

Housing Price Forecasts

Illinois and Chicago PMSA, March 2018

Presented To
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Institute of Government and Public Affairs
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Housing Price Forecast: Illinois and Chicago PMSA, March 2018

The Housing Market

In February, median prices continued to experience positive growth while sales experienced a negative annual change. 8,151 houses were sold in Illinois, changing by -1.3% from a month ago and -5.1% from a year ago. In the Chicago PMSA, 5,722 houses were sold, changing by -2.1% from a month ago and -4.2% from a year ago. The median price was \$185,000 in Illinois, up 8.8% from February last year; the comparable figure for the Chicago PMSA was \$227,500, up 8.3% from this time last year.

In February, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 12.8%. 4,952 regular sales were made, 0.1% more than last year. 734 foreclosed properties were sold, 25.4% less than last year. The median price was \$240,000 for regular property sales, 5.3% more than last year; the comparable figure for the foreclosed properties was \$155,950, up 14.2% from this time last year.

Illinois and Chicago PMSA both have already recovered to their pre-bubble price levels. The median sales price in February 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 February 2008 median sales price was \$140,650 (in \$2008) and \$165,059 (in \$2018); the current price level was 112% of the 2008 level after adjusting (132% before adjusting). In the Chicago PMSA, the February 2008 median sales price was \$184,000 (in \$2008) and \$215,932 (in \$2018); the comparable figure for price recovery in February 2018 is 105% after adjustment (124% before adjusting).

The sales forecast for March, April and May 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 -5.5% to -7.5%; the comparative figures for the Chicago PMSA are a decrease in the range -5.2% to -7.1%. On a monthly basis, the three-month average sales are forecast to increase in the range 20.3% to 27.5% for Illinois and increase in the range 21.5% to 29.1% for the Chicago PMSA.

The pending home sales index¹ is a leading indicator based on contract signings. This February, the number of homes put under contract was greater than last year. The pending home sales index is 146.9 (2008=100) in Illinois, down 2.9% from a year ago. In the Chicago PMSA, the comparable figure is 174.9, down 1.7% from a year ago. At the latest average annual pending sales rate, Illinois had enough housing inventory for 3.4 months² (down from 3.9 months a year ago). In the Chicago PMSA, the comparable figure was 2.6 months (down from 3.0 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 March, April and May. In Illinois, the median price is forecast to rise by 6.3% in

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.

March 6.0% in April and 6.1% in May. For the Chicago PMSA, the comparable figures are 7.7% in March 9.5% in April and 8.8% in May. 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 3.4% in March 2.0% in April and 1.6% in May. The comparable figures for the Chicago PMSA are 6.1% in March 5.7% in April and 4.3% in May. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month.

In February, two consumer sentiment indices both increased. The Conference Board Consumer Confidence Index survey revealed that consumers' assessment of current conditions was more favorable in February, with the labor force the main driver. It is noted that consumers expressed greater optimism about short-term prospects for business and labor market conditions, as well as their financial prospects. The University of Michigan Consumer Sentiment Index substantially increased and the survey explained that consumers based their optimism on favorable assessments of jobs, wages and higher after-tax pay. The more housing specific sentiment index, the Fannie Mae Home Purchase Sentiment Index (HPSI) decreased and the survey attributed part of the decrease to rising interest rates and limitations in the new tax bill. Additionally, consumers' expectations for higher mortgage rates suggest that consumers expect the Fed to hike rates a few more times in 2018.

The Housing Market – Current Condition

- In February, median prices continued to experience positive growth while sales experienced a negative annual change. 8,151 houses were sold in Illinois, changing by -1.3% from a month ago and -5.1% from a year ago. In the Chicago PMSA, 5,722 houses were sold, changing by -2.1% from a month ago and -4.2% from a year ago. The median price was \$185,000 in Illinois, up 8.8% from February last year; the comparable figure for the Chicago PMSA was \$227,500, up 8.3% from this time last year. (Reference: Illinois and Chicago PMSA Total Home Sales and Median Home Sales Price figures; Forecast for March 2018 report table)
- In February, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 12.8%. 4,952 regular sales were made, 0.1% more than last year. 734 foreclosed properties were sold, 25.4% less than last year. The median price was \$240,000 for regular property sales, 5.3% more than last year; the comparable figure for the foreclosed properties was \$155,950, up 14.2% from this time last year. (Reference: Ratio of Foreclosed Sales over Total Sales, Sales & Median Prices: Foreclosed vs. Regular figures)
- In February, at the latest average annual pending sales rate, Illinois had enough housing inventory for 3.4 months⁴ (down from 3.9 months a year ago). In the Chicago PMSA, the comparable figure was 2.6 months (down from 3.0 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 February, 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 22.2% from 26.3% 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 11.6% from 15.6% 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 March, April and May. In Illinois, the median price is forecast to rise by 6.3% in March 6.0% in April and 6.1% in May. For the Chicago PMSA, the comparable figures are 7.7% in March 9.5% in April and 8.8% in May. (Reference: Forecast for March 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 3.4% in March 2.0% in April and 1.6% in May. The comparable figures for the Chicago PMSA are 6.1% in March 5.7% in April and 4.3% in May. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month. (Reference: Housing Price Index)
- The sales forecast for March, April and May 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 -5.5% to -7.5%; the comparative figures for the Chicago PMSA are a decrease in the range -5.2% to -7.1%. On a monthly basis, the three-month average sales are forecast to increase in the range 20.3% to 27.5% for Illinois and increase in the range 21.5% to 29.1% for the Chicago PMSA. (Reference: Forecast for March 2018 report table)
- The pending home sales index⁶ is a leading indicator based on contract signings. This February, the number of homes put under contract was greater than last year. The pending home sales index is 146.9 (2008=100) in Illinois, down 2.9% from a year ago. In the Chicago PMSA, the comparable figure is 174.9, down 1.7% from a year ago. (Reference: Illinois and Chicago PMSA Pending Home Sales Index figure)
- In February 2018, 1,573 houses were newly filed for foreclosure in the Chicago PMSA (down 14.6% and 5.2% respectively from a year and a month ago). 1,020 foreclosures were completed⁷ (down 4.1% and 34.9% respectively from a year and a month ago). As of February 2018, there are 26,059 homes at some stage of foreclosure — the foreclosure inventory. The monthly average net flows of foreclosures (foreclosure inflows - outflows) were 320 in the past 6 months, 509 in the last 12 months and 433 in the last 24 months. (Reference: Chicago PMSA Foreclosure Inflows and Outflows, and Inventory figures).

The Economy

- In February 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 313,000 jobs. Employment increased in Construction (+61,000), Food Retail Trade (+50,000), and Professional and Business Services (+50,000).

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 January 2017, according to the Illinois Department of Employment Security (IDES) news release, the Illinois unemployment decreased by 0.1 percentage points to 4.8%. Non-farm payroll jobs increased by +200 over the month. The largest gains were in three sectors; Leisure and Hospitality (+4,000); Education and Health Services (+1,700); and Financial Activities (+1,300). Furthermore, the job growth in December was revised from the preliminary estimate of +1,500 jobs to -700 jobs.
- In January 2018, the one-year-ahead forecast for Illinois indicates that the non-farm employment will change at a rate between 0.19% and 0.28%, corresponding to job changes between 11,700 and 17,300. The largest contributors to the forecast increase are education and health, leisure and hospitality, and manufacturing.
- In February 2018, Black Knight reported that the home-purchase market sunk to its least affordable point since 2009 to begin the year. They said although the market remains more affordable than the long-run average, lower-income buyers are being challenged by fast appreciating home prices in the lowest price tier, and a recent surge in interest rates.
- In February 2018, according to U.S. Census Bureau, overall U.S. housing starts fell from an especially strong January reading, but that decline was driven by a significant drop in apartment building. They explained that single-family housing starts continue to make slow, progressive gains.

Longer-term Outlook

- In February, two consumer sentiment indices both increased. The Conference Board Consumer Confidence Index increased to 130.8 from 124.3 last month. The survey revealed that consumers' assessment of current conditions was more favorable in February, with the labor force the main driver. Despite the recent stock market volatility, consumers expressed greater optimism about short-term prospects for business and labor market conditions, as well as their financial prospects. Overall, consumers remain quite confident that the economy will continue expanding at a strong pace in the months ahead. The University of Michigan Consumer Sentiment Index increased to 99.7, up from 95.7 in January. It was the second-highest monthly reading since January 2004, below only October's 100.7 reading. The survey explained that consumers based their optimism on favorable assessments of jobs, wages and higher after-tax pay.
- In February, Fannie Mae Home Purchase Sentiment Index (HPSI) decreased to 85.8 from 89.5 last month. The survey attributed part of the decrease to rising interest rates and limitations in the new tax bill. Additionally, consumers' expectations for higher mortgage rates suggest that consumers expect the Fed to hike rates a few more times in 2018.
- 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). (Not updated)

“With the Fannie Mae Home Purchase Sentiment Index decreasing, consumers seem to be apprehensive about future increases in interest rates and some uncertainties about the impact of the tax reform legislation.” noted Geoffrey J.D. Hewings, Director of the Regional Economics Applications Laboratory. “In combination with shrinking inventory and concerns about affordability at the lower end of the price scale, year-over-year sales numbers are forecast to be lower than in 2017.”

Forecast for March 2018 report

PERCENTAGE CHANGE FOR THE TOTAL NUMBER OF SALES					
	Annual			Monthly	
	Illinois	Chicago PMSA		Illinois	Chicago PMSA
Dec-17	-1.1%	-0.4%		-1.1%	-0.5%
Jan-18	-4.9%	-6.9%		-29.2%	-28.8%
Feb-18	-5.1%	-4.2%		-1.3%	-2.1%
3 Month Avg.	-3.4%	-3.5%		-11.5%	-11.3%
SUMMARY OF THE FORECAST INTERVALS FOR THE TOTAL NUMBER OF SALES					
	Annual			Monthly	
	Illinois	Chicago PMSA		Illinois	Chicago PMSA
Mar-18	-7.6%	-10.3%	-7.4%	-10.1%	43.4% 58.7% 48.5% 65.6%
Apr-18	-3.6%	-4.9%	-3.4%	-4.6%	8.9% 12.0% 8.7% 11.8%
May-18	-5.4%	-7.3%	-5.1%	-6.9%	16.8% 22.8% 17.5% 23.7%
3 Month Avg.	-5.5%	-7.5%	-5.2%	-7.1%	20.3% 27.5% 21.5% 29.1%
SUMMARY OF THE FORECAST FOR THE MEDIAN PRICE					
	Illinois	Chicago PMSA		Illinois	Chicago PMSA
Dec-17	\$185,000	\$225,000	Dec-16	\$174,000	\$214,000
Jan-18	\$185,000	\$223,500	Jan-17	\$170,950	\$209,000
Feb-18	\$185,000	\$227,500	Feb-17	\$170,000	\$210,000
Mar-18	\$201,745	\$247,812	Mar-17	\$189,800	\$230,000
Apr-18	\$211,965	\$264,880	Apr-17	\$200,000	\$242,000
May-18	\$220,729	\$268,680	May-17	\$208,000	\$246,900
ANNUAL PERCENTAGE CHANGE OF THE MEDIAN PRICE					
	Illinois	Chicago PMSA		Illinois	Chicago PMSA
Dec-17	6.3%	5.1%	Dec-16	5.5%	7.9%
Jan-18	8.2%	6.9%	Jan-17	5.0%	10.0%
Feb-18	8.8%	8.3%	Feb-17	6.3%	12.0%
Mar-18	6.3%	7.7%	Mar-17	10.7%	9.5%
Apr-18	6.0%	9.5%	Apr-17	7.5%	5.2%
May-18	6.1%	8.8%	May-17	7.8%	5.7%

Median Prices and Recovery

	Illinois		Chicago PMSA	
	[\$2008]	[\$2018]	[\$2008]	[\$2018]
February 2008 Median Price	\$140,650	\$165,059	\$184,000	\$215,932
February 2018 Median Price	\$157,642	\$185,000	\$193,857	\$227,500
Price Ratio (February 18/ February 08)	Adjusted	1.12	Adjusted	1.05
	Unadjusted	1.32	Unadjusted	1.24

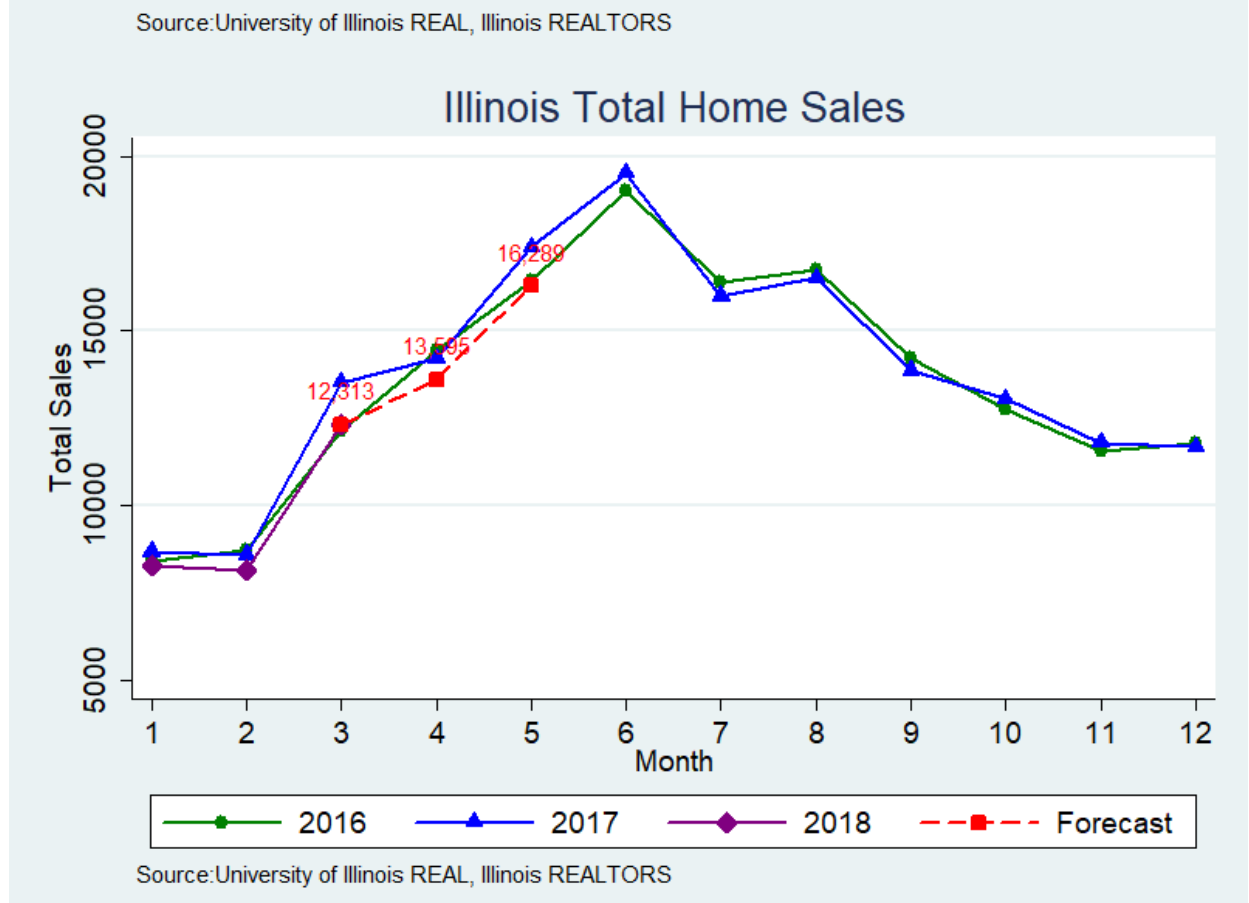
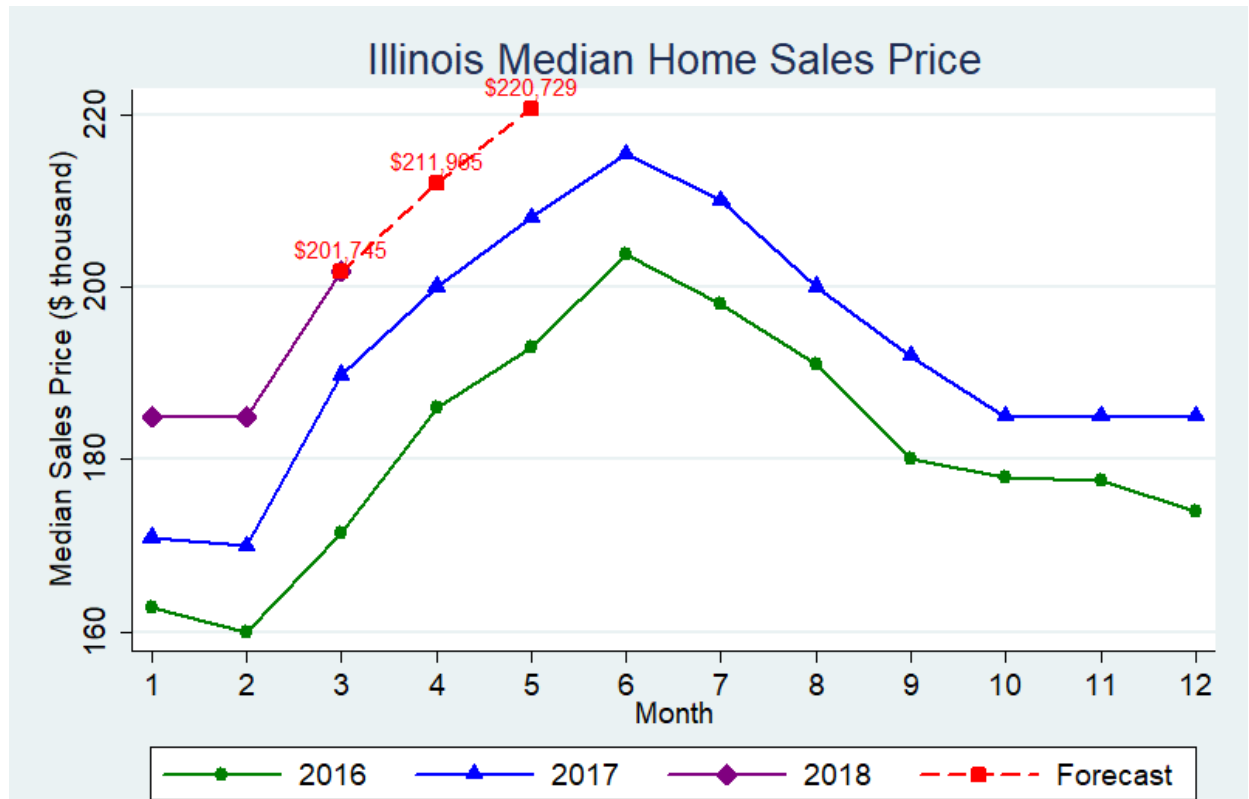
Recovery Forecasts using *Annually Growth Rates*

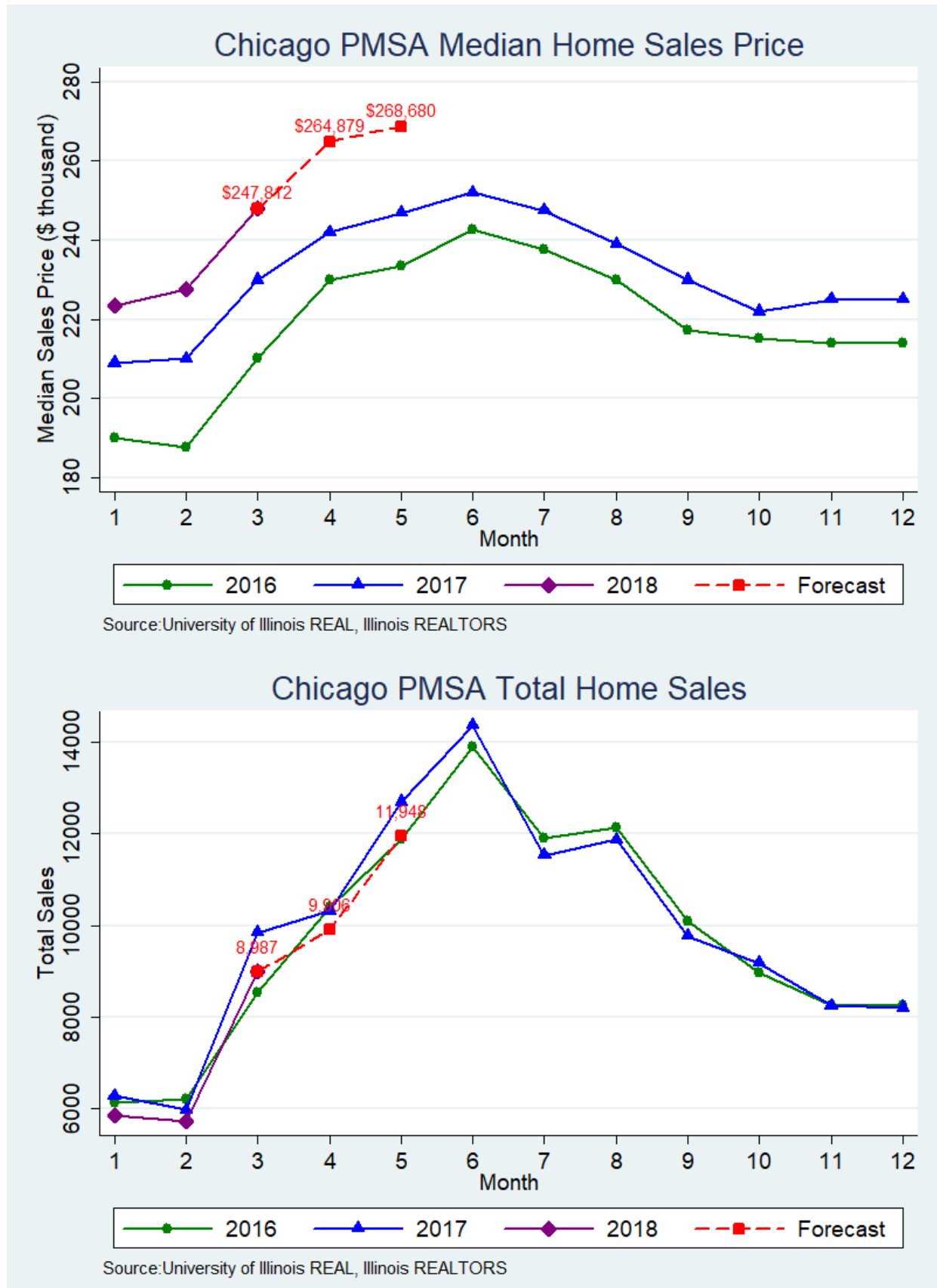
	Illinois	Chicago PMSA		
	Annual Recovery Rate*	Years to Recover**	Recovery Rate	Years to Recover
Current Month	6.6%	-1.8	6.1%	-0.9
Past 3 months	5.6%	-2.1	4.6%	-1.2
Past 6 months	4.2%	-2.8	3.6%	-1.5
Past 9 months	4.0%	-2.9	3.1%	-1.7
Past 12 months	4.6%	-2.5	3.5%	-1.5

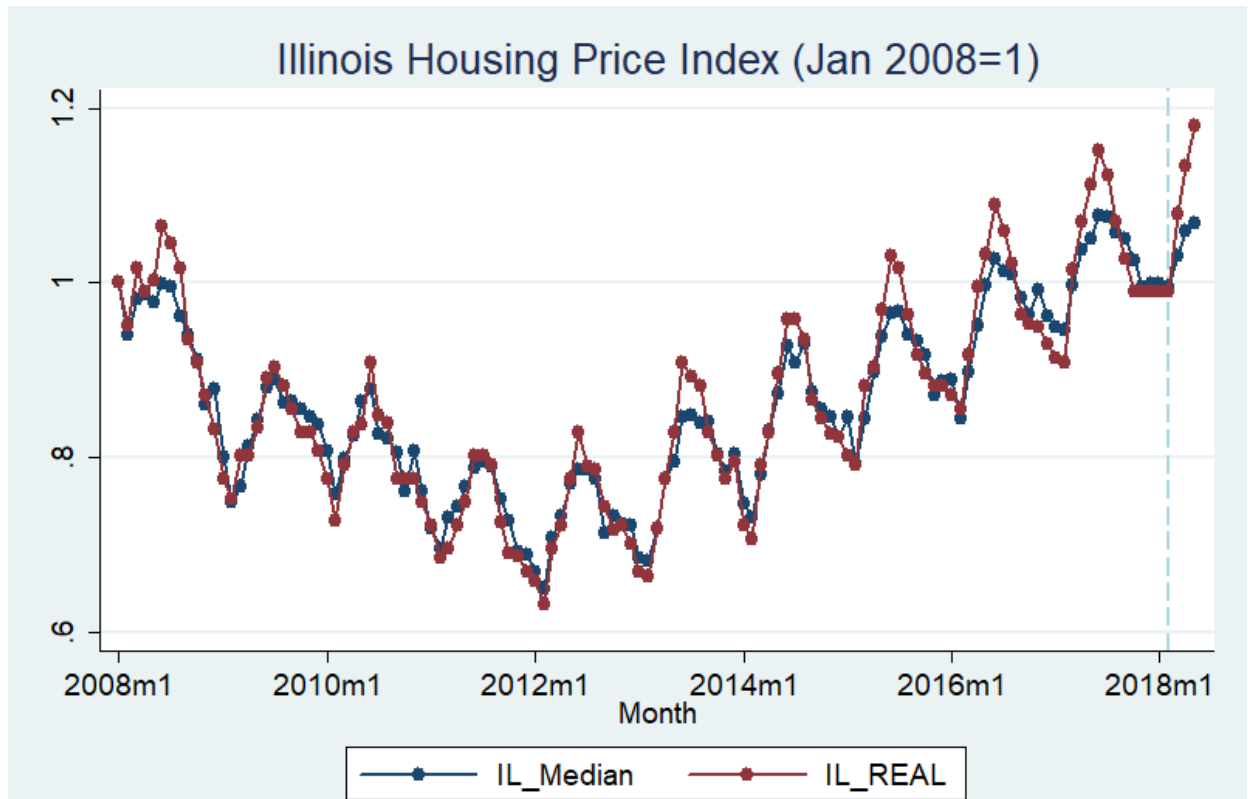
*Annual recovery rate is the average of *annual* change rates in past months

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

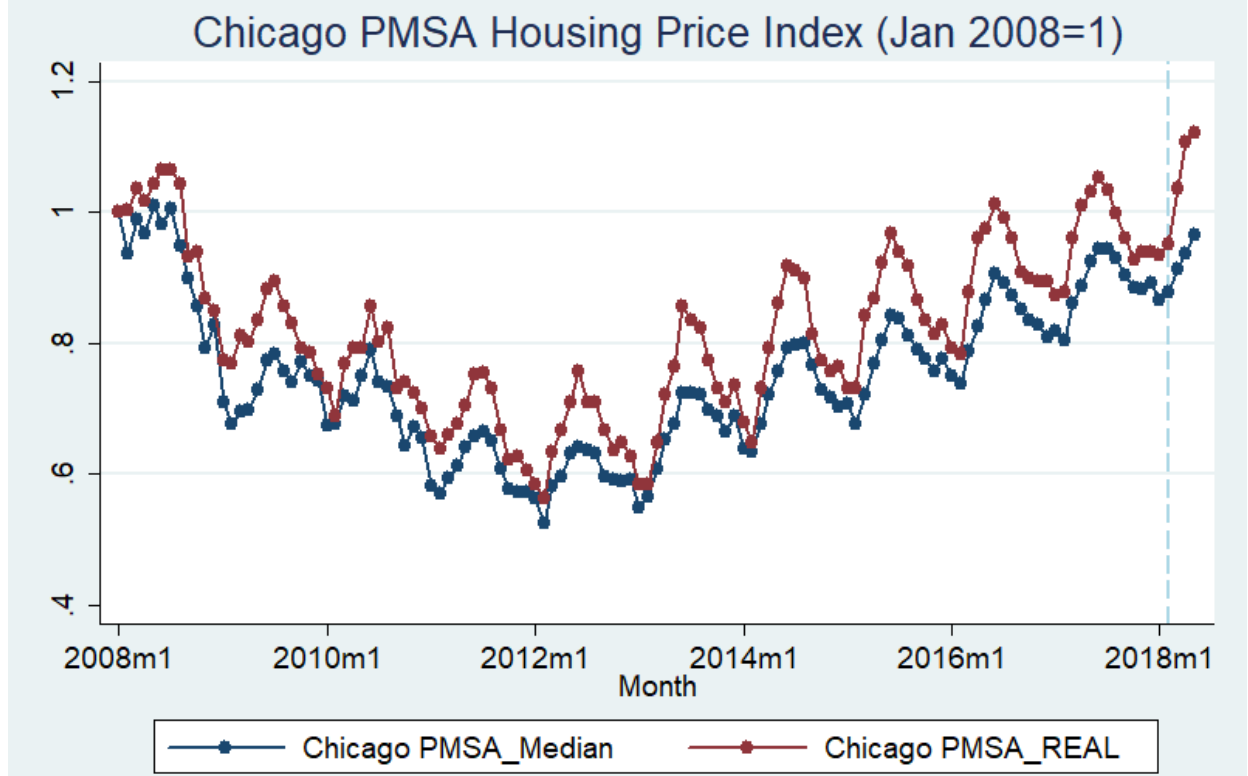
$Price_{February2018} * (1 + \text{recovery rate})^{\text{years}} = Price_{February2008}$. Prices used in the formula are inflation adjusted. The recovery rate is applied as a constant annual change rate to recoup the differences between the current month and its corresponding month in 2008.



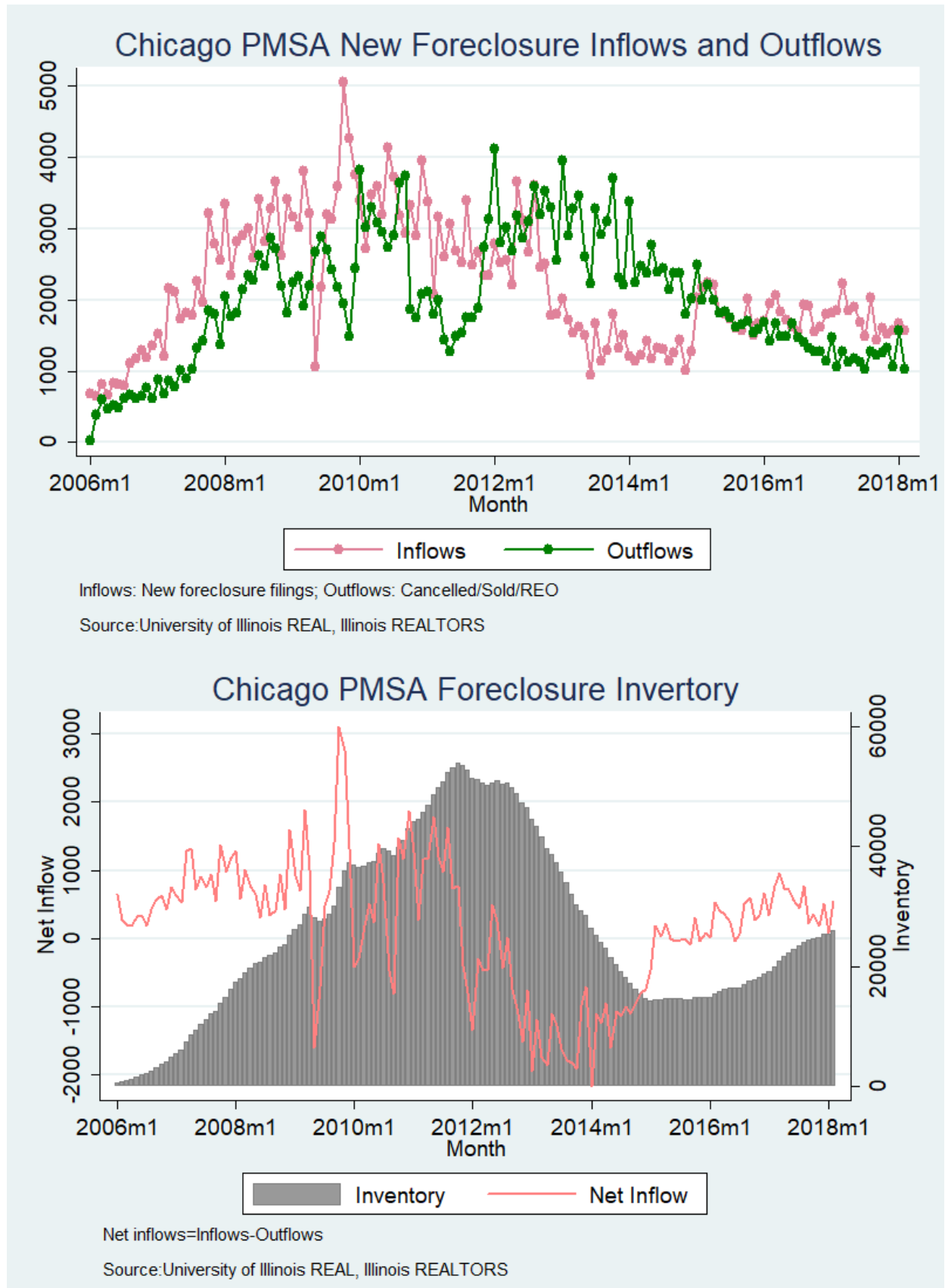


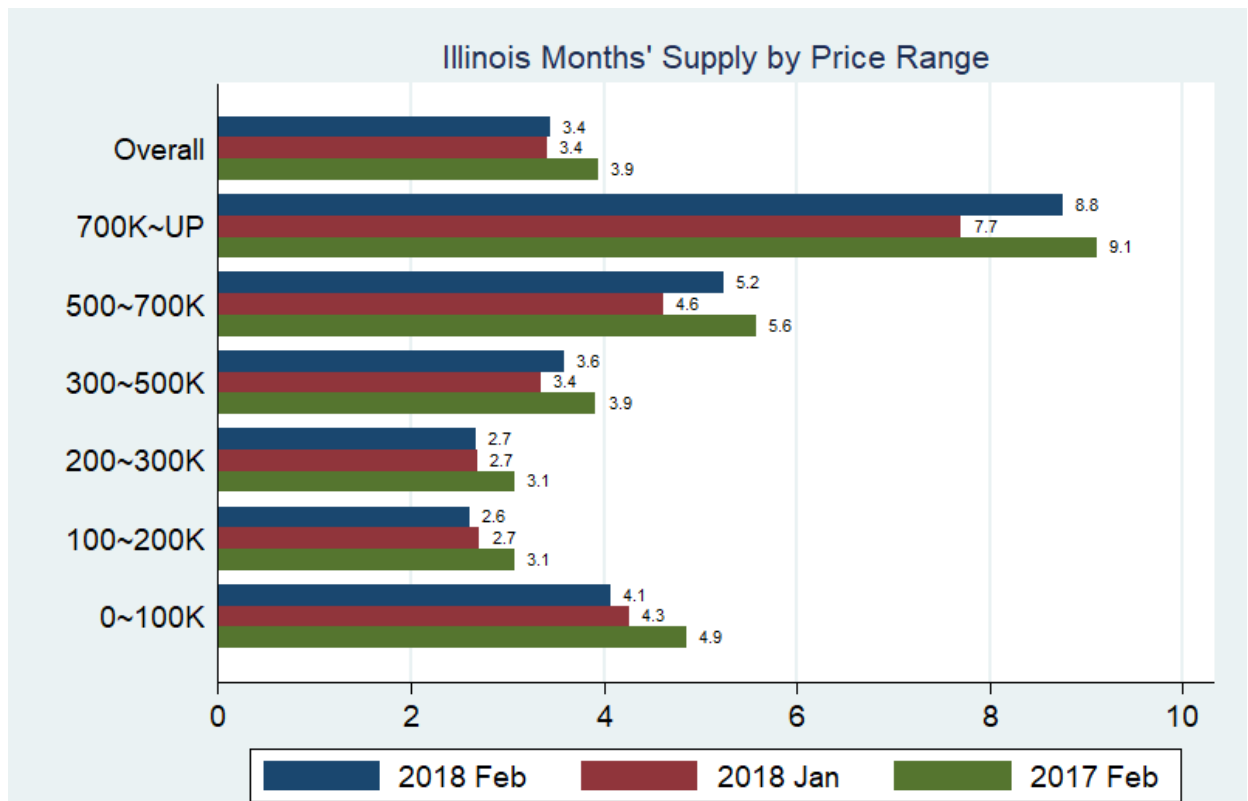


Source: University of Illinois REAL, Illinois REALTORS

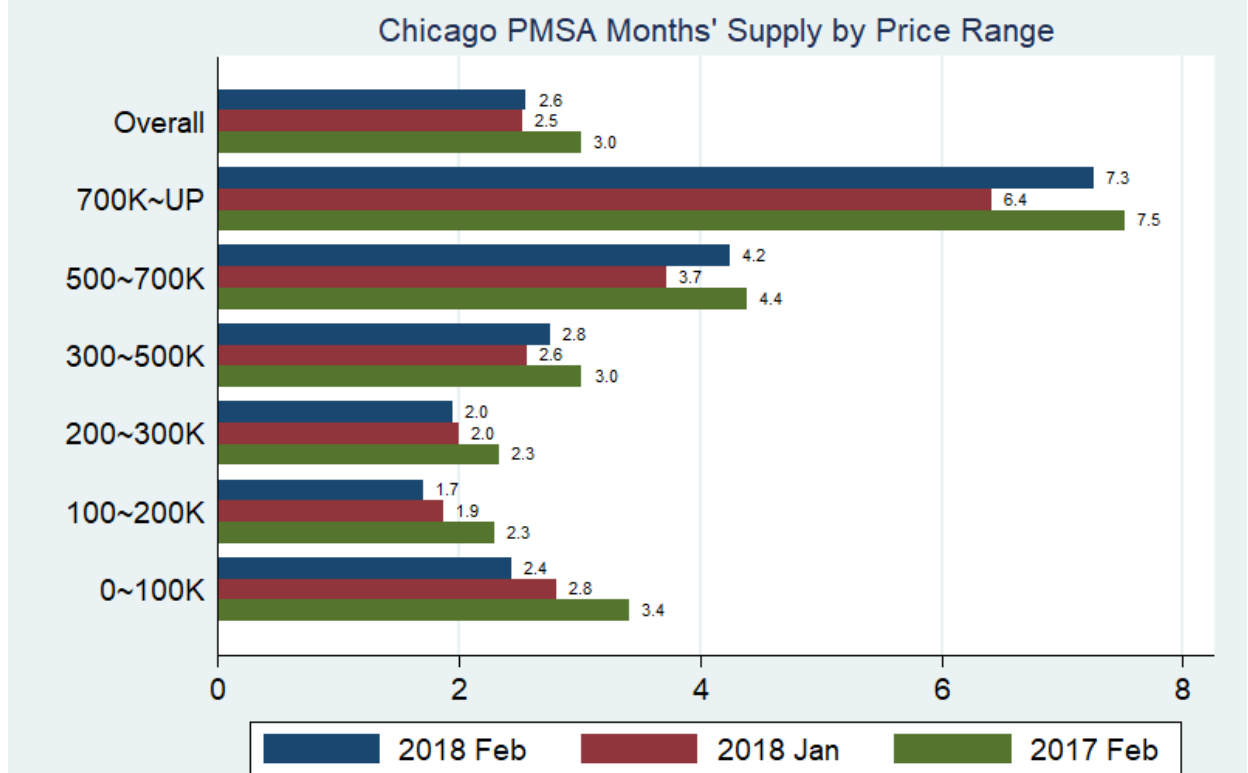


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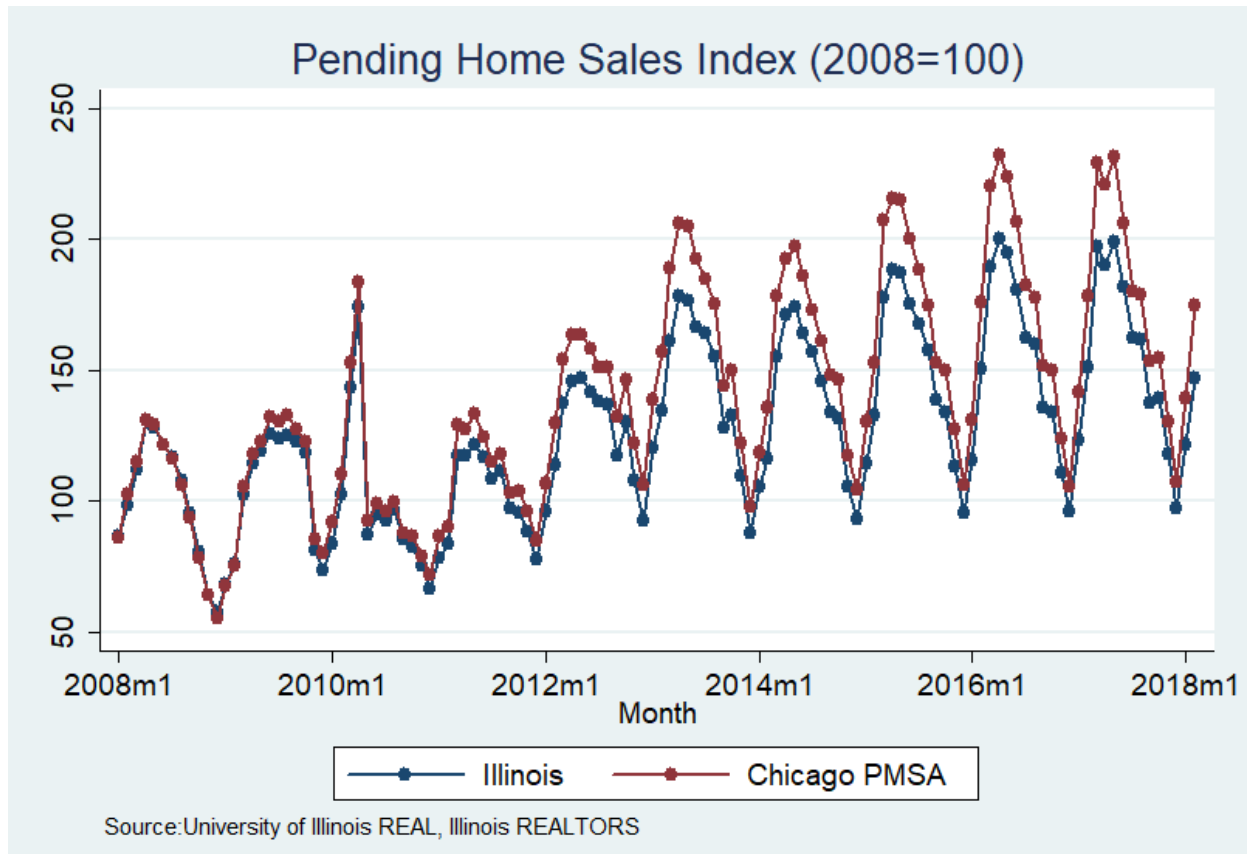


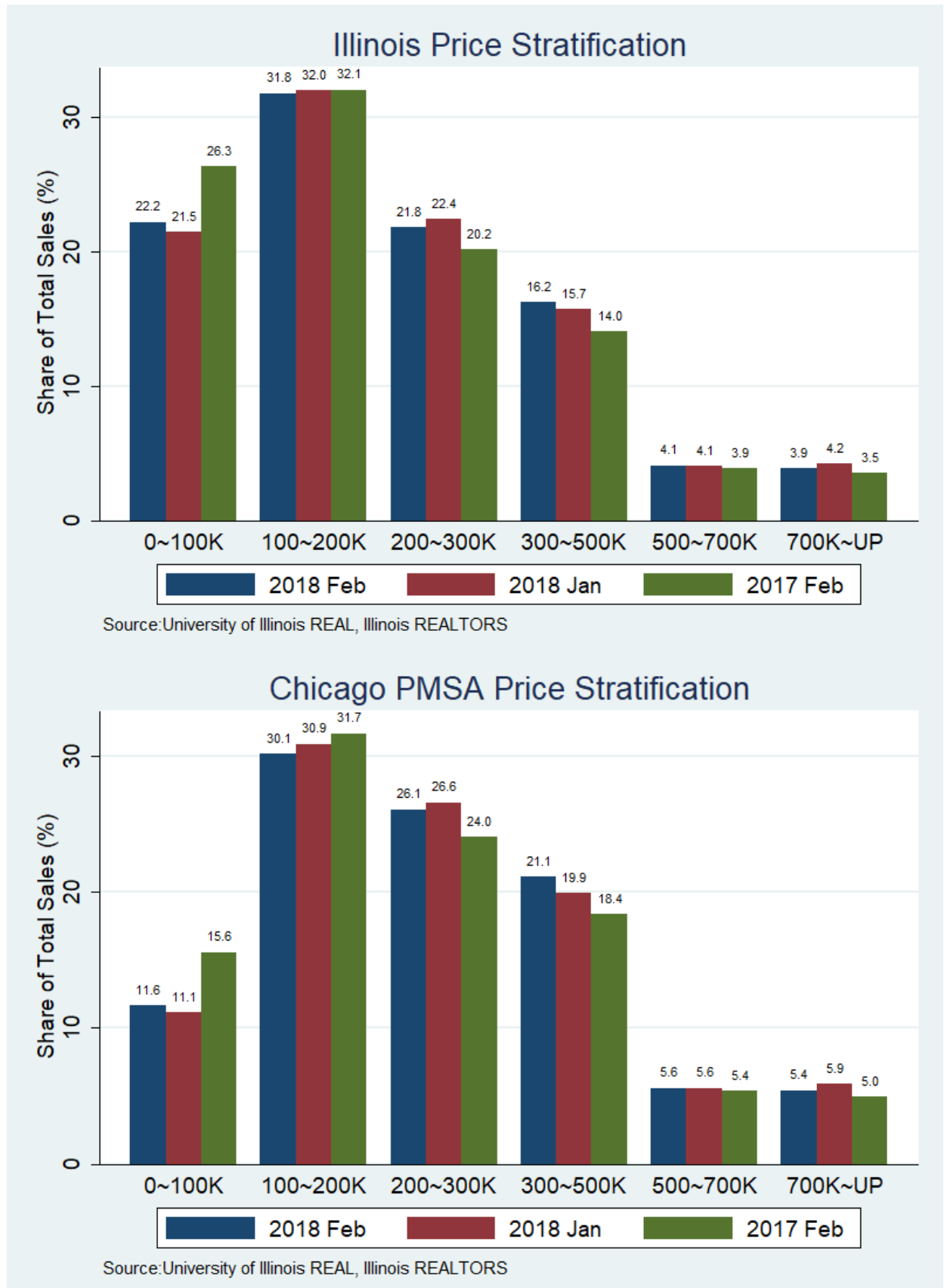


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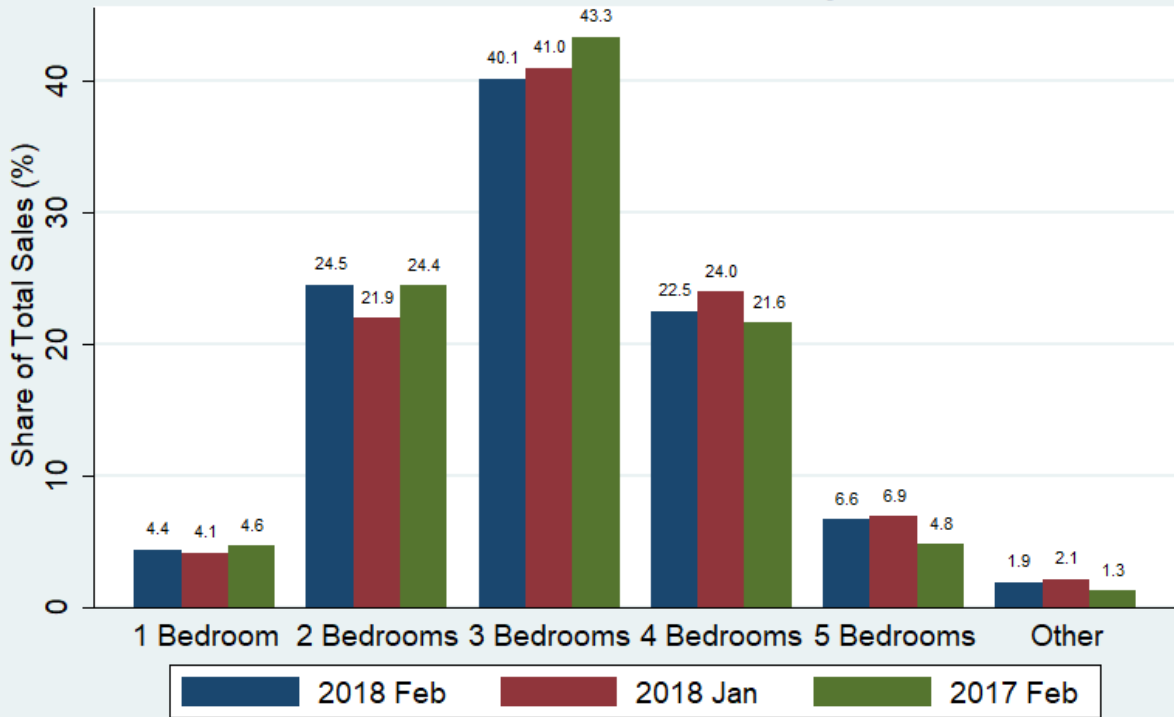


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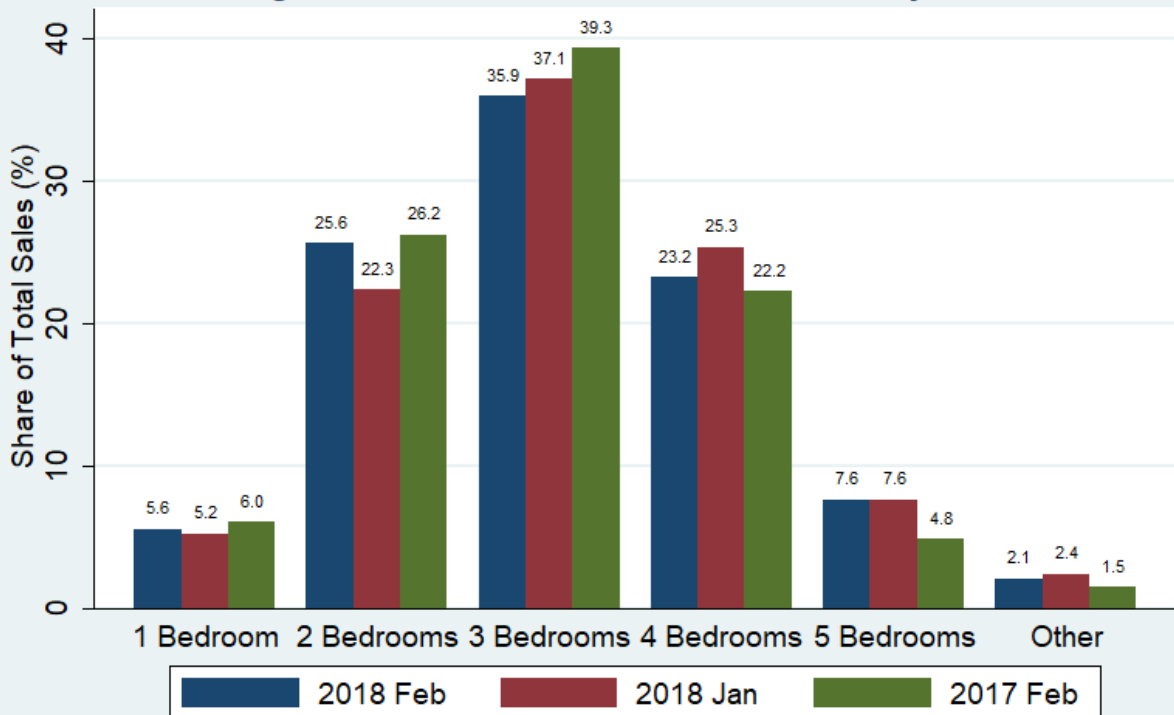


Illinois House Characteristics by Bedroom



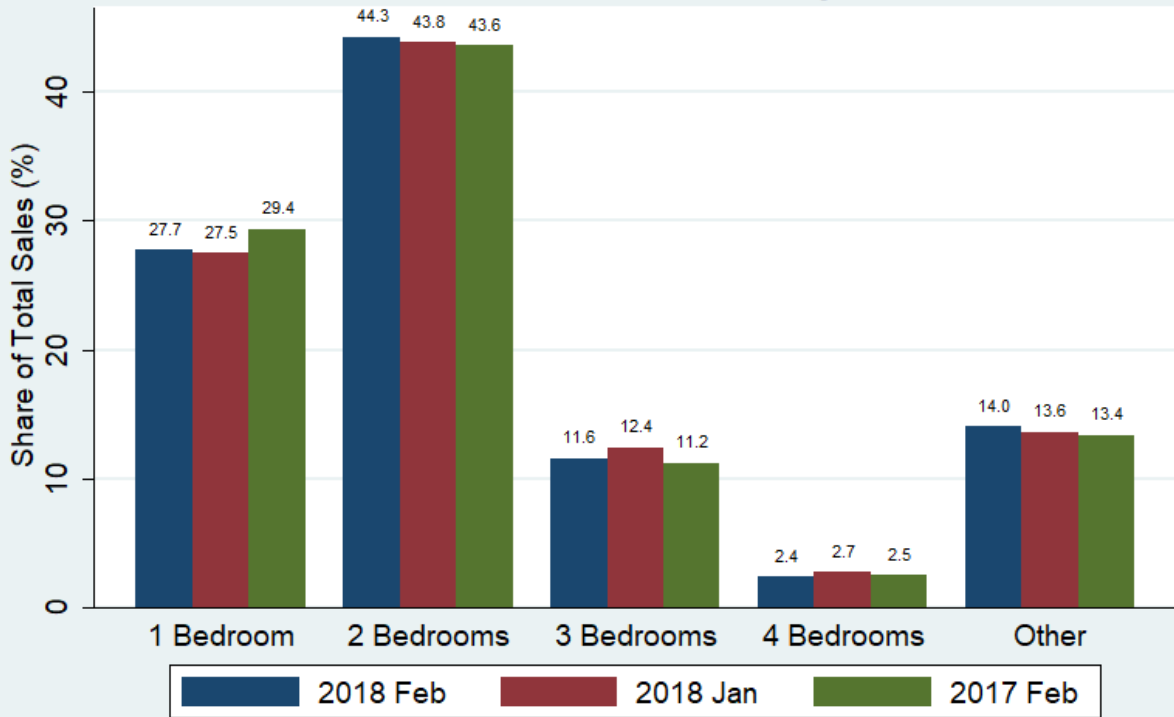
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Chicago PMSA House Characteristics by Bedroom



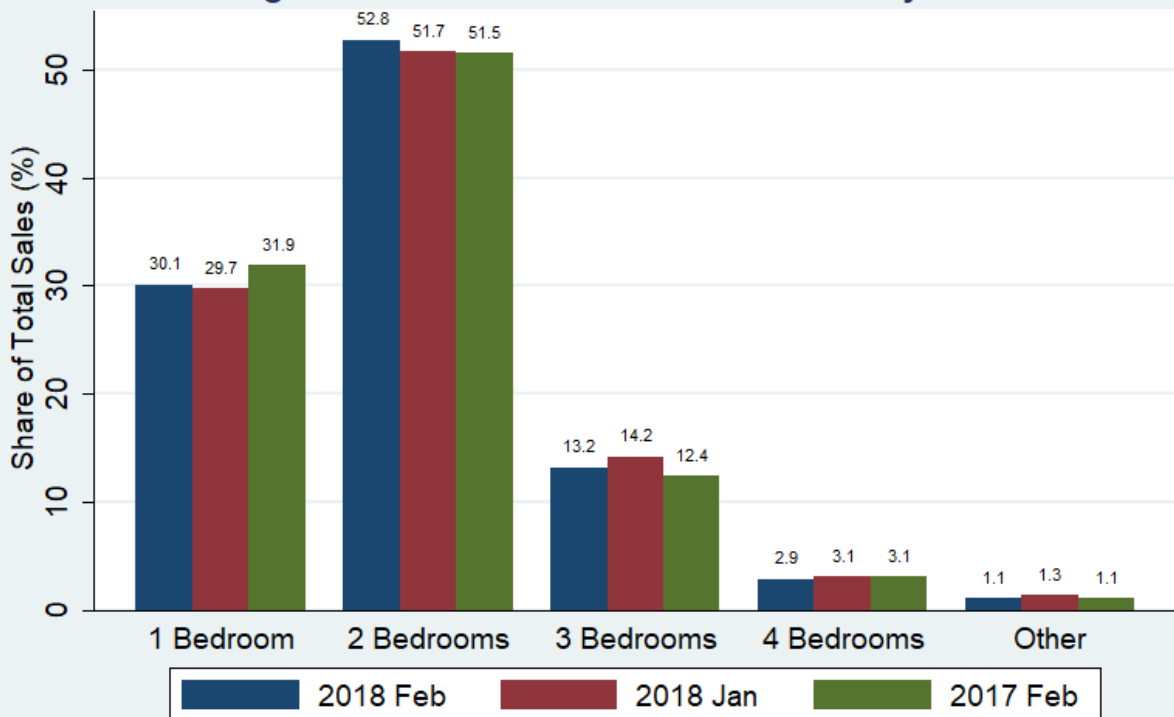
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Illinois House Characteristics by Bathroom



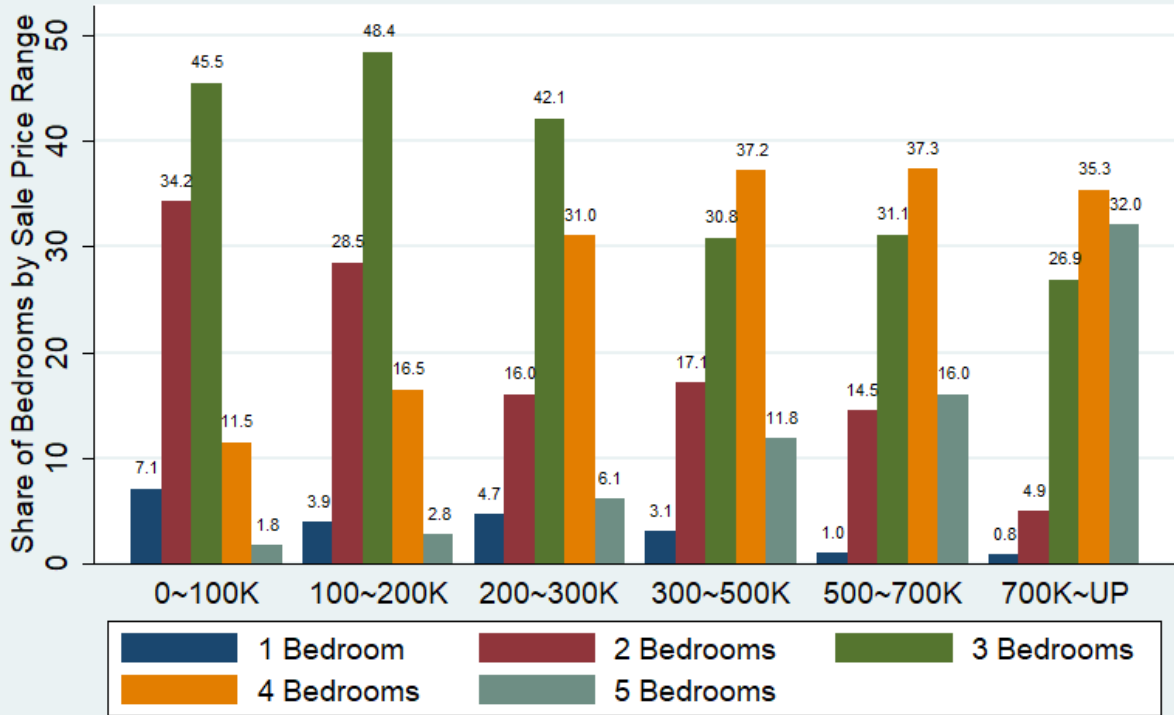
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Chicago PMSA House Characteristics by Bathroom



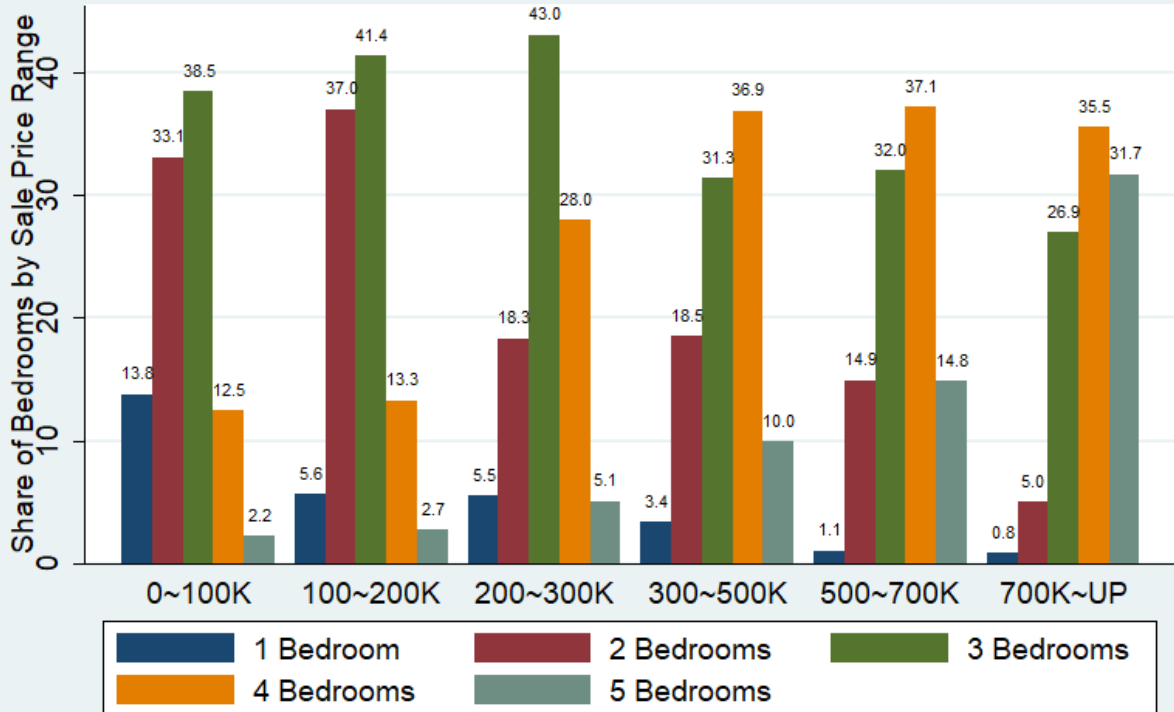
Source: University of Illinois REAL, Illinois REALTORS

Illinois Bedroom Shares by Sale Price Stratification



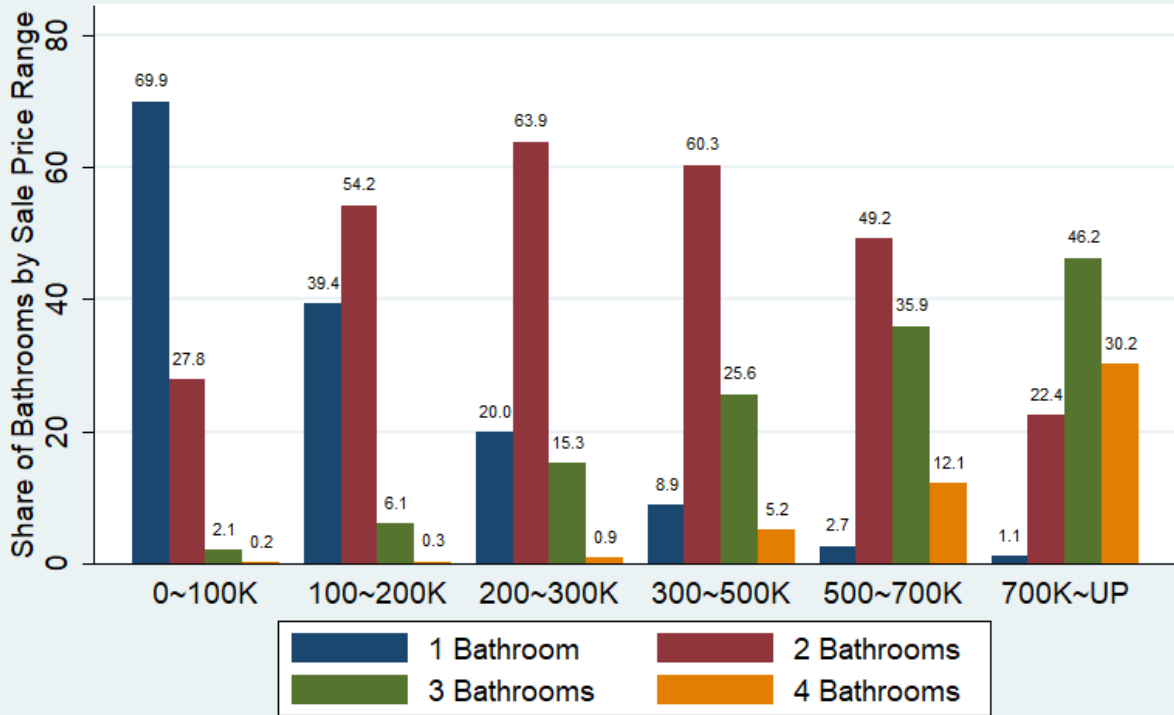
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Chicago PMSA Bedroom Shares by Sale Price Stratification



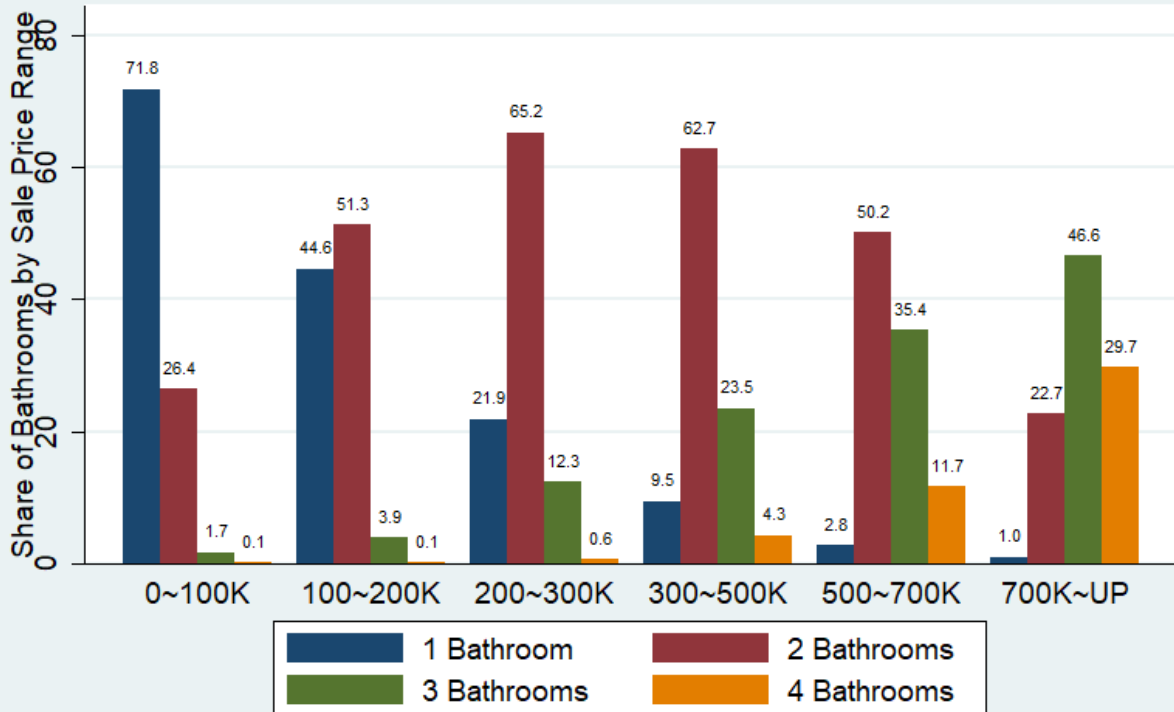
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Illinois Bathroom Shares by Sale Price Stratification



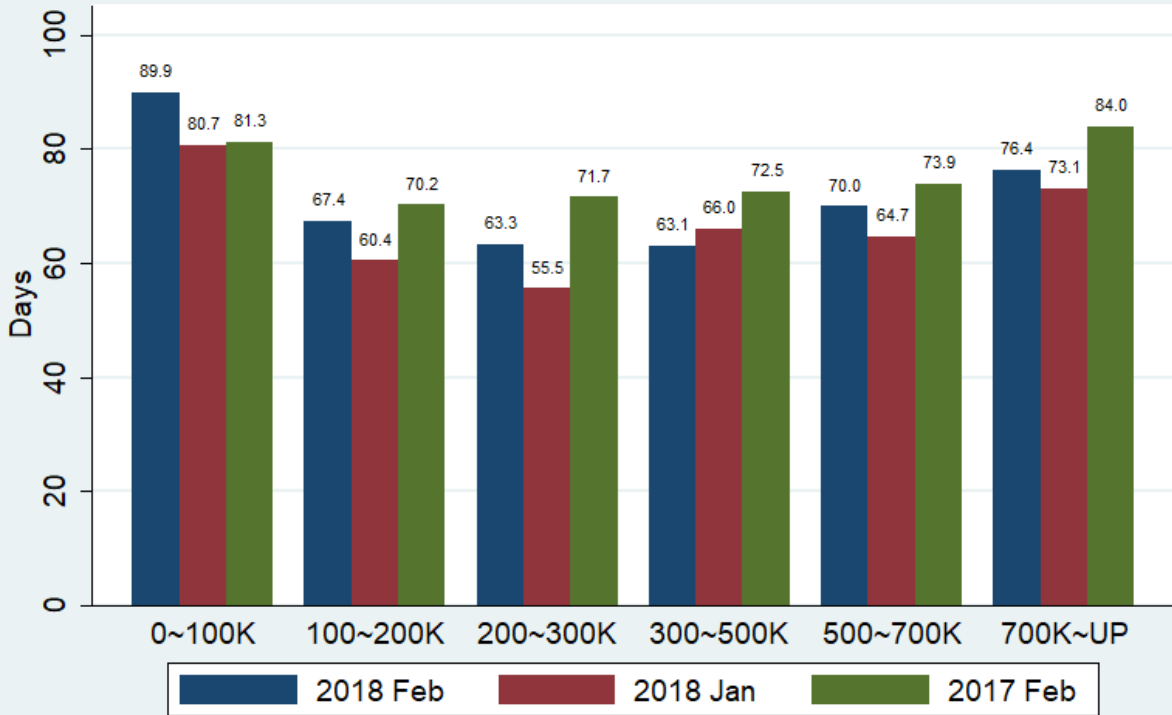
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Chicago PMSA Bathroom Shares by Sale Price Stratification



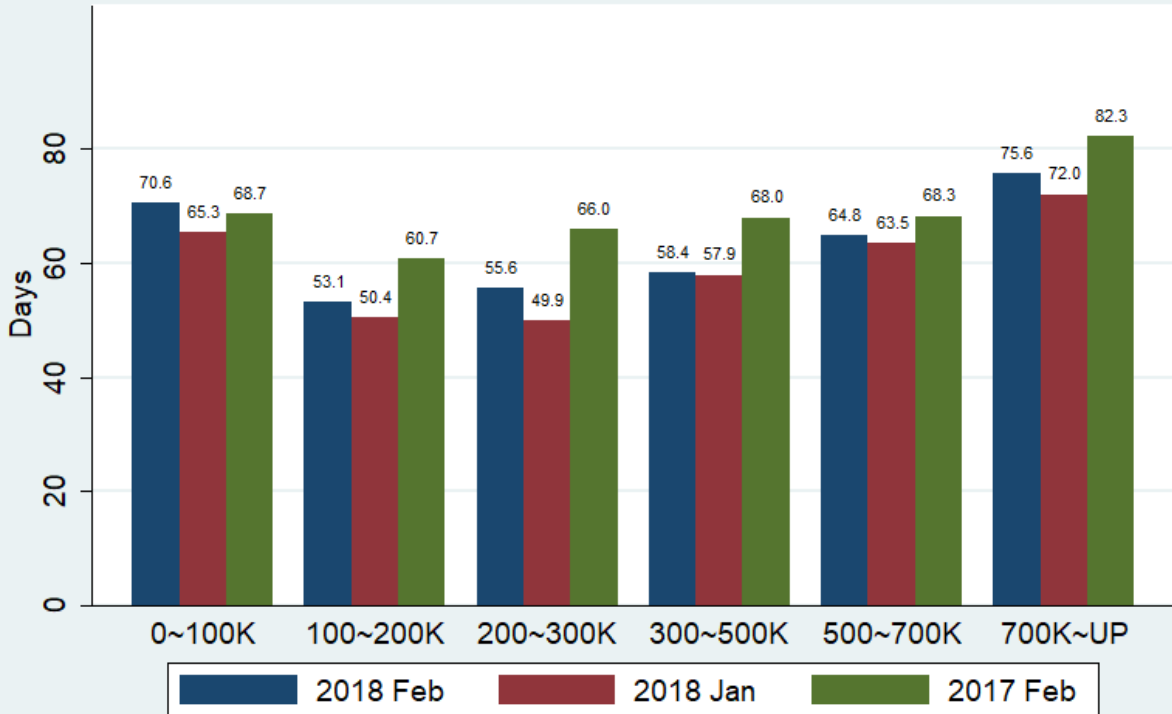
Source: University of Illinois REAL, Illinois REALTORS

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

