

Housing Price Forecasts, 2018

Illinois and Chicago MSA

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From

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Regional Economics Applications Laboratory,
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Contact: Geoffrey Hewings 217-333-4740 (hewings@illinois.edu)
Jiyong Chae 217-244-7226 (jchae3@illinois.edu)

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Introduction: The State of the Economy

By October 2017, according to the Bureau of Labor Statistics (BLS) Employment Situation report, the national unemployment rate edged down to 4.1% from 4.8% a year ago. Employed population grew by 1,959,000 and the participation rate decreased by 0.1%. Statewide, according to the Illinois Department of Employment Security (IDES), by October 2017 the Illinois unemployment rate fell to 4.7% from 5.6% a year ago. In the last 12 months, Illinois has added 18,200 jobs but most of the job growth has been concentrated in the Chicago PMSA with six of the 14 metro areas recording year-over-year job decreases. Illinois' employment growth rate for the last 12 months was less than one-quarter that of the U.S. as a whole.

Both the broader view of consumers' confidence and home purchase sentiment are higher than the same time last year. The Conference Board Consumer Confidence Index surged to 125.9 from 98.6 a year ago. The University of Michigan Consumer Sentiment Index also rose remarkably to 100.7 from 87.2. Jumps in the measures 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 more housing market specific index, Fannie Mae Home Purchase Sentiment Index (HPSI)¹, also increased to 85.2 from 81.7 last October. While more people indicated it was good time to sell, fewer people felt it was a good time to buy compared to a year ago. Moreover, home prices and household income were also expected to go up in the next 12 months.

¹ 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.

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The Housing Market Conditions and Forecasts

Current Conditions

In the last 12 months, median prices maintained positive annual growth in each month while sales experienced a more mixed trend. The median sale prices in Illinois experienced higher annual growth rate than forecasted last year, while median sale prices in the Chicago PMSA are not significantly different from the forecasts. Illinois's actual and forecasted sales are quite similar, except for a few extreme values, while sales in the Chicago PMSA experienced higher annual growth rate than forecasted.²

Median prices in 2017 showed moderate growth in both Illinois and the Chicago PMSA. In Illinois, annual growth rates of each month varied between 3.9% and 10.7%. The comparative range for the Chicago PMSA is between 3.5% and 12.0%. This has been the fifth consecutive year with a positive annual growth rate for each month since 2013.

Sales in 2017 in both Illinois and the Chicago PMSA experienced periods of irregular growth, alternating between positive and negative annual growth rates. The growth rates of sales are between -2.8% and 11.6% for Illinois and between -3.8% and 15.3% for the Chicago PMSA. During the last few months, both regions experienced continuous negative annual growth rates in sales.

Furthermore, the net change of sales in the Chicago PMSA comprises positive growth in regular sales and decreases in foreclosed sales. For the regular sales, the annual growth rates were between -2.9% and 18.9%. For foreclosed sales, the comparative figures were between -17.8% and -1.8%. Moreover, the percentage of foreclosed sales out of total sales continued decreasing to a monthly average of 9.6% in 2017, about one third lower than the monthly average of 16.6% between 2009 and 2016 (See Figures: Chicago PMSA Annual Change Rates for Sales Foreclosed vs. Regular sales & Ratio of Foreclosed Sales over Total Sales).

² This is to compare the real growth rates in 2017 with the forecasted growth rates in 2016 for 2017, using ANOVA analysis. The significance level of 5% is used. See figures: 2017 Real vs Forecast Annual Sales/Median Prices Change Rates

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Forecasts and Future Condition

Median prices are forecast to continuously grow in 2018 within a narrower and slightly smaller range compared with 2017. On a year-over-year basis, these gains will range from 0.7% to 4.4% for Illinois and 1.8% to 5.6% for the Chicago PMSA. By December 2018, the median price of homes is forecast to be \$189,520 in Illinois and \$232,598 in Chicago PMSA, respectively 4.4% and 5.4% higher on an annual basis. As a complement to the median housing price index (HPI), the REAL HPI³ forecasts indicate respectively a stronger and a similar growth trend for Illinois and the Chicago PMSA in the months ahead. In Illinois, the REAL HPI (Jan 2008=1) is forecast to experience a growth rate between 2.8% and 7.3% for Illinois and 2.2% to 6.6% for the Chicago PMSA. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month.

As for sales, they are forecast to experience overall positive gains in 2018 and led by the growth of regular sales in the Chicago area. The annual growth in monthly sales is forecast to be in the range from -0.1% to 16.4% for Illinois, with positive gains for most months. The comparative range for the Chicago PMSA is from -2.5% to 14.7%. The negative growth rates for the Chicago PMSA are likely driven by the continuing decline in the share of foreclosed sales. If we exclude foreclosed sales from all sales, we obtain the forecasts for the regular sales which indicate a growth range of -3.9 ~ 16.5% for the Chicago PMSA.

Freddie Mac’s recent outlook report for 2018 shows favorable conditions, including an increase in purchase mortgage volume, a decrease in refinance activity and growth in home prices. “The economic environment remains favorable for housing and mortgage markets,” said Sean Beckett, Freddie Mac chief economist. “For several years, we have had moderate economic growth of about 2 percent a year, solid job gains and low mortgage interest rates. We forecast those conditions to persist into next year.” While there were 1.22 million housing starts in 2017, Freddie Mac expects that number to increase to 1.33 million in 2018, which, along with slight increases in mortgage rates, will reduce price growth. Prices are expected to grow 4.9 percent in 2018 compared to 6.3 percent growth experienced in 2017 through August. Increased mortgage rates also will drive down the refinance share of mortgage activity, dipping 25 percent next year to the lowest annual share since 1990, according to Freddie Mac.

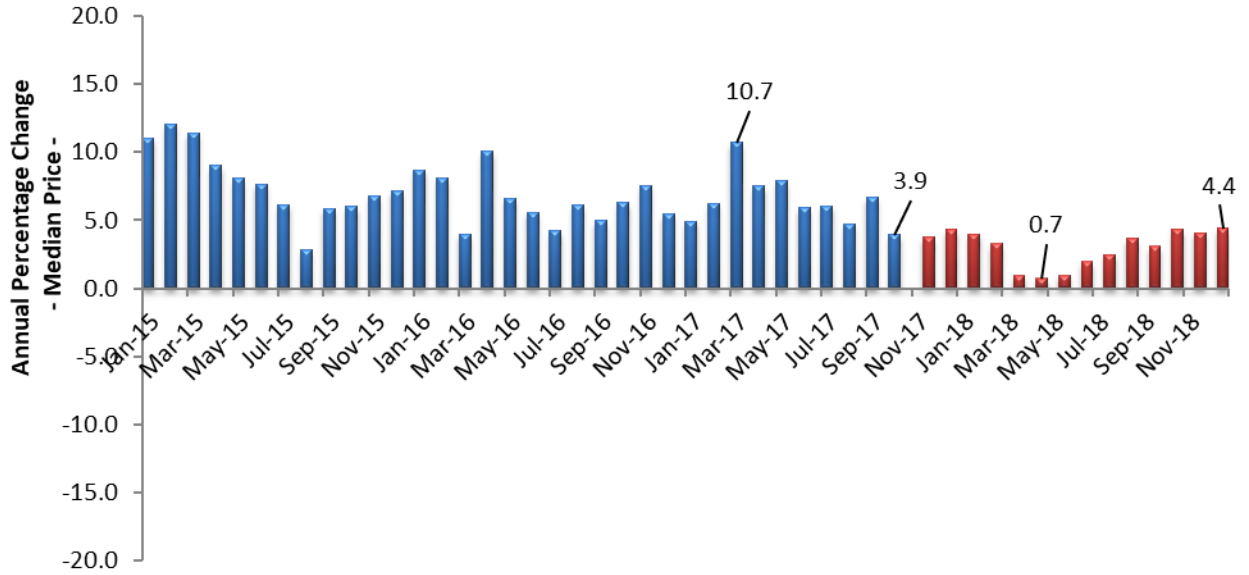
³ REAL HPI was developed by Esteban Lopez and Minshu Du. Contact us for further details.

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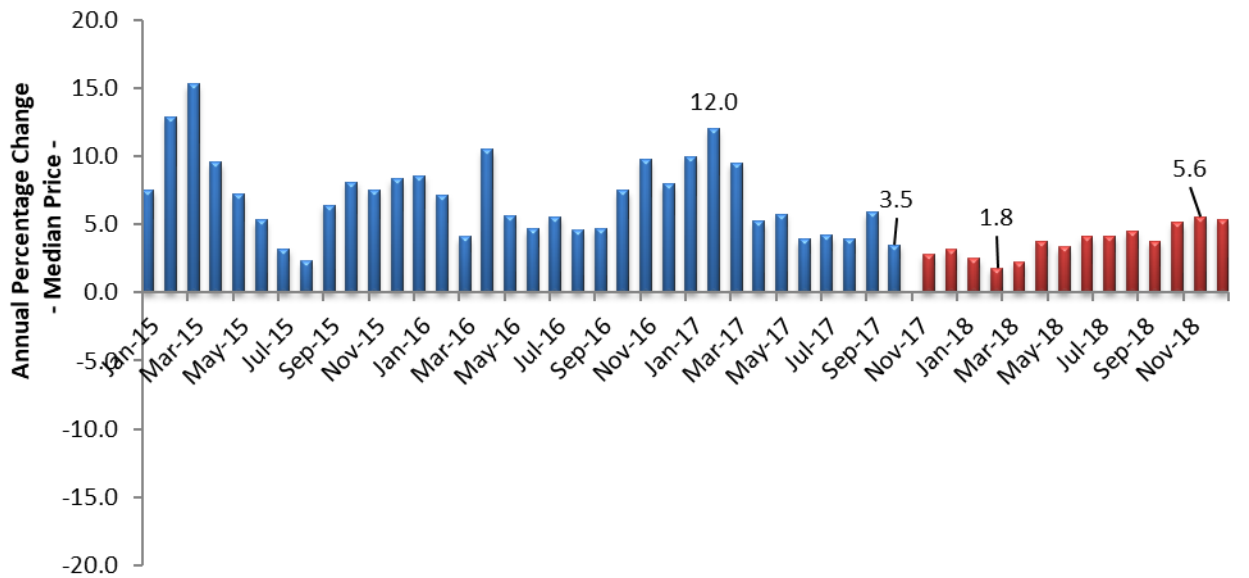
“Illinois’ employment recovery has slowed perceptibly over the last 12 months,” noted Geoffrey J.D. Hewings, Director of the Regional Economics Applications Laboratory of the University of Illinois. “There is no doubt that the lingering effect of the state budget impasse, the declining inventory together with the anemic employment growth rate all contributed to dampening the housing market. Uncertainty about the impact of mortgage interest and state and local tax deductibility may reduce the attraction of house purchases among first-time buyers in 2018.”

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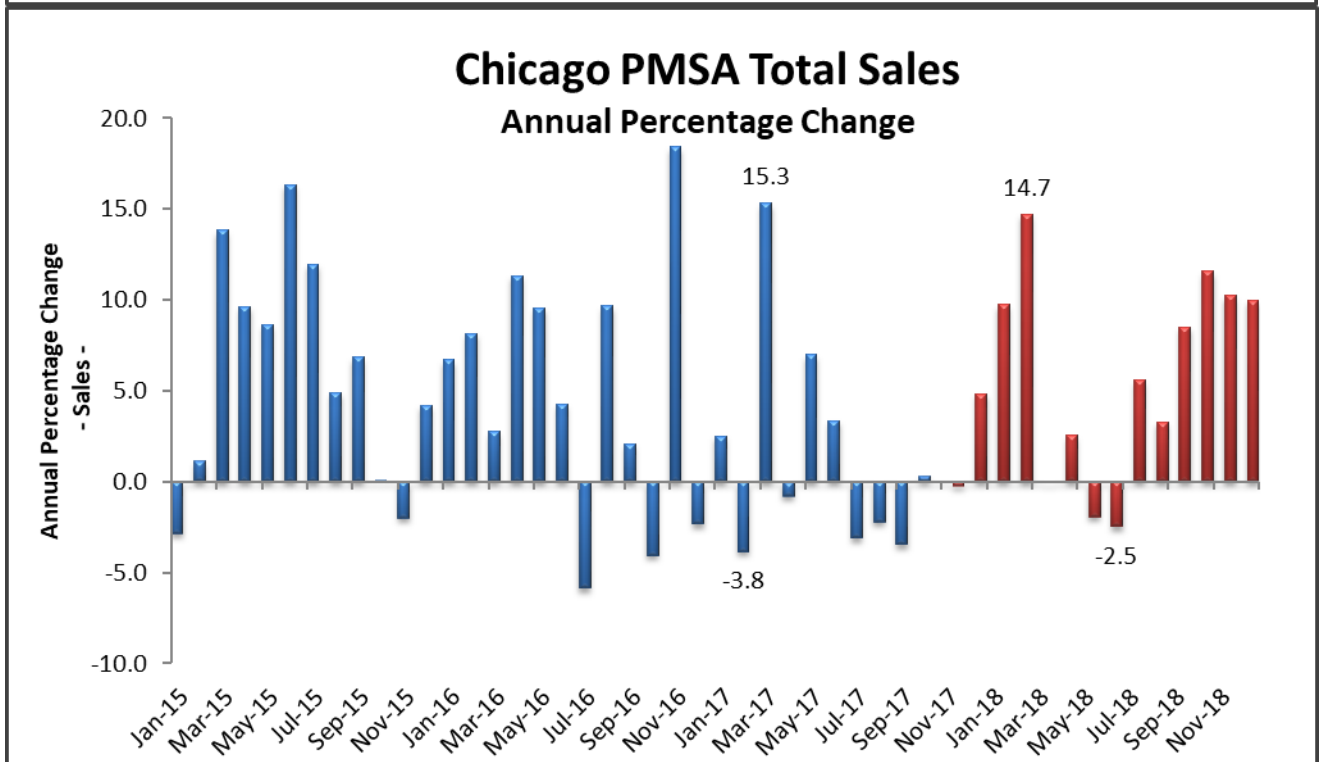
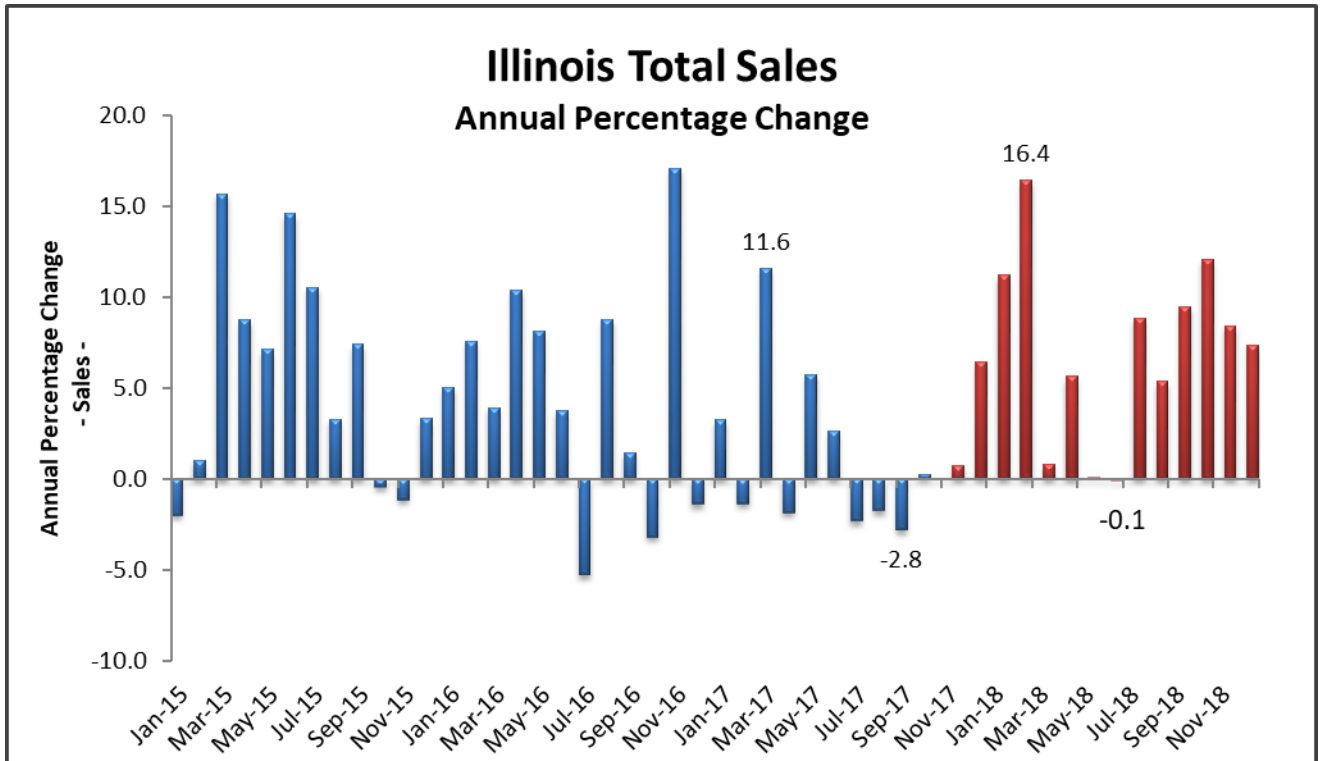
Illinois Median Home Sales Price Annual Percentage Change



Chicago Median Home Sales Price Annual Percentage Change



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Annual Sales Forecast (Nov 2017 to Dec 2018)

Percentage Change Forecasts for the Total Number of Sales								
(Illinois and Chicago PMSA: Forecast range)								
	Monthly				Annually			
	Illinois		Chicago		Illinois		Chicago	
Nov-17	-7.69%	-10.40%	-7.21%	-9.75%	0.64%	0.87%	-0.21%	-0.29%
Dec-17	6.72%	9.09%	4.19%	5.66%	5.49%	7.42%	4.10%	5.55%
Jan-18	-19.67%	-26.62%	-17.21%	-23.29%	9.52%	12.89%	8.29%	11.21%
Feb-18	2.93%	3.97%	-0.50%	-0.67%	13.95%	18.87%	12.50%	16.91%
Mar-18	31.06%	42.02%	37.20%	50.34%	0.71%	0.97%	-0.03%	-0.04%
Apr-18	8.44%	11.42%	6.31%	8.54%	4.79%	6.48%	2.17%	2.93%
May-18	13.63%	18.45%	15.14%	20.48%	0.00%	0.00%	-1.65%	-2.23%
Jun-18	10.18%	13.77%	10.66%	14.42%	-0.09%	-0.12%	-2.09%	-2.83%
Jul-18	-9.01%	-12.19%	-11.19%	-15.14%	7.53%	10.19%	4.75%	6.42%
Aug-18	-0.24%	-0.33%	0.53%	0.72%	4.57%	6.18%	2.78%	3.77%
Sep-18	-10.89%	-14.74%	-11.65%	-15.76%	8.07%	10.92%	7.24%	9.79%
Oct-18	-4.45%	-6.02%	-4.32%	-5.85%	10.28%	13.91%	9.83%	13.30%
Nov-18	-10.22%	-13.82%	-8.15%	-11.03%	7.16%	9.69%	8.68%	11.75%
Dec-18	5.84%	7.91%	4.00%	5.42%	6.28%	8.49%	8.49%	11.49%

Negative variations are in red.

Annual Median Prices Forecast (Nov 2017 to Dec 2018)

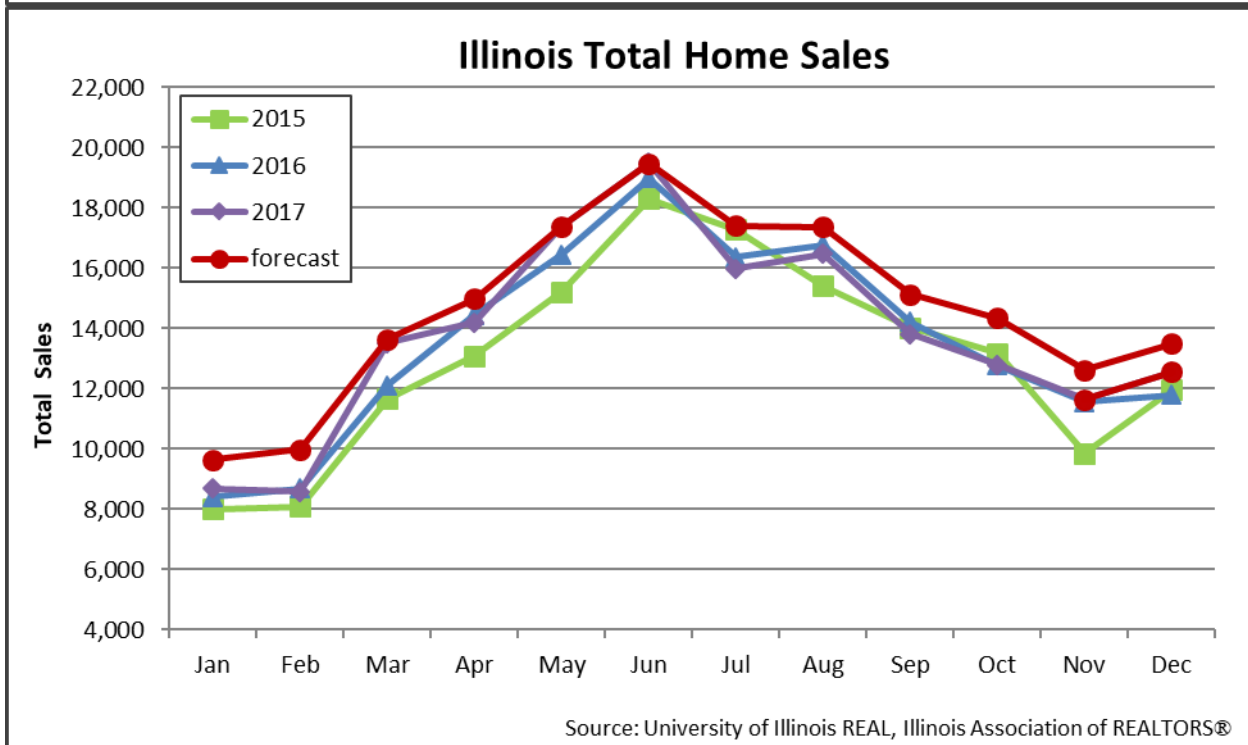
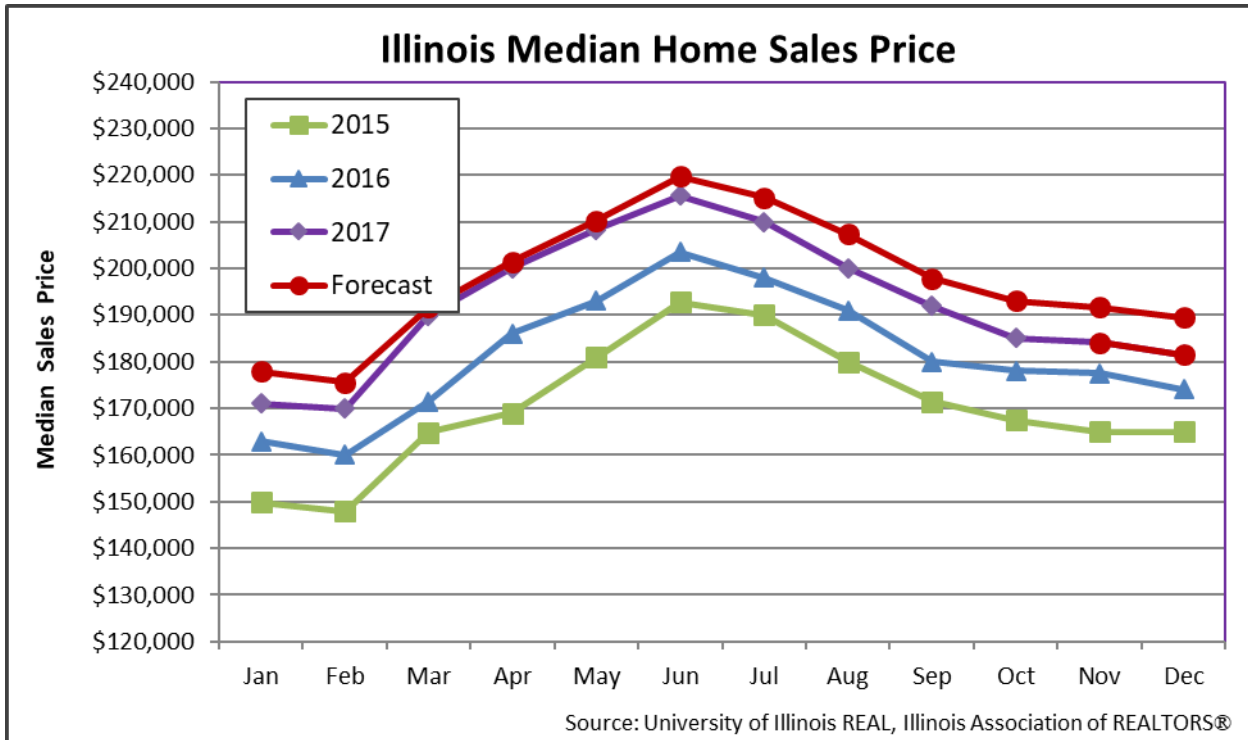
Summary of the Forecast for the Median Price					
(Illinois and Chicago PMSA)					
	Illinois	Chicago		Illinois	Chicago
Nov-17	\$184,141	\$219,966	Nov-16	\$177,500	\$214,000
Dec-17	\$181,538	\$220,711	Dec-16	\$174,000	\$214,000
Jan-18	\$177,842	\$214,193	Jan-17	\$171,000	\$209,000
Feb-18	\$175,554	\$213,782	Feb-17	\$170,000	\$210,000
Mar-18	\$191,705	\$235,172	Mar-17	\$189,900	\$230,000
Apr-18	\$201,426	\$251,080	Apr-17	\$200,000	\$242,000
May-18	\$210,222	\$255,124	May-17	\$208,250	\$246,900
Jun-18	\$219,779	\$262,373	Jun-17	\$215,535	\$252,000
Jul-18	\$215,236	\$257,731	Jul-17	\$210,000	\$247,500
Aug-18	\$207,289	\$249,712	Aug-17	\$200,000	\$239,000
Sep-18	\$197,890	\$238,673	Sep-17	\$192,000	\$230,000
Oct-18	\$192,995	\$233,903	Oct-17	\$185,000	\$222,500
Nov-18	\$191,633	\$232,223			
Dec-18	\$189,520	\$232,598			

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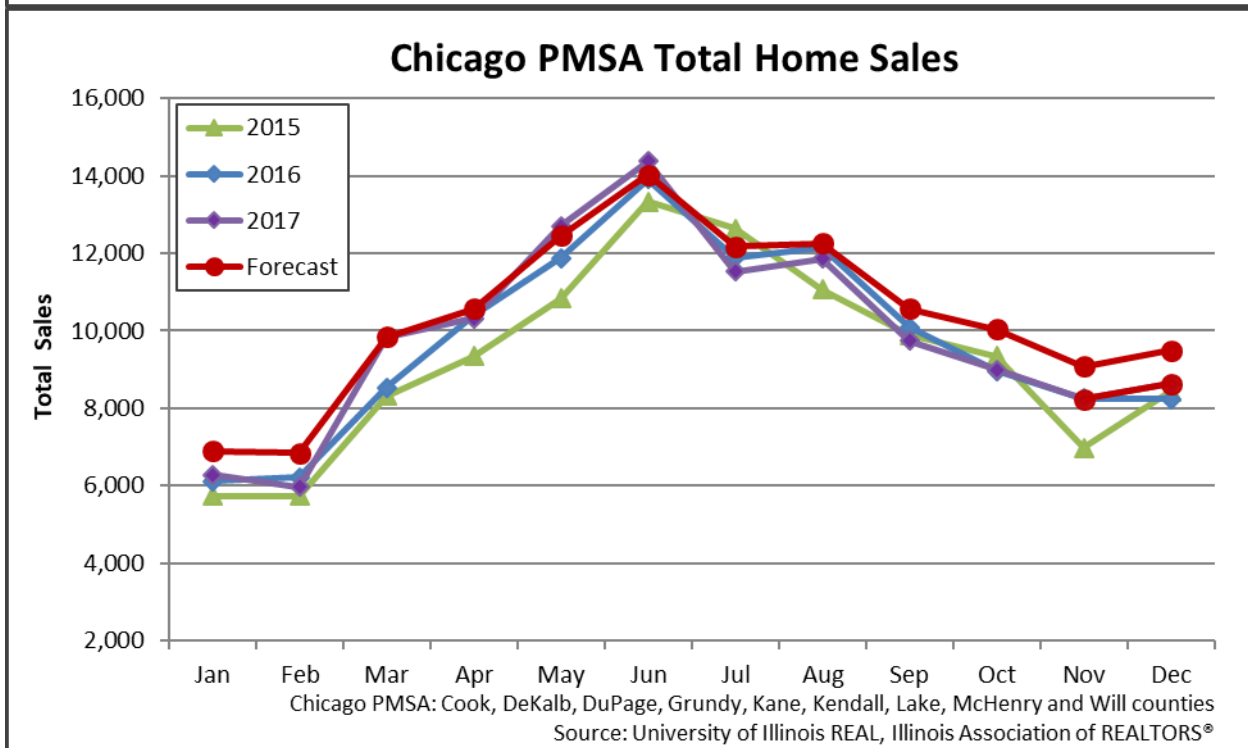
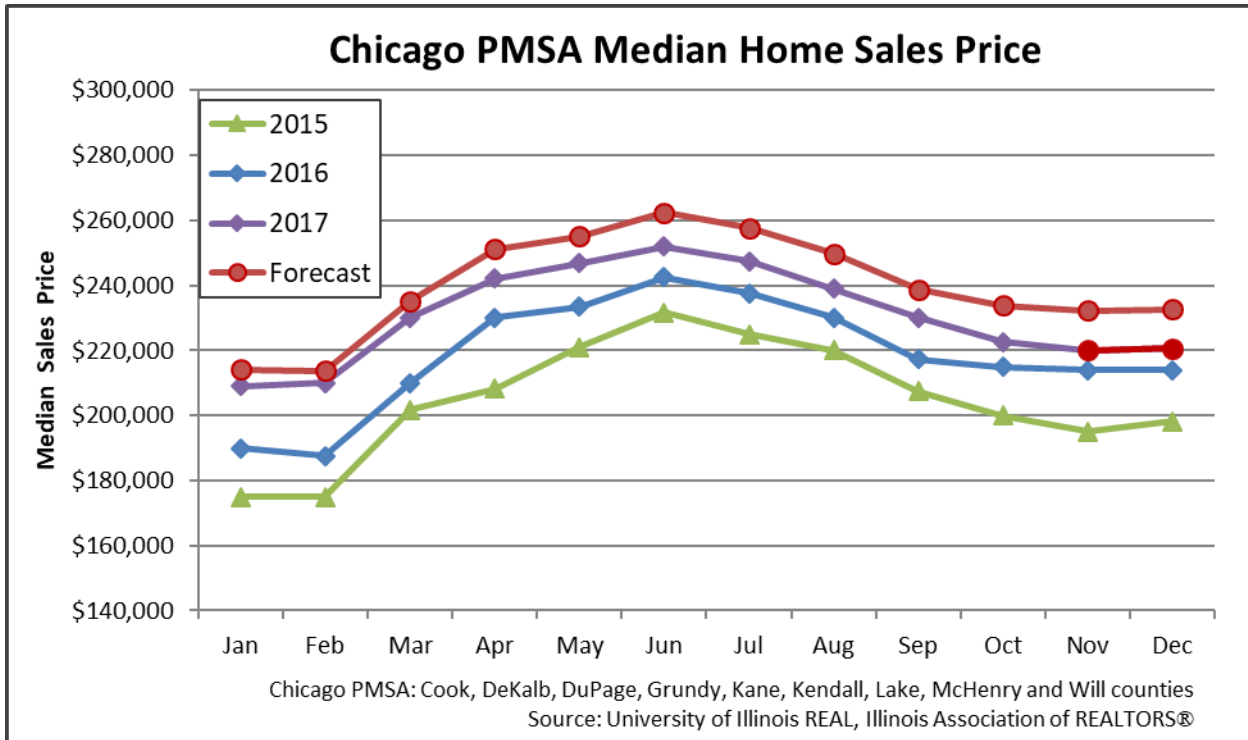
Annual Forecasts for Regular Property Sales in Chicago PMSA (Nov 2017 to Dec 2018)

Summary of the Forecasts for <i>Regular Property Sales</i>					
(Chicago PMSA)					
	Sales			Median Prices	
	Forecasted Sales	Annually		Forecasted Price	Annually
Nov-17	7,162	0.77%	1.04%	\$232,265	2.32%
Dec-17	7,438	4.53%	6.13%	\$231,466	2.31%
Jan-18	5,751	8.43%	11.40%	\$228,386	1.50%
Feb-18	5,644	12.22%	16.53%	\$230,220	0.58%
Mar-18	8,435	-1.18%	-1.60%	\$246,320	1.37%
Apr-18	9,243	0.80%	1.08%	\$260,539	2.17%
May-18	11,128	-2.84%	-3.84%	\$261,097	1.99%
Jun-18	12,662	-2.86%	-3.87%	\$268,042	2.11%
Jul-18	10,918	3.39%	4.59%	\$264,114	2.57%
Aug-18	10,941	1.58%	2.14%	\$254,989	2.41%
Sep-18	9,314	5.11%	6.91%	\$244,594	1.96%
Oct-18	8,715	7.77%	10.51%	\$240,114	3.95%
Nov-18	7,761	7.10%	9.61%	\$239,921	3.30%
Dec-18	8,079	7.34%	9.93%	\$239,144	3.32%

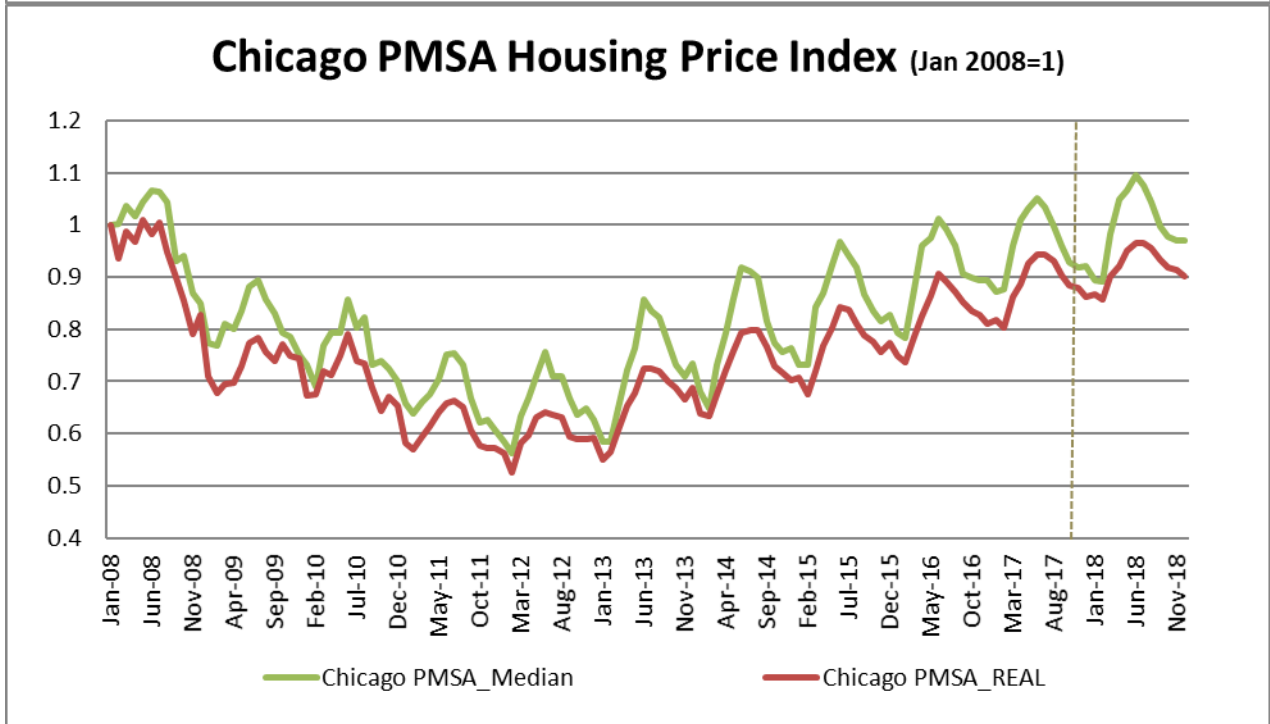
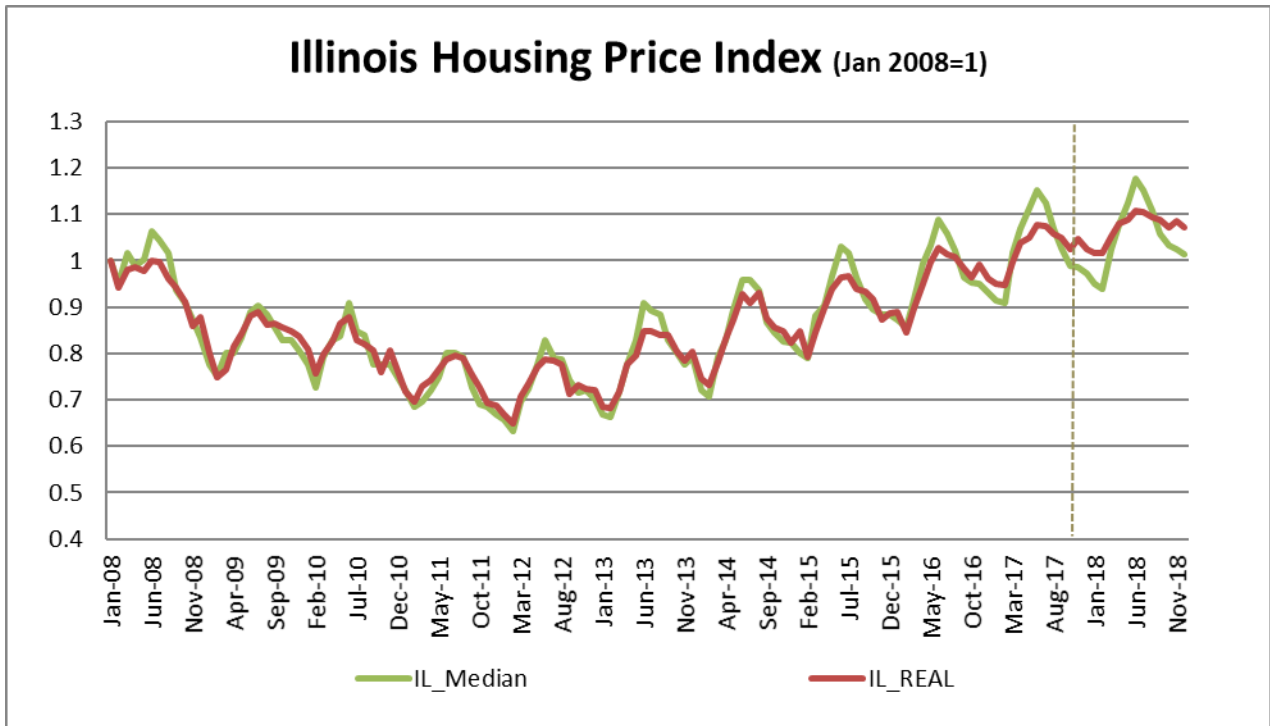
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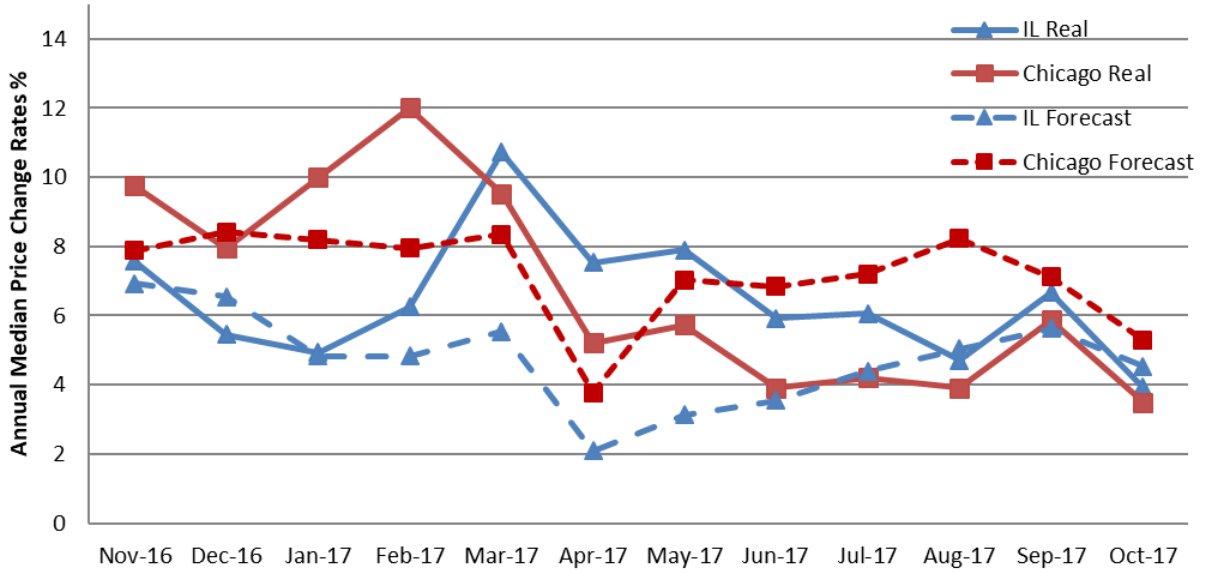


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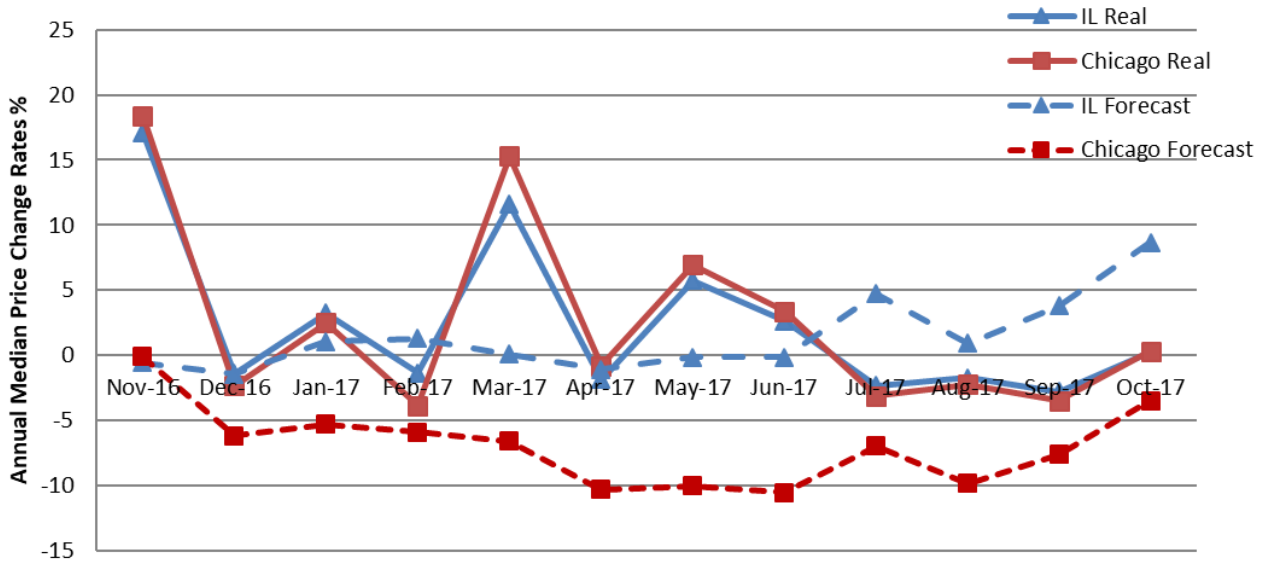


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2017 Real vs Forecast Annual Median Price Change Rates



2017 Real vs Forecast Annual Sales Change Rates



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