

Housing Price Forecasts

Illinois and Chicago PMSA, January 2018

Presented To

Illinois Realtors®

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The Housing Market

In December, median prices continued to experience positive growth while sales experienced a negative annual change. 11,488 houses were sold in Illinois, changing by -2.3% from a month ago and -2.7% from a year ago. In the Chicago PMSA, 8,067 houses were sold, changing by -1.9% from a month ago and -2.1% from a year ago. The median price was \$185,000 in Illinois, up 6.3% from December last year; the comparable figure for the Chicago PMSA was \$225,000, up 5.1% from this time last year.

In December, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 11.1%. 7,078 regular sales were made, 0.2% more than last year. 926 foreclosed properties were sold, 17.4% less than last year. The median price was \$235,000 for regular property sales, 4.0% more than last year; the comparable figure for the foreclosed properties was \$162,250, up 15.1% from this time last year.

Illinois and Chicago PMSA both have already recovered to their pre-bubble levels. The median sales price in December 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 December 2008 median sales price was \$150,900 (in \$2008) and \$172,156 (in \$2017); the current price level was 107% of the 2008 level after adjusting (123% before adjusting). In the Chicago PMSA, the December 2008 median sales price was \$180,125 (in \$2008) and \$205,498 (in \$2017); the comparable figure for price recovery in December 2017 is 109% after adjustment (125% before adjusting).

The sales forecast for January, February and March suggests decreases on a yearly basis and increases on a monthly basis for Illinois, while the sales forecast for the Chicago PMSA suggests increases on both an annual and a monthly basis. Annually for Illinois, the three-month average forecasts point to a decrease in the range -0.6% to -0.8%; the comparative figures for the Chicago PMSA are an increase in the range 1.7% to 2.3%. On a monthly basis, the three-month average sales are forecast to increase in the range 5.5% to 7.4% for Illinois and increase in the range 6.1% to 8.3% for the Chicago PMSA.

The pending home sales index¹ is a leading indicator based on contract signings. This December, the number of homes put under contract was greater than last year. The pending home sales index is 103.2 (2008=100) in Illinois, up 7.5% from a year ago. In the Chicago PMSA, the comparable figure is 118.0, up 12.0% from a year ago. At the latest average annual pending sales rate, Illinois had enough housing inventory for 3.3 months² (down from 3.9 months a year ago). In the Chicago PMSA, the comparable figure was 2.4 months (down from 2.9 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 lowest price ranges (<100K) experienced the largest changes.

The median price forecast indicates moderate annual growth in both Illinois and the Chicago PMSA for January, February and March. In Illinois, the median price is forecast to rise by 6.1%

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.

in January 5.5% in February and 2.9% in March. For the Chicago PMSA, the comparable figures are 5.4% in January 4.8% in February and 4.7% in March. As a 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 3.6% in January 3.9% in February and 2.1% in March. The comparable figures for the Chicago PMSA are 8.9% in January 10.0% in February and 8.2% in March. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month.

In December, two consumer sentiment indices both decreased but remain at high levels. The Conference Board Consumer Confidence Index survey explained that the decline in confidence was fueled by a somewhat less optimistic outlook for business and job prospects in the coming months. Consumers’ assessment of current conditions, however, improved moderately. Despite the decline in confidence, consumers’ expectations remain at historically strong levels, suggesting economic growth will continue well into 2018. The University of Michigan Consumer Sentiment Index also revealed that even with the drop, the index remains elevated by historical standards, and the full-year average for 2017 was the highest since 2000. Respondents’ assessments of their current finances were also the most favorable in 17 years. That will help underpin consumer spending, the biggest part of the economy. At the same time, Americans increasingly expect an economic downturn in the next five years. The more housing specific sentiment index, the Fannie Mae Home Purchase Sentiment Index (HPSI), also declined and their survey explained that consumers remained cautious in their housing outlook at the end of 2017, as tax reform discussions continued. In December, mirroring the other major consumer sentiment benchmarks, the HPSI reflected this caution and declined slightly.

The Housing Market – Current Condition

- In December, median prices continued to experience positive growth while sales experienced a negative annual change. 11,488 houses were sold in Illinois, changing by -2.3% from a month ago and -2.7% from a year ago. In the Chicago PMSA, 8,067 houses were sold, changing by -1.9% from a month ago and -2.1% from a year ago. The median price was \$185,000 in Illinois, up 6.3% from December last year; the comparable figure for the Chicago PMSA was \$225,000, up 5.1% from this time last year. (Reference: Illinois and Chicago PMSA Total Home Sales and Median Home Sales Price figures; Forecast for January 2018 report table)
- In December, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 11.1%. 7,078 regular sales were made, 0.2% more than last year. 926 foreclosed properties were sold, 17.4% less than last year. The median price was \$235,000 for regular property sales, 4.0% more than last year; the comparable figure for the foreclosed properties was \$162,250, up 15.1% from this time last year. (Reference: Ratio of Foreclosed Sales over Total Sales, Sales & Median Prices: Foreclosed vs. Regular figures)
- In December, at the latest average annual pending sales rate, Illinois had enough housing inventory for 3.3 months⁴ (down from 3.9 months a year ago). In the Chicago PMSA, the comparable figure was 2.4 months (down from 2.9 months a year ago). Months of supply for homes in all price ranges experienced declines both in Illinois and the Chicago PMSA, and

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.

homes in the lowest price ranges (<100K) experienced the largest changes. (Reference: Illinois and Chicago PMSA Annual Months' Supply by Price Range figures)

- In December, 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 20.5% from 23.0% a year ago; the comparative figure for the Chicago PMSA showed a decrease to 9.9% from 12.9% 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 January, February and March. In Illinois, the median price is forecast to rise by 6.1% in January 5.5% in February and 2.9% in March. For the Chicago PMSA, the comparable figures are 5.4% in January 4.8% in February and 4.7% in March. (Reference: Forecast for January 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 3.6% in January 3.9% in February and 2.1% in March. The comparable figures for the Chicago PMSA are 8.9% in January 10.0% in February and 8.2% in March. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month. (Reference: Housing Price Index)
- The sales forecast for January, February and March suggests decreases on a yearly basis and increases on a monthly basis for Illinois, while the sales forecast for the Chicago PMSA suggests increases on both an annual and a monthly basis. Annually for Illinois, the three-month average forecasts point to a decrease in the range -0.6% to -0.8%; the comparative figures for the Chicago PMSA are an increase in the range 1.7% to 2.3%. On a monthly basis, the three-month average sales are forecast to increase in the range 5.5% to 7.4% for Illinois and increase in the range 6.1% to 8.3% for the Chicago PMSA. (Reference: Forecast for January 2018 report table)
- The pending home sales index⁶ is a leading indicator based on contract signings. This December, the number of homes put under contract was greater than last year. The pending home sales index is 103.2 (2008=100) in Illinois, up 7.5% from a year ago. In the Chicago PMSA, the comparable figure is 118.0, up 12.0% from a year ago. (Reference: Illinois and Chicago PMSA Pending Home Sales Index figure)
- In December 2017, 1,574 houses were newly filed for foreclosure in the Chicago PMSA (down 12.8% and up 3.8% respectively from a year and a month ago). 1,110 foreclosures were completed⁷ (down 3.8% and down 21.8% respectively from a year and a month ago). As of December 2017, there are 34,296 homes at some stage of foreclosure — the foreclosure inventory. The monthly average net flows of foreclosures (foreclosure inflows - outflows) were 354 in the past 6 months, 510 in the last 12 months and 417 in the last 24 months. (Reference: Chicago PMSA Foreclosure Inflows and Outflows, and Inventory figures).

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

The Economy

- In December 2017, according to the Bureau of Labor Statistics (BLS) Employment Situation report, the national unemployment rate unchanged at 4.1% and nonfarm payroll jobs experienced a gain of 148,000 jobs. Employment increased in Health Care (+31,000), Construction (+30,000), and Manufacturing (+25,000).
- In December 2017, according to the Illinois Department of Employment Security (IDES) news release, the Illinois unemployment dipped by 0.1 percentage points to 4.8%. Non-farm payroll jobs increased by +1,500 over the month. The largest gains were in three sectors; Government (+4,100), Other Services (+2,600), and Construction (+2,200). Furthermore, the job growth in November was revised from the preliminary estimate of -1,100 jobs to +3,100 jobs. Note that “Other Services” include activities in three broad categories: Personal and laundry; repair and maintenance; and religious, grant making, civic and professional organizations.
- In November 2017, the one-year-ahead forecast for Illinois indicates that the non-farm employment will change at a rate between -0.02% and 0.12%, corresponding to job changes between -1,000 and 7,400. The largest contributors to the forecast increase are professional and business services, education and health, and leisure and hospitality.
- In December 2017, the U.S. Census Bureau reported that housing starts closed the year down from an unusually strong November. Single-family home starts have been closely watched by economists as key to alleviating a growing housing-shortage problem in several cities. Economists cautioned not to read too much into the month’s reading, however. “The latest decline in the volatile housing starts data is disappointing, but surely not lasting,” said National Association of Realtors (NAR) Chief Economist Lawrence Yun. “New home construction still closed out 2017 as expected, with 1.2 million units — the best since 2007.”
- In December 2017, the Mortgage Bankers Association (MBA) reported that mortgage applications for newly built homes fell sharply from a month earlier, but ran ahead of the pace a year ago. “After playing catch-up for two months following the slowdown caused by hurricanes Harvey, Irma and Maria, mortgage applications for new homes declined in December to a more normal growth rate of 7.8 percent on a year over year basis,” said Lynn Fisher, MBA’s vice president of Research and Economics.

Longer-term Outlook

- In December, two consumer sentiment indices both decreased but remain at high levels. The Conference Board Consumer Confidence Index decreased to 122.1 from 128.6 last month. The survey revealed that the decline in confidence was fueled by a somewhat less optimistic outlook for business and job prospects in the coming months. Consumers’ assessment of current conditions, however, improved moderately. Despite the decline in confidence, consumers’ expectations remain at historically strong levels, suggesting economic growth will continue well into 2018. The University of Michigan Consumer Sentiment Index declined to 95.9, after rising to 98.5 in November. Even with the drop, the index remains elevated by historical standards, and the full-year average for 2017 was the highest since 2000. Respondents’ assessments of their current finances were also the most favorable in 17 years. That will help underpin consumer spending, the biggest part of the economy. At the same time, Americans increasingly expect an economic downturn in the next five years.
- In December, Fannie Mae Home Purchase Sentiment Index (HPSI) decreased to 85.8 from

87.8 last month. “Consumers remained cautious in their housing outlook at the end of 2017, as tax reform discussions continued. In December, mirroring the other major consumer sentiment benchmarks, the HPSI reflected this caution and declined slightly,” said Doug Duncan, senior vice president and chief economist at Fannie Mae. “Entering 2018, housing affordability remains a persistent challenge, particularly in rental markets, where consumer expectations for price increases over the next 12 months reached a new survey high.”

- The Chicago Business Activity Index (CBAI) decreased to 97.0 in November from 101.1 in October. The decrease is mainly attributed to the negative nonmanufacturing job growth and a decrease in nationwide economic activities measured by the Chicago Fed National Activity Index (CFNAI).

“The forecasts for prices and sales for the first quarter of 2018 remain positive; after adjusting for inflation, prices are now 7% higher than pre-recession levels in Illinois and 9% higher in Chicago.” noted Geoffrey J.D. Hewings, Director of the Regional Economics Applications Laboratory. “The major uncertainty in 2018 remains focused on the impact if the net effects of limitations on state and local tax deductibility and mortgage interest on the one hand and, on the other hand, reductions in tax rates that may should increase consumers’ disposable income.”

Forecast for January 2018 report

PERCENTAGE CHANGE FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Oct-17	2.1%	2.3%		-5.9%	-6.1%			
Nov-17	1.8%	-0.3%		-9.7%	-10.3%			
Dec-17	-2.7%	-2.1%		-2.3%	-1.9%			
3 Month Avg.	0.5%	0.0%		-6.1%	-6.3%			
SUMMARY OF THE FORECAST INTERVALS FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Jan-18	-1.6%	-2.2%	2.4%	3.2%	-22.0%	-29.7%	-17.0%	-23.0%
Feb-18	1.5%	2.1%	7.7%	10.4%	2.2%	3.0%	0.8%	1.1%
Mar-18	-1.2%	-1.6%	-2.4%	-3.2%	44.7%	60.5%	40.0%	54.1%
3 Month Avg.	-0.6%	-0.8%	1.7%	2.3%	5.5%	7.4%	6.1%	8.3%
SUMMARY OF THE FORECAST FOR THE MEDIAN PRICE								
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Oct-17	\$185,000	\$222,000	Oct-16	\$178,000	\$215,000			
Nov-17	\$185,000	\$225,000	Nov-16	\$177,500	\$214,000			
Dec-17	\$185,000	\$225,000	Dec-16	\$174,000	\$214,000			
Jan-18	\$180,984	\$220,194	Jan-17	\$170,500	\$209,000			
Feb-18	\$179,412	\$220,087	Feb-17	\$170,000	\$210,000			
Mar-18	\$195,486	\$240,701	Mar-17	\$189,900	\$230,000			
ANNUAL PERCENTAGE CHANGE OF THE MEDIAN PRICE								
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Oct-17	3.9%	3.3%	Oct-16	6.3%	7.5%			
Nov-17	4.2%	5.1%	Nov-16	7.6%	9.7%			
Dec-17	6.3%	5.1%	Dec-16	5.5%	7.9%			
Jan-18	6.1%	5.4%	Jan-17	4.6%	10.0%			
Feb-18	5.5%	4.8%	Feb-17	6.3%	12.0%			
Mar-18	2.9%	4.7%	Mar-17	10.7%	9.5%			

Median Prices and Recovery

	Illinois		Chicago PMSA	
	[\$2008]	[\$2017]	[\$2008]	[\$2017]
December 2008 Median Price	\$150,900	\$172,156	\$180,125	\$205,498
December 2017 Median Price	\$162,158	\$185,000	\$197,219	\$225,000
Price Ratio (December 17/ December 08)	Adjusted	1.07	Adjusted	1.09
	Unadjusted	1.23	Unadjusted	1.25

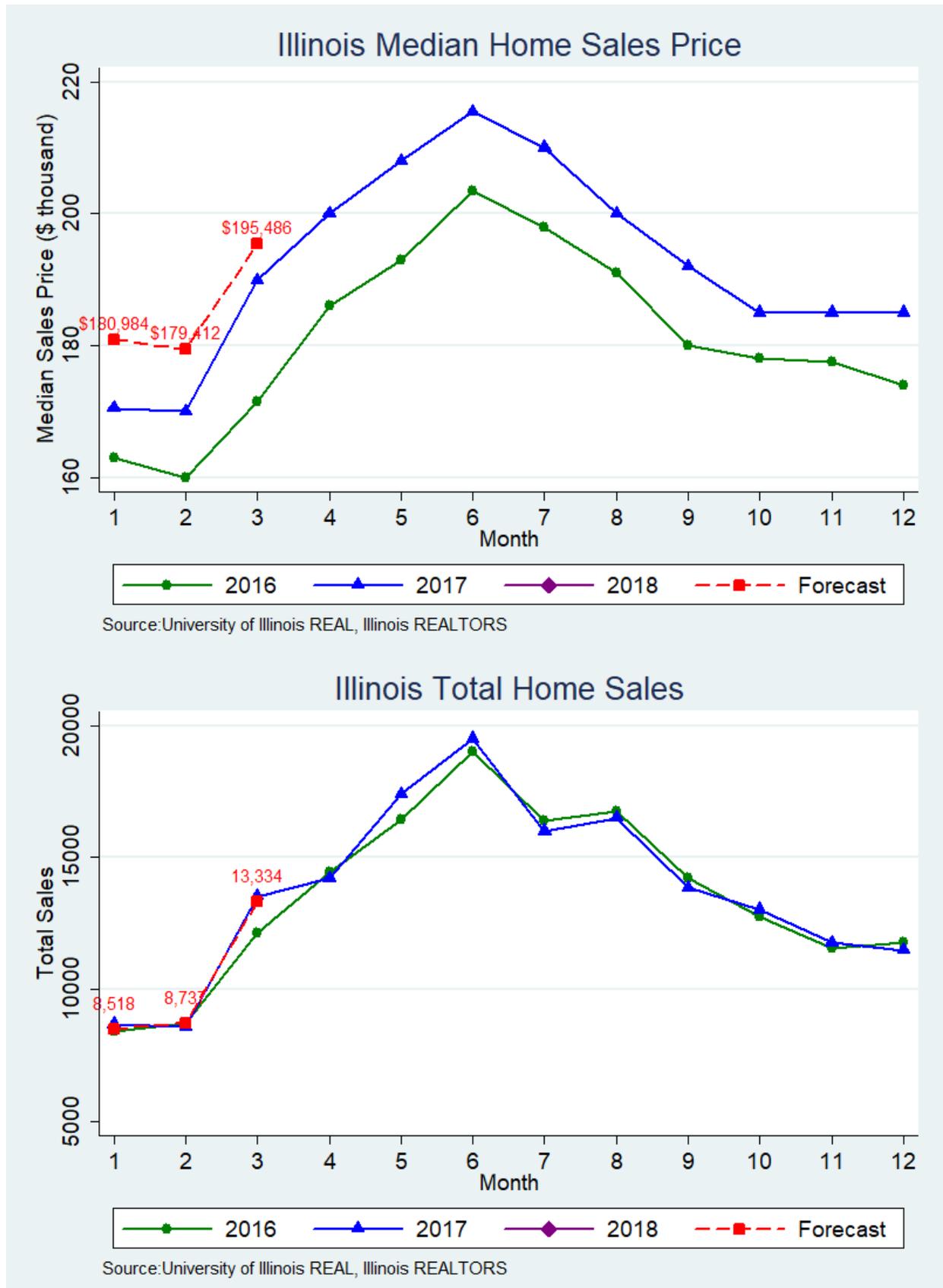
Recovery Forecasts using *Annually Growth Rates*

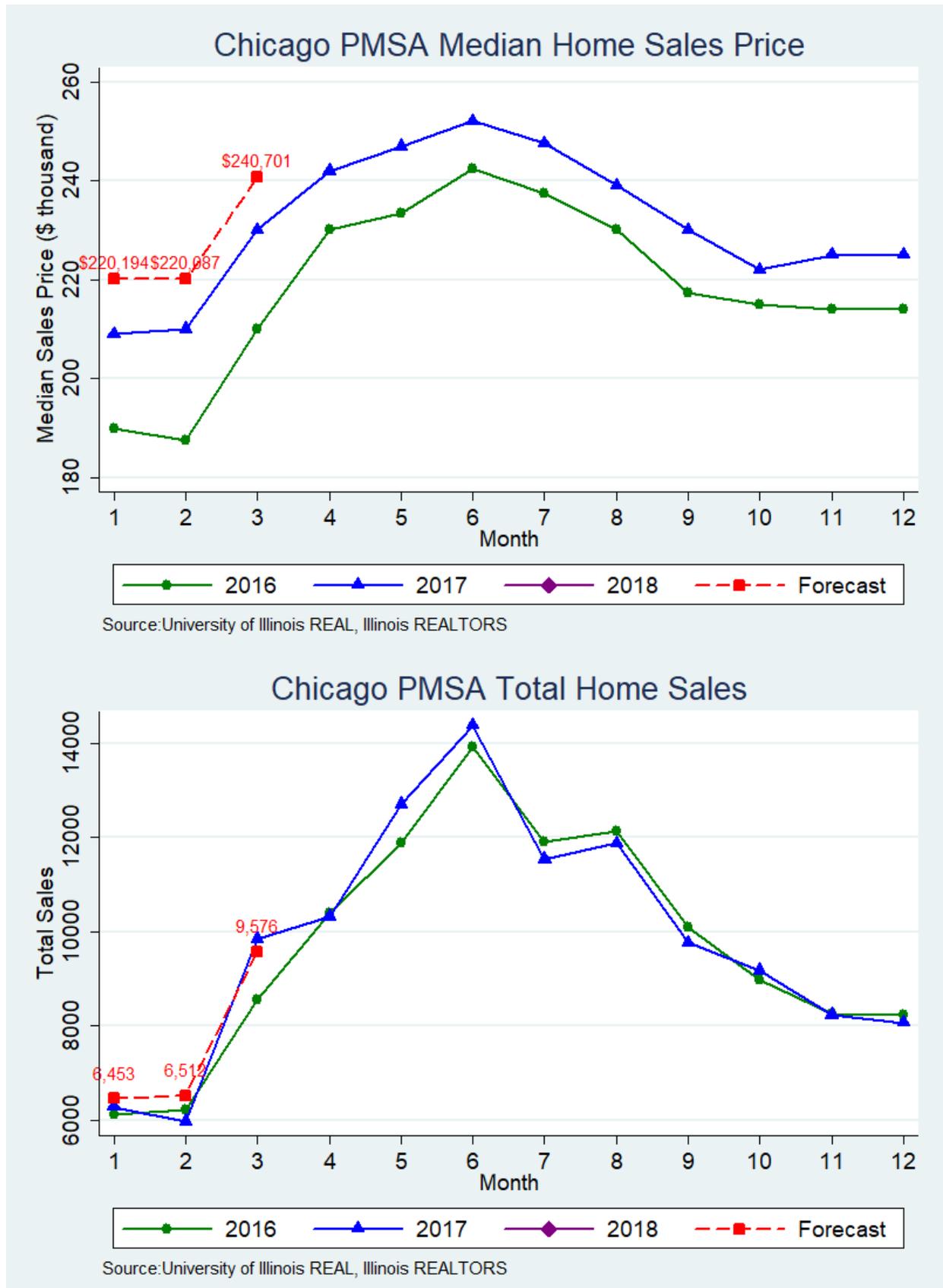
	Illinois	Chicago PMSA		
	Annual Recovery Rate*	Years to Recover**	Recovery Rate	Years to Recover
Current Month	4.2%	-1.7	2.4%	-3.8
Past 3 months	4.7%	-1.6	2.8%	-3.3
Past 6 months	5.1%	-1.4	4.5%	-2.0
Past 9 months	4.7%	-1.6	5.4%	-1.7
Past 12 months	4.6%	-1.6	5.0%	-1.8

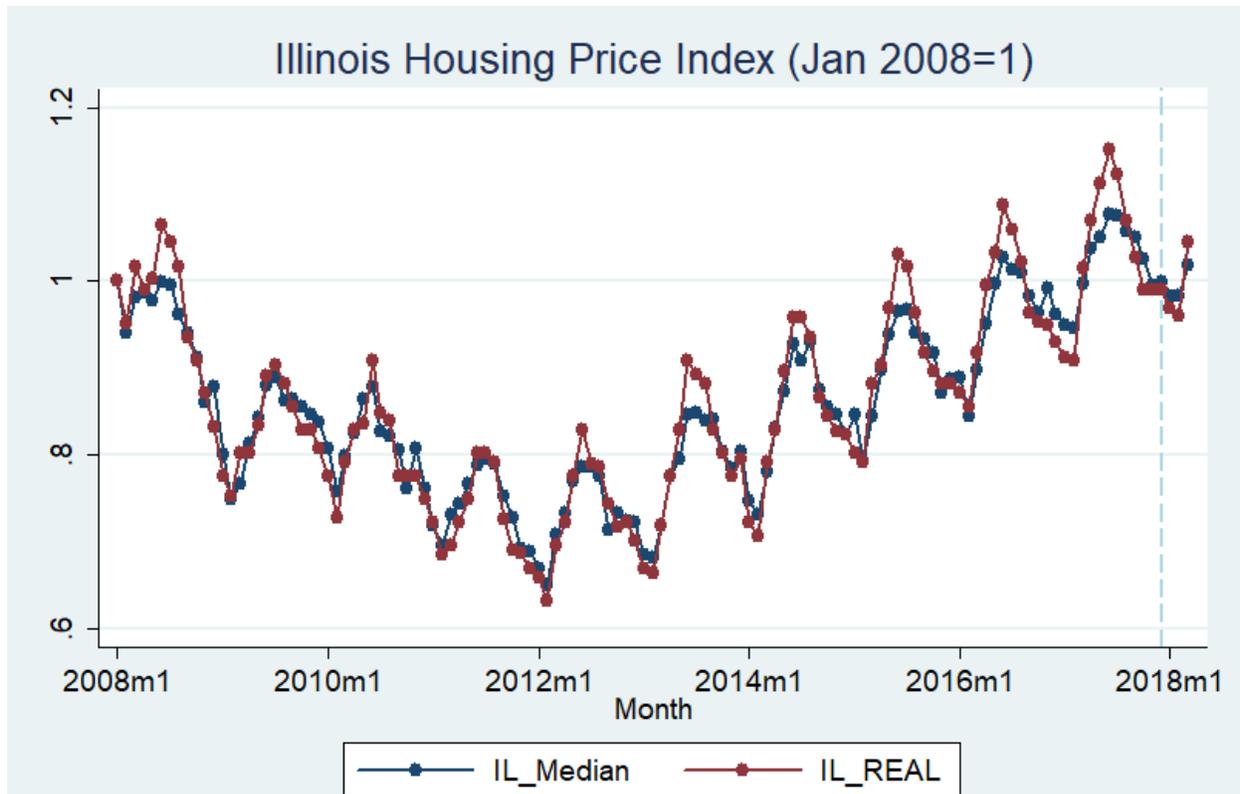
*Annual recovery rate is the average of *annual* change rates in past months

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

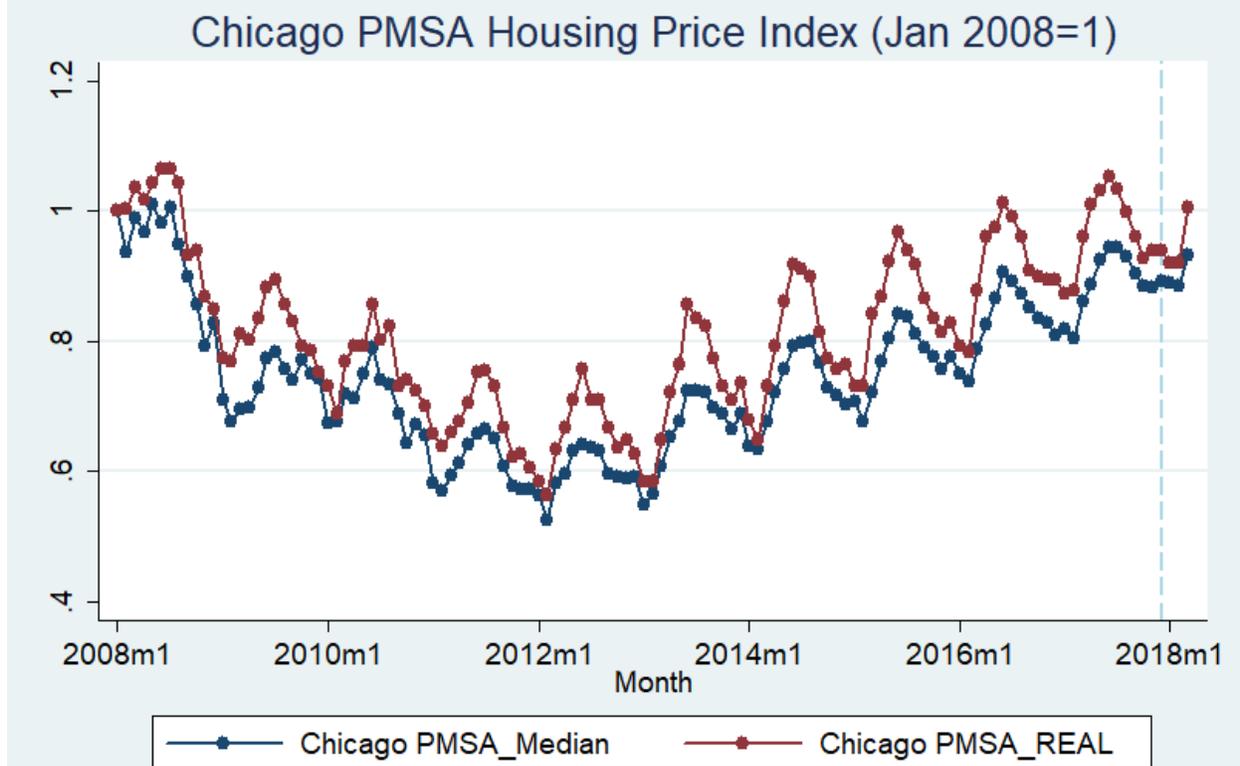
$Price_{December2017} * (1 + \text{recovery rate})^{\text{years}} = Price_{December2008}$. Prices used in the formula are inflation adjusted. The recovery rate is applied as a constant annual change rate to recoup the differences between the current month and its corresponding month in 2008.



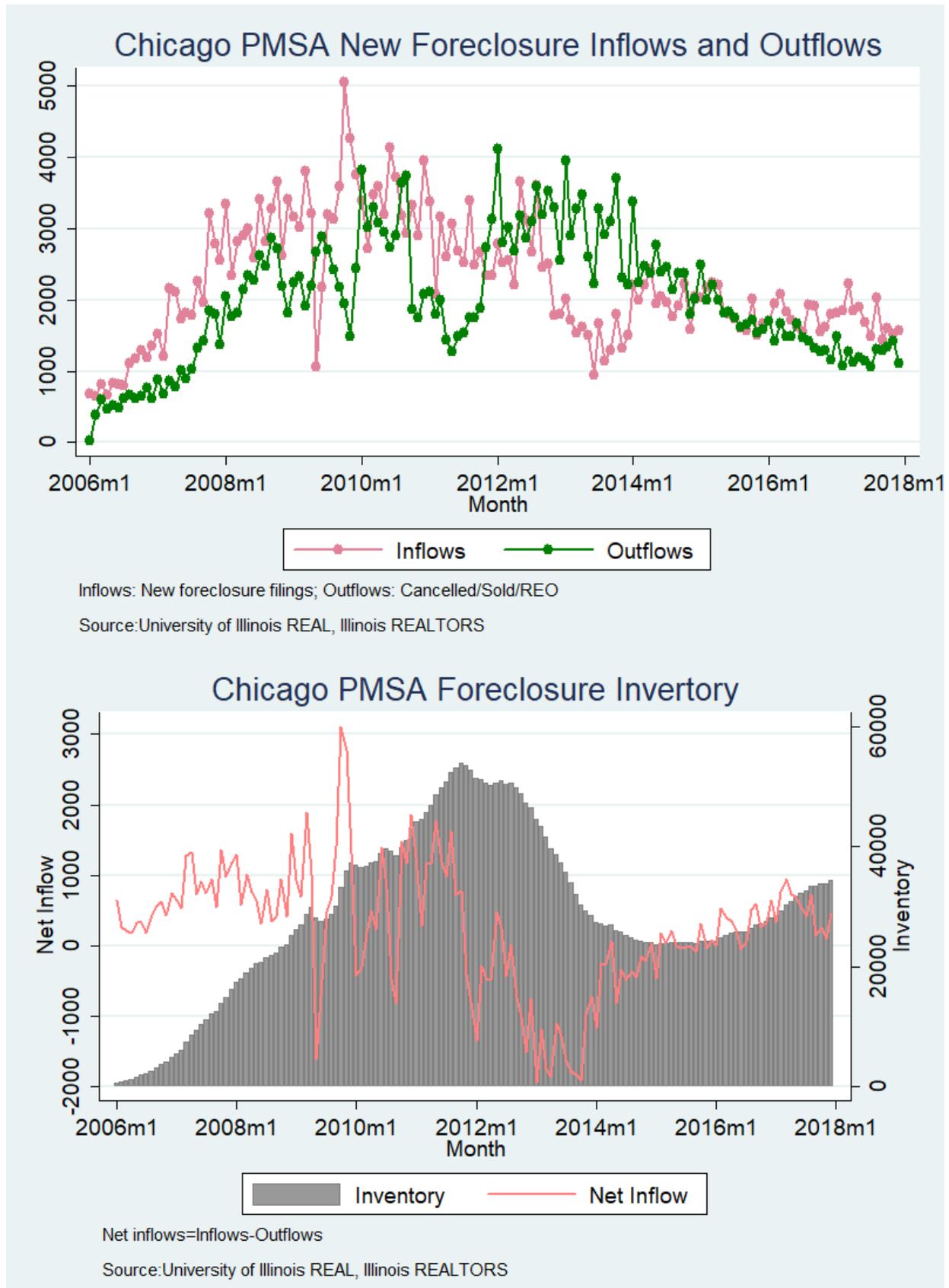


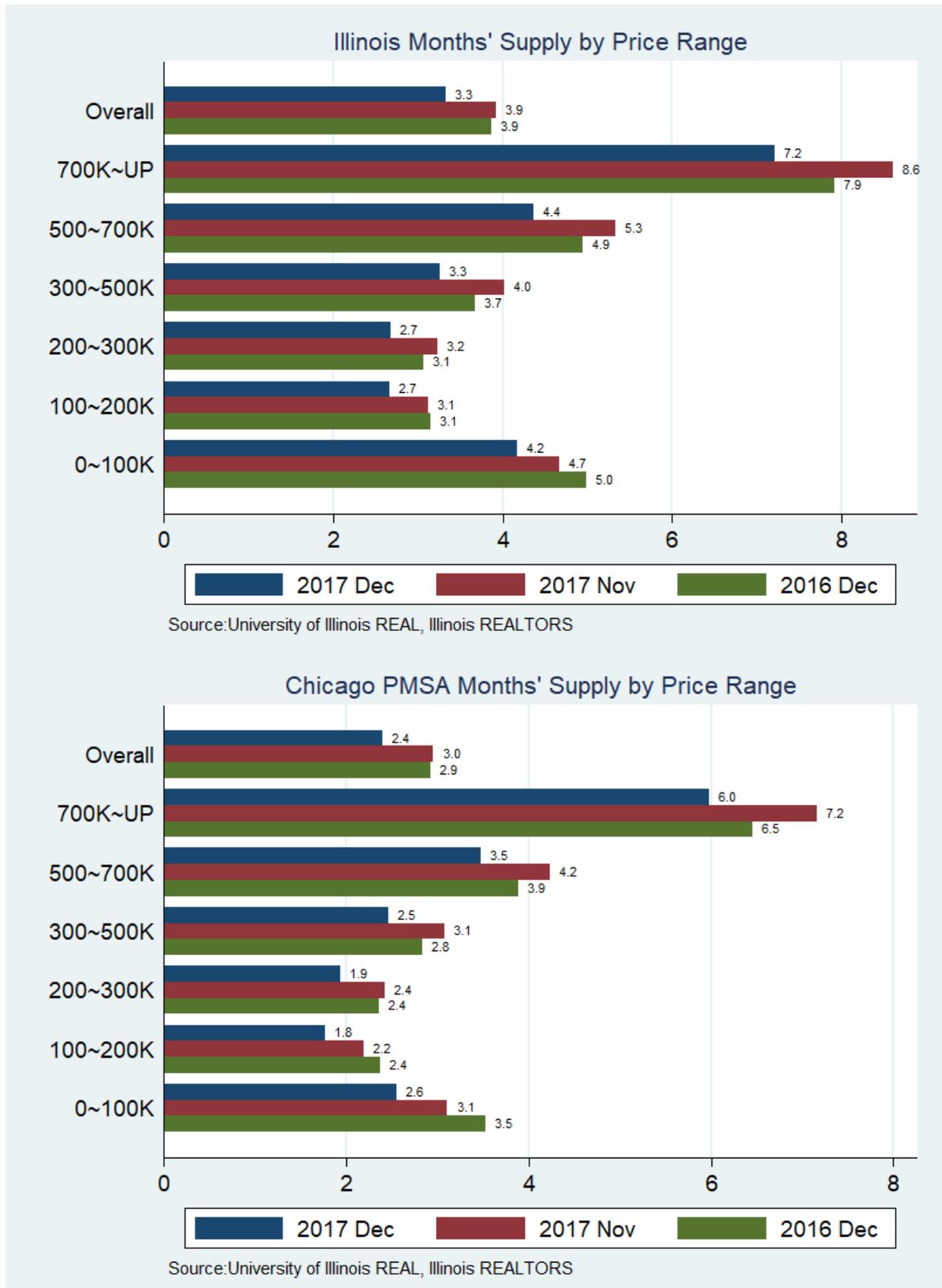


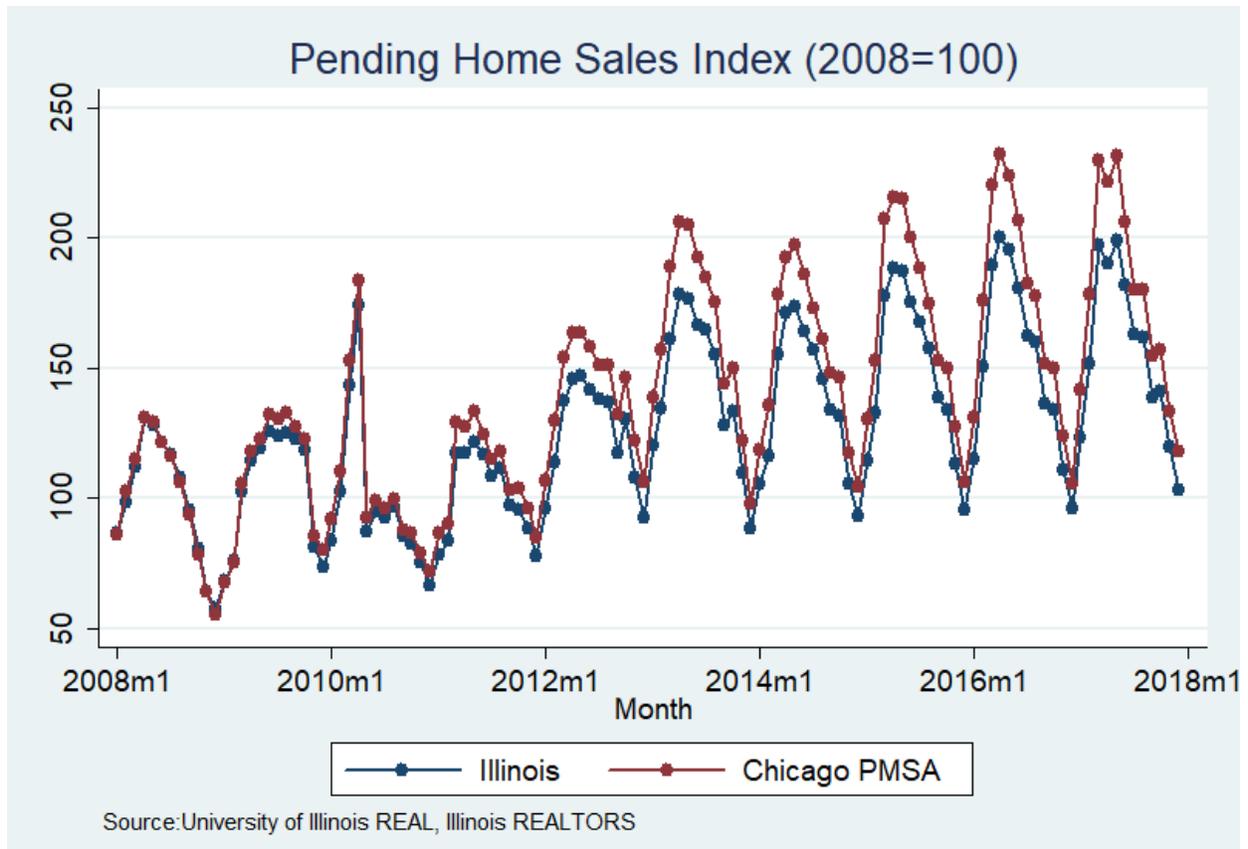
Source: University of Illinois REAL, Illinois REALTORS



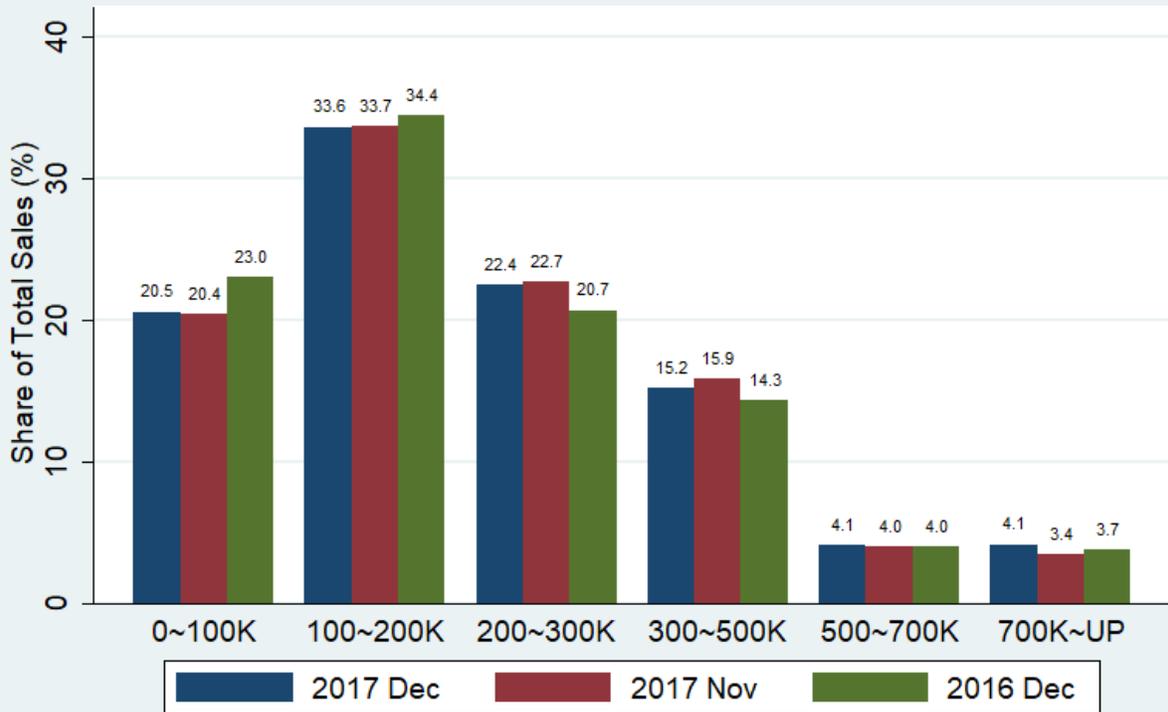
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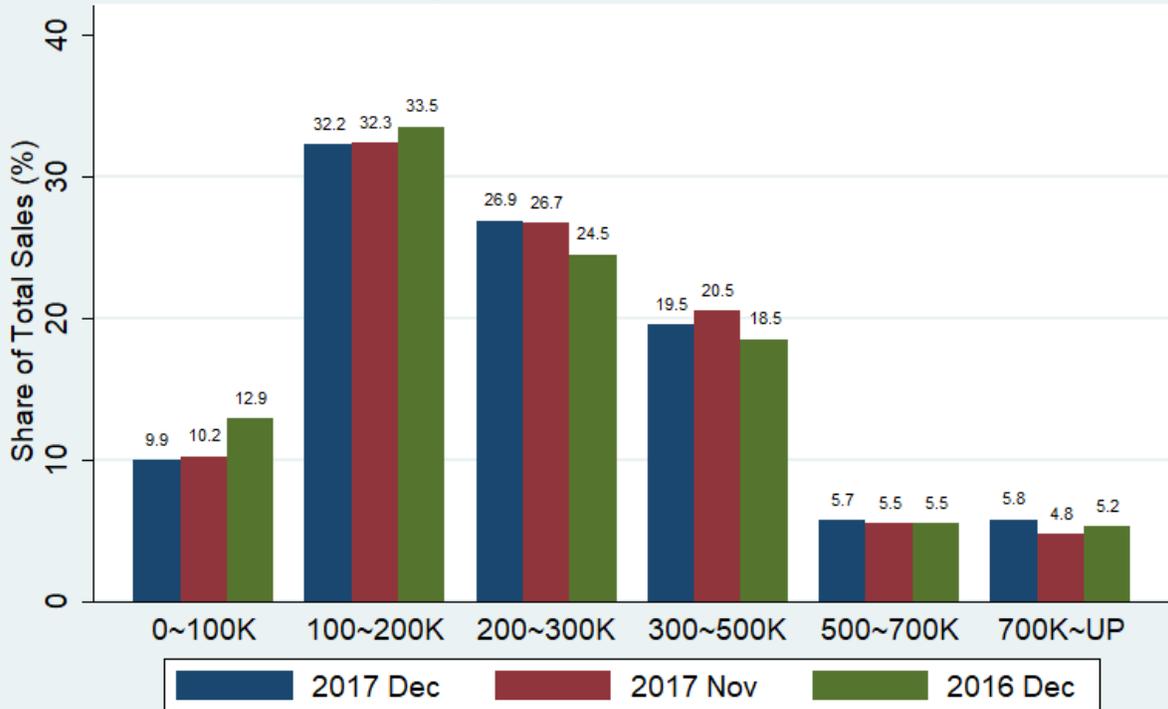


Illinois Price Stratification



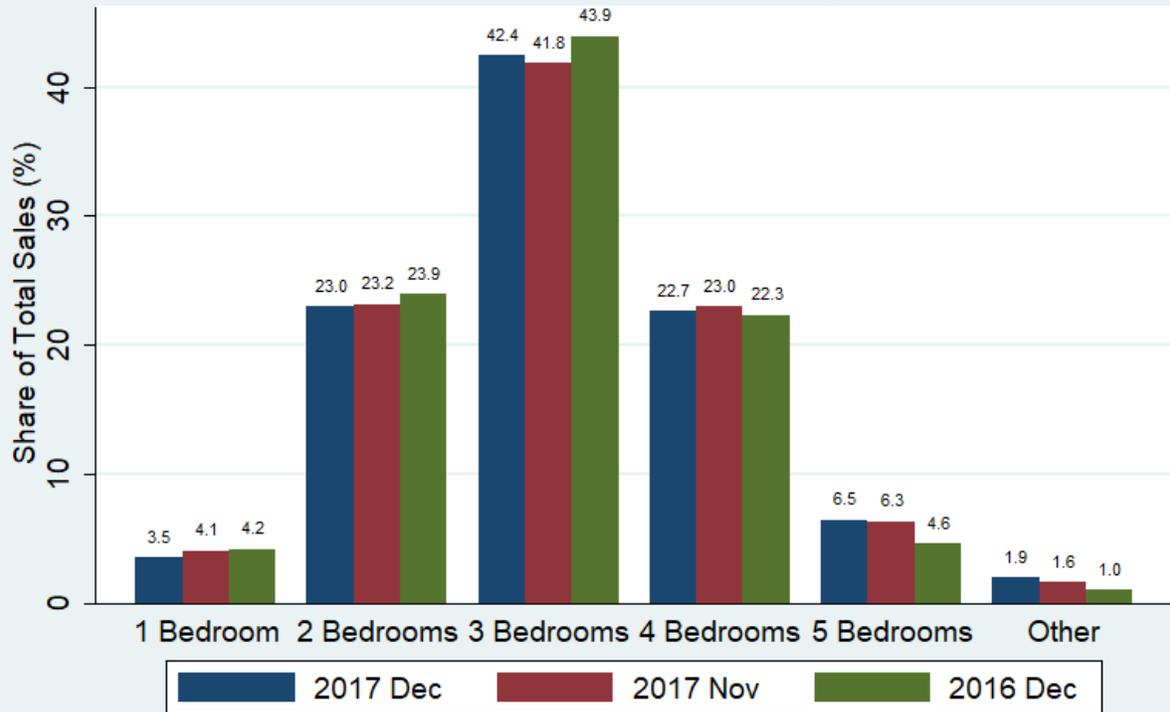
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Chicago PMSA Price Stratification



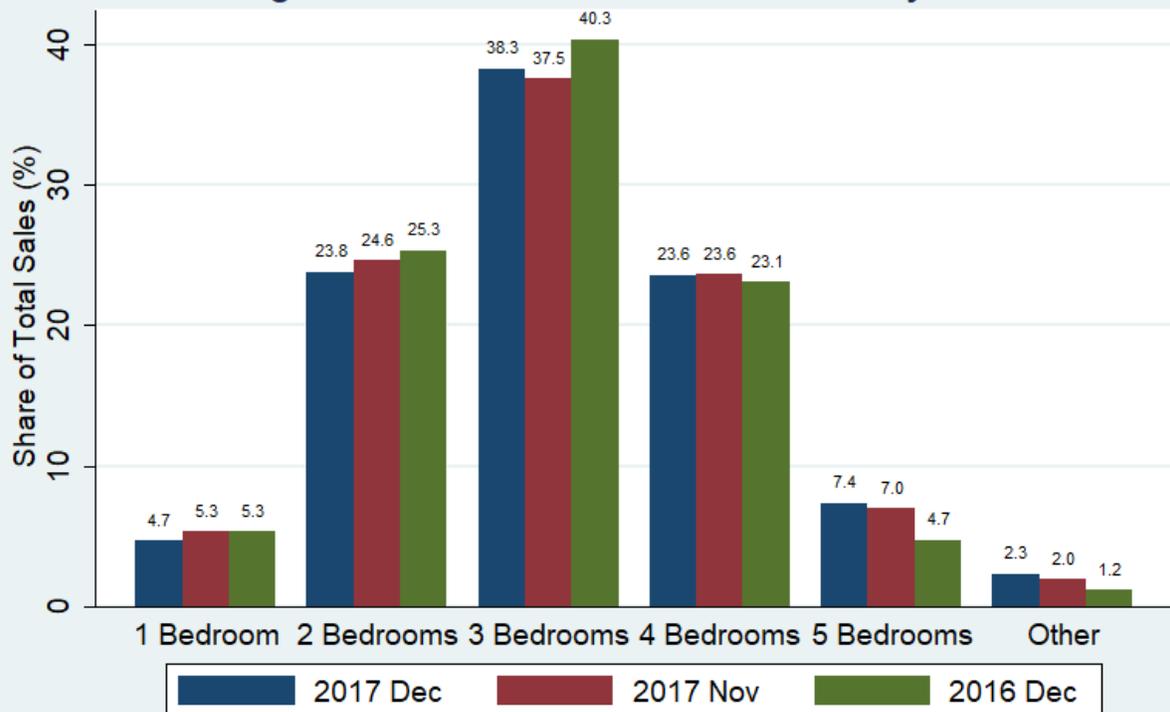
Source: University of Illinois REAL, Illinois REALTORS

Illinois House Characteristics by Bedroom



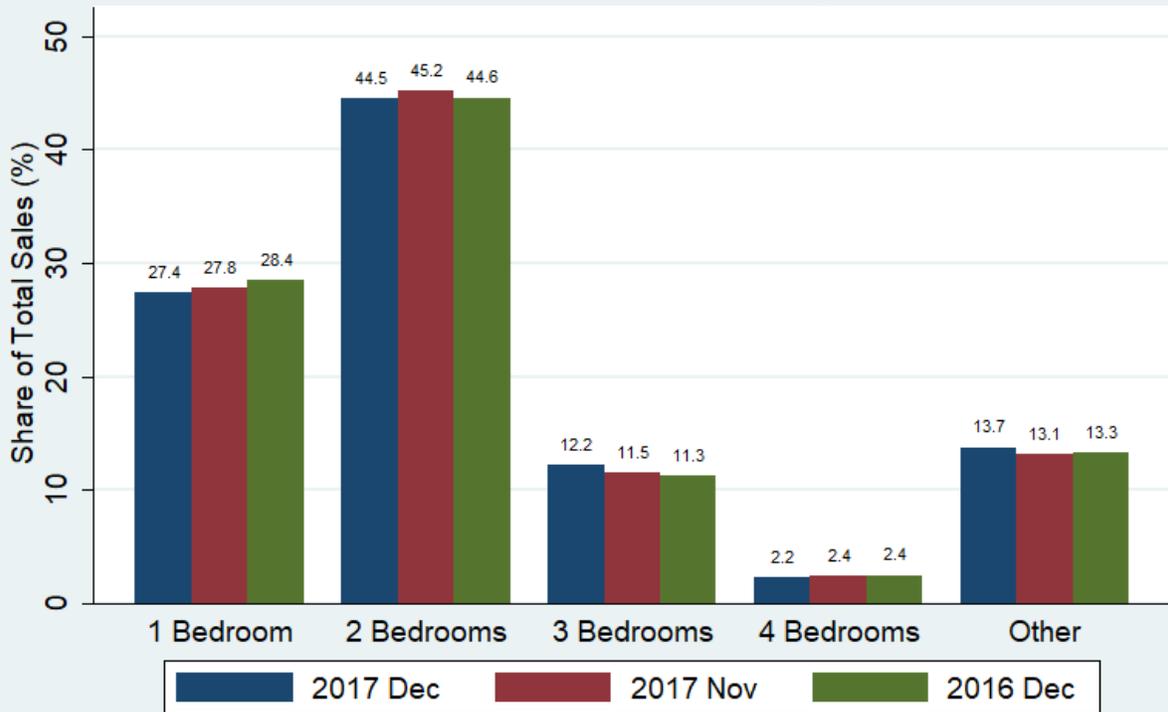
Source: University of Illinois REAL, Illinois REALTORS

Chicago PMSA House Characteristics by Bedroom



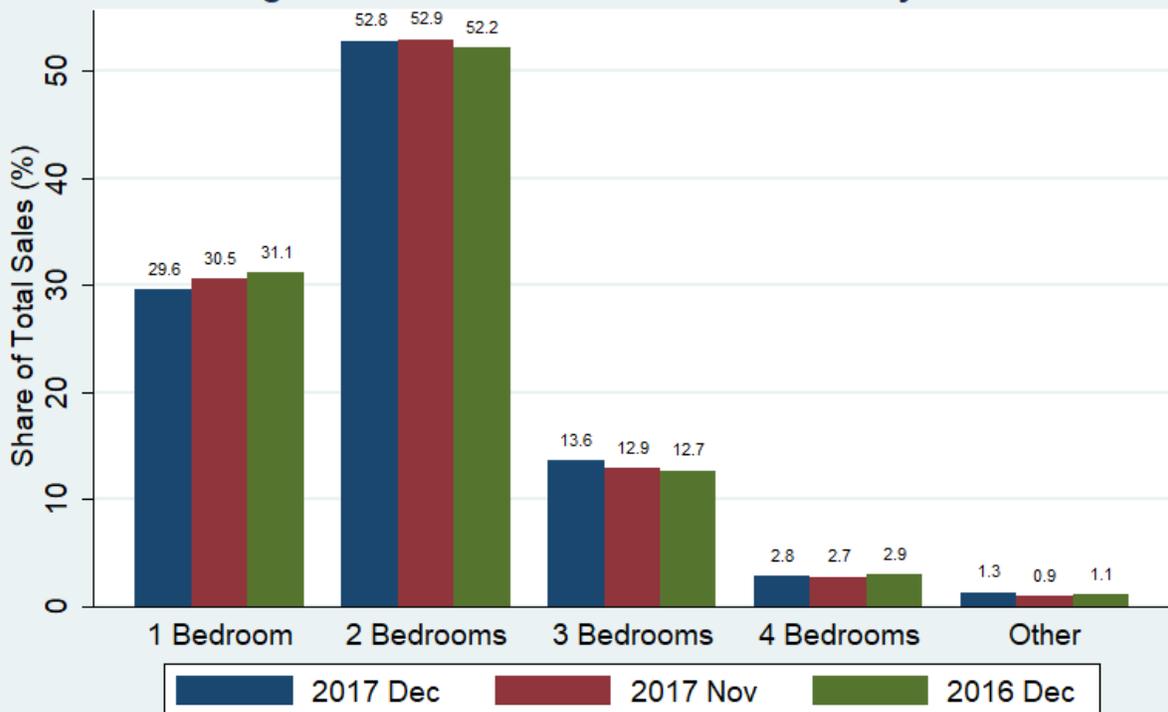
Source: University of Illinois REAL, Illinois REALTORS

Illinois House Characteristics by Bathroom



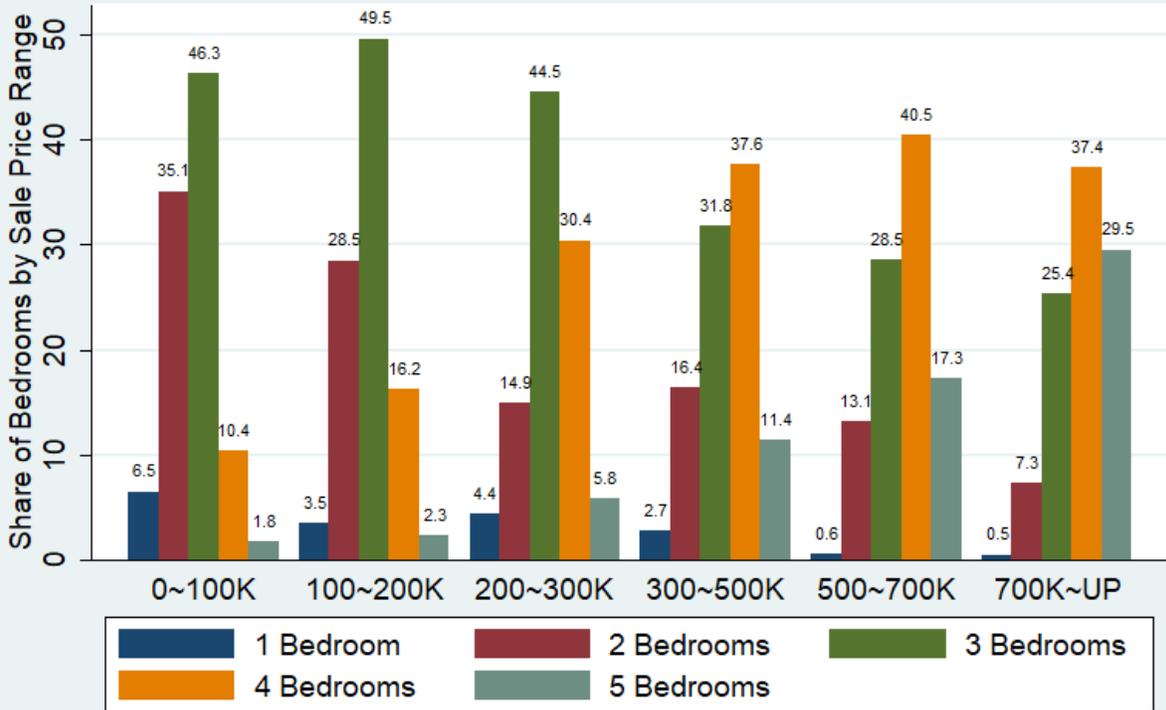
Source: University of Illinois REAL, Illinois REALTORS

Chicago PMSA House Characteristics by Bathroom



Source: University of Illinois REAL, Illinois REALTORS

Illinois Bedroom Shares by Sale Price Stratification



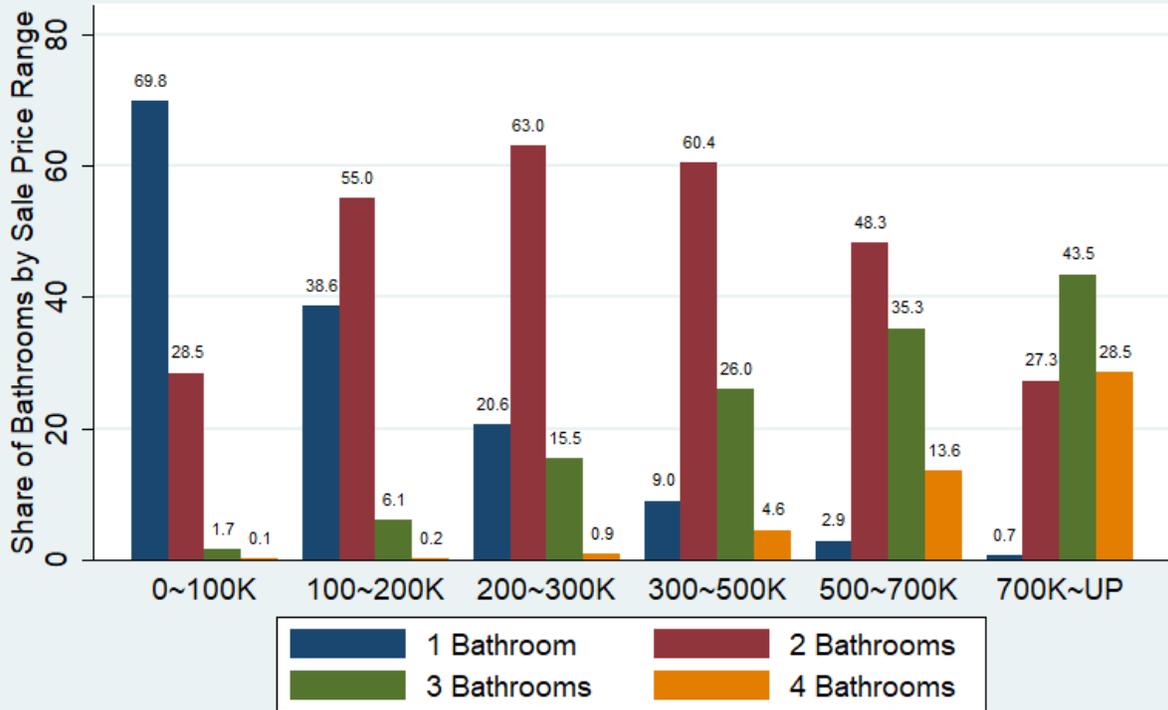
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Chicago PMSA Bedroom Shares by Sale Price Stratification



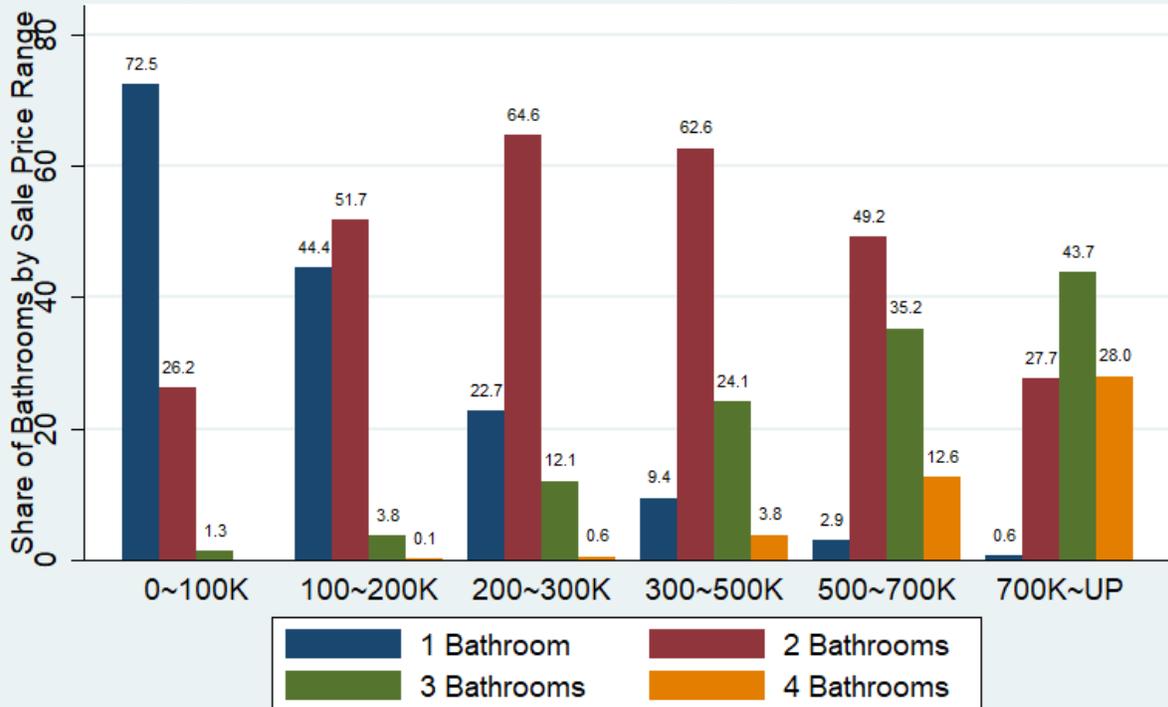
Source: University of Illinois REAL, Illinois REALTORS

Illinois Bathroom Shares by Sale Price Stratification



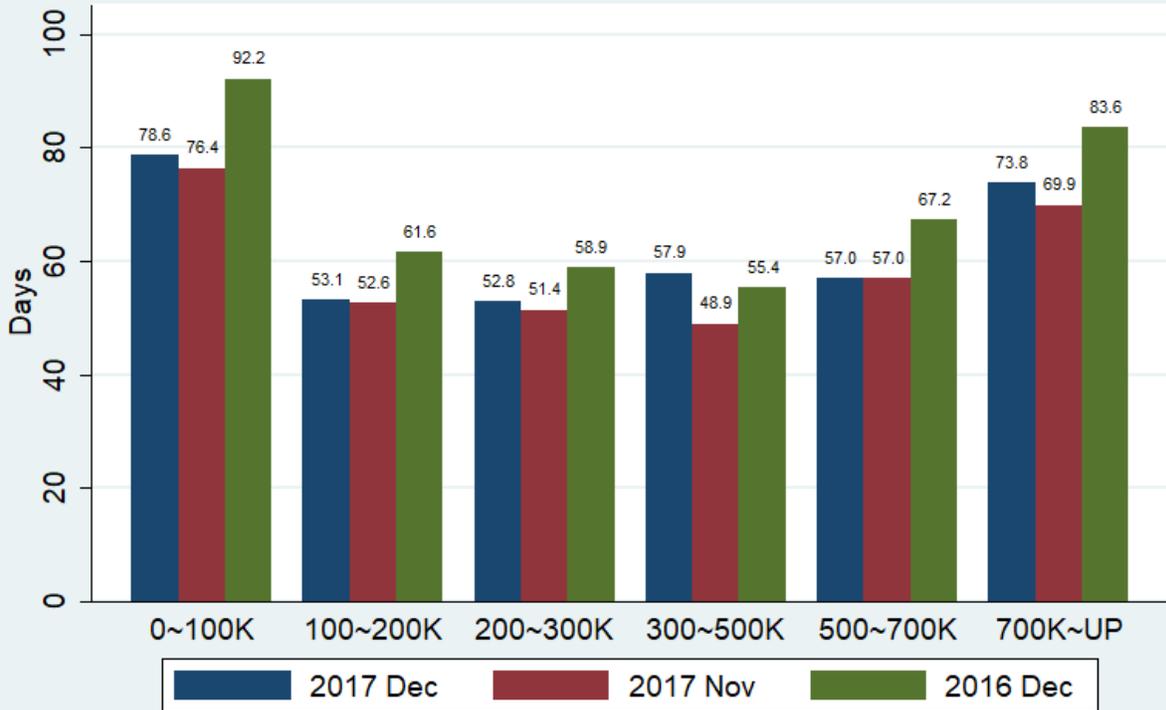
Source: University of Illinois REAL, Illinois REALTORS

Chicago PMSA Bathroom Shares by Sale Price Stratification



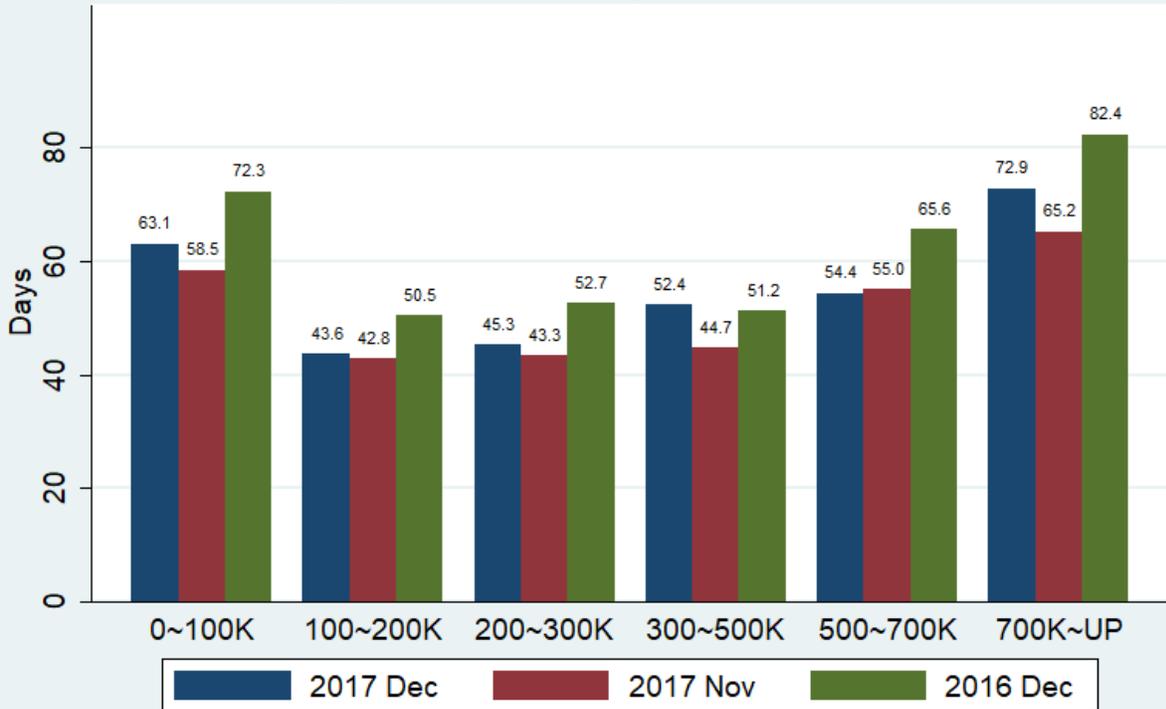
Source: University of Illinois REAL, Illinois REALTORS

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

