

Housing Price Forecasts

Illinois and Chicago PMSA, February 2018

Presented To

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Institute of Government and Public Affairs
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The Housing Market

In January, median prices continued to experience positive growth while sales experienced a negative annual change. 8,156 houses were sold in Illinois, changing by -30.0% from a month ago and -6.1% from a year ago. In the Chicago PMSA, 5,777 houses were sold, changing by -29.5% from a month ago and -8.0% from a year ago. The median price was \$185,000 in Illinois, up 8.2% from January last year; the comparable figure for the Chicago PMSA was \$224,000, up 7.2% from this time last year.

In January, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 12.1%. 4,928 regular sales were made, 6.0% less than last year. 810 foreclosed properties were sold, 18.9% less than last year. The median price was \$237,500 for regular property sales, 5.6% more than last year; the comparable figure for the foreclosed properties was \$154,900, up 14.7% from this time last year.

Illinois and Chicago PMSA both have already recovered to their pre-bubble price levels. The median sales price in January 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 January 2008 median sales price was \$145,000 (in \$2008) and \$170,528 (in \$2018); the current price level was 108% of the 2008 level after adjusting (128% before adjusting). In the Chicago PMSA, the January 2008 median sales price was \$185,000 (in \$2008) and \$217,570 (in \$2018); the comparable figure for price recovery in January 2018 is 103% after adjustment (121% before adjusting).

The sales forecast for February, March and April suggests decreases on a yearly basis and increases on a monthly basis for both Illinois and the Chicago PMSA. Annually for Illinois, the three-month average forecasts point to a decrease in the range -2.4% to -3.2%; the comparative figures for the Chicago PMSA are a decrease in the range -3.0% to -4.1%. On a monthly basis, the three-month average sales are forecast to increase in the range 16.5% to 22.4% for Illinois and increase in the range 17.4% to 23.5% for the Chicago PMSA.

The pending home sales index¹ is a leading indicator based on contract signings. This January, the number of homes put under contract was greater than last year. The pending home sales index is 127.2 (2008=100) in Illinois, up 3.0% from a year ago. In the Chicago PMSA, the comparable figure is 149.1, up 5.2% from a year ago. At the latest average annual pending sales rate, Illinois had enough housing inventory for 3.3 months² (down from 3.8 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 February, March and April. In Illinois, the median price is forecast to rise by 7.6% in February 5.4% in March and 4.8% in April. For the Chicago PMSA, the comparable figures are

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.

6.1% in February 6.4% in March and 7.4% in April. 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 4.5% in February 3.9% in March and 1.6% in April. The comparable figures for the Chicago PMSA are 7.5% in February 4.8% in March and 4.1% in April. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month.

In January, the Conference Board Consumer Confidence Index increased while the University of Michigan Consumer Sentiment Index slightly decreased but remains high. The Conference Board Consumer Confidence Index survey revealed that expectations improved, though consumers were somewhat ambivalent about their income prospects over the coming months, perhaps the result of some uncertainty regarding the impact of the tax plan. It is also noted that consumers remain quite confident that the solid pace of growth seen in late 2017 will continue into 2018. The University of Michigan Consumer Sentiment Index slightly declined and the survey explained that consumers continued to expect growth in jobs and incomes but anticipated a slightly higher inflation rate. The more housing specific sentiment index, the Fannie Mae Home Purchase Sentiment Index (HPSI) increased and the survey explained that a conviction that home prices will continue to rise was the main driver of the overall index. Sentiment about whether it is a good time to buy a home or to sell one both rose during the month and Americans also expressed a greater sense of job security.

The Housing Market – Current Condition

- In January, median prices continued to experience positive growth while sales experienced a negative annual change. 8,156 houses were sold in Illinois, changing by -30.0% from a month ago and -6.1% from a year ago. In the Chicago PMSA, 5,777 houses were sold, changing by -29.5% from a month ago and -8.0% from a year ago. The median price was \$185,000 in Illinois, up 8.2% from January last year; the comparable figure for the Chicago PMSA was \$224,000, up 7.2% from this time last year. (Reference: Illinois and Chicago PMSA Total Home Sales and Median Home Sales Price figures; Forecast for February 2018 report table)
- In January, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 12.1%. 4,928 regular sales were made, 6.0% less than last year. 810 foreclosed properties were sold, 18.9% less than last year. The median price was \$237,500 for regular property sales, 5.6% more than last year; the comparable figure for the foreclosed properties was \$154,900, up 14.7% from this time last year. (Reference: Ratio of Foreclosed Sales over Total Sales, Sales & Median Prices: Foreclosed vs. Regular figures)
- In January, at the latest average annual pending sales rate, Illinois had enough housing inventory for 3.3 months⁴ (down from 3.8 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. (Reference: Illinois and Chicago PMSA Annual Months' Supply by Price Range figures)
- In January, 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 21.4% from 24.1% a year ago; the comparative figure for the Chicago PMSA showed a decrease to 11.1% from 14.5% 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 February, March and April. In Illinois, the median price is forecast to rise by 7.6% in February 5.4% in March and 4.8% in April. For the Chicago PMSA, the comparable figures are 6.1% in February 6.4% in March and 7.4% in April. (Reference: Forecast for February 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 4.5% in February 3.9% in March and 1.6% in April. The comparable figures for the Chicago PMSA are 7.5% in February 4.8% in March and 4.1% in April. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month. (Reference: Housing Price Index)
- The sales forecast for February, March and April suggests decreases on a yearly basis and increases on a monthly basis for both Illinois and the Chicago PMSA. Annually for Illinois, the three-month average forecasts point to a decrease in the range -2.4% to -3.2%; the comparative figures for the Chicago PMSA are a decrease in the range -3.0% to -4.1%. On a monthly basis, the three-month average sales are forecast to increase in the range 16.5% to 22.4% for Illinois and increase in the range 17.4% to 23.5% for the Chicago PMSA. (Reference: Forecast for February 2018 report table)
- The pending home sales index⁶ is a leading indicator based on contract signings. This January, the number of homes put under contract was greater than last year. The pending home sales index is 127.2 (2008=100) in Illinois, up 3.0% from a year ago. In the Chicago PMSA, the comparable figure is 149.1, up 5.2% from a year ago. (Reference: Illinois and Chicago PMSA Pending Home Sales Index figure)
- In January 2018, 1,659 houses were newly filed for foreclosure in the Chicago PMSA (down 8.2% and up 5.4% respectively from a year and a month ago). 1,587 foreclosures were completed⁷ (up 7.7% and up 46.3% respectively from a year and a month ago). As of January 2018, there are 25,221 homes at some stage of foreclosure — the foreclosure inventory. The monthly average net flows of foreclosures (foreclosure inflows - outflows) were 325 in the past 6 months, 508 in the last 12 months and 431 in the last 24 months. (Reference: Chicago PMSA Foreclosure Inflows and Outflows, and Inventory figures).

The Economy

- In January 2018, according to the Bureau of Labor Statistics (BLS) Employment Situation report, the national unemployment rate was unchanged at 4.1% and nonfarm payroll jobs experienced a gain of 200,000 jobs. Employment increased in Construction (+36,000), Food Services and Drinking Places (+31,000), and Health Care (+21,000).

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 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 (**Not updated**).
- In December 2017, the one-year-ahead forecast for Illinois indicates that the non-farm employment will change at a rate between 0.17% and 0.31%, corresponding to job changes between 10,000 and 18,500. The largest contributors to the forecast increase are education and health, professional and business services, and manufacturing.
- In January 2018, the Mortgage Bankers Association (MBA) reported that mortgage credit conditions eased to begin the year. MBA’s mortgage credit availability increased 2.1 percent over the month to 182.9 in January, an indicator of loosening credit. Of the component indices, jumbo loans saw the greatest easing in the month, followed by conventional, conforming and government.
- In January 2018, the U.S. Commerce Department reported that U.S. home construction rose to the highest level since October 2016, helped by a surge in apartment building, as momentum in the housing market continues into 2018. It is noted that this surge could help boost economic growth and ease home-price increases in the coming months.

Longer-term Outlook

- In January, the Conference Board Consumer Confidence Index increased while the University of Michigan Consumer Sentiment Index slightly decreased but remains high. The Conference Board Consumer Confidence Index increased to 125.4 from 123.1 last month. The survey revealed that expectations improved, though consumers were somewhat ambivalent about their income prospects over the coming months, perhaps the result of some uncertainty regarding the impact of the tax plan. It is also noted that consumers remain quite confident that the solid pace of growth seen in late 2017 will continue into 2018. The University of Michigan Consumer Sentiment Index declined to 95.7, just 0.2 points below December’s 95.9. The survey explained that consumers continued to expect growth in jobs and incomes but anticipated a slightly higher inflation rate.
- In January, Fannie Mae Home Purchase Sentiment Index (HPSI) increased to 89.5 from 85.8 last month. A conviction that home prices will continue to rise was the main driver of the overall index. Sentiment about whether it is a good time to buy a home or to sell one both rose during the month and Americans also expressed a greater sense of job security.
- The Chicago Business Activity Index (CBAI) increased to 99.0 in December from 97.1 in November. 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).

“While prices and monthly sales are forecast to increase over the next three months, ” noted Geoffrey J.D. Hewings, Director of the Regional Economics Applications Laboratory “there is some concern about the continuing inventory challenge. However, the pending sales index in January found more homes under contract than a year ago.”

Forecast for February 2018 report

PERCENTAGE CHANGE FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Nov-17	2.0%	-0.1%		-9.6%	-10.2%			
Dec-17	-1.2%	-0.6%		-1.1%	-0.6%			
Jan-18	-6.1%	-8.0%		-30.0%	-29.5%			
3 Month Avg.	-1.4%	-2.4%		-13.4%	-13.3%			
SUMMARY OF THE FORECAST INTERVALS FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Feb-18	0.9%	1.2%	-0.1%	-0.1%	5.4%	7.3%	2.8%	3.8%
Mar-18	-5.0%	-6.8%	-5.8%	-7.8%	39.7%	53.7%	45.7%	61.8%
Apr-18	-1.8%	-2.4%	-2.1%	-2.9%	7.9%	10.7%	8.1%	11.0%
3 Month Avg.	-2.4%	-3.2%	-3.0%	-4.1%	16.5%	22.4%	17.4%	23.5%
SUMMARY OF THE FORECAST FOR THE MEDIAN PRICE								
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
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	\$185,000	\$224,000	Jan-17	\$170,950	\$209,000			
Feb-18	\$182,950	\$222,766	Feb-17	\$170,000	\$210,000			
Mar-18	\$199,910	\$244,745	Mar-17	\$189,700	\$230,000			
Apr-18	\$209,677	\$259,947	Apr-17	2.00E+05	\$242,000			
ANNUAL PERCENTAGE CHANGE OF THE MEDIAN PRICE								
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
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	8.2%	7.2%	Jan-17	4.9%	10.0%			
Feb-18	7.6%	6.1%	Feb-17	6.3%	12.0%			
Mar-18	5.4%	6.4%	Mar-17	10.5%	9.5%			
Apr-18	4.8%	7.4%	Apr-17	7.5%	5.2%			

Median Prices and Recovery

	Illinois		Chicago PMSA	
	[\$2008]	[\$2018]	[\$2008]	[\$2018]
January 2008 Median Price	\$145,000	\$170,528	\$185,000	\$217,570
January 2018 Median Price	\$157,305	\$185,000	\$190,467	\$224,000
Price Ratio (January 18/ January 08)	Adjusted	1.08	Adjusted	1.03
	Unadjusted	1.28	Unadjusted	1.21

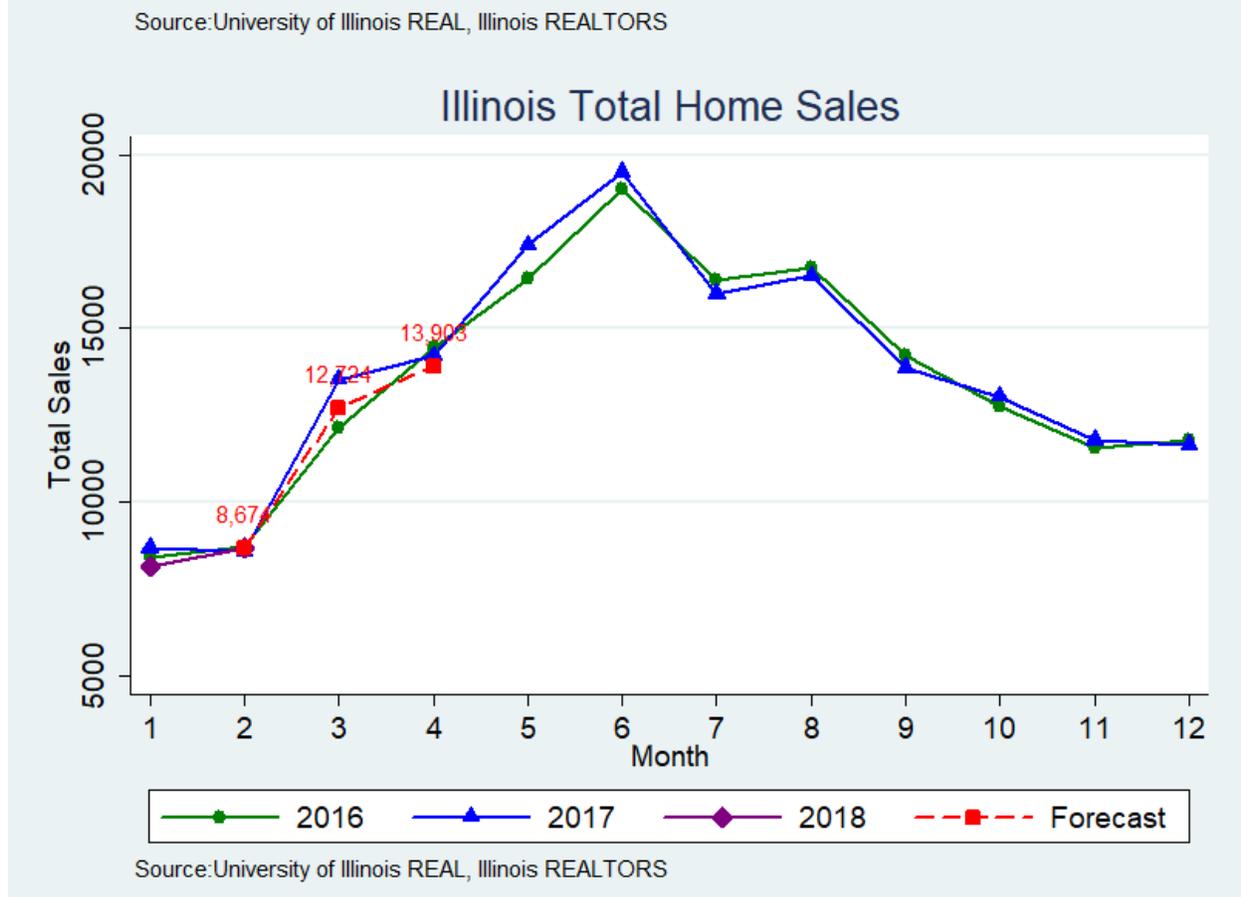
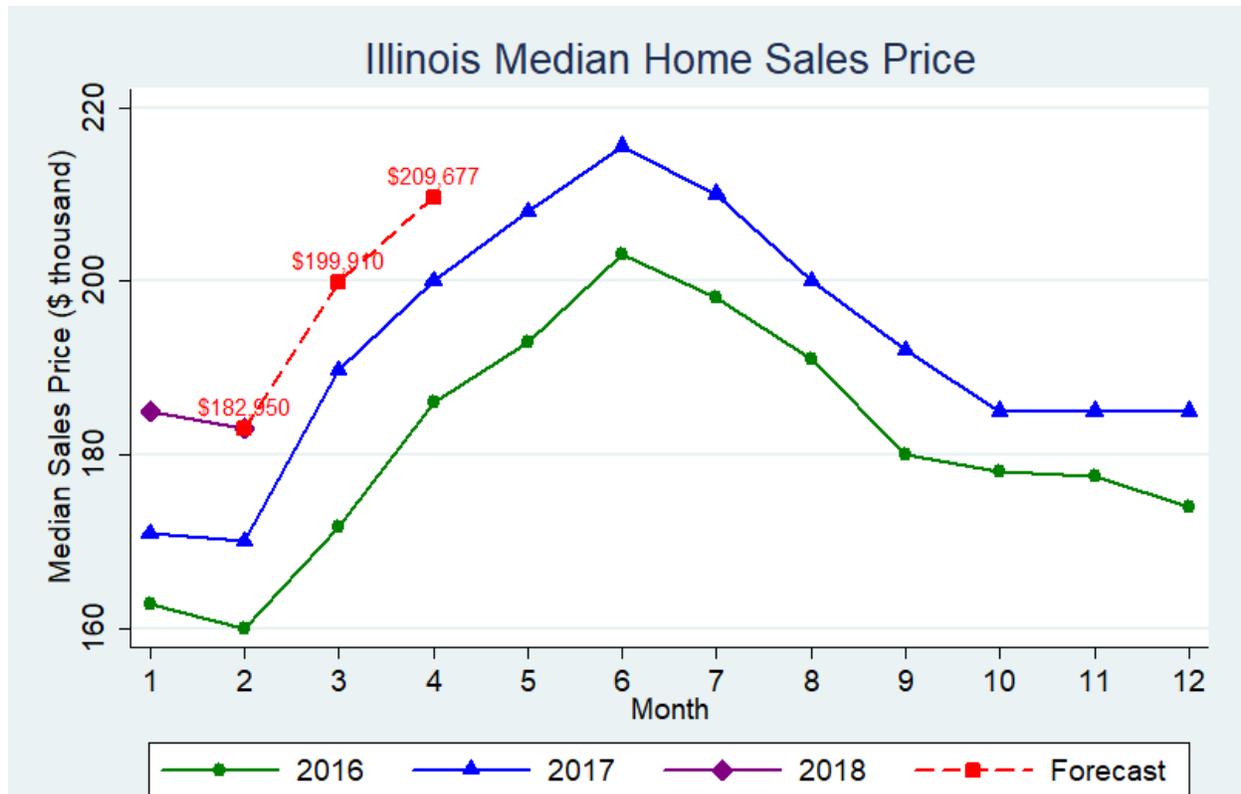
Recovery Forecasts using *Annually Growth Rates*

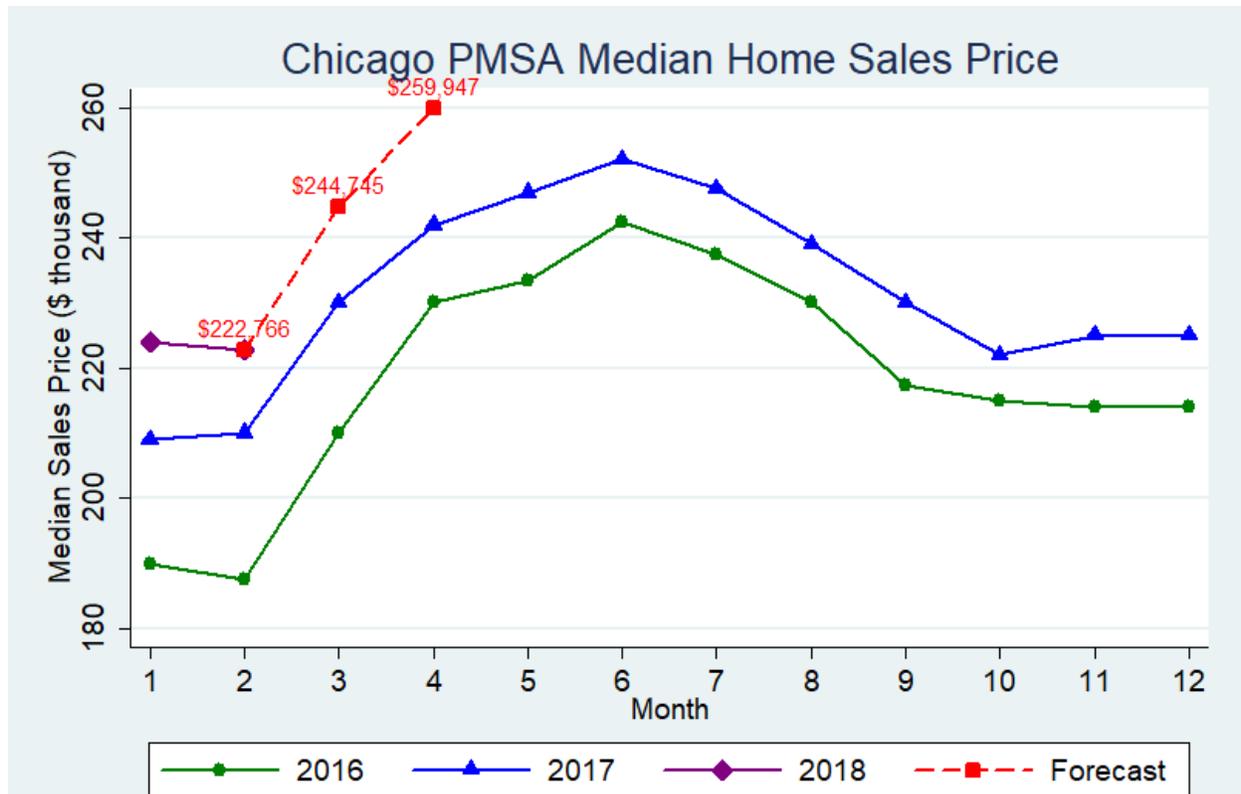
	Illinois	Chicago PMSA		
	Annual Recovery Rate*	Years to Recover**	Recovery Rate	Years to Recover
Current Month	6.0%	-1.4	5.0%	-0.6
Past 3 months	4.0%	-2.1	3.6%	-0.8
Past 6 months	3.5%	-2.4	2.9%	-1.0
Past 9 months	3.9%	-2.1	2.9%	-1.0
Past 12 months	4.3%	-1.9	3.7%	-0.8

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

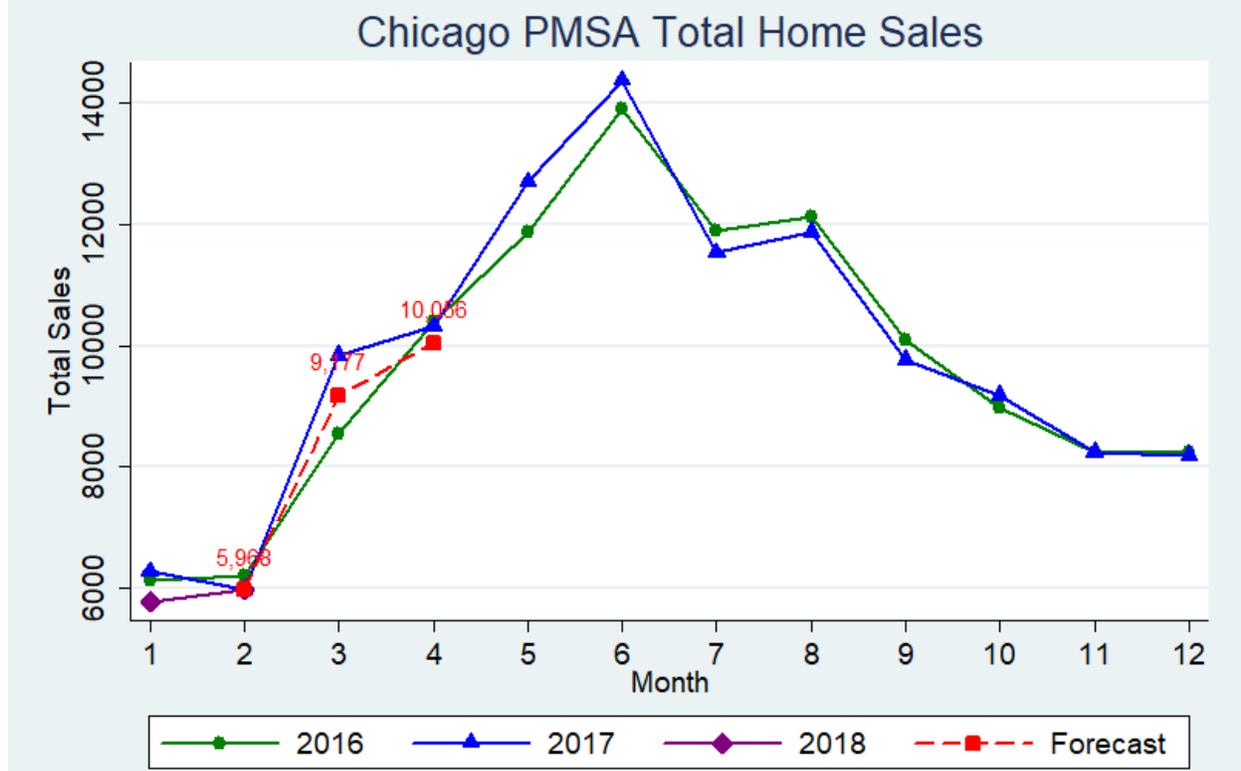
** Years to recover is calculated using the following formula:

$Price_{January2018} * (1 + \text{recovery rate})^{\text{years}} = Price_{January2008}$. 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.

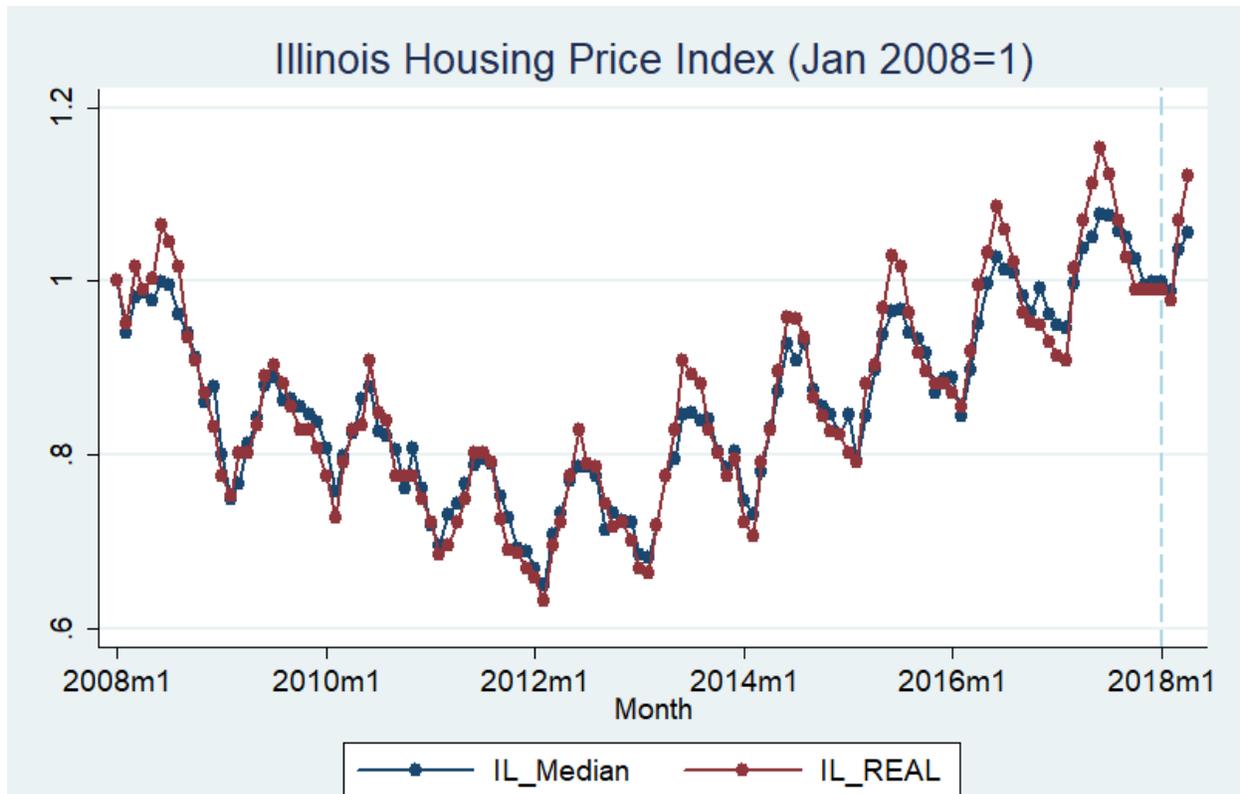




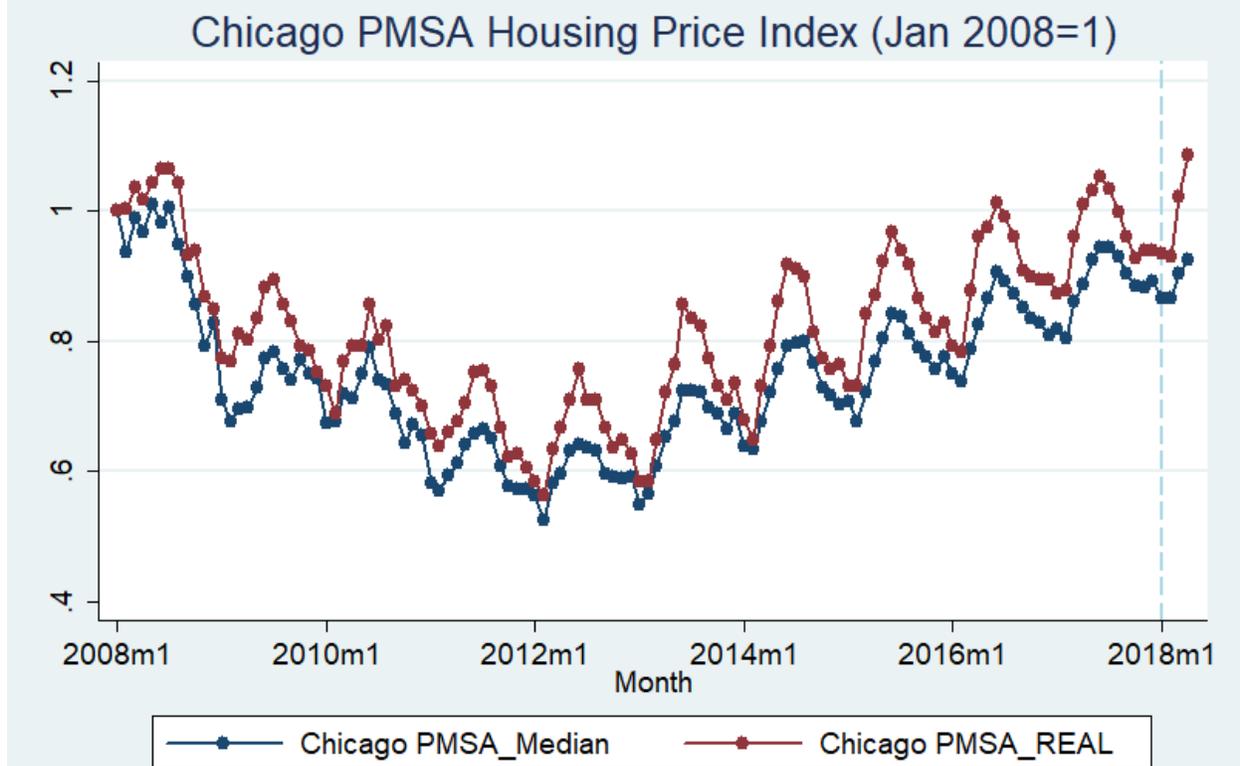
Source: University of Illinois REAL, Illinois REALTORS



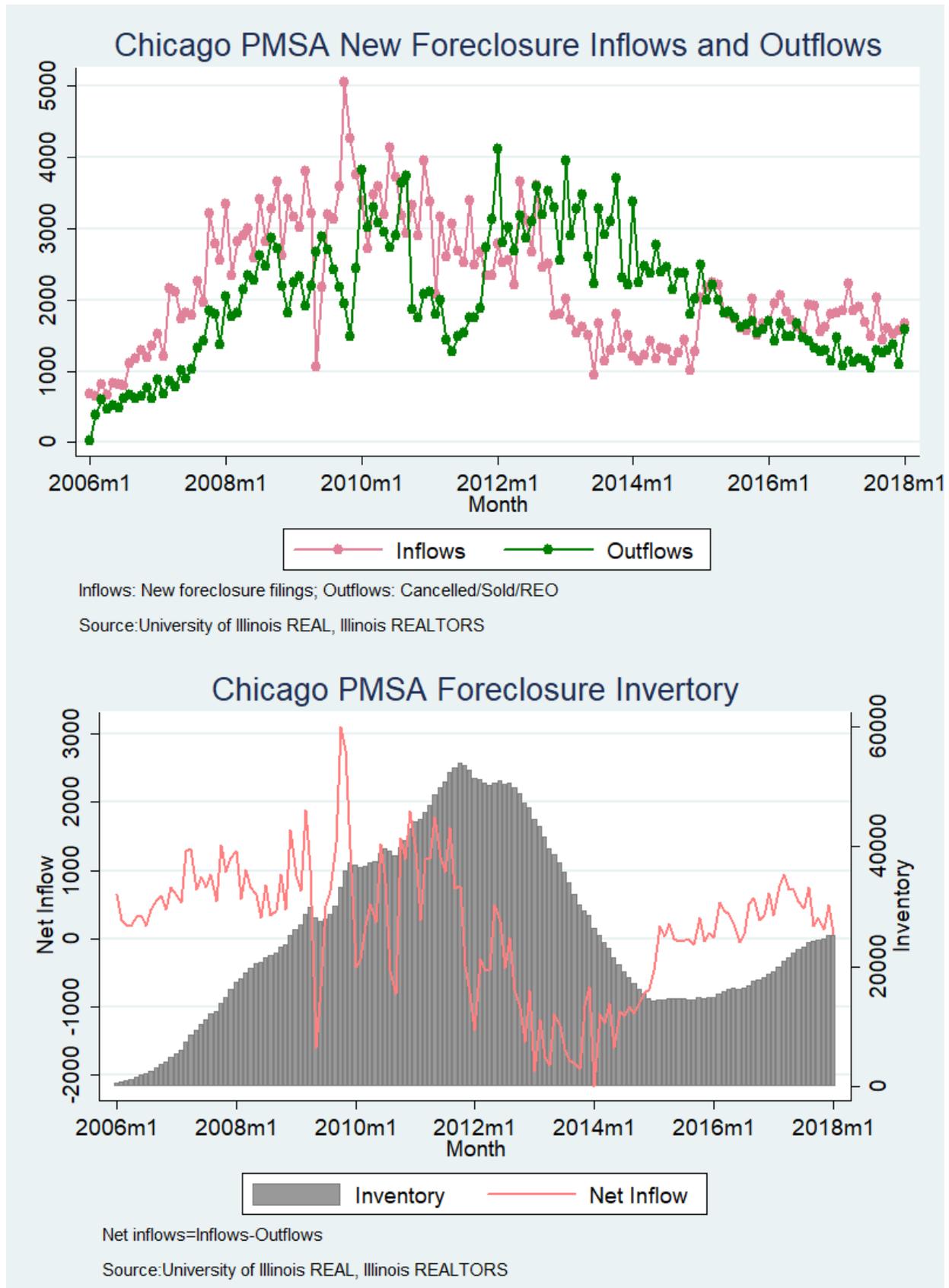
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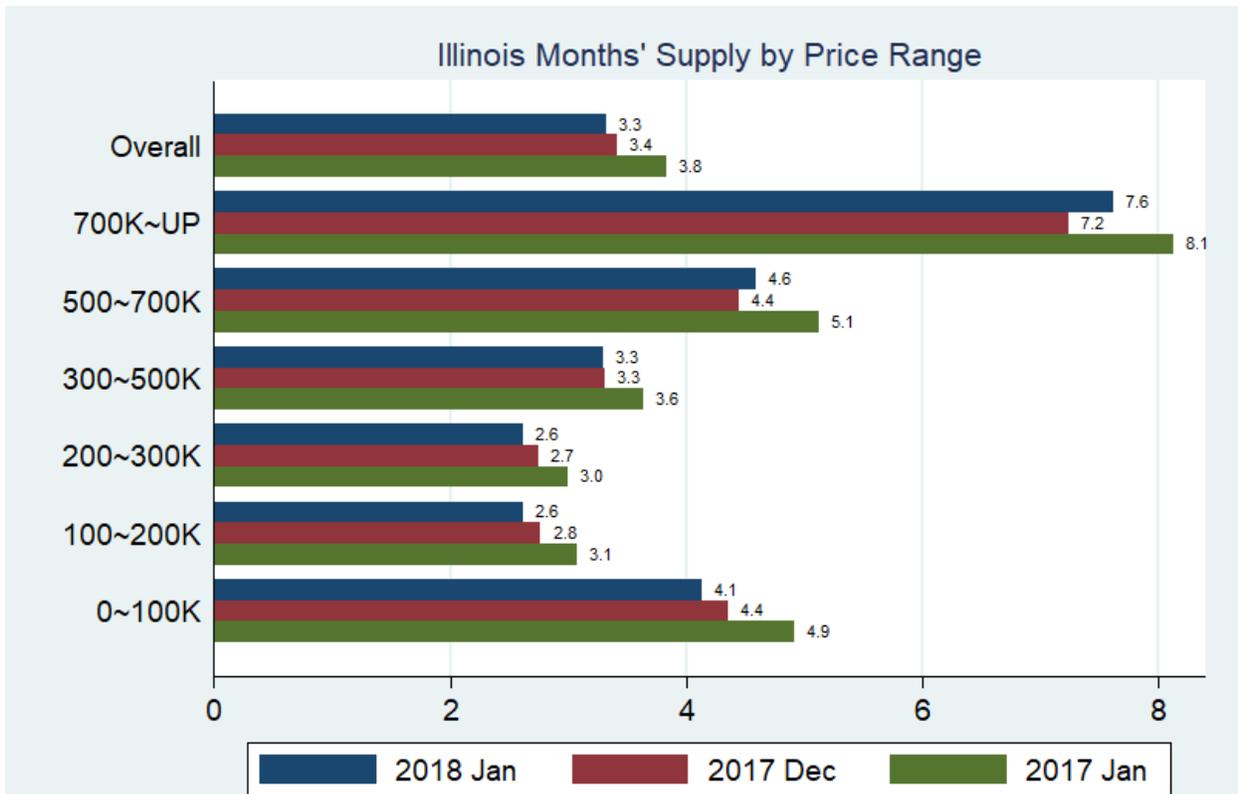


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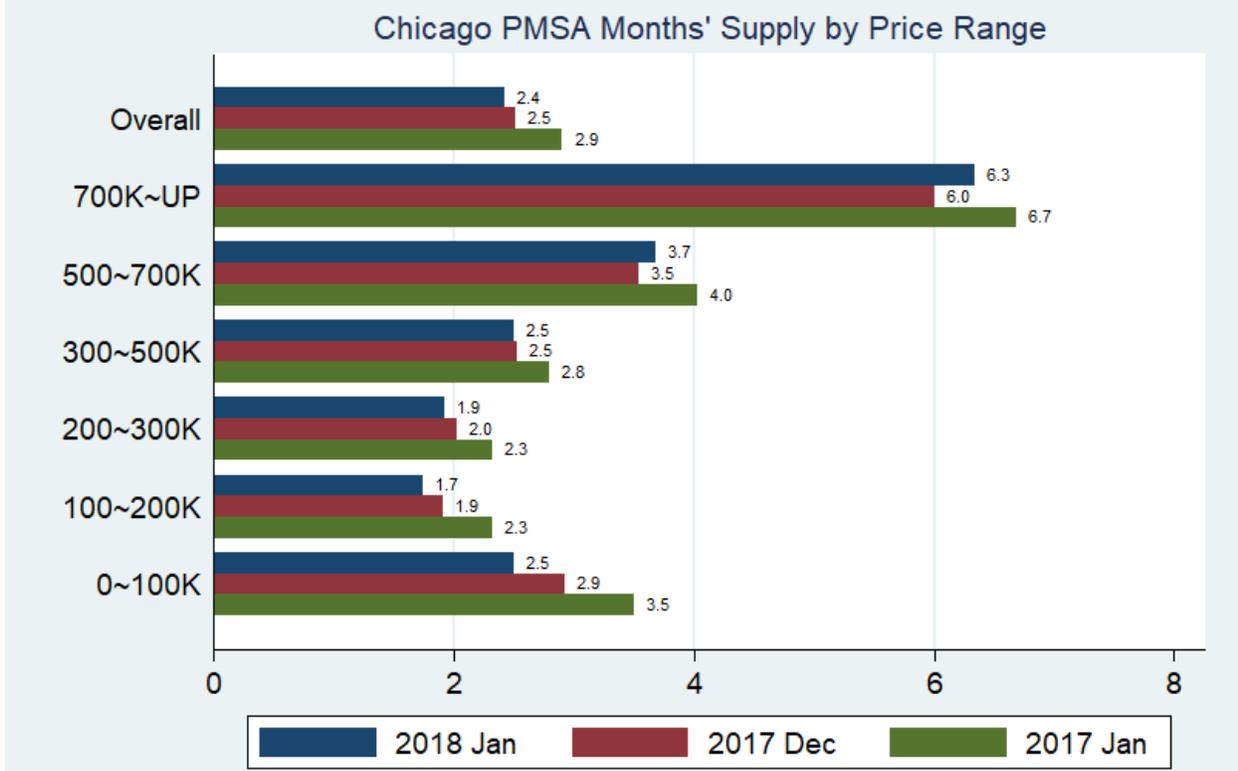


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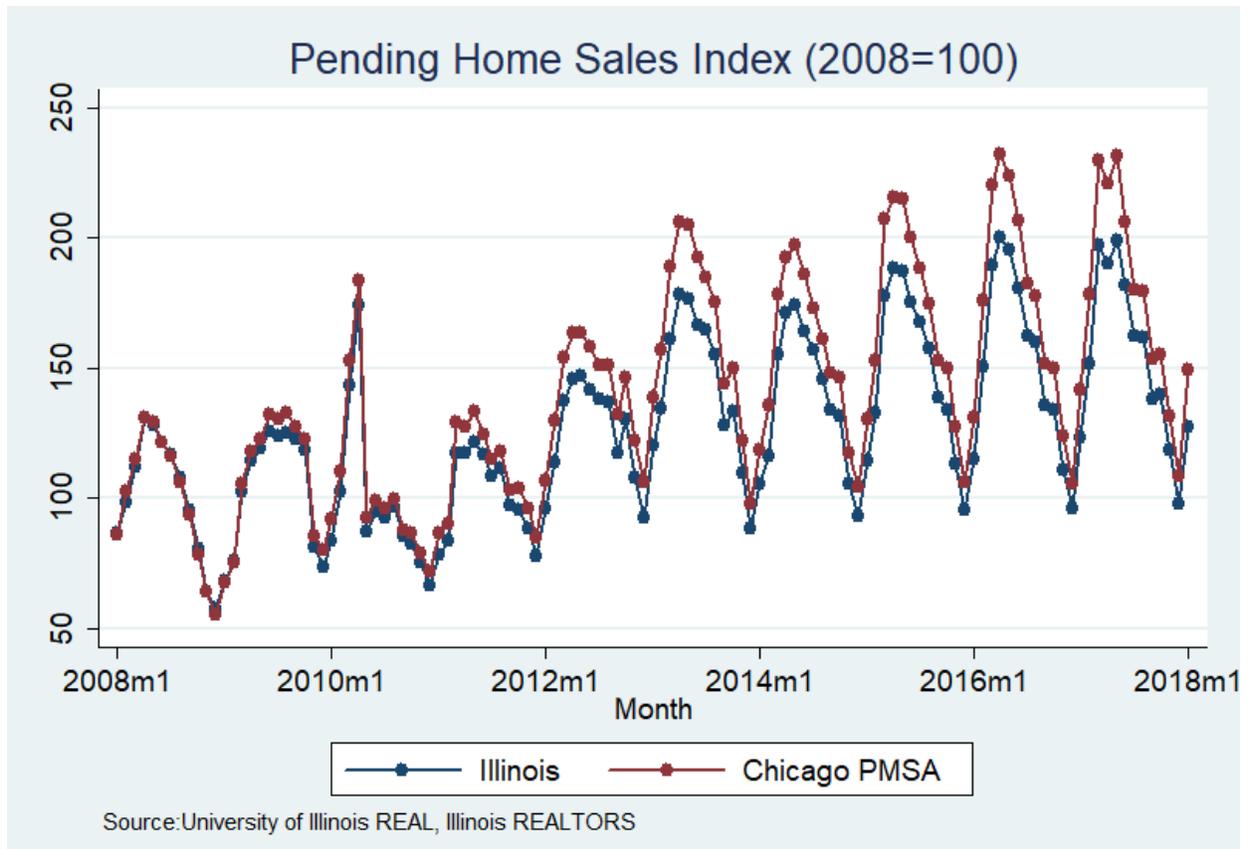




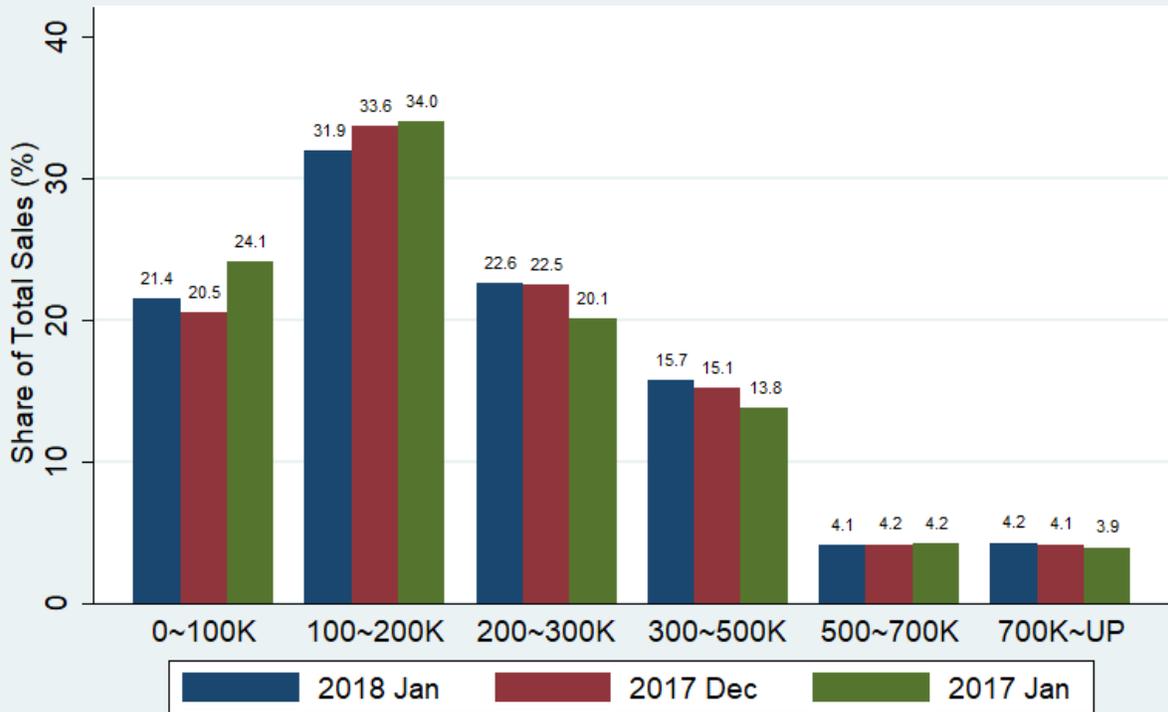
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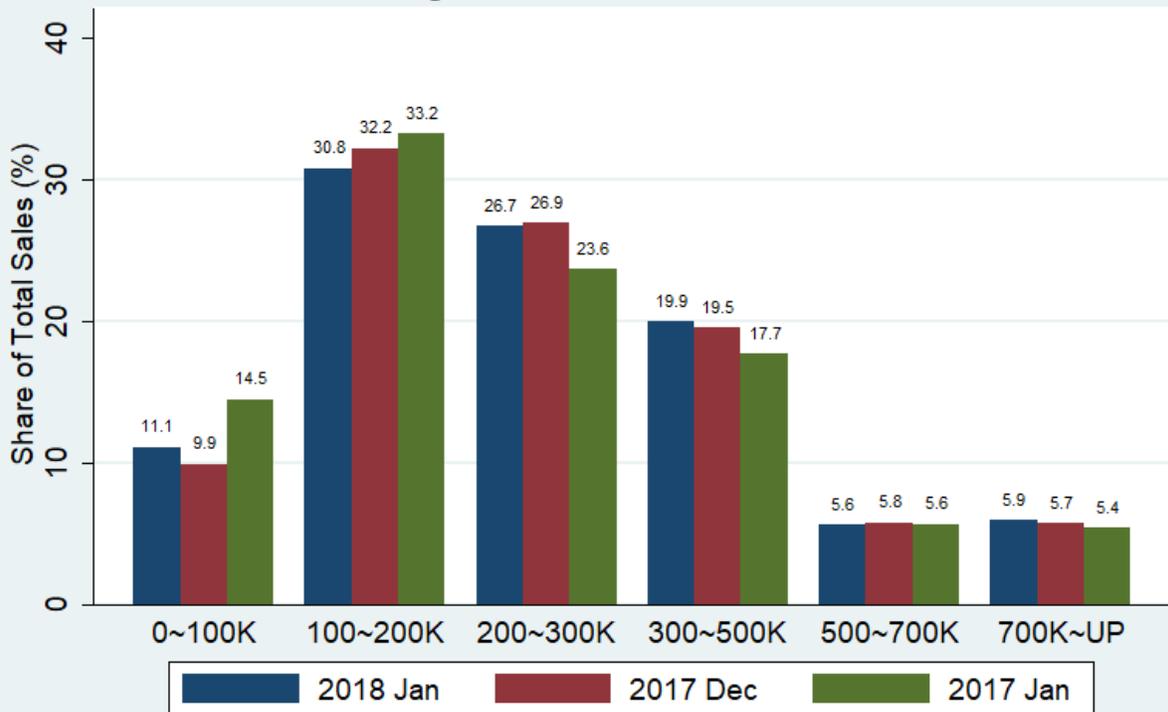


Illinois Price Stratification

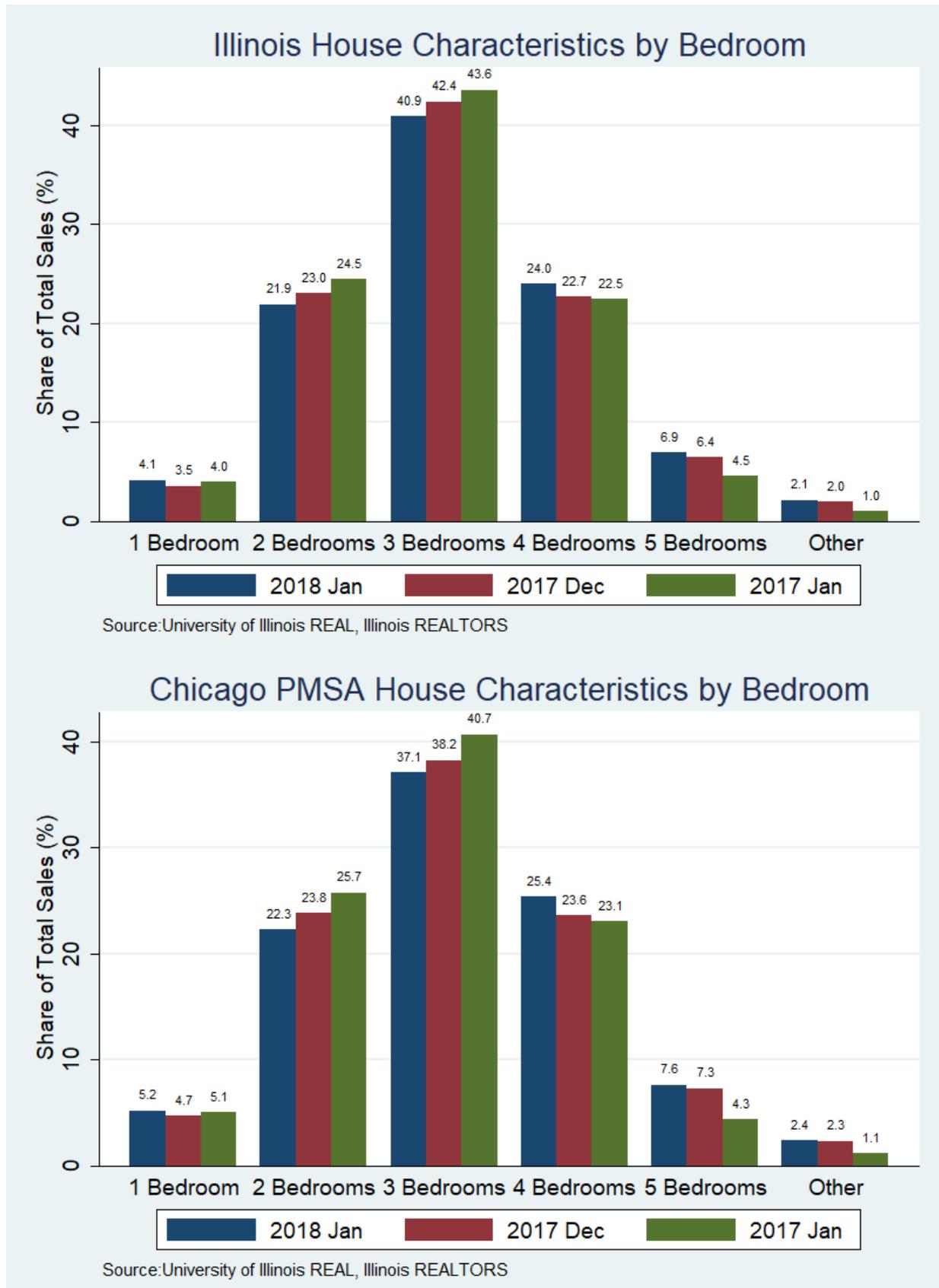


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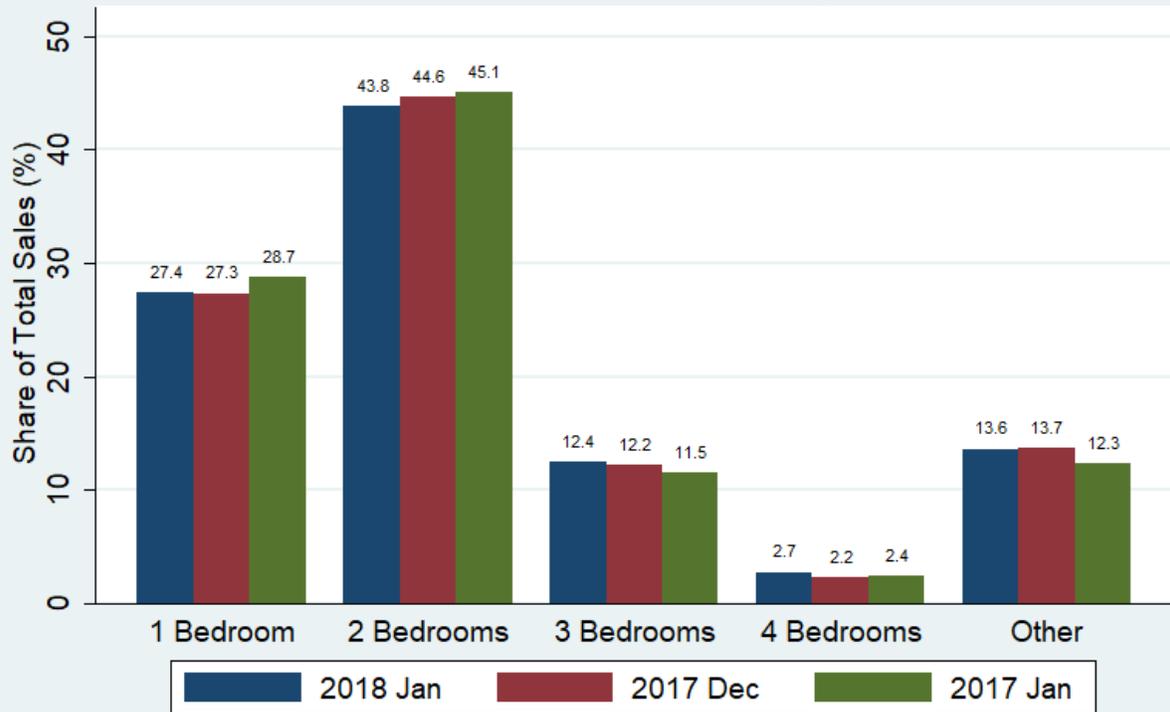
Chicago PMSA Price Stratification



Source: University of Illinois REAL, Illinois REALTORS

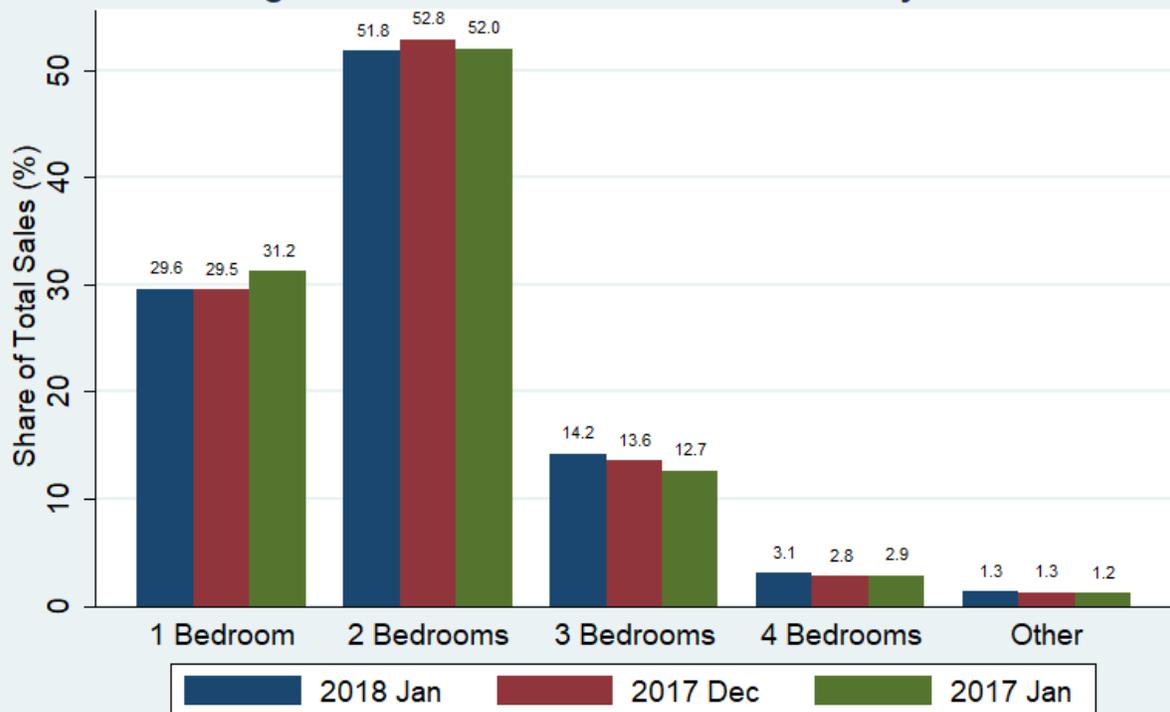


Illinois House Characteristics by Bathroom



Source: University of Illinois REAL, Illinois REALTORS

Chicago PMSA House Characteristics by Bathroom



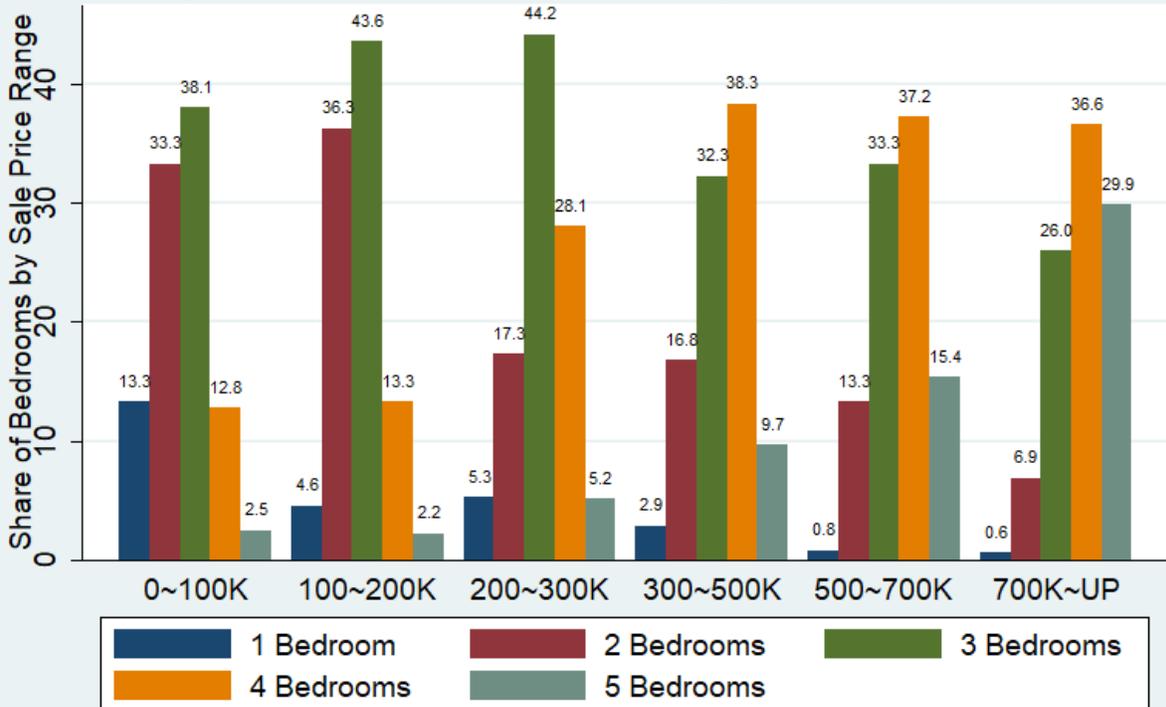
Source: University of Illinois REAL, Illinois REALTORS

Illinois Bedroom Shares by Sale Price Stratification



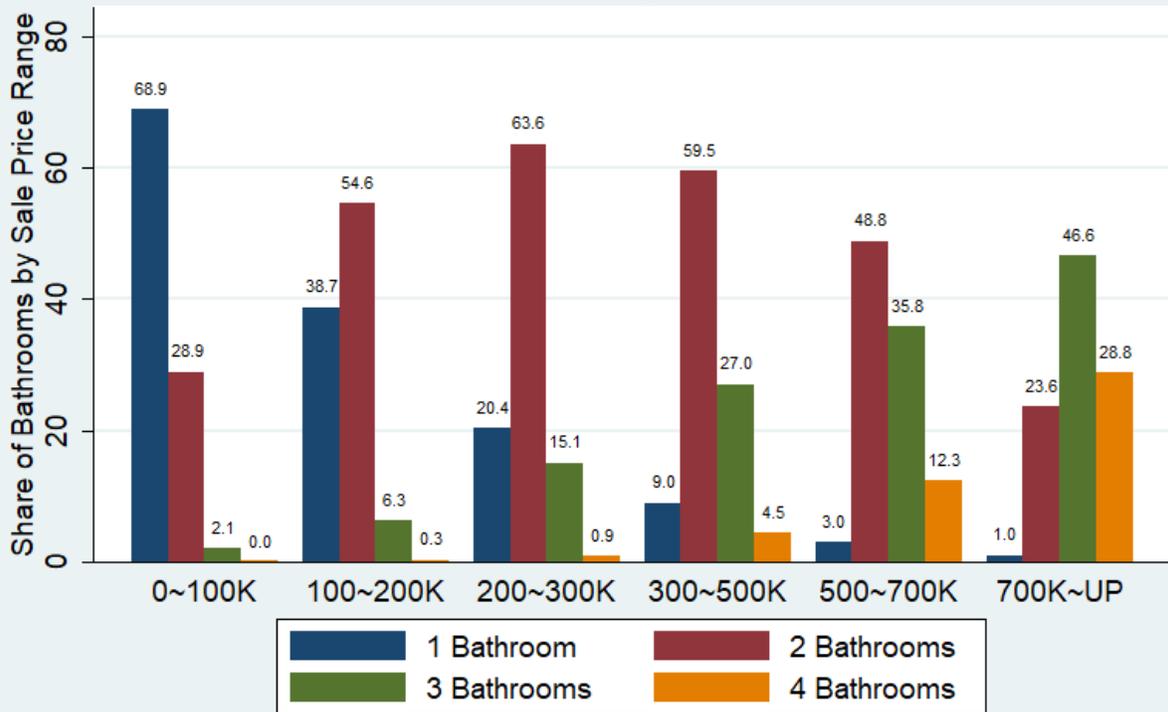
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Chicago PMSA Bedroom Shares by Sale Price Stratification



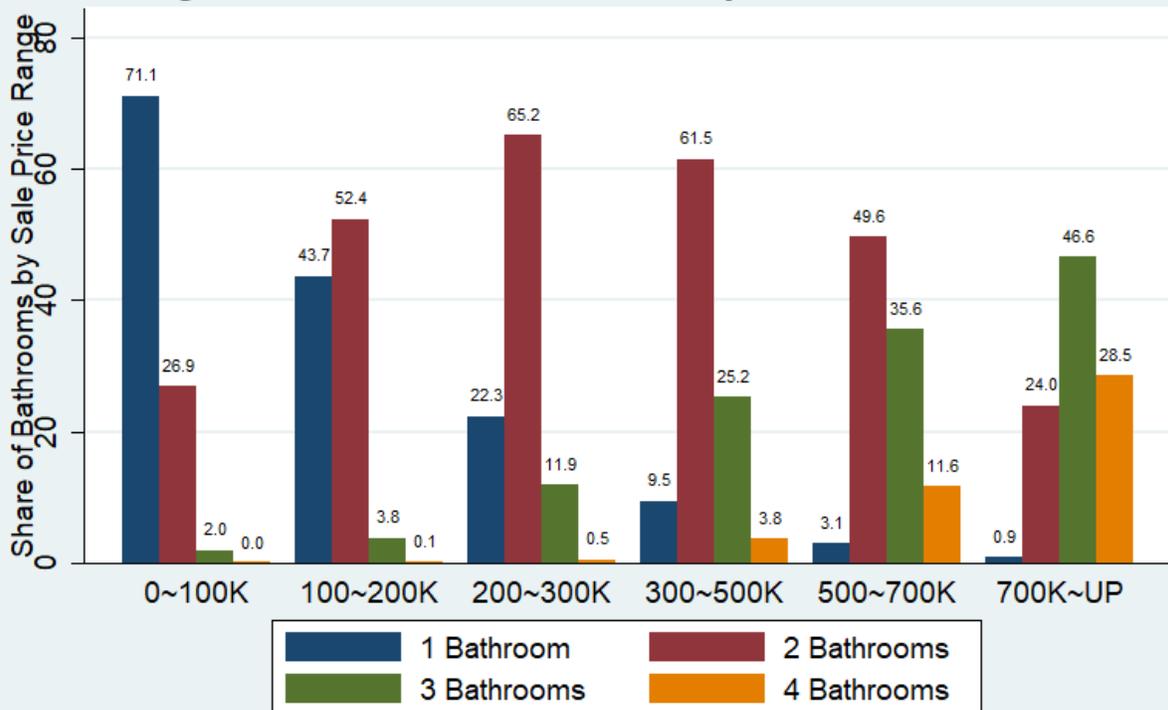
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Illinois Bathroom Shares by Sale Price Stratification



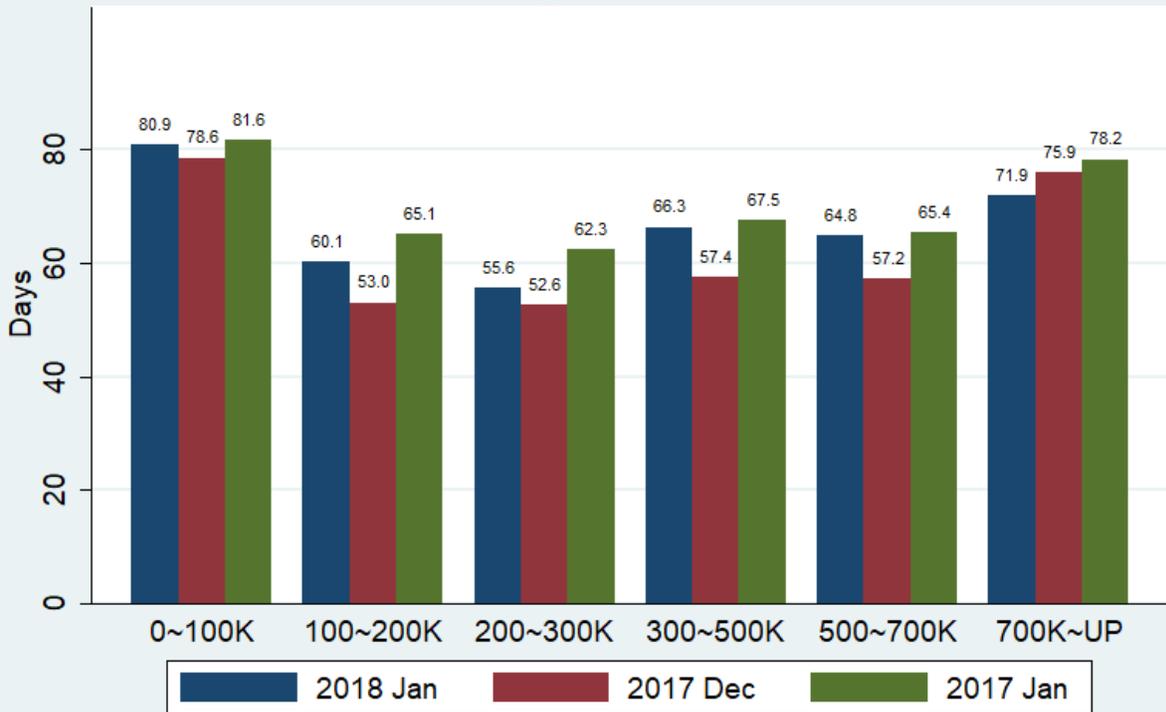
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Chicago PMSA Bathroom Shares by Sale Price Stratification



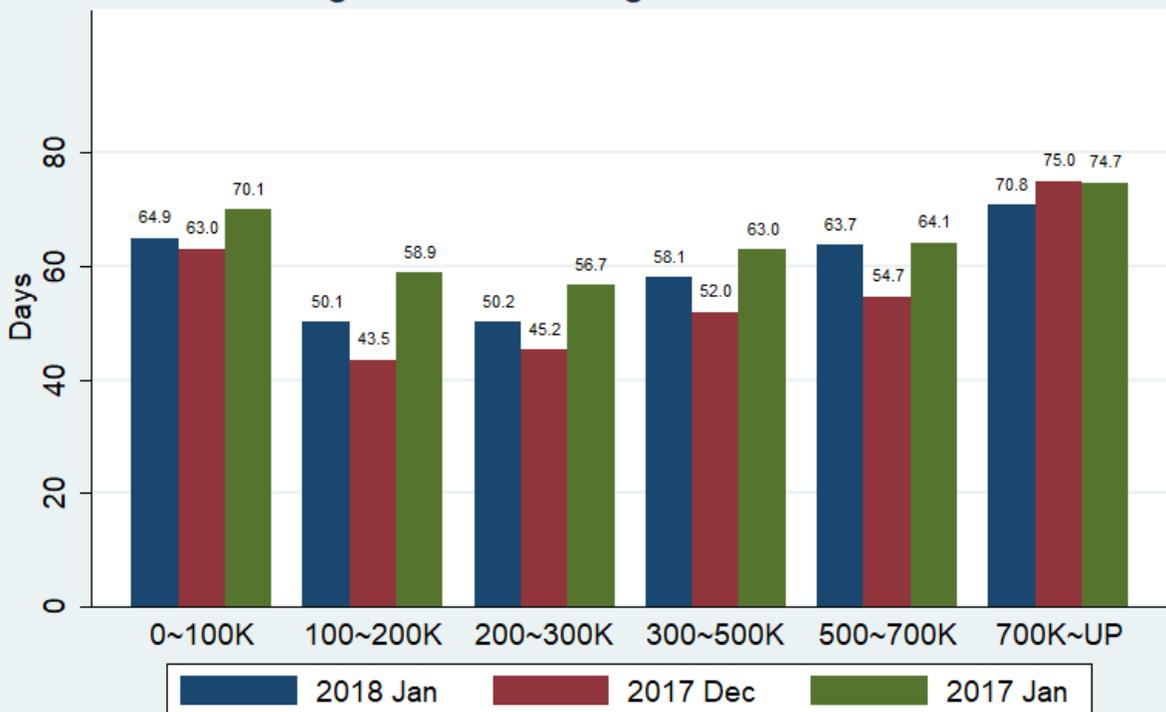
Source: University of Illinois REAL, Illinois REALTORS

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

