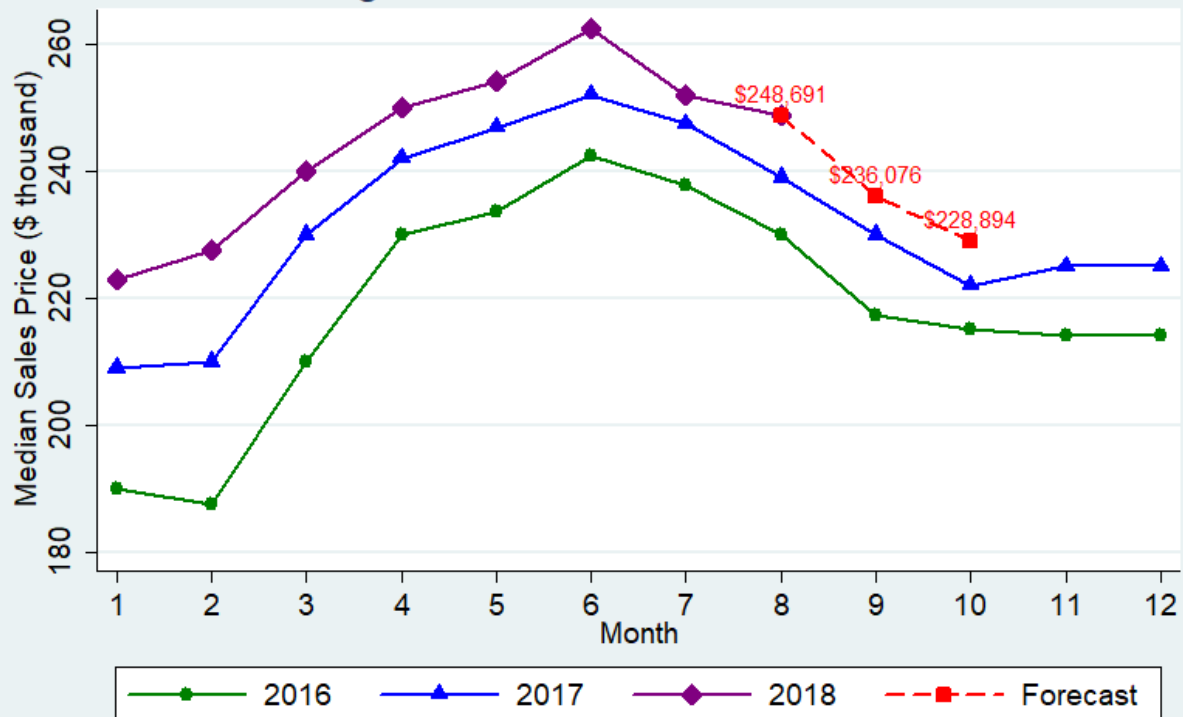
*Annual recovery rate is the average of *annual* change rates in past months

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

$\text{Price}_{\text{July 2018}} * (1 + \text{recovery rate})^{\text{years}} = \text{Price}_{\text{July 2008}}$. 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.

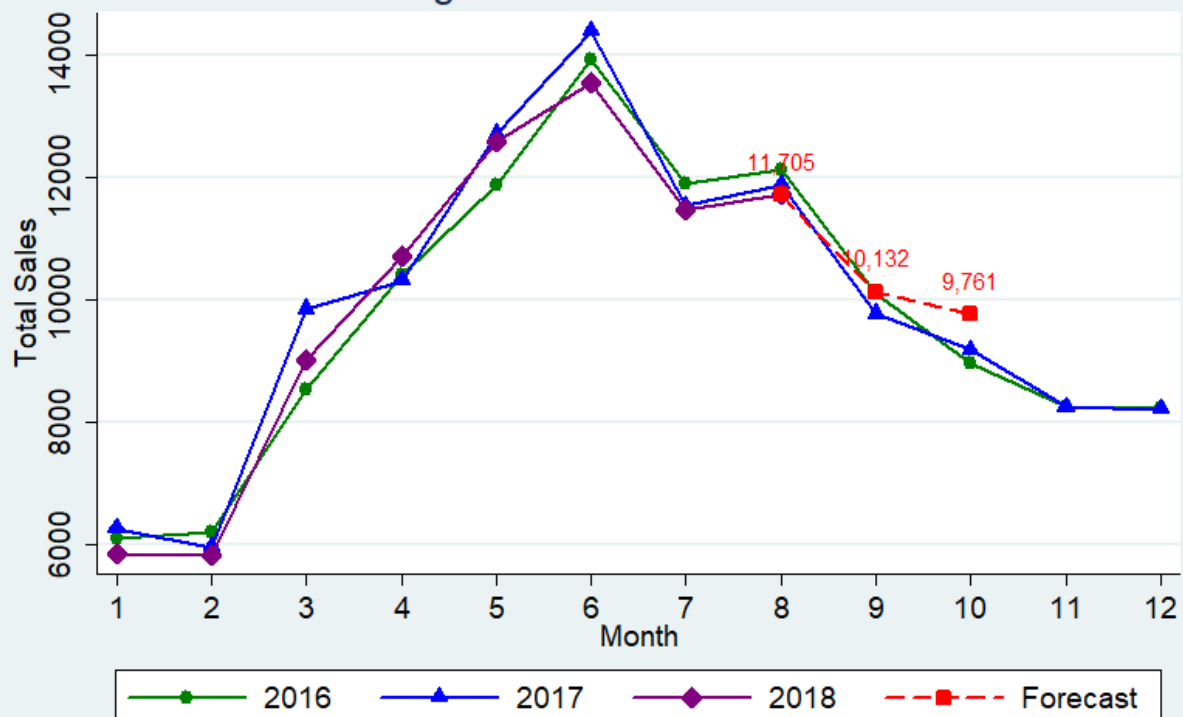


Chicago PMSA Median Home Sales Price

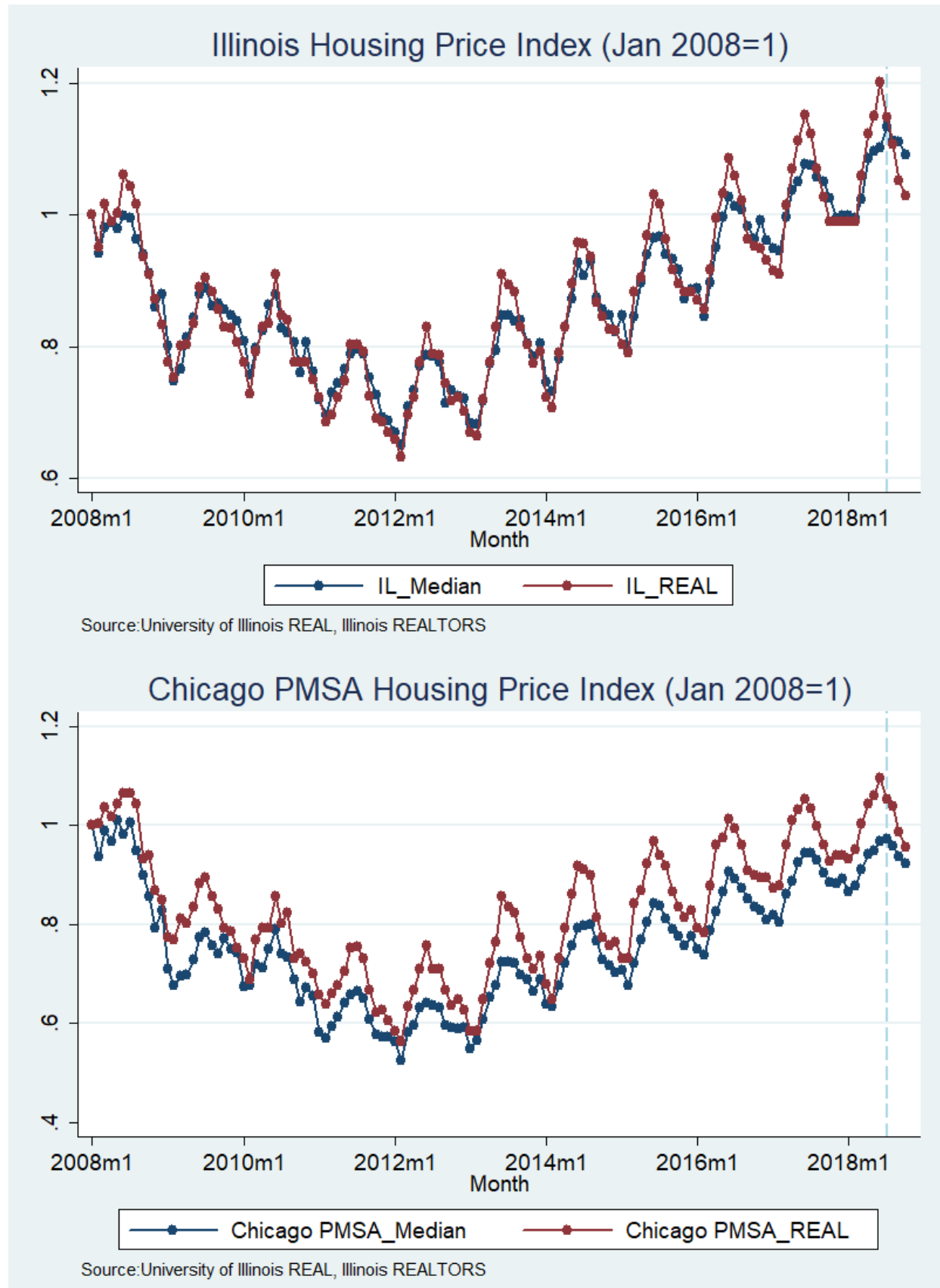


Source: University of Illinois REAL, Illinois REALTORS

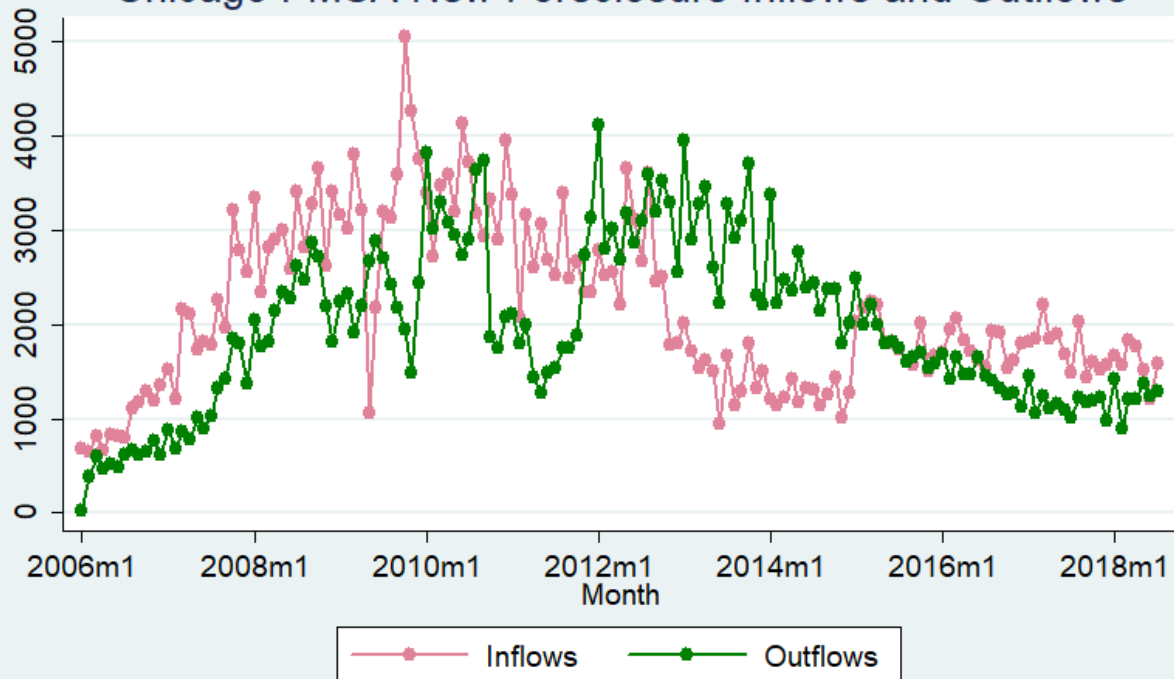
Chicago PMSA Total Home Sales



Source: University of Illinois REAL, Illinois REALTORS



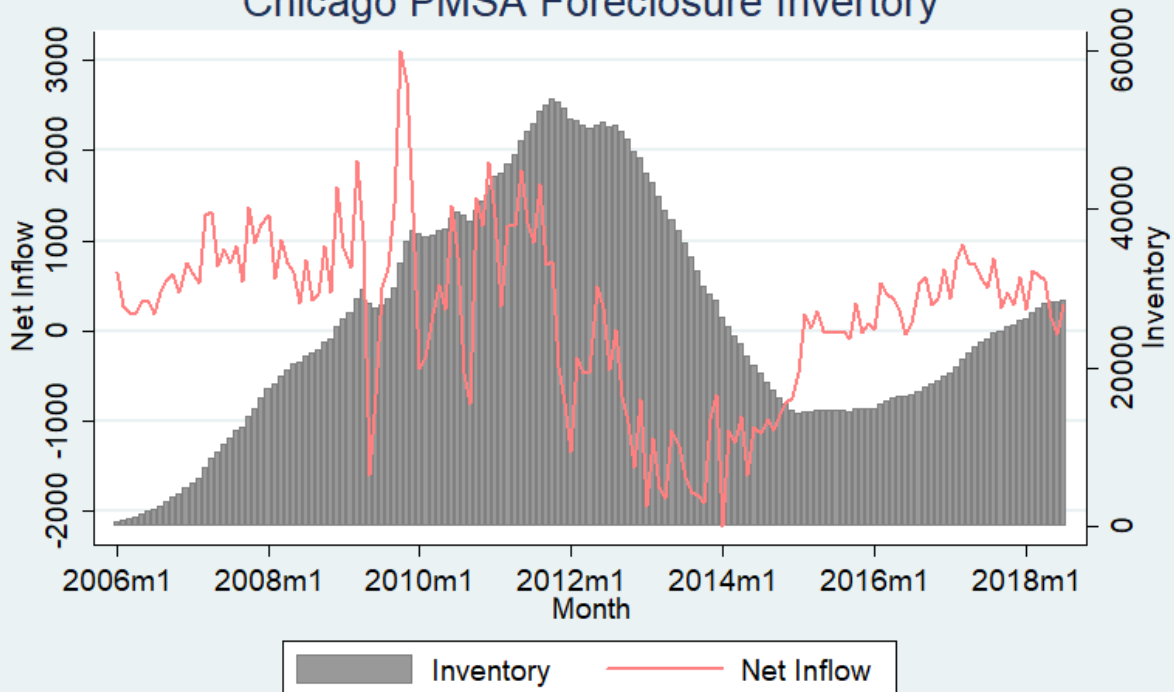
Chicago PMSA New Foreclosure Inflows and Outflows



Inflows: New foreclosure filings; Outflows: Cancelled/Sold/REO

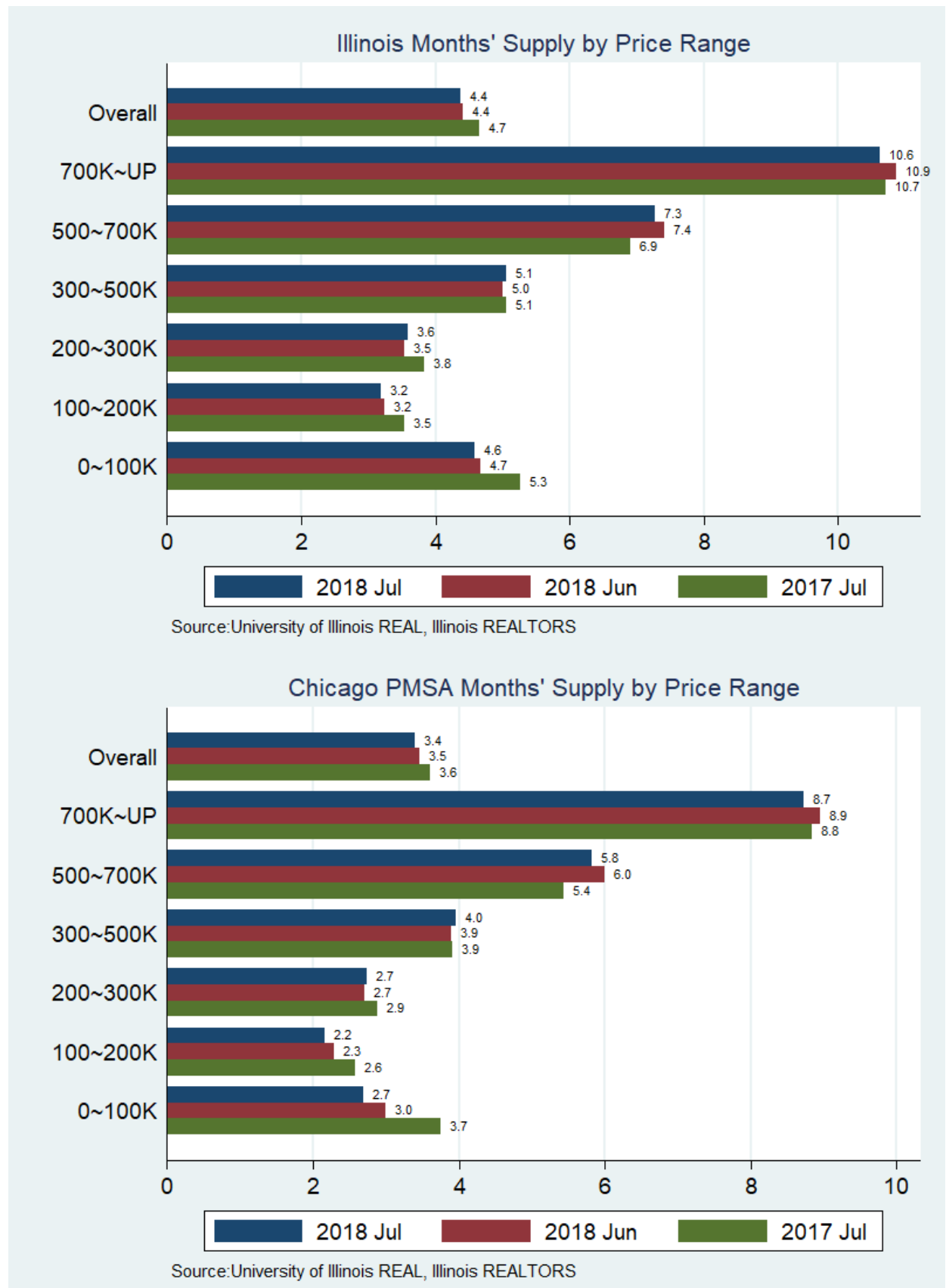
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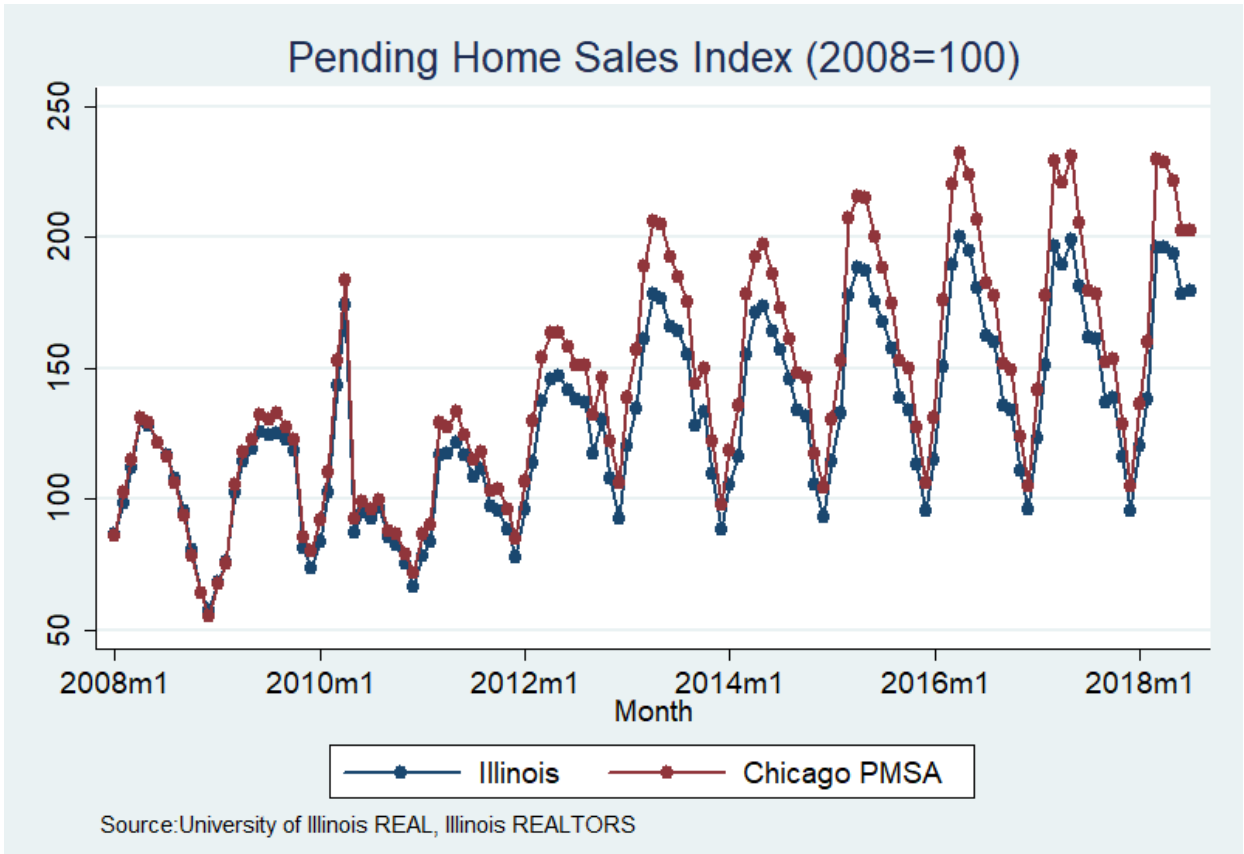
Chicago PMSA Foreclosure Inventory

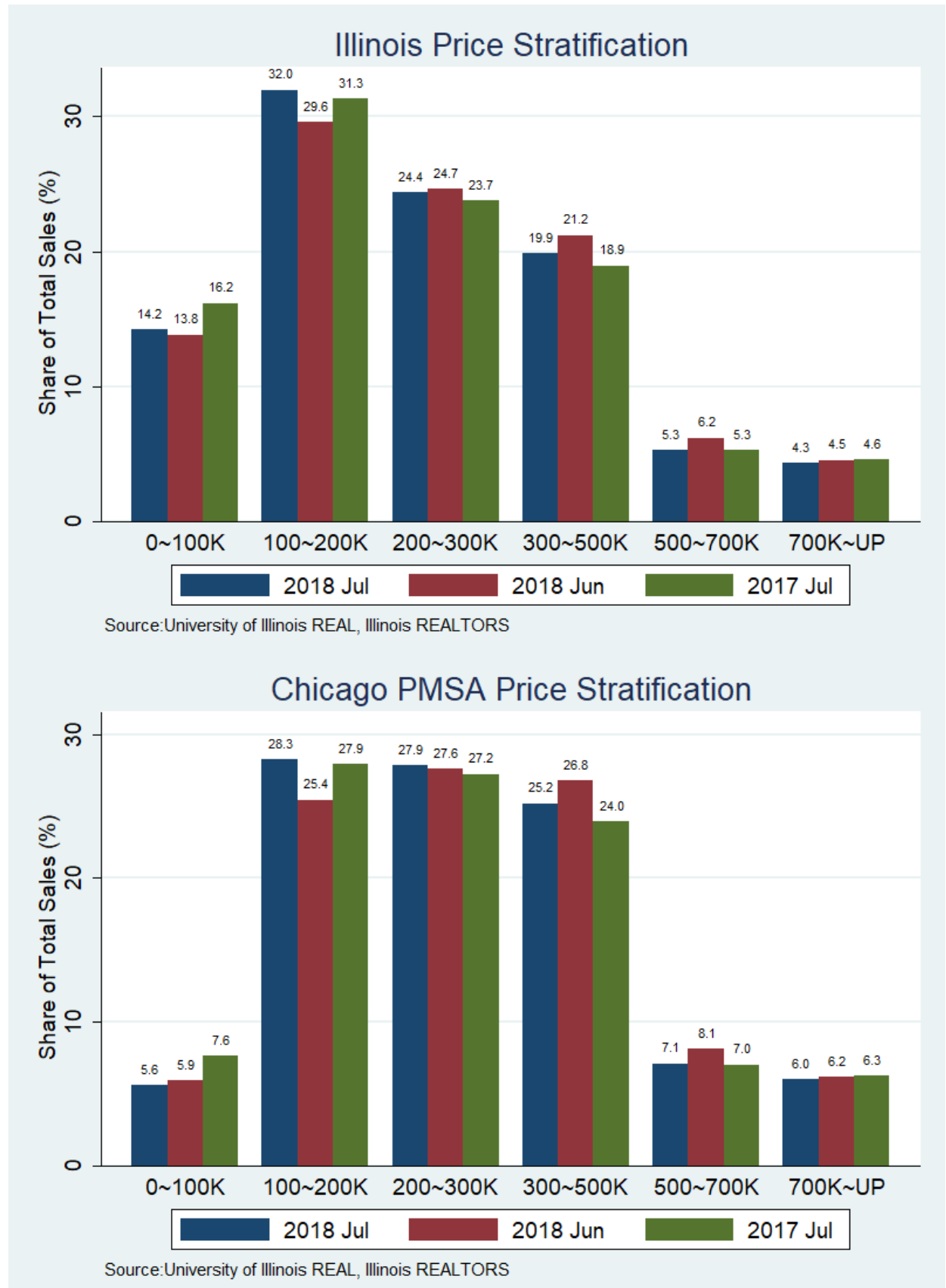


Net inflows = Inflows - Outflows

Source: University of Illinois REAL, Illinois REALTORS





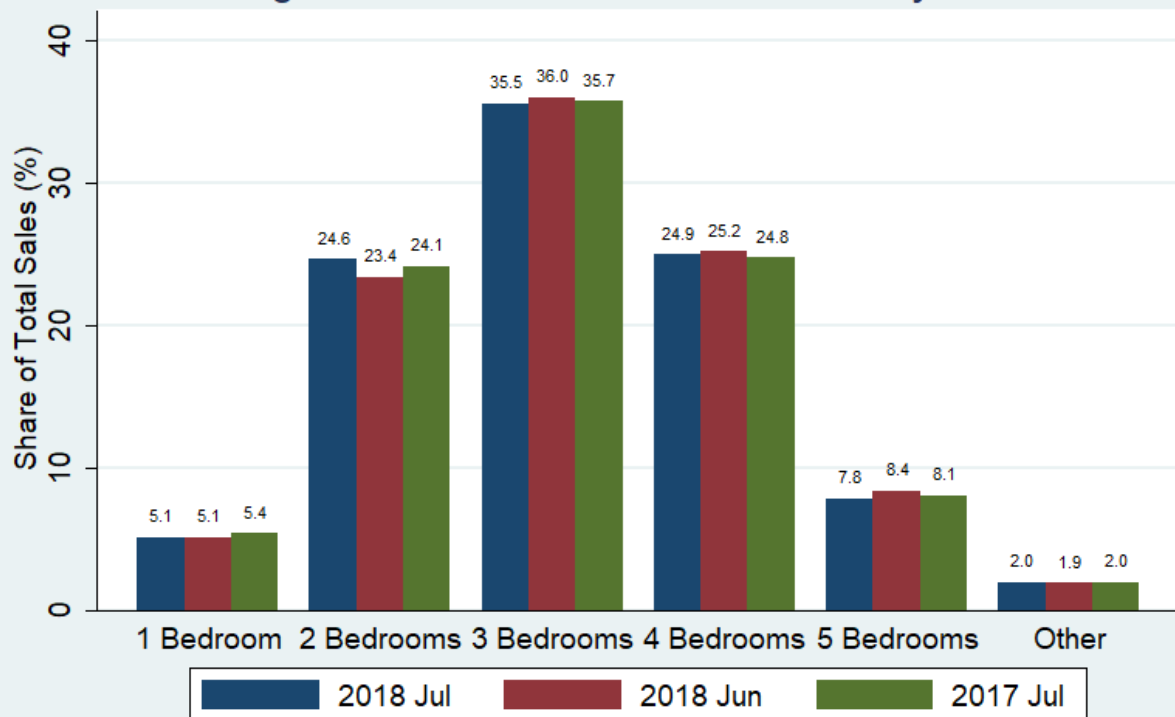


Illinois House Characteristics by Bedroom



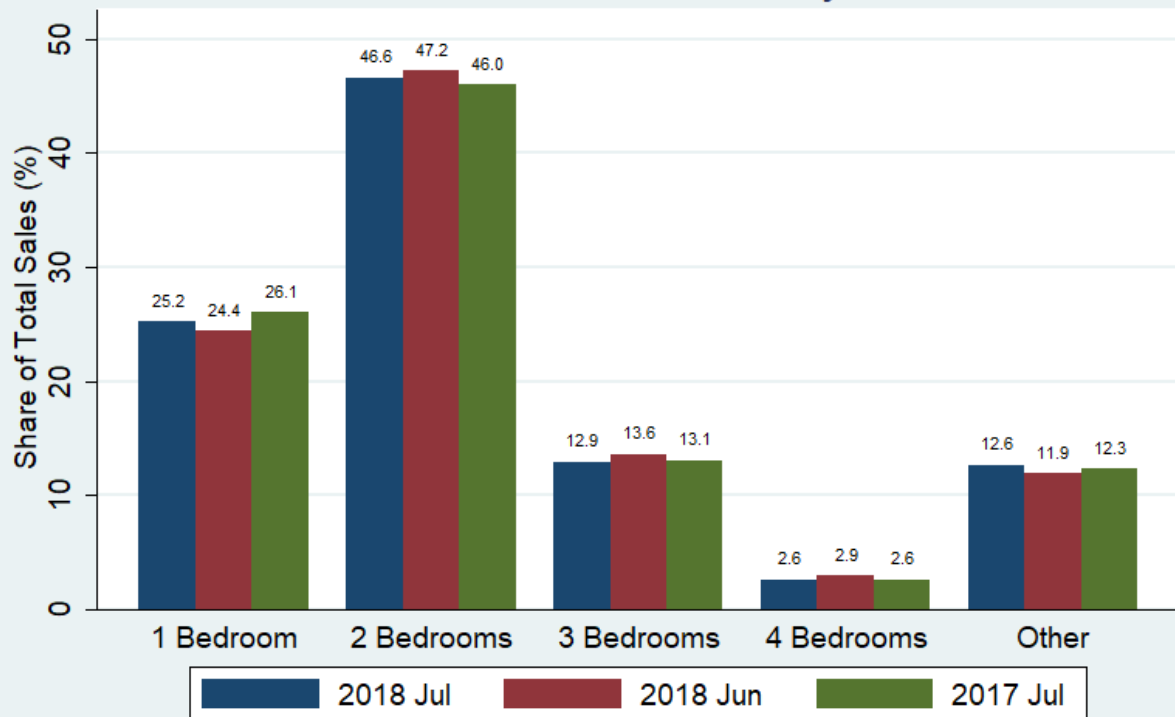
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Chicago PMSA House Characteristics by Bedroom



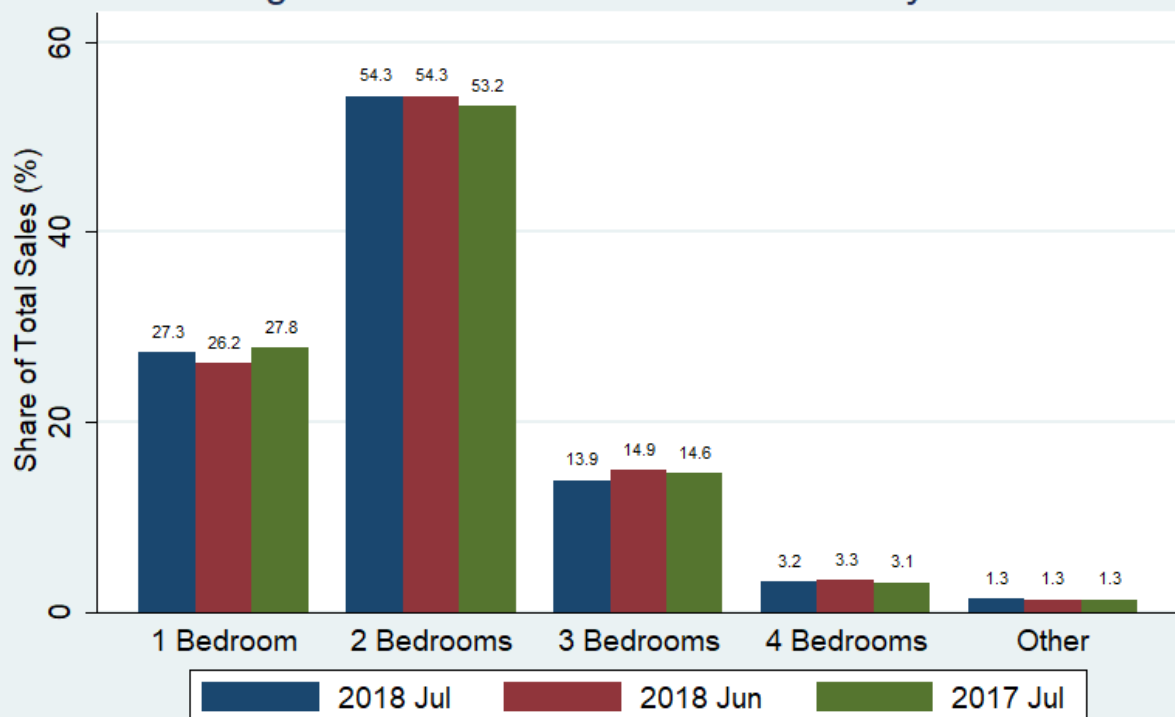
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Illinois House Characteristics by Bathroom



Source: University of Illinois REAL, Illinois REALTORS

Chicago PMSA House Characteristics by Bathroom



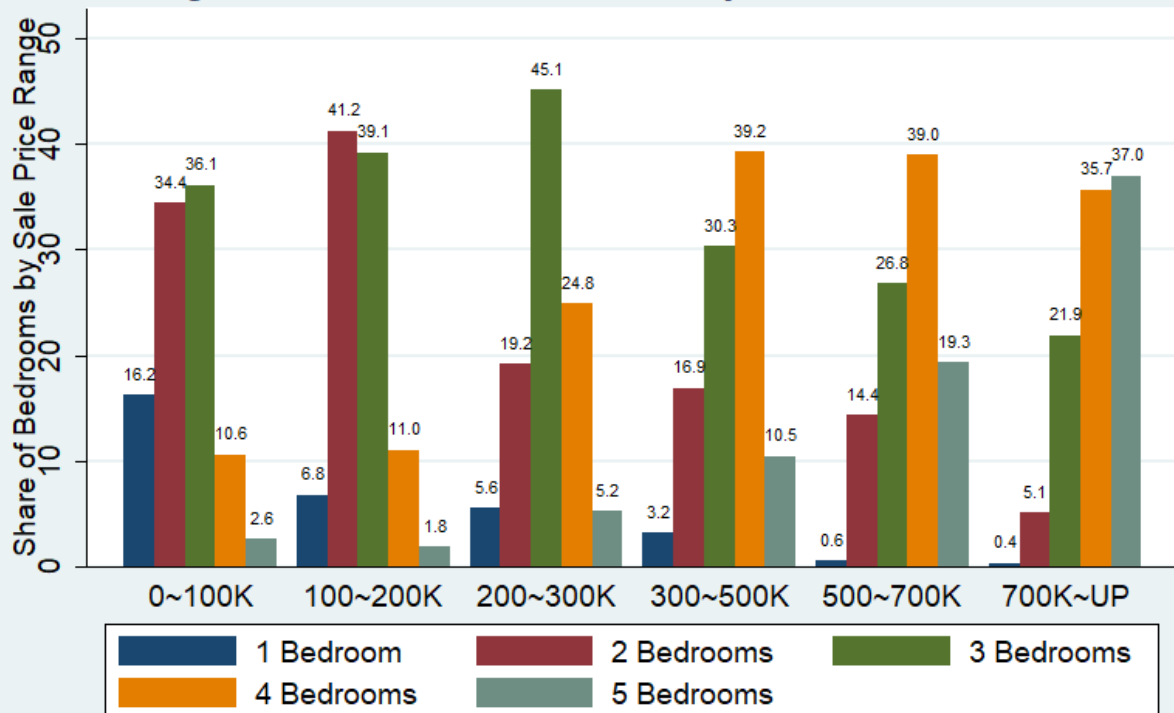
Source: University of Illinois REAL, Illinois REALTORS

Illinois Bedroom Shares by Sale Price Stratification



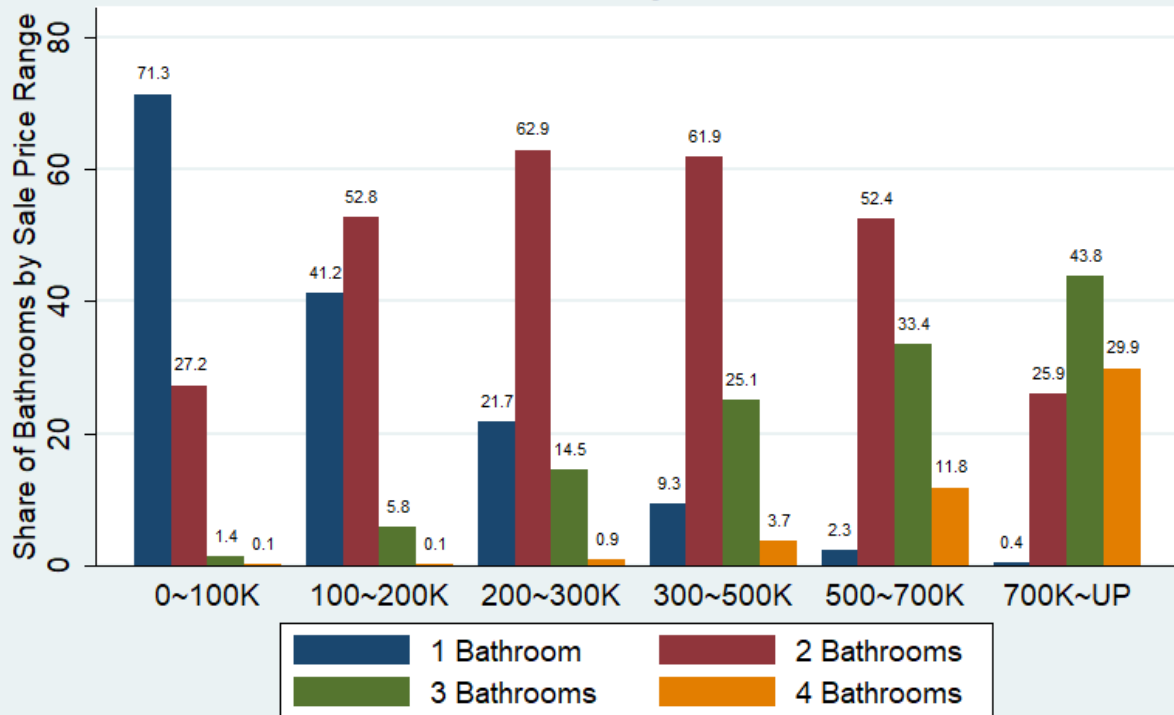
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Chicago PMSA Bedroom Shares by Sale Price Stratification



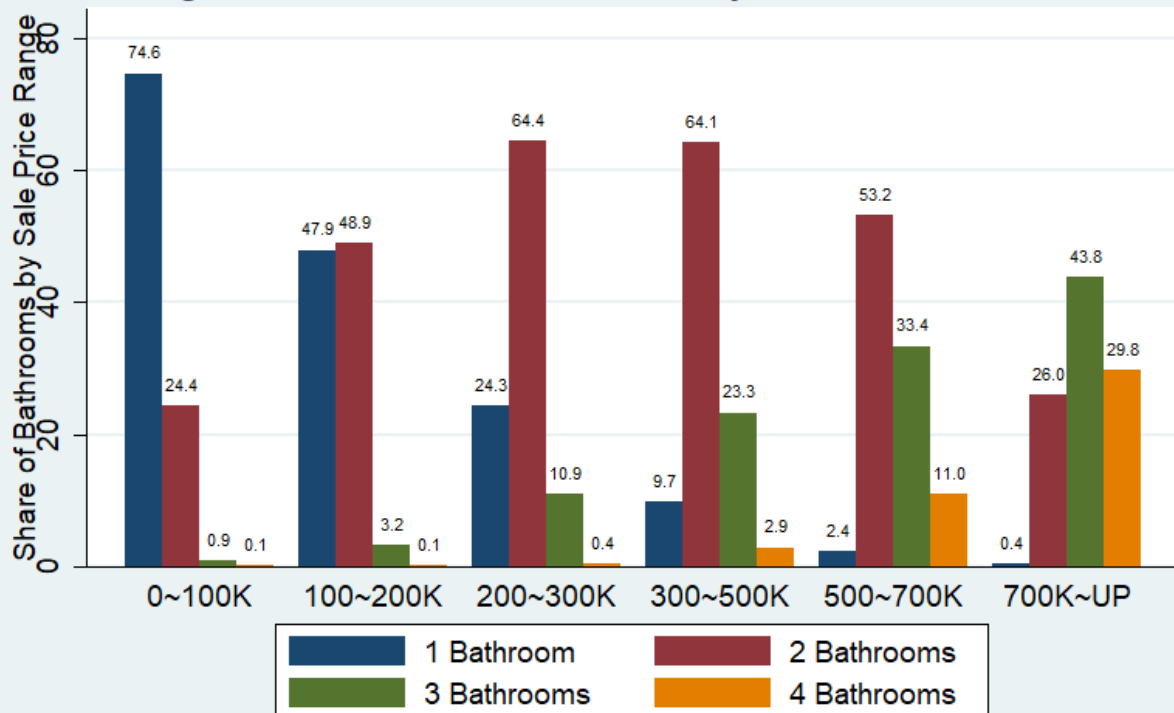
Source: University of Illinois REAL, Illinois REALTORS

Illinois Bathroom Shares by Sale Price Stratification



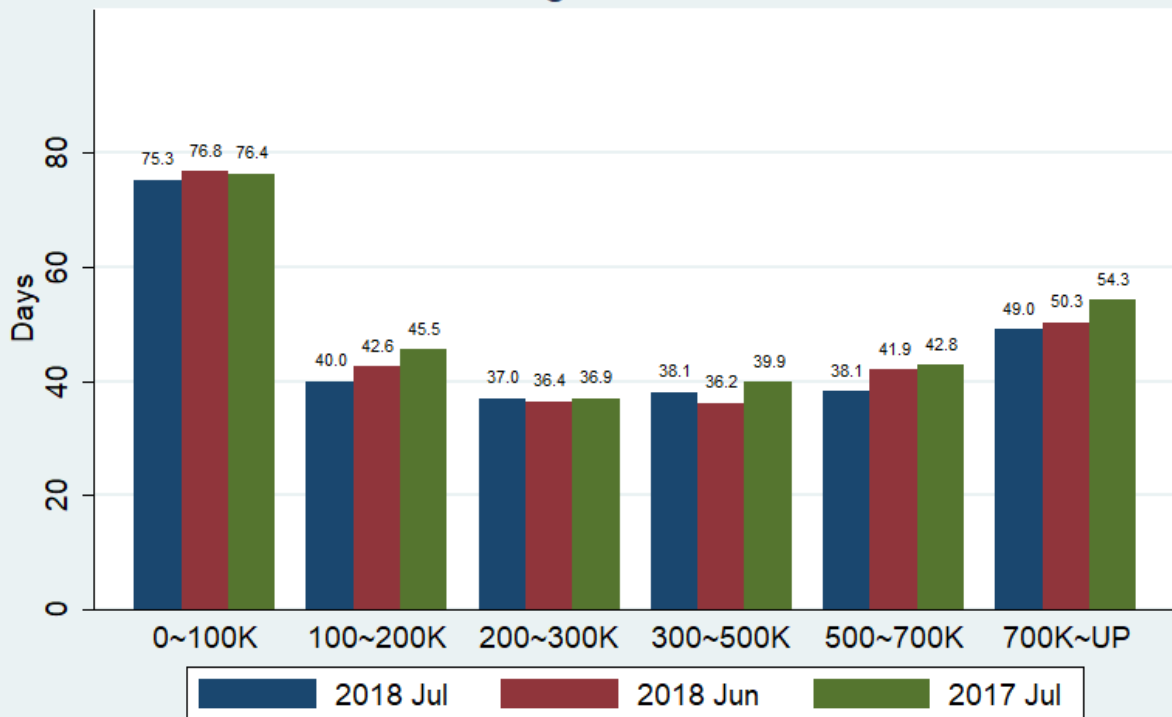
Source: University of Illinois REAL, Illinois REALTORS

Chicago PMSA Bathroom Shares by Sale Price Stratification



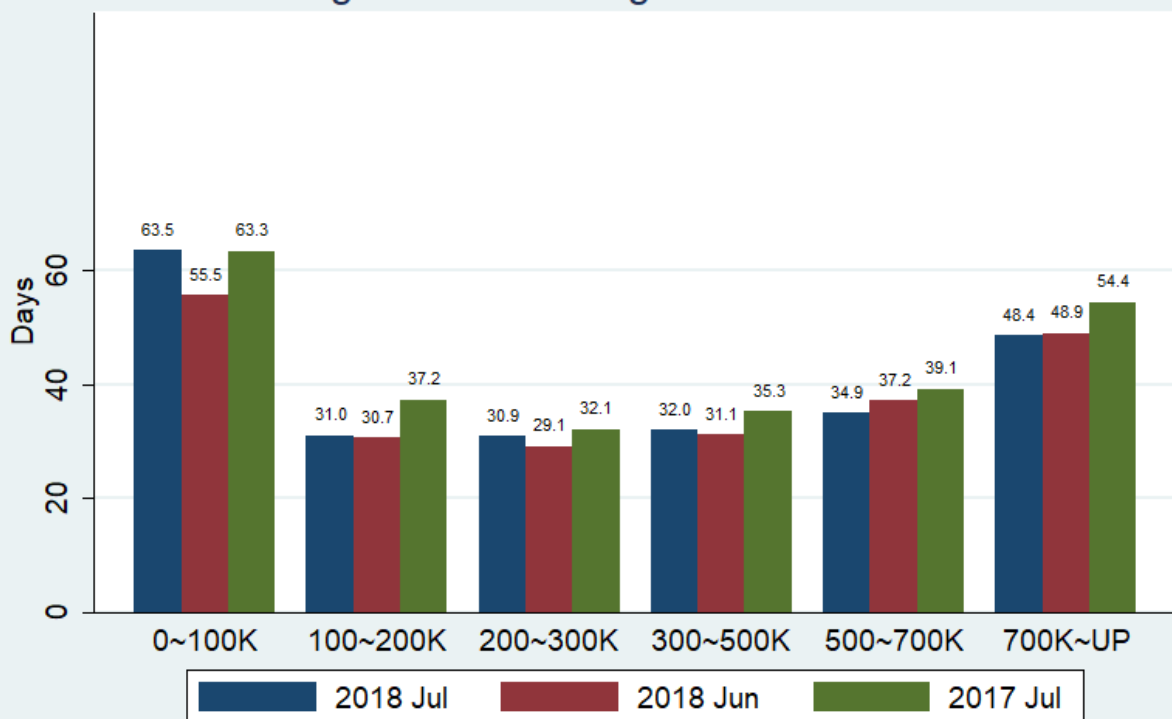
Source: University of Illinois REAL, Illinois REALTORS

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

