

Housing Price Forecasts

Illinois and Chicago PMSA, May 2018

Presented To
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From

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The Housing Market

In April, both sales and median prices experienced annual increases. 14,478 houses were sold in Illinois, increasing by 14.4% from a month ago and 1.9% from a year ago. In the Chicago PMSA, 10,535 houses were sold, up 17.1% from a month ago and up 2.1% from a year ago. The median price was \$210,000 in Illinois, an increase of 5.0% from April last year; the comparable figure for the Chicago PMSA was \$250,000, up 3.3% from this time last year.

In April, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 11.0%. 9,472 regular sales were made, 3.2% more than last year. 992 foreclosed properties were sold, 8.4% less than last year. The median price was \$261,000 for regular property sales, 2.4% higher than last year; the comparable figure for the foreclosed properties was \$172,750, up 7.8% from this time last year.

Illinois and Chicago PMSA both have already recovered to their pre-bubble price levels. The median sales price in April 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 April 2008 median sales price was \$150,000 (in \$2008) and \$176,306 (in \$2018); the current price level was 119% of the 2008 level after adjusting (140% before adjusting). In the Chicago PMSA, the April 2008 median sales price was \$192,000 (in \$2008) and \$225,672 (in \$2018); the comparable figure for price recovery in April 2018 is 111% after adjustment (130% before adjusting).

The sales forecast for May, June and July suggests decreases on a yearly basis and increases on a monthly basis for Illinois while for the Chicago PMSA, the sales forecast predicts slight increases on a yearly basis and moderate increases on a monthly basis. Annually for Illinois, the three-month average forecasts point to a decrease in the range -0.7% to -1.0%; the comparative figures for the Chicago PMSA are an increase in the range 0.0% to 0.1%. On a monthly basis, the three-month average sales are forecast to increase in the range 3.6% to 4.9% for Illinois and increase in the range 3.7% to 5.1% for the Chicago PMSA.

The pending home sales index¹ is a leading indicator based on contract signings. This April, the number of homes put under contract was greater than last year. The pending home sales index is 208.1 (2008=100) in Illinois, up 9.7% from a year ago. In the Chicago PMSA, the comparable figure is 249.3, up 13.0% from a year ago. At the latest average annual pending sales rate, Illinois had enough housing inventory for 3.8 months² (down from 4.2 months a year ago). In the Chicago PMSA, the comparable figure was 2.8 months (down from 3.3 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 May, June and July. In Illinois, the median price is forecast to rise by 4.7% in May 5.7% in June and 6.3% in July. For the Chicago PMSA, the comparable figures are 2.9% in May 2.3% in June and 2.8% in July. 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,

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.

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

the REAL HPI (Jan 2008=1) is forecast to change by 3.4% in May 2.8% in June and 2.8% in July. The comparable figures for the Chicago PMSA are 4.7% in May 4.3% in June and 4.4% in July. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month.

In April, the Conference Board Consumer Confidence Index increased while the University of Michigan Consumer Sentiment Index decreased. The Conference Board Consumer Confidence Index revealed that consumers’ assessment of current conditions improved somewhat, with consumers rating both business and labor market conditions quite favorably. Consumers’ short-term expectations also improved, with the percent of consumers expecting their incomes to decline over the coming months reaching its lowest level since December 2000. Overall, confidence levels remain strong and suggest that the economy will continue expanding at a solid pace in the months ahead. Meanwhile, the University of Michigan Consumer Sentiment Index decreased and the University of Michigan said that many survey respondents offered their views on tax reform and trade policies without even being asked, reflecting the prominence these issues have taken in the political debate over the U.S. economy. Respondents who mentioned the tax cuts were much more positive about the future than those who didn’t, but those who commented on the tariffs were more negative. On the other hand, the more housing specific sentiment index, the Fannie Mae Home Purchase Sentiment Index (HPSI) reached a new all-time survey high. The survey posted increases in five of six components that set out to measure Americans’ perceptions of the housing market and revealed that consumers were also upbeat about home prices, job security, and their own personal finances.

The Housing Market – Current Condition

- In April, both sales and median prices experienced annual increases. 14,478 houses were sold in Illinois, changing by 14.4% from a month ago and 1.9% from a year ago. In the Chicago PMSA, 10,535 houses were sold, changing by 17.1% from a month ago and 2.1% from a year ago. The median price was \$210,000 in Illinois, up 5.0% from April last year; the comparable figure for the Chicago PMSA was \$250,000, up 3.3% from this time last year. (Reference: Illinois and Chicago PMSA Total Home Sales and Median Home Sales Price figures; Forecast for May 2018 report table)
- In April, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 11.0%. 9,472 regular sales were made, 3.2% more than last year. 992 foreclosed properties were sold, 8.4% less than last year. The median price was \$261,000 for regular property sales, 2.4% higher than last year; the comparable figure for the foreclosed properties was \$172,750, up 7.8% from this time last year. (Reference: Ratio of Foreclosed Sales over Total Sales, Sales & Median Prices: Foreclosed vs. Regular figures)
- In April, at the latest average annual pending sales rate, Illinois had enough housing inventory for 3.8 months⁴ (down from 4.2 months a year ago). In the Chicago PMSA, the comparable figure was 2.8 months (down from 3.3 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)

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.

- In April, 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 16.5% from 18.6% a year ago; the comparative figure for the Chicago PMSA showed a decrease to 7.3% from 9.1% 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 May, June and July. In Illinois, the median price is forecast to rise by 4.7% in May 5.7% in June and 6.3% in July. For the Chicago PMSA, the comparable figures are 2.9% in May 2.3% in June and 2.8% in July. (Reference: Forecast for May 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 May 2.8% in June and 2.8% in July. The comparable figures for the Chicago PMSA are 4.7% in May 4.3% in June and 4.4% in July. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month. (Reference: Housing Price Index)
- The sales forecast for May, June and July suggests decreases on a yearly basis and increases on a monthly basis for Illinois while for the Chicago PMSA, the sales forecast predicts slight increases on a yearly basis and moderate increases on a monthly basis. Annually for Illinois, the three-month average forecasts point to a decrease in the range -0.7% to -1.0%; the comparative figures for the Chicago PMSA are an increase in the range 0.0% to 0.1%. On a monthly basis, the three-month average sales are forecast to increase in the range 3.6% to 4.9% for Illinois and increase in the range 3.7% to 5.1% for the Chicago PMSA. (Reference: Forecast for May 2018 report table)
- The pending home sales index⁶ is a leading indicator based on contract signings. This April, the number of homes put under contract was greater than last year. The pending home sales index is 208.1 (2008=100) in Illinois, up 9.7% from a year ago. In the Chicago PMSA, the comparable figure is 249.3, up 13.0% from a year ago. (Reference: Illinois and Chicago PMSA Pending Home Sales Index figure)
- In April 2018, 1,770 houses were newly filed for foreclosure in the Chicago PMSA (down 4.5% and down 3.4% respectively from a year and a month ago). 1,276 foreclosures were completed⁷ (up 15.1% and down 5.0% respectively from a year and a month ago). As of April 2018, there are 27,496 homes at some stage of foreclosure — the foreclosure inventory. The monthly average net flows of foreclosures (foreclosure inflows - outflows) were 425.7 in the past 6 months, 477.8 in the last 12 months and 469.6 in the last 24 months. (Reference: Chicago PMSA Foreclosure Inflows and Outflows, and Inventory figures).

The Economy

- In April 2018, according to the Bureau of Labor Statistics (BLS) Employment Situation report, the national unemployment rate edged down to 3.9% and nonfarm payroll jobs experienced a

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

gain of 164,000 jobs. Employment increased in professional and business services (+54,000), manufacturing (+24,000), and health care (+24,000).

- In April 2018, according to the Illinois Department of Employment Security (IDES) news release, the Illinois unemployment decreased by 0.2 percentage points to 4.4%. Non-farm payroll jobs increased by +4,700 over the month. The largest gains were in three sectors; professional and business services (+2,700); manufacturing (+1,600); and leisure and hospitality (+1,300). The industry sector with the largest payroll decline was: government (-1,900). Furthermore, the job growth in December was slightly revised from the preliminary estimate of -2,100 jobs to +2,500 jobs.
- In March 2018, the one-year-ahead forecast for Illinois indicates that the non-farm employment will change at a rate between 0.39% and 0.49%, corresponding to job changes between 23,800 and 29,900. The largest contributors to the forecast increase are education and health, leisure and hospitality, and construction.
- In April 2018, Freddie Mac reported that the key mortgage rate moved up sharply to a level not seen since 2013. Sam Khater, Freddie Mac's chief economist, said "Higher Treasury yields, driven by rising commodity prices, more Treasury issuances and the steady stream of solid economic news, are behind the uptick in rates over the past week."
- In April 2018, according to the Mortgage Bankers Association (MBA), mortgage applications for new-home purchases uncharacteristically dipped in April, which goes against the normal seasonal trend of increased borrowing activity at the beginning of the spring. The report revealed that despite a strong economy and job market, the decrease was likely due to a combination of rising mortgage rates and slow new construction activity, as builders still face a shortage of skilled labor and increasing materials costs, among other challenges.

Longer-term Outlook

- In April, the Conference Board Consumer Confidence Index increased while the University of Michigan Consumer Sentiment Index decreased. The Conference Board Consumer Confidence Index increased to 128.7 from 127.0 last month. The survey revealed that consumers' assessment of current conditions improved somewhat, with consumers rating both business and labor market conditions quite favorably. Consumers' short-term expectations also improved, with the percent of consumers expecting their incomes to decline over the coming months reaching its lowest level since December 2000. Overall, confidence levels remain strong and suggest that the economy will continue expanding at a solid pace in the months ahead. The University of Michigan Consumer Sentiment Index decreased to 98.8, down from 101.4 last month. The University of Michigan said that many survey respondents offered their views on tax reform and trade policies without even being asked, reflecting the prominence these issues have taken in the political debate over the U.S. economy. Respondents who mentioned the tax cuts were much more positive about the future than those who didn't, but those who commented on the tariffs were more negative.
- In April, Fannie Mae Home Purchase Sentiment Index (HPSI) increased to 91.7 from 88.3 last month, marking a new all-time survey high. The survey posted increases in five of six components that set out to measure Americans' perceptions of the housing market and revealed that consumers were also upbeat about home prices, job security, and their own personal finances.
- The Chicago Business Activity Index (CBAI) decreased to 93.6 in March from 94.1 in

February. The decrease is mainly attributed to the negative nonmanufacturing job growth and a decline in nationwide economic activities measured by the Chicago Fed National Activity Index (CFNAI).

“The Illinois and Chicago housing markets continue their modest upwards trends,” noted Geoffrey J.D. Hewings, Director of the Regional Economics Applications Laboratory. “While the effect of rising mortgage interest rates has yet to be felt, consumer sentiment remains strong. For Illinois, job growth remains way behind the national rates and this sluggishness is reflected in the more muted growth of housing sales and prices.”

Forecast for May 2018 report

| PERCENTAGE CHANGE FOR THE TOTAL NUMBER OF SALES | | | | | | | | |
|---|-----------|--------------|---------------|-----------|--------------|--------|--------|--------|
| | Annual | | | Monthly | | | | |
| | Illinois | Chicago PMSA | | Illinois | Chicago PMSA | | | |
| Feb-18 | -3.3% | -2.3% | | 0.3% | -0.6% | | | |
| Mar-18 | -6.4% | -8.7% | | 52.4% | 54.2% | | | |
| Apr-18 | 1.9% | 2.1% | | 14.4% | 17.1% | | | |
| 3 Month Avg. | -2.4% | -3.0% | | 21.2% | 22.6% | | | |
| SUMMARY OF THE FORECAST INTERVALS FOR THE TOTAL NUMBER OF SALES | | | | | | | | |
| | Annual | | | Monthly | | | | |
| | Illinois | Chicago PMSA | | Illinois | Chicago PMSA | | | |
| May-18 | -2.1% | -2.9% | -1.8% | -2.4% | 14.6% | 19.7% | 15.4% | 20.8% |
| Jun-18 | -2.8% | -3.7% | -2.0% | -2.8% | 9.6% | 13.0% | 10.9% | 14.7% |
| Jul-18 | 3.4% | 4.5% | 4.7% | 6.3% | -10.1% | -13.7% | -11.3% | -15.3% |
| 3 Month Avg. | -0.7% | -1.0% | 0.0% | 0.1% | 3.6% | 4.9% | 3.7% | 5.1% |
| SUMMARY OF THE FORECAST FOR THE MEDIAN PRICE | | | | | | | | |
| | Illinois | Chicago PMSA | | Illinois | Chicago PMSA | | | |
| Feb-18 | \$185,000 | \$227,500 | Feb-17 | \$170,000 | \$210,000 | | | |
| Mar-18 | \$198,000 | \$240,000 | Mar-17 | \$189,900 | \$230,000 | | | |
| Apr-18 | \$210,000 | \$250,000 | Apr-17 | \$200,000 | \$242,000 | | | |
| May-18 | \$217,841 | \$254,007 | May-17 | \$208,000 | \$246,900 | | | |
| Jun-18 | \$227,884 | \$257,716 | Jun-17 | \$215,500 | \$252,000 | | | |
| Jul-18 | \$223,290 | \$254,310 | Jul-17 | \$210,000 | \$247,500 | | | |
| ANNUAL PERCENTAGE CHANGE OF THE MEDIAN PRICE | | | | | | | | |
| | Illinois | Chicago PMSA | | Illinois | Chicago PMSA | | | |
| Feb-18 | 8.8% | 8.3% | Feb-17 | 6.3% | 12.0% | | | |
| Mar-18 | 4.3% | 4.3% | Mar-17 | 10.7% | 9.5% | | | |
| Apr-18 | 5.0% | 3.3% | Apr-17 | 7.5% | 5.2% | | | |
| May-18 | 4.7% | 2.9% | May-17 | 7.8% | 5.7% | | | |
| Jun-18 | 5.7% | 2.3% | Jun-17 | 6.2% | 3.9% | | | |
| Jul-18 | 6.3% | 2.8% | Jul-17 | 6.0% | 4.2% | | | |

Median Prices and Recovery

| | Illinois | | Chicago PMSA | |
|-------------------------------------|------------|-----------|--------------|-----------|
| | [\$2008] | [\$2018] | [\$2008] | [\$2018] |
| April 2008 Median Price | \$150,000 | \$176,306 | \$192,000 | \$225,672 |
| April 2018 Median Price | \$178,666 | \$210,000 | \$212,698 | \$250,000 |
| Price Ratio (April 18/ April 08) | Adjusted | 1.19 | Adjusted | 1.11 |
| | Unadjusted | 1.40 | Unadjusted | 1.30 |

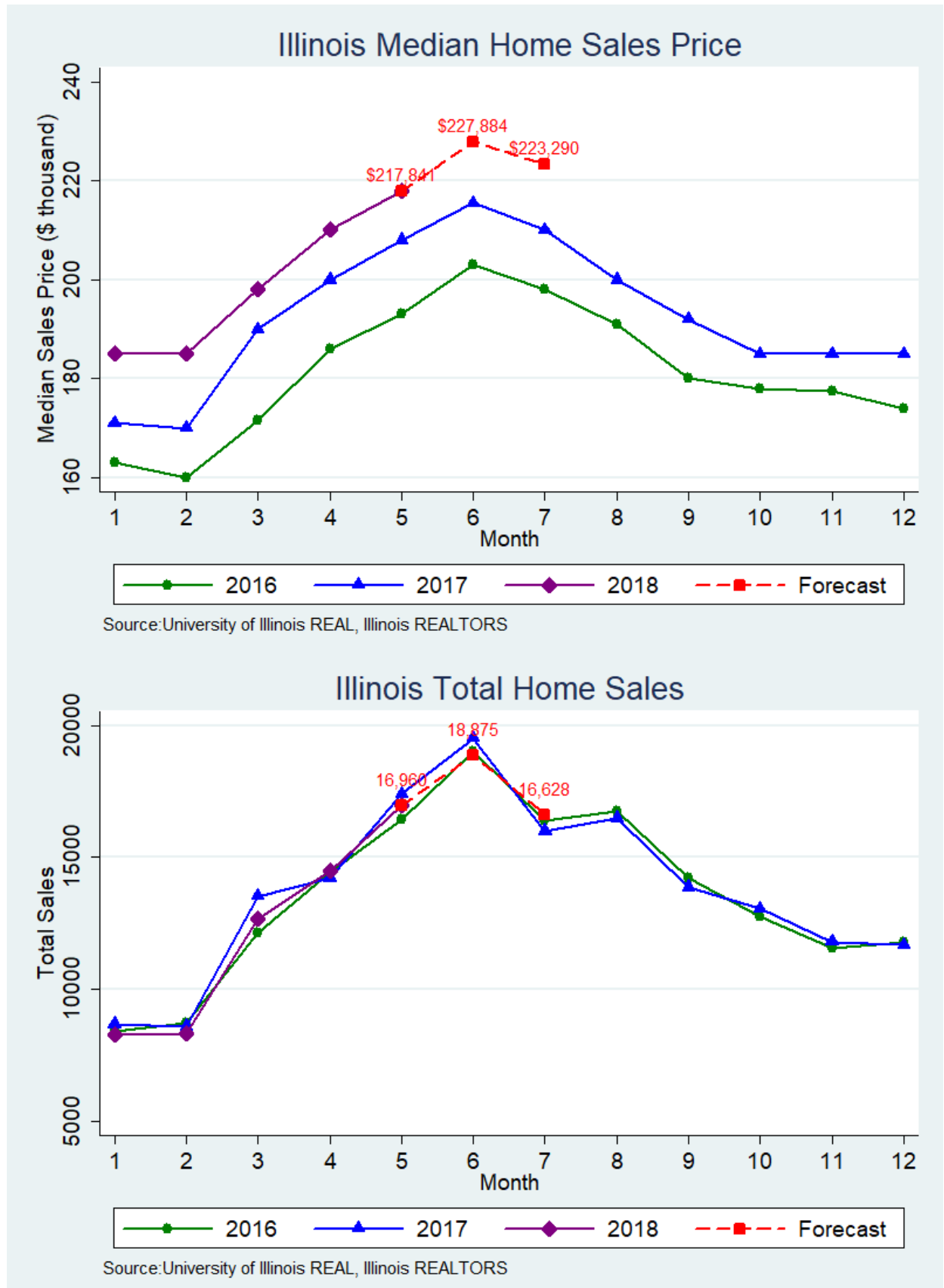
Recovery Forecasts using *Annually Growth Rates*

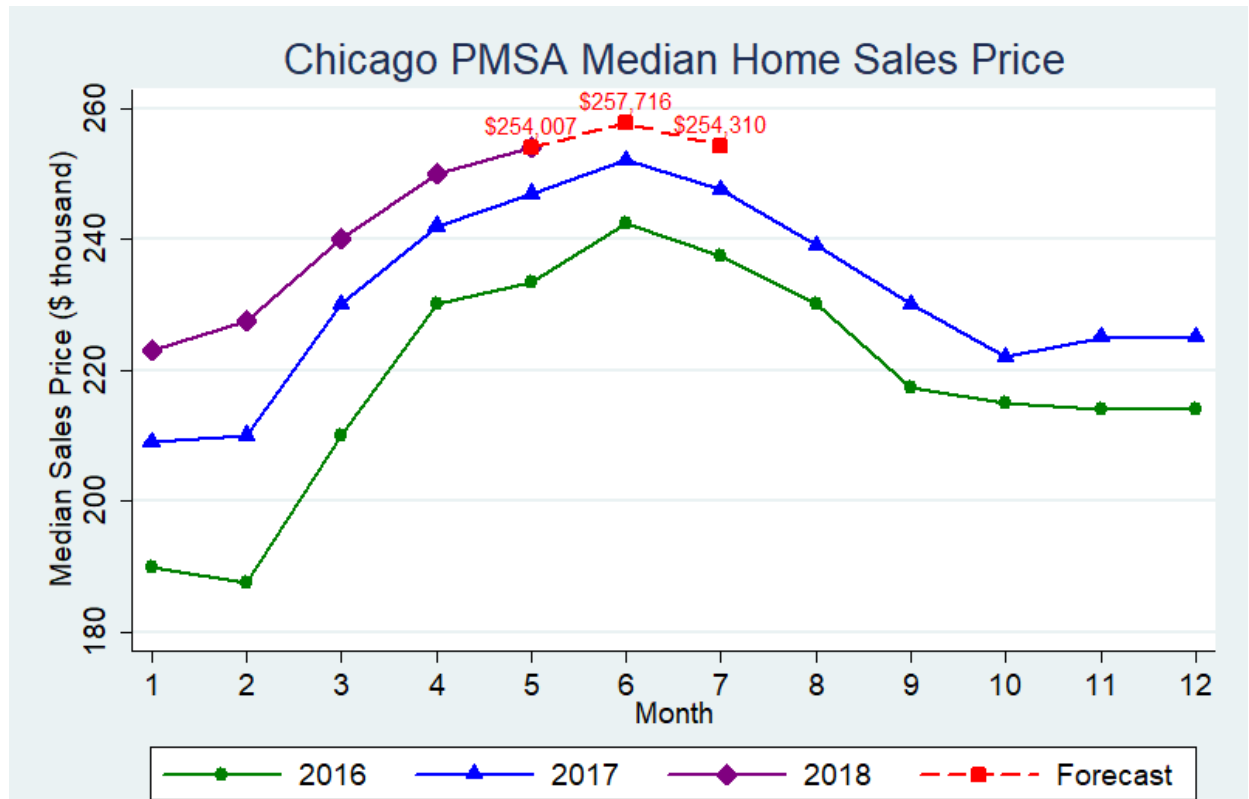
| | Illinois | Chicago PMSA | | |
|----------------|-----------------------|--------------------|---------------|------------------|
| | Annual Recovery Rate* | Years to Recover** | Recovery Rate | Years to Recover |
| Current Month | 2.5% | -7.0 | 0.9% | -11.6 |
| Past 3 months | 3.7% | -4.9 | 3.0% | -3.5 |
| Past 6 months | 3.9% | -4.6 | 3.2% | -3.2 |
| Past 9 months | 3.6% | -5.0 | 2.9% | -3.6 |
| Past 12 months | 3.9% | -4.6 | 2.9% | -3.6 |

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

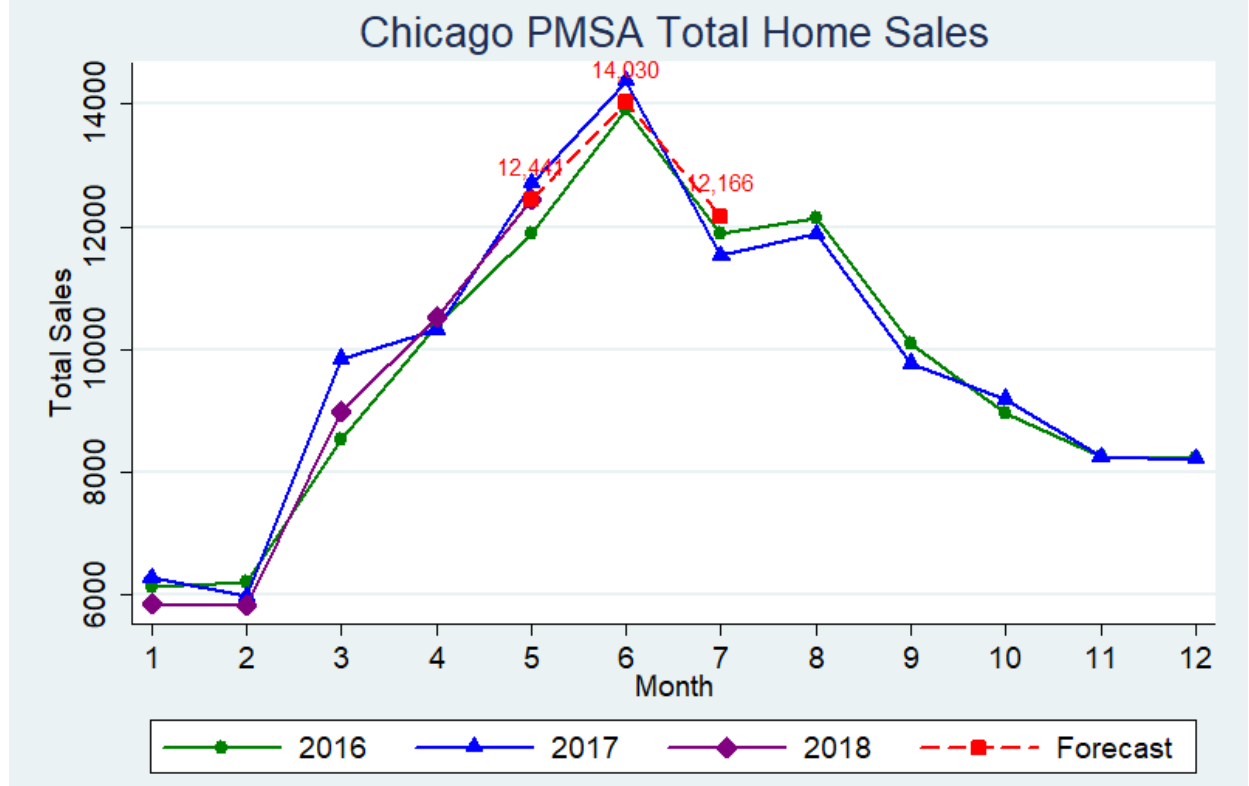
** Years to recover is calculated using the following formula:

$Price_{April2018} * (1 + \text{recovery rate})^{\text{years}} = Price_{April2008}$. 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.

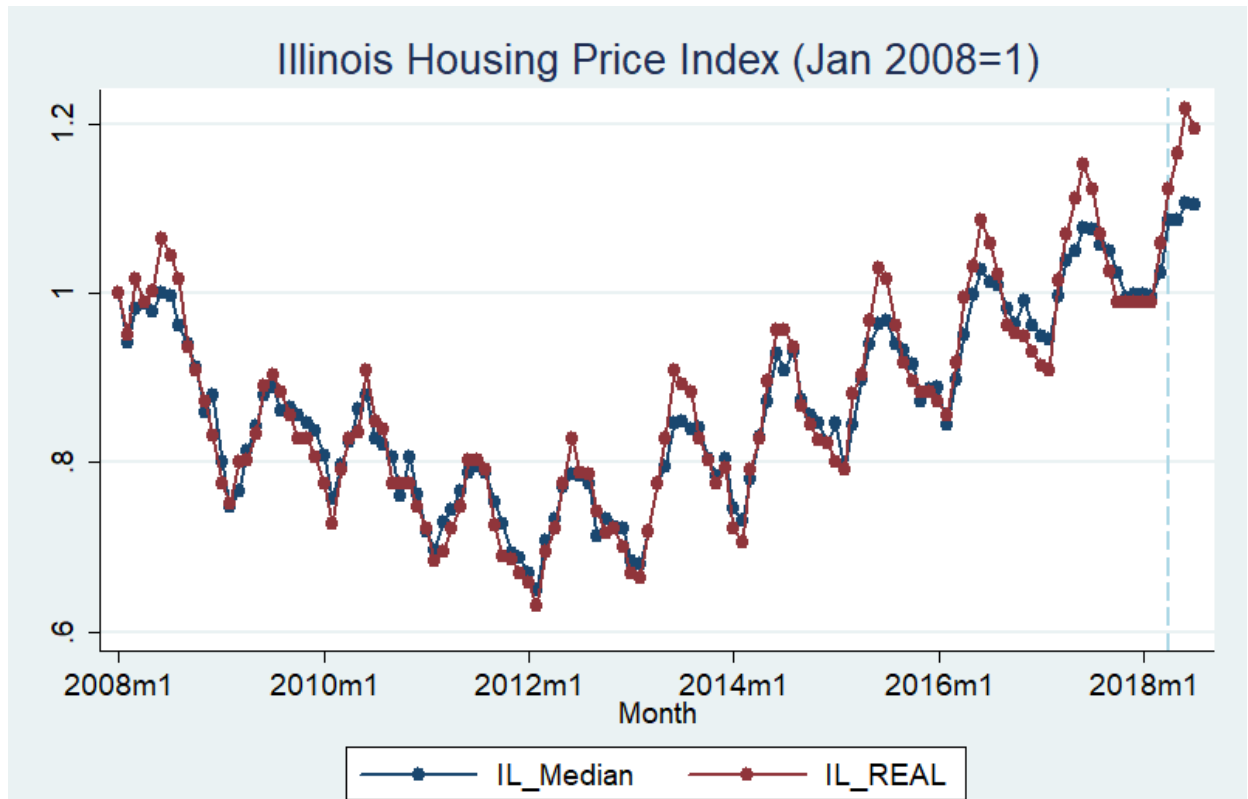




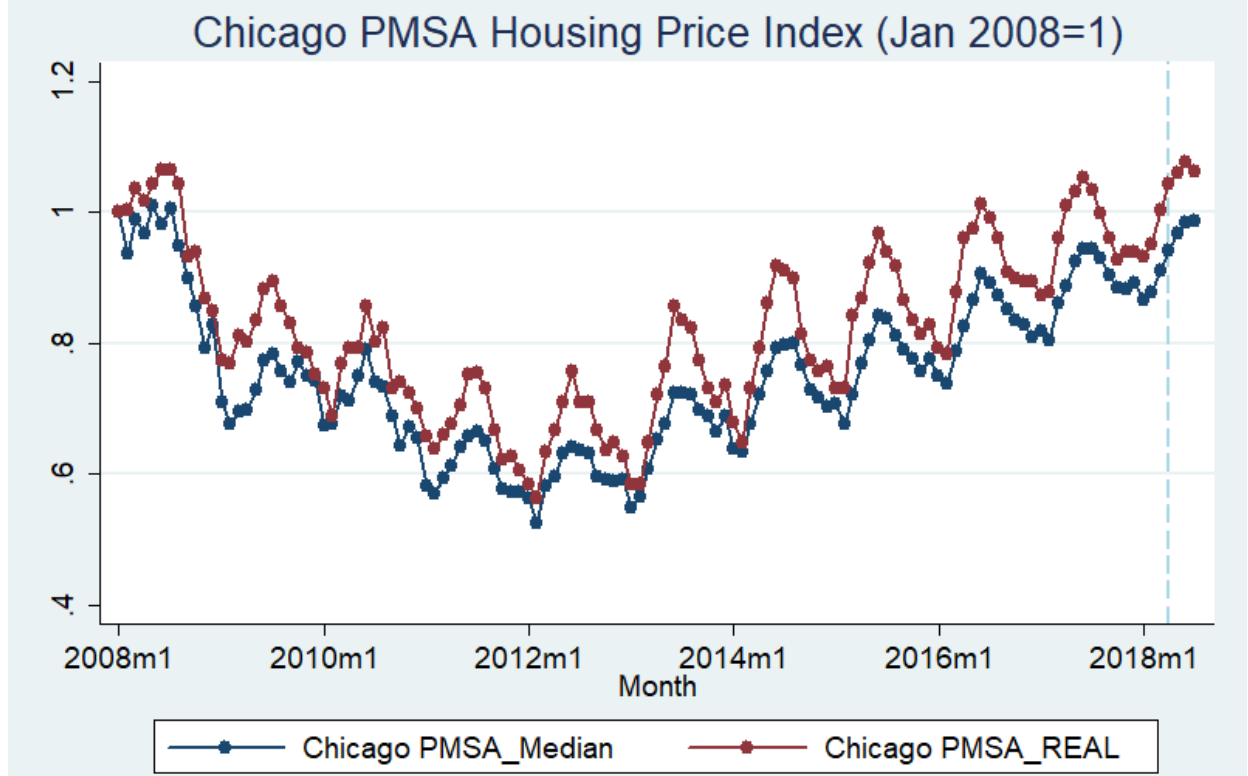
Source: University of Illinois REAL, Illinois REALTORS



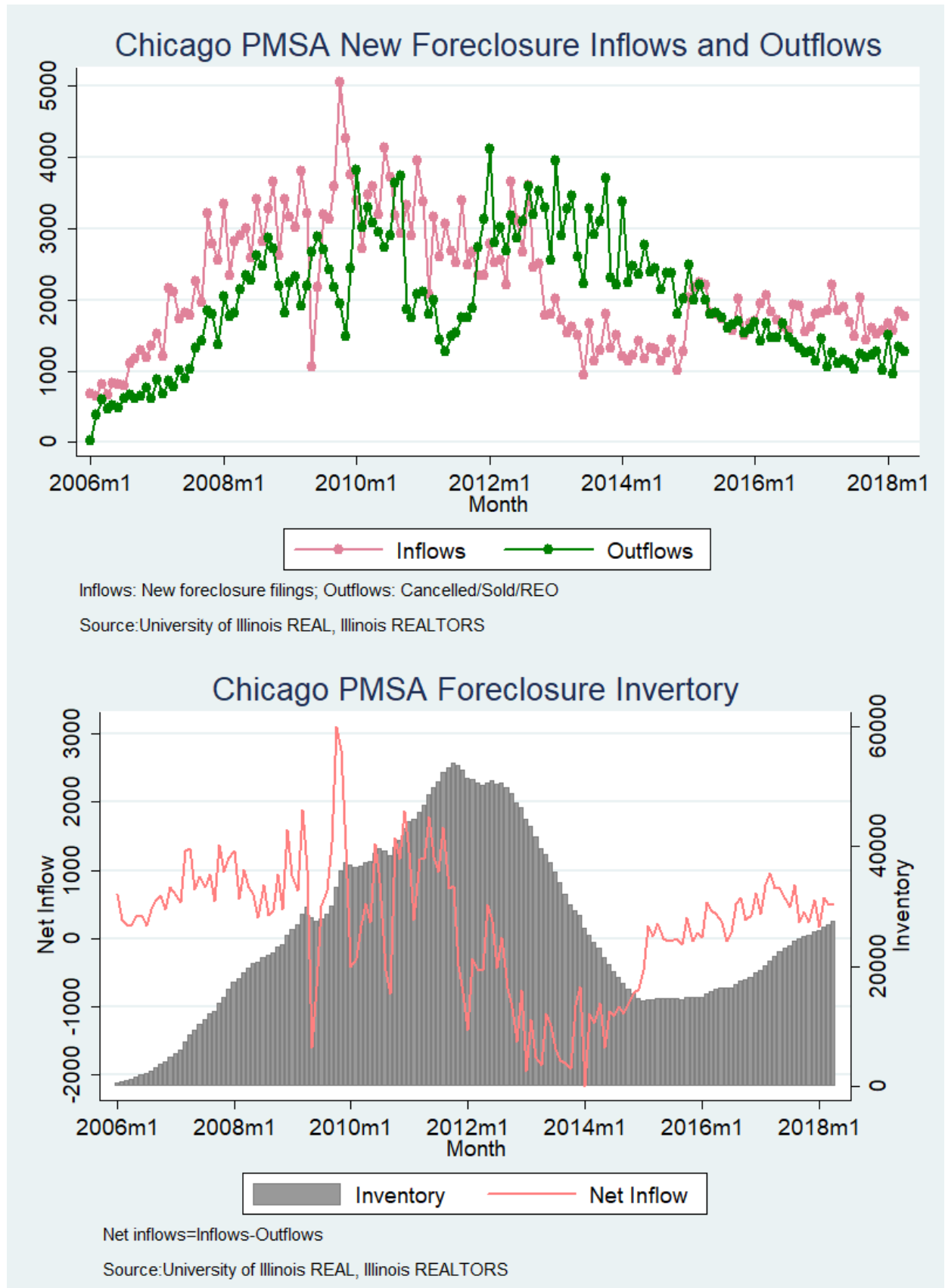
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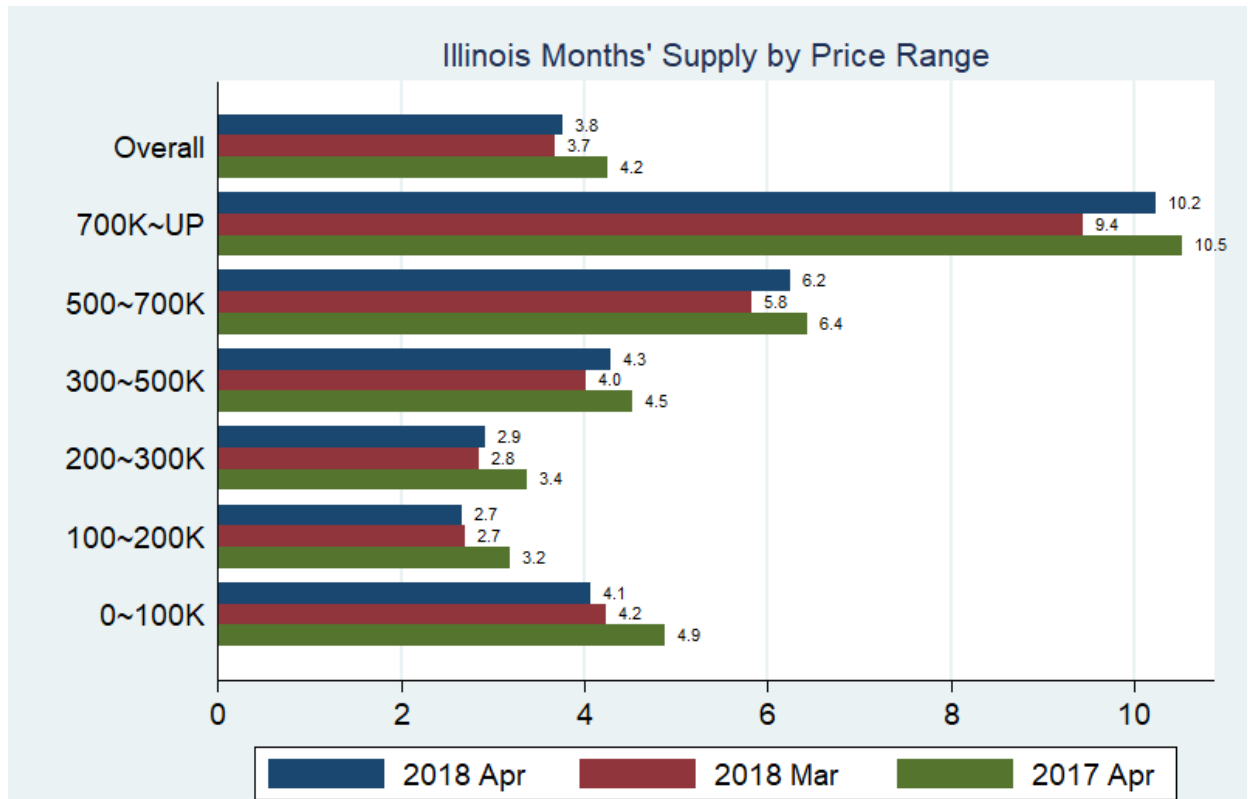


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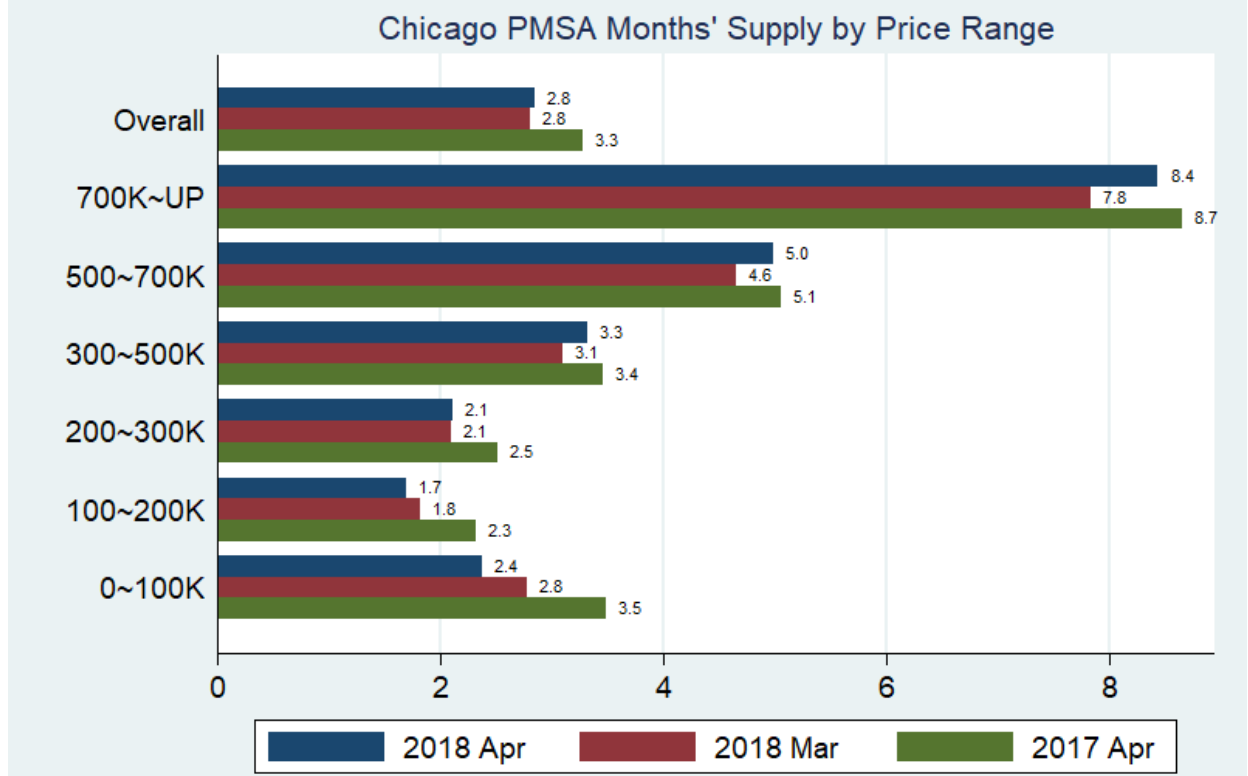


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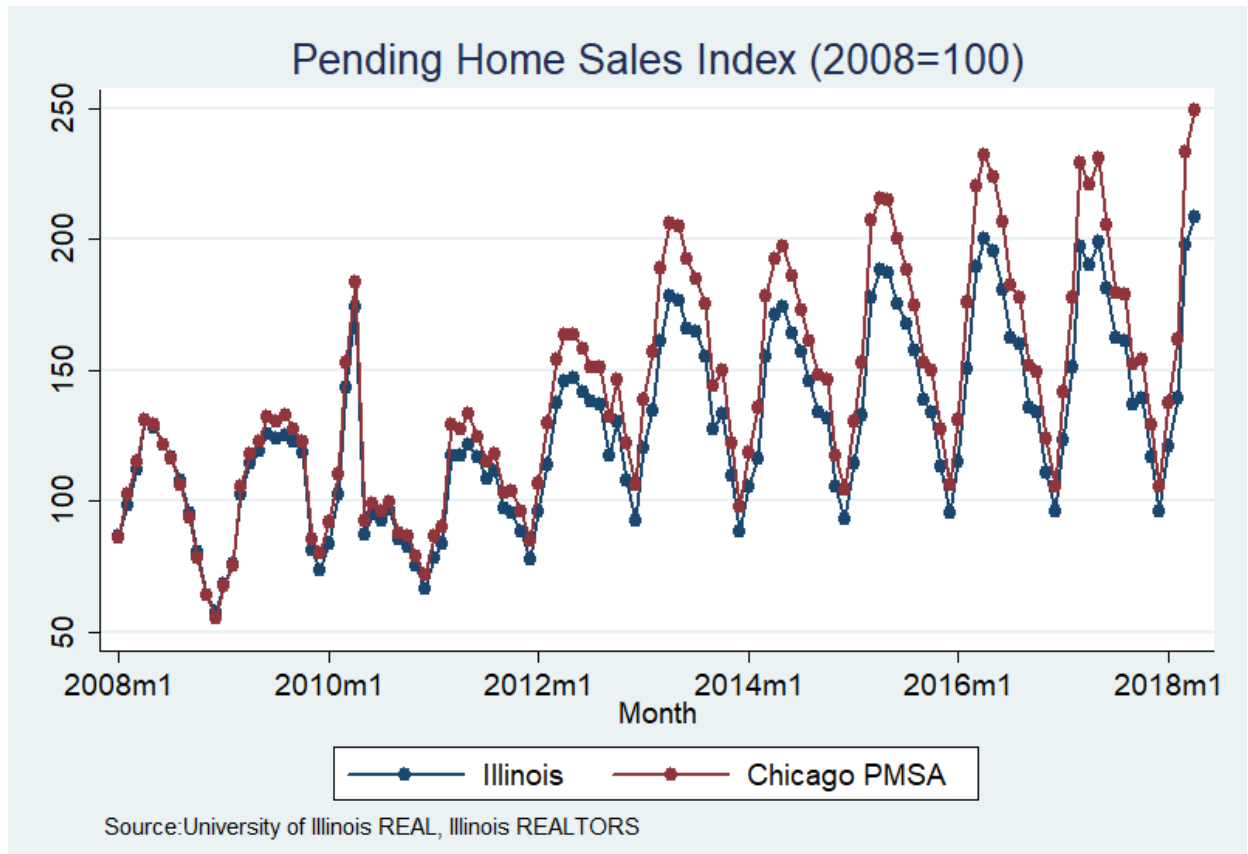


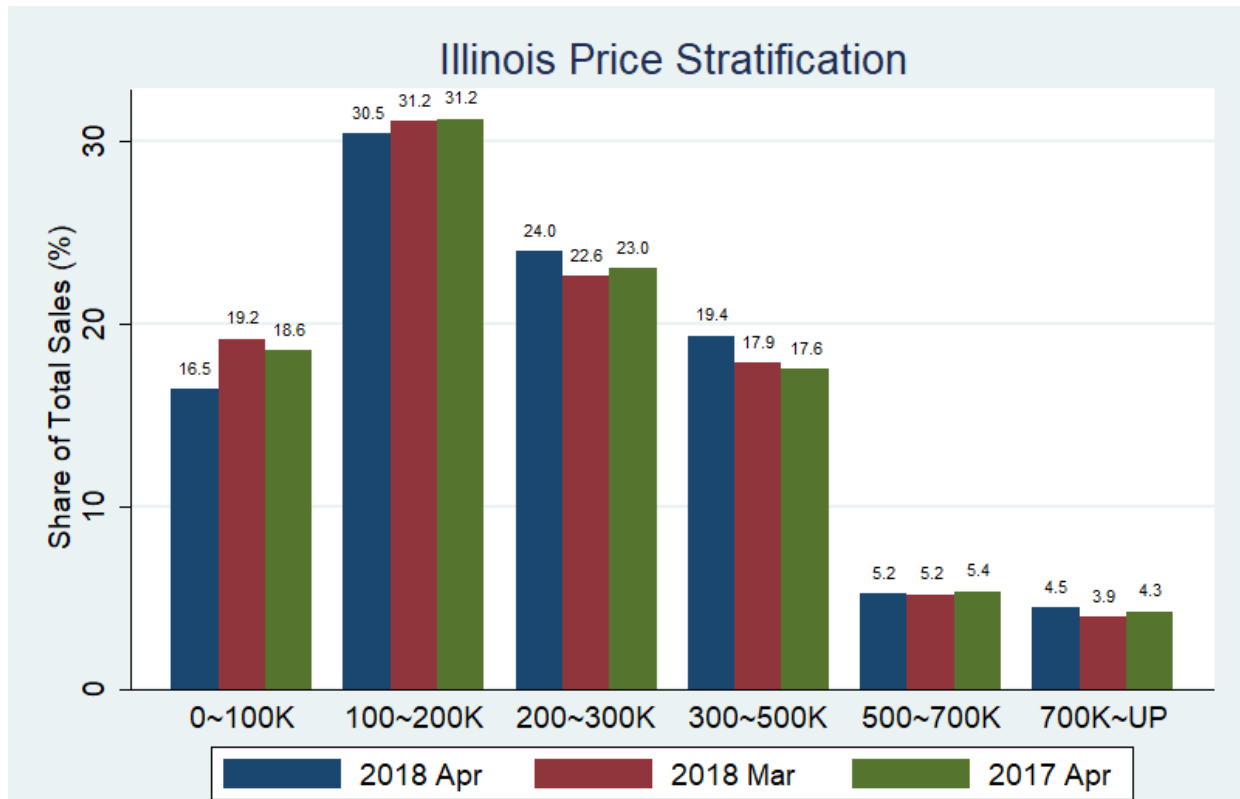


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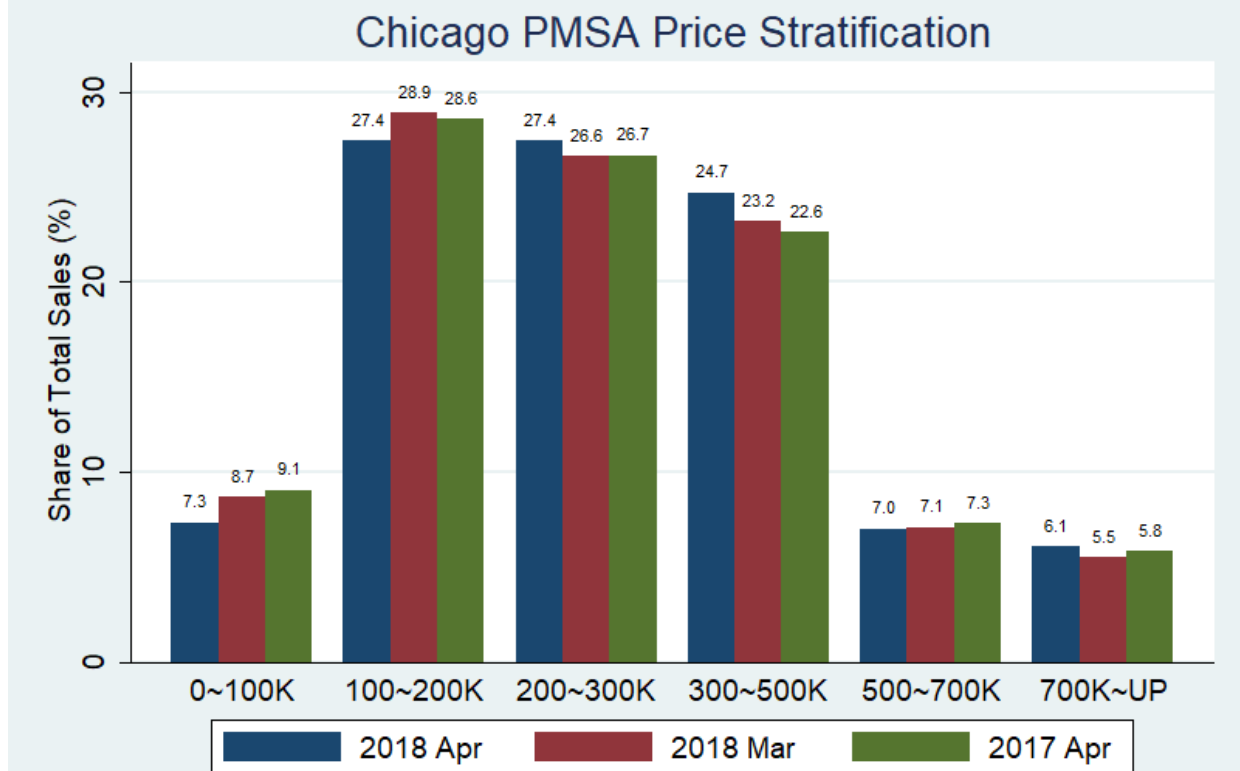


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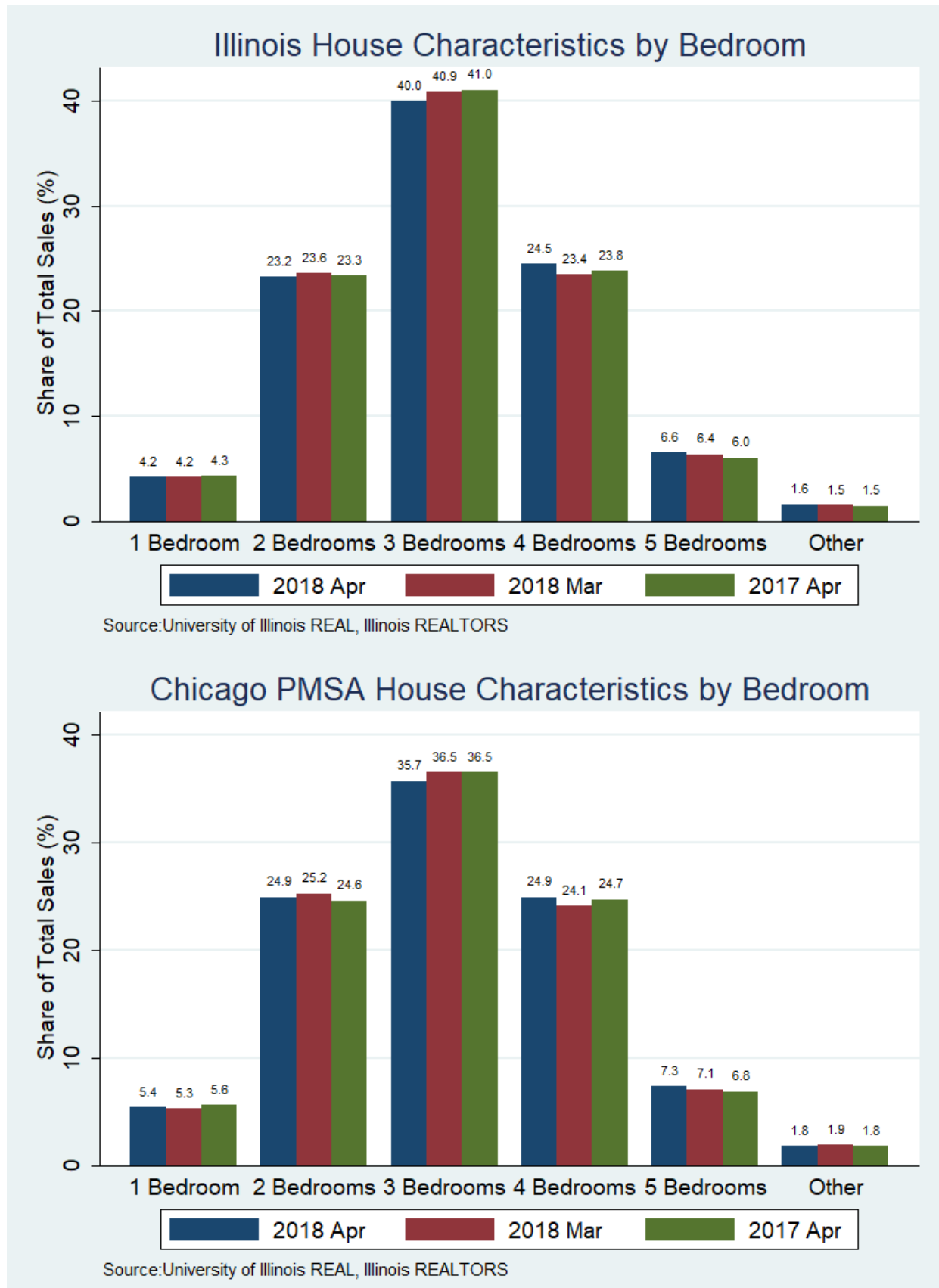




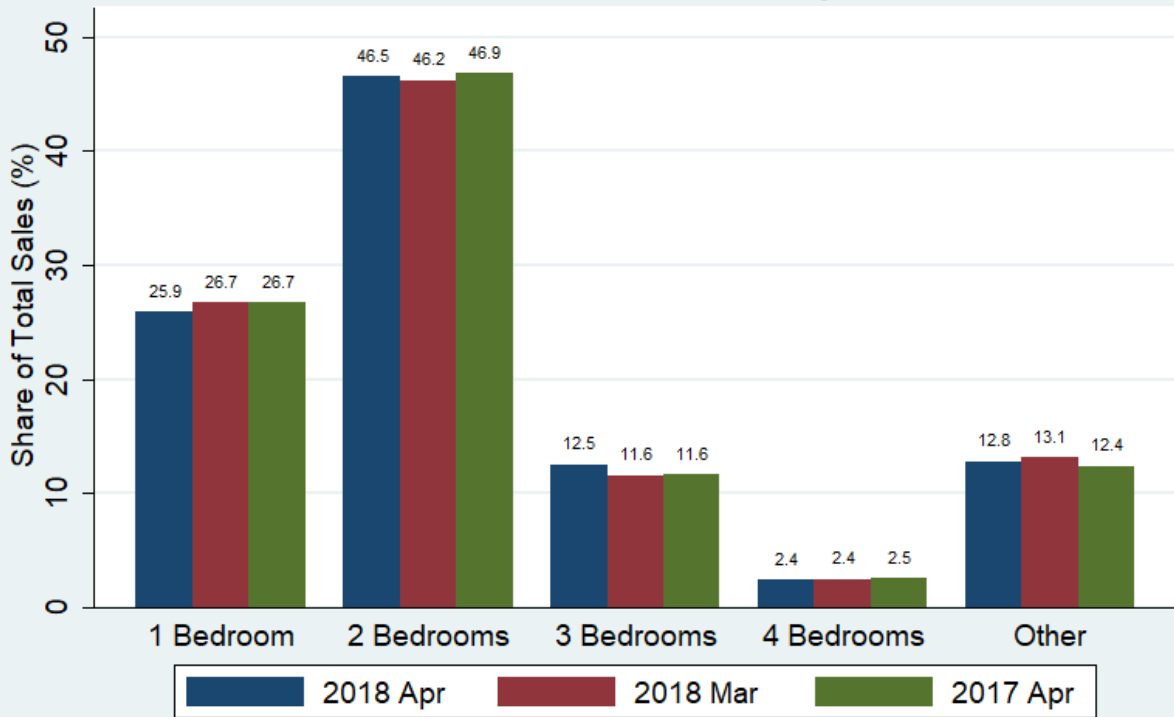
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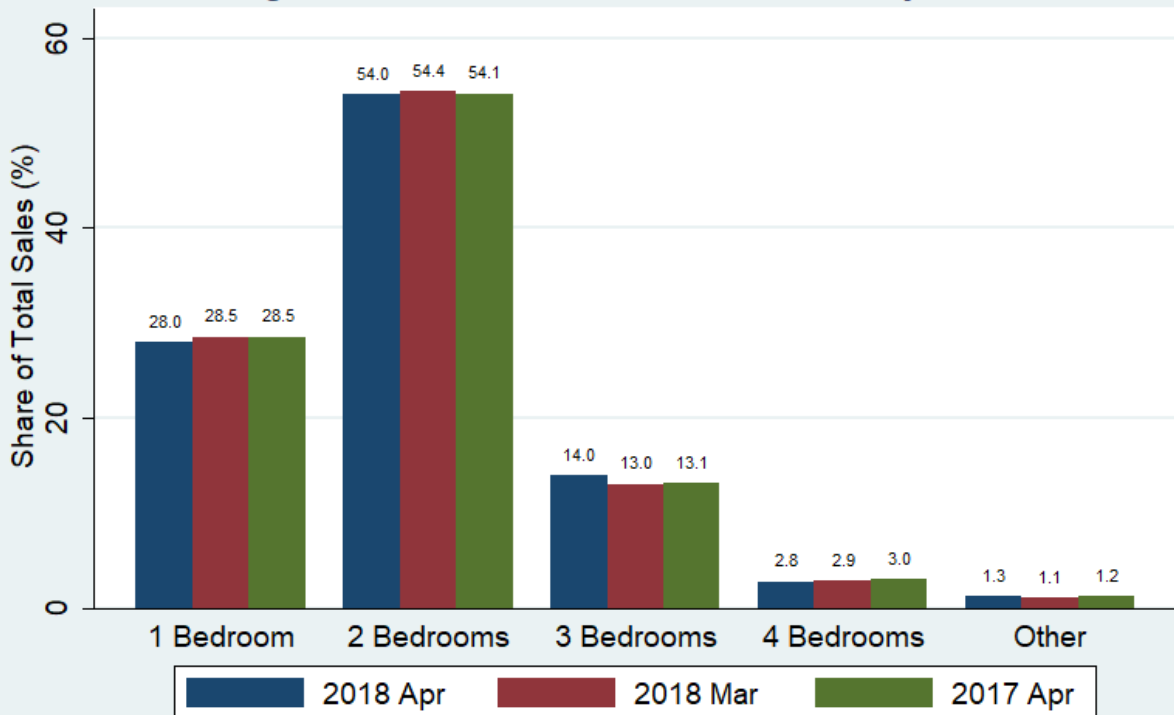


Illinois House Characteristics by Bathroom



Source: University of Illinois REAL, Illinois REALTORS

Chicago PMSA House Characteristics by Bathroom



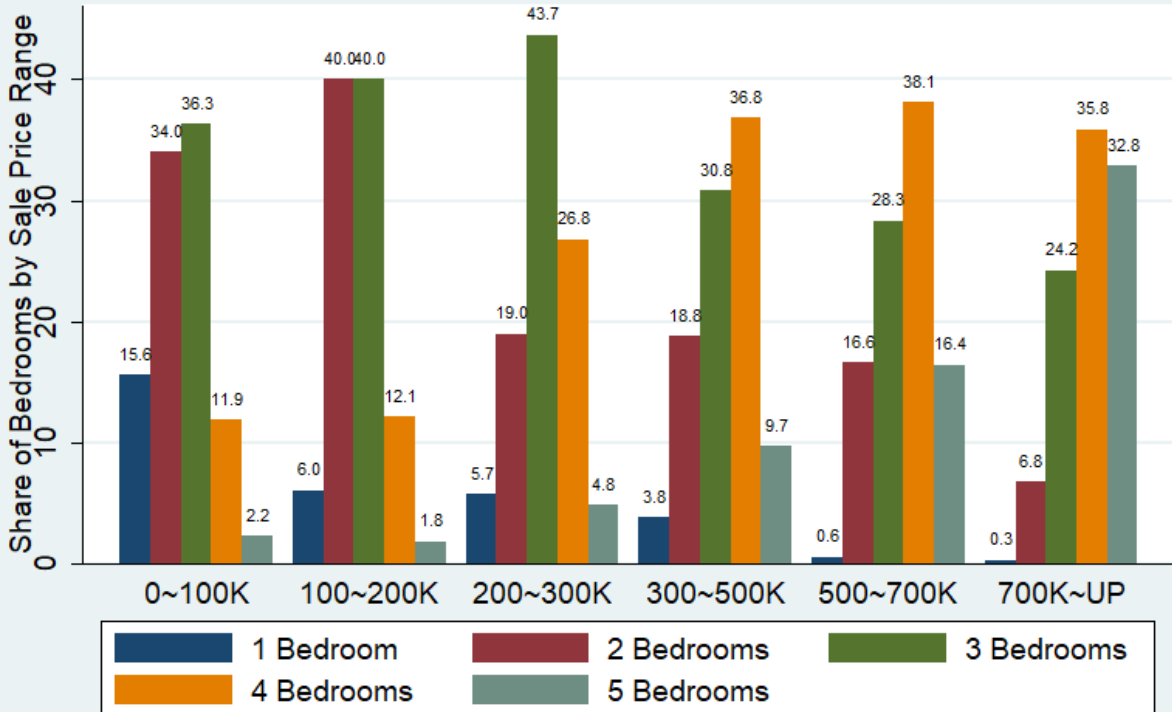
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Illinois Bedroom Shares by Sale Price Stratification



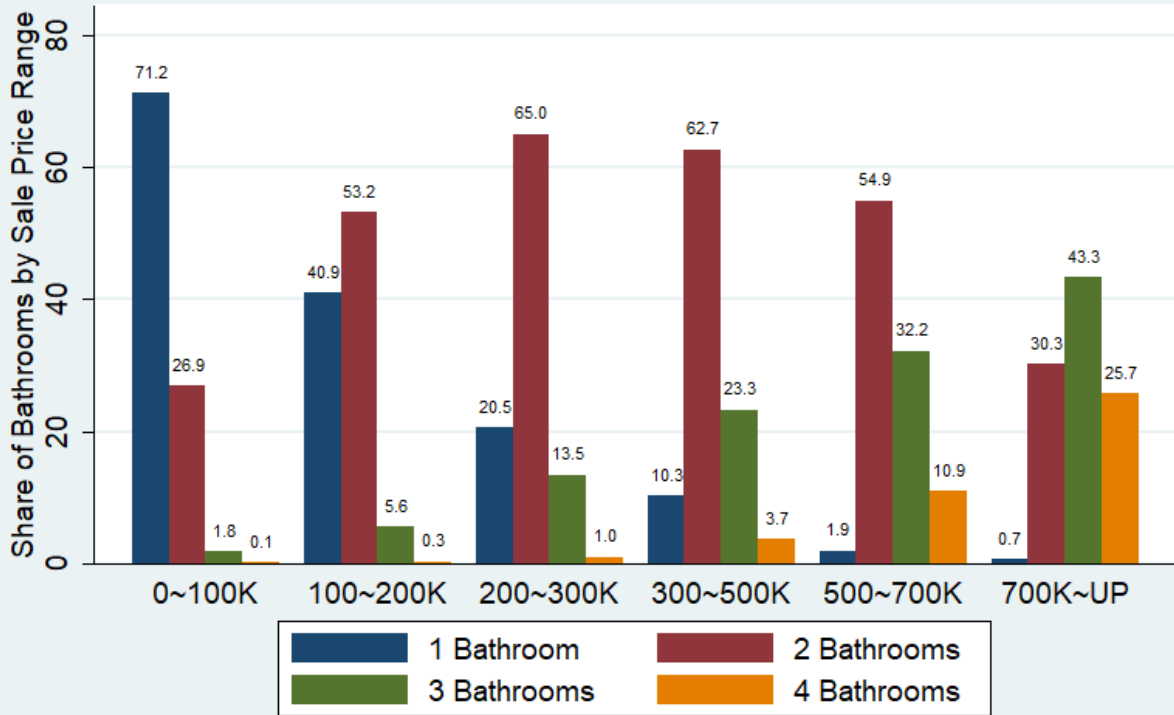
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Chicago PMSA Bedroom Shares by Sale Price Stratification



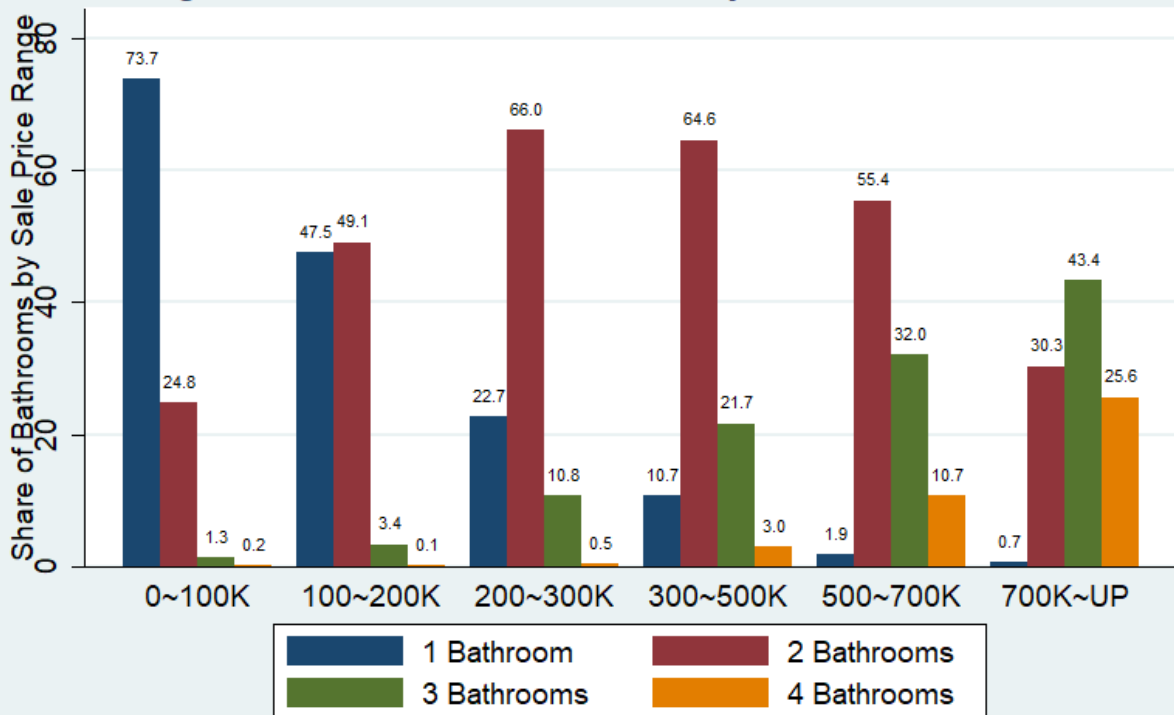
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Illinois Bathroom Shares by Sale Price Stratification



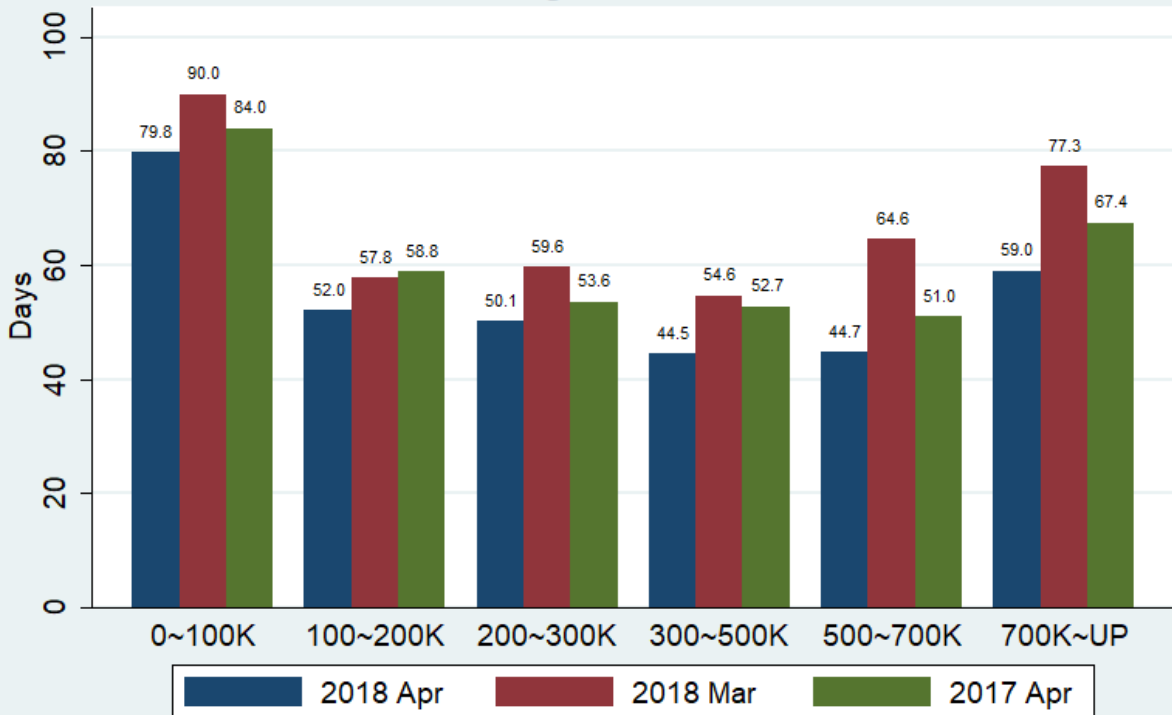
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Chicago PMSA Bathroom Shares by Sale Price Stratification



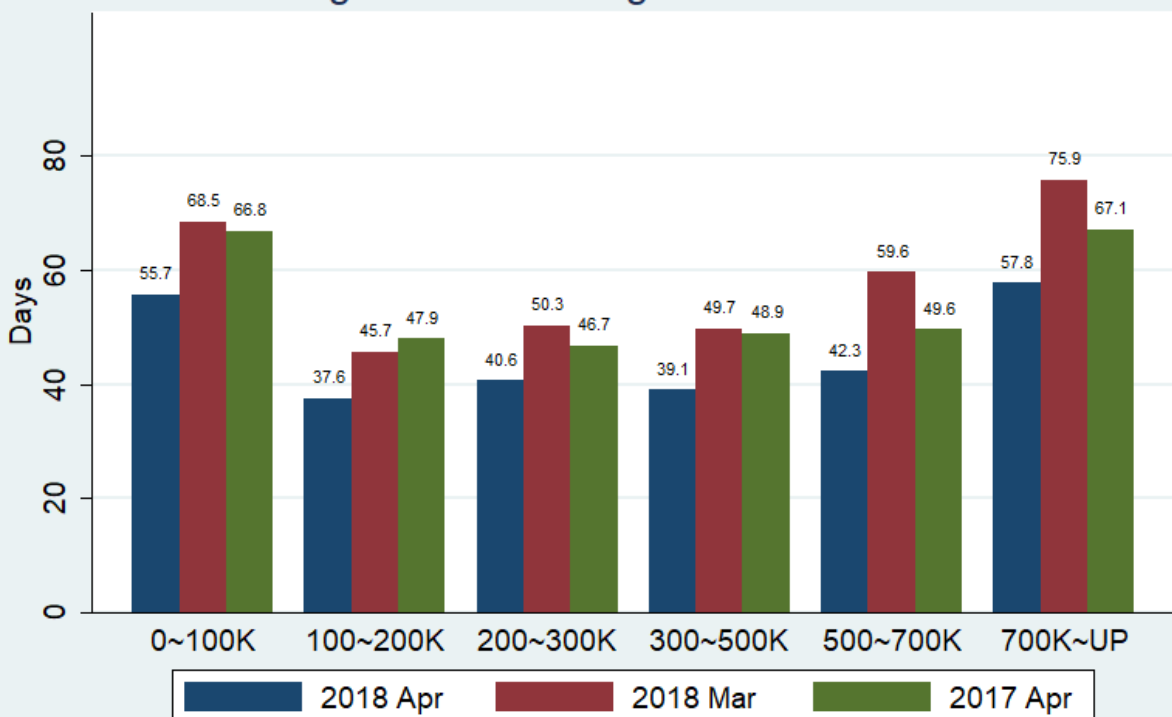
Source: University of Illinois REAL, Illinois REALTORS

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

