

# Housing Price Forecasts

## Illinois and Chicago PMSA, June 2018

Presented To  
**Illinois Realtors®**

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## Housing Price Forecast: Illinois and Chicago PMSA, June 2018

### The Housing Market

In May, median prices continued to experience positive growth while sales experienced a negative annual change. 16,937 houses were sold in Illinois, increasing by 15.1% from a month ago but a decline of -2.7% from a year ago. In the Chicago PMSA, 12,384 houses were sold, an increase of 15.7% from a month ago and but down -2.5% from a year ago. The median price was \$215,000 in Illinois, up 3.4% from May last year; the comparable figure for the Chicago PMSA was \$255,000, up 3.3% from this time last year.

In May, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 9.4%. 11,336 regular sales were made, 1.6% less than last year. 969 foreclosed properties were sold, 12.5% less than last year. The median price was \$262,000 for regular property sales, 2.3% higher than last year; the comparable figure for the foreclosed properties was \$175,100, up 9.4% from this time last year.

Illinois and Chicago PMSA both have already recovered to their pre-bubble price levels. The median sales price in May 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 May 2008 median sales price was \$156,000 (in \$2008) and \$183,471 (in \$2018); the current price level was 117% of the 2008 level after adjusting (138% before adjusting). In the Chicago PMSA, the May 2008 median sales price was \$200,000 (in \$2008) and \$235,220 (in \$2018); the comparable figure for price recovery in May 2018 is 108% after adjustment (128% before adjusting).

The sales forecast for June, July and August suggests increases on a yearly basis and decreases on a monthly basis for both Illinois and the Chicago PMSA. Annually for Illinois, the three-month average forecasts point to an increase in the range 0.5% to 0.6%; the comparative figures for the Chicago PMSA are an increase in the range 1.2% to 1.7%. On a monthly basis, the three-month average sales are forecast to decrease in the range -0.2% to -0.3% for Illinois and decrease in the range -0.4% to -0.5% for the Chicago PMSA.

The pending home sales index<sup>1</sup> is a leading indicator based on contract signings. This May, the number of homes put under contract was greater than last year. The pending home sales index is 206.7 (2008=100) in Illinois, up 4.1% from a year ago. In the Chicago PMSA, the comparable figure is 242.3, up 4.9% from a year ago. At the latest average annual pending sales rate, Illinois had enough housing inventory for 4.0 months<sup>2</sup> (down from 4.4 months a year ago). In the Chicago PMSA, the comparable figure was 3.1 months (down from 3.4 months a year ago). Months of supply for homes in the lower price ranges (<500K) 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 June, July and August. In Illinois, the median price is forecast to rise by 4.1% in June 4.0% in July and 5.0% in August. For the Chicago PMSA, the comparable figures are 5.3% in June 3.7% in July and 5.6% in August. As a complement to the median housing price index (HPI), the REAL HPI<sup>3</sup> forecasts a positive growth trend for both Illinois and the Chicago PMSA. In

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<sup>1</sup> The base level (100) of pending home sales is the average pending home sales of year 2008.

<sup>2</sup> 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.

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

Illinois, the REAL HPI (Jan 2008=1) is forecast to change by 3.5% in June 3.5% in July and 4.1% in August. The comparable figures for the Chicago PMSA are 2.7% in June 2.2% in July and 2.7% in August. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month.

In May, the Conference Board Consumer Confidence Index increased while the University of Michigan Consumer Sentiment Index decreased. The Conference Board Consumer Confidence Index survey revealed that consumers’ assessment of current conditions improved, with consumers rating business conditions quite favorably, and consumers’ short-term expectations also improved. Overall, confidence levels remain at historically strong levels and should continue to support solid consumer spending in the near-term. The University of Michigan Consumer Sentiment Index, while remaining high, declined slightly from last month. Survey respondents cited less favorable conditions for buying big-ticket items such as homes and motor vehicles. On the other hand, the more housing specific sentiment index, the Fannie Mae Home Purchase Sentiment Index (HPSI) increased, reaching a new all-time survey high for the second consecutive month. The boost was ignited by optimism from sellers, who are benefitting from increasing prices.

### **The Housing Market – Current Condition**

- In May, median prices continued to experience positive growth while sales experienced a negative annual change. 16,937 houses were sold in Illinois, changing by 15.1% from a month ago and -2.7% from a year ago. In the Chicago PMSA, 12,384 houses were sold, changing by 15.7% from a month ago and -2.5% from a year ago. The median price was \$215,000 in Illinois, up 3.4% from May last year; the comparable figure for the Chicago PMSA was \$255,000, up 3.3% from this time last year. (Reference: Illinois and Chicago PMSA Total Home Sales and Median Home Sales Price figures; Forecast for June 2018 report table)
- In May, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 9.4%. 11,336 regular sales were made, 1.6% less than last year. 969 foreclosed properties were sold, 12.5% less than last year. The median price was \$262,000 for regular property sales, 2.3% higher than last year; the comparable figure for the foreclosed properties was \$175,100, up 9.4% from this time last year. (Reference: Ratio of Foreclosed Sales over Total Sales, Sales & Median Prices: Foreclosed vs. Regular figures)
- In May, at the latest average annual pending sales rate, Illinois had enough housing inventory for 4.0 months<sup>4</sup> (down from 4.4 months a year ago). In the Chicago PMSA, the comparable figure was 3.1 months (down from 3.4 months a year ago). Months of supply for homes in lower price ranges (<500K) 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 May, 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 15.1% from 17.0% a year ago; the comparative figure for the Chicago PMSA showed a decrease to 6.5% from 7.9% a year ago. (Reference: Illinois and Chicago PMSA Price Stratification figures)

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<sup>4</sup> 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.

## The Housing Market – Forecast and Future Condition

- The median price forecast indicates moderate annual growth in both Illinois and the Chicago PMSA for June, July and August. In Illinois, the median price is forecast to rise by 4.1% in June 4.0% in July and 5.0% in August. For the Chicago PMSA, the comparable figures are 5.3% in June 3.7% in July and 5.6% in August. (Reference: Forecast for June 2018 report table)
- As a complement to the median housing price index (HPI), the REAL HPI<sup>5</sup> 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 3.5% in June 3.5% in July and 4.1% in August. The comparable figures for the Chicago PMSA are 2.7% in June 2.2% in July and 2.7% in August. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month. (Reference: Housing Price Index)
- The sales forecast for June, July and August suggests increases on a yearly basis and decreases on a monthly basis for both Illinois and the Chicago PMSA. Annually for Illinois, the three-month average forecasts point to an increase in the range 0.5% to 0.6%; the comparative figures for the Chicago PMSA are an increase in the range 1.2% to 1.7%. On a monthly basis, the three-month average sales are forecast to decrease in the range -0.2% to -0.3% for Illinois and decrease in the range -0.4% to -0.5% for the Chicago PMSA. (Reference: Forecast for June 2018 report table)
- The pending home sales index<sup>6</sup> is a leading indicator based on contract signings. This May, the number of homes put under contract was greater than last year. The pending home sales index is 206.7 (2008=100) in Illinois, up 4.1% from a year ago. In the Chicago PMSA, the comparable figure is 242.3, up 4.9% from a year ago. (Reference: Illinois and Chicago PMSA Pending Home Sales Index figure)
- In May 2018, 1,524 houses were newly filed for foreclosure in the Chicago PMSA (down 19.5% and down 13.9% respectively from a year and a month ago). 1,432 foreclosures were completed<sup>7</sup> (up 23.4% and up 14.2% respectively from a year and a month ago). As of May 2018, there are 27,852 homes at some stage of foreclosure — the foreclosure inventory. The monthly average net flows of foreclosures (foreclosure inflows - outflows) were 426 in the past 6 months, 442.4 in the last 12 months and 473.5 in the last 24 months. (Reference: Chicago PMSA Foreclosure Inflows and Outflows, and Inventory figures).

## The Economy

- In May 2018, according to the Bureau of Labor Statistics (BLS) Employment Situation report, the national unemployment rate edged down to 3.8% and nonfarm payroll jobs experienced a gain of 223,000 jobs. Employment increased in retail trade (+31,000), construction (+25,000), and professional and technical services (+23,000).
- In May 2018, according to the Illinois Department of Employment Security (IDES) news release, the Illinois unemployment decreased by 0.1 percentage points to 4.3%. Non-farm payroll jobs increased by +8,600 over the month. The largest gains were in three sectors; education and health services (+3,500); government (+2,600); and financial activities (+2,100).

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<sup>5</sup> REAL HPI was developed by Esteban Lopez and Minshu Du. Contact us for further details.

<sup>6</sup> The base level (100) of pending home sales is the average pending home sales of year 2008.

<sup>7</sup> Including cancelled foreclosures and auctions

The industry sectors with the largest payroll decline were: information services (-900) and leisure and hospitality (-800). Furthermore, the job growth in April was slightly revised from the preliminary estimate of +4,700 jobs to +2,500 jobs.

- In April 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. **(Not updated)**
- In May 2018, according to the Mortgage Credit Availability Index, U.S. Mortgage credit availability increased. A decline in the MCAI indicates that lending standards are tightening, while increases in the index are indicative of loosening credit. They explained that the increase was mainly caused by increased investor interest in jumbo loans and high balance conforming loans.
- In May 2018, according to Freddie Mac's May 2018 outlook report, swift U.S. home-price growth and the ongoing climb in mortgage rates this year have made buying a home more expensive, but home sales are still on track to squeak out a gain in 2018.

### **Longer-term Outlook**

- In May, the Conference Board Consumer Confidence Index increased while the University of Michigan Consumer Sentiment Index decreased. The Conference Board Consumer Confidence Index increased to 128.0 from 125.6 last month. The survey revealed that consumers' assessment of current conditions improved, with consumers rating business conditions quite favorably, and consumers' short-term expectations also improved. Overall, confidence levels remain at historically strong levels and should continue to support solid consumer spending in the near-term. The University of Michigan Consumer Sentiment Index, while remaining high, declined very slightly to 98.0, down from 98.8 last month. Survey respondents cited less favorable conditions for buying big-ticket items such as homes and motor vehicles.
- In May, Fannie Mae Home Purchase Sentiment Index (HPSI) increased to 92.3 from 91.7 last month, reaching a new all-time survey high for the second consecutive month. The boost was ignited by optimism from sellers, who are benefitting from increasing prices.
- The Chicago Business Activity Index (CBAI) decreased to 95.8 in April from 98.1 in March. The decrease is mainly attributed to the negative manufacturing and construction job growth and a decline in expected retail sales.

“While month-to-month sales in the last quarter recorded solid gains, the sales volumes were slightly lower than a year ago,” noted Geoffrey J.D. Hewings, Director of the Regional Economics Applications Laboratory. “The continued expansion of the economy has certainly helped sustain the housing recovery although rising interest rates and uncertainty about the impact of the current trade war may dampen growth in the rest of 2018.”

**Forecast for June 2018 report**

PERCENTAGE CHANGE FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Mar-18	-6.2%	-8.4%		52.7%	54.6%			
Apr-18	3.6%	3.8%		15.9%	18.7%			
May-18	-2.7%	-2.5%		15.1%	15.7%			
3 Month Avg.	-1.8%	-2.3%		24.2%	25.6%			
SUMMARY OF THE FORECAST INTERVALS FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Jun-18	-2.8%	-3.8%	-2.3%	-3.2%	9.7%	13.1%	11.0%	14.8%
Jul-18	3.4%	4.6%	4.5%	6.0%	-10.1%	-13.6%	-11.2%	-15.2%
Aug-18	1.5%	2.1%	2.4%	3.3%	0.8%	1.0%	0.6%	0.8%
3 Month Avg.	0.5%	0.6%	1.2%	1.7%	-0.2%	-0.3%	-0.4%	-0.5%
SUMMARY OF THE FORECAST FOR THE MEDIAN PRICE								
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
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	\$215,000	\$255,000	May-17	\$208,000	\$246,900			
Jun-18	\$224,290	\$265,362	Jun-17	\$215,500	\$252,000			
Jul-18	\$218,313	\$256,728	Jul-17	\$210,000	\$247,500			
Aug-18	\$209,929	\$252,470	Aug-17	\$200,000	\$239,000			
ANNUAL PERCENTAGE CHANGE OF THE MEDIAN PRICE								
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
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	3.4%	3.3%	May-17	7.8%	5.7%			
Jun-18	4.1%	5.3%	Jun-17	5.9%	3.9%			
Jul-18	4.0%	3.7%	Jul-17	6.1%	4.1%			
Aug-18	5.0%	5.6%	Aug-17	4.7%	3.9%			

### Median Prices and Recovery

	Illinois		Chicago PMSA	
	[\$2008]	[\$2018]	[\$2008]	[\$2018]
<b>May 2008 Median Price</b>	\$156,000	\$183,471	\$200,000	\$235,220
<b>May 2018 Median Price</b>	\$182,808	\$215,000	\$216,818	\$255,000
Price Ratio (May 18/ May 08)	Adjusted	1.17	Adjusted	1.08
	Unadjusted	1.38	Unadjusted	1.28

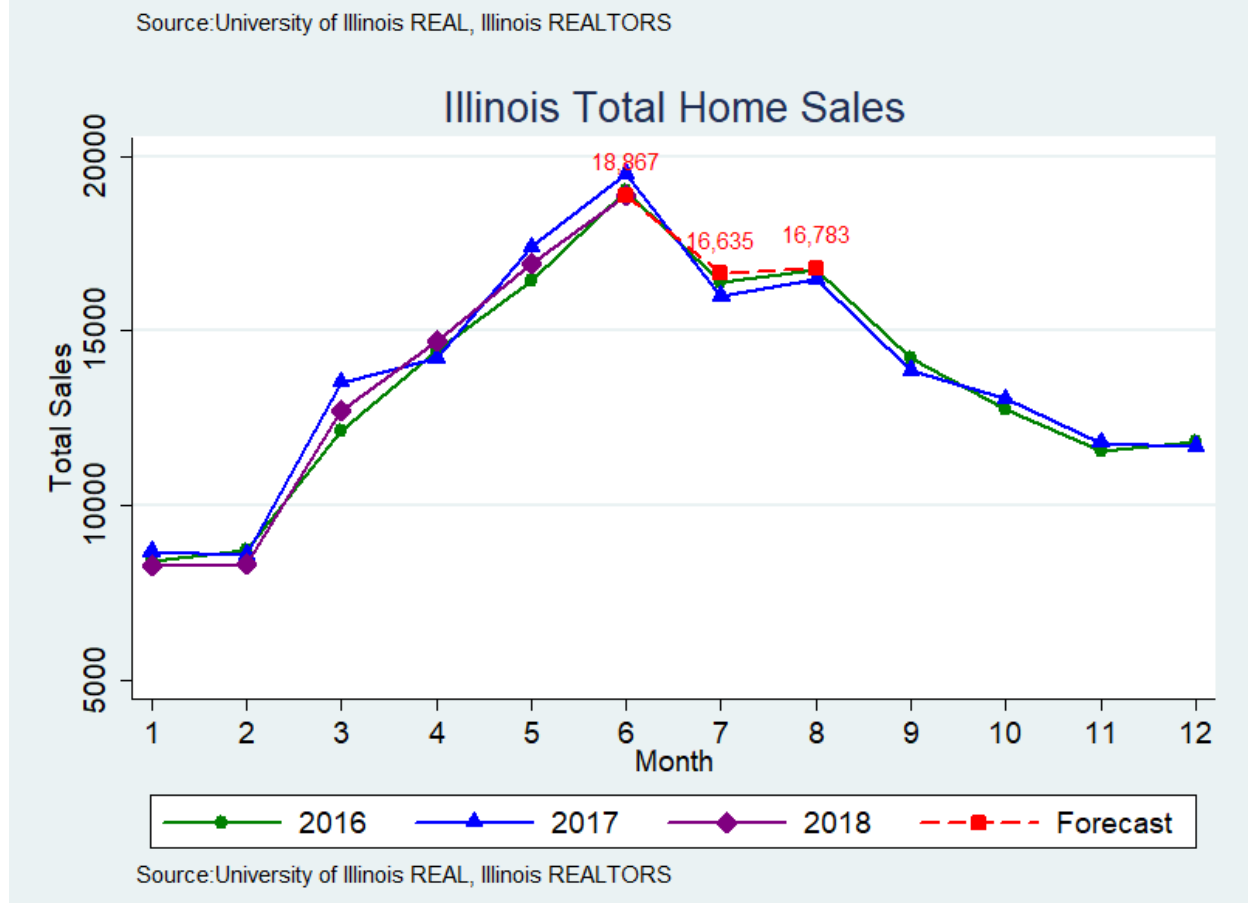
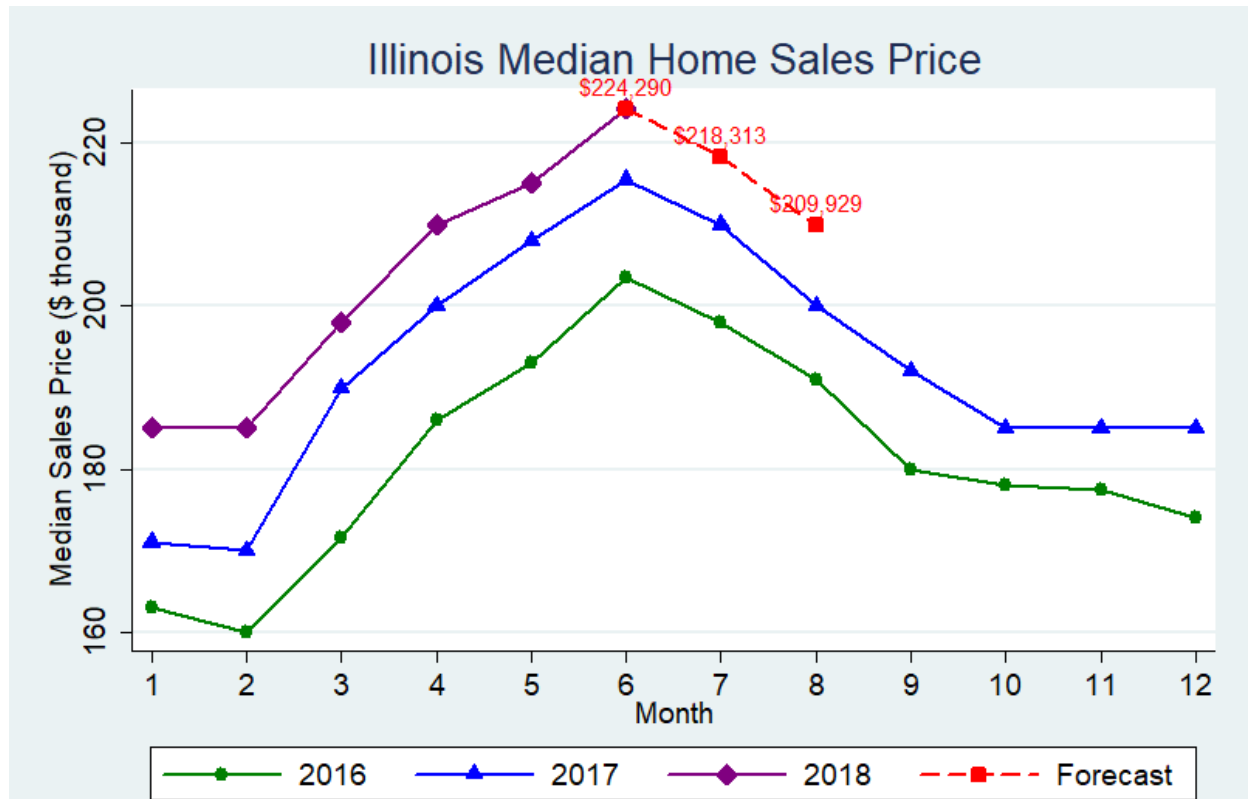
### Recovery Forecasts using *Annually Growth Rates*

	Illinois	Chicago PMSA		
	Annual Recovery Rate*	Years to Recover**	Recovery Rate	Years to Recover
Current Month	0.6%	-26.3	0.5%	-15.5
Past 3 months	1.7%	-9.5	1.1%	-7.2
Past 6 months	3.6%	-4.5	2.8%	-2.9
Past 9 months	3.3%	-4.8	2.8%	-3.0
Past 12 months	3.4%	-4.7	2.6%	-3.1

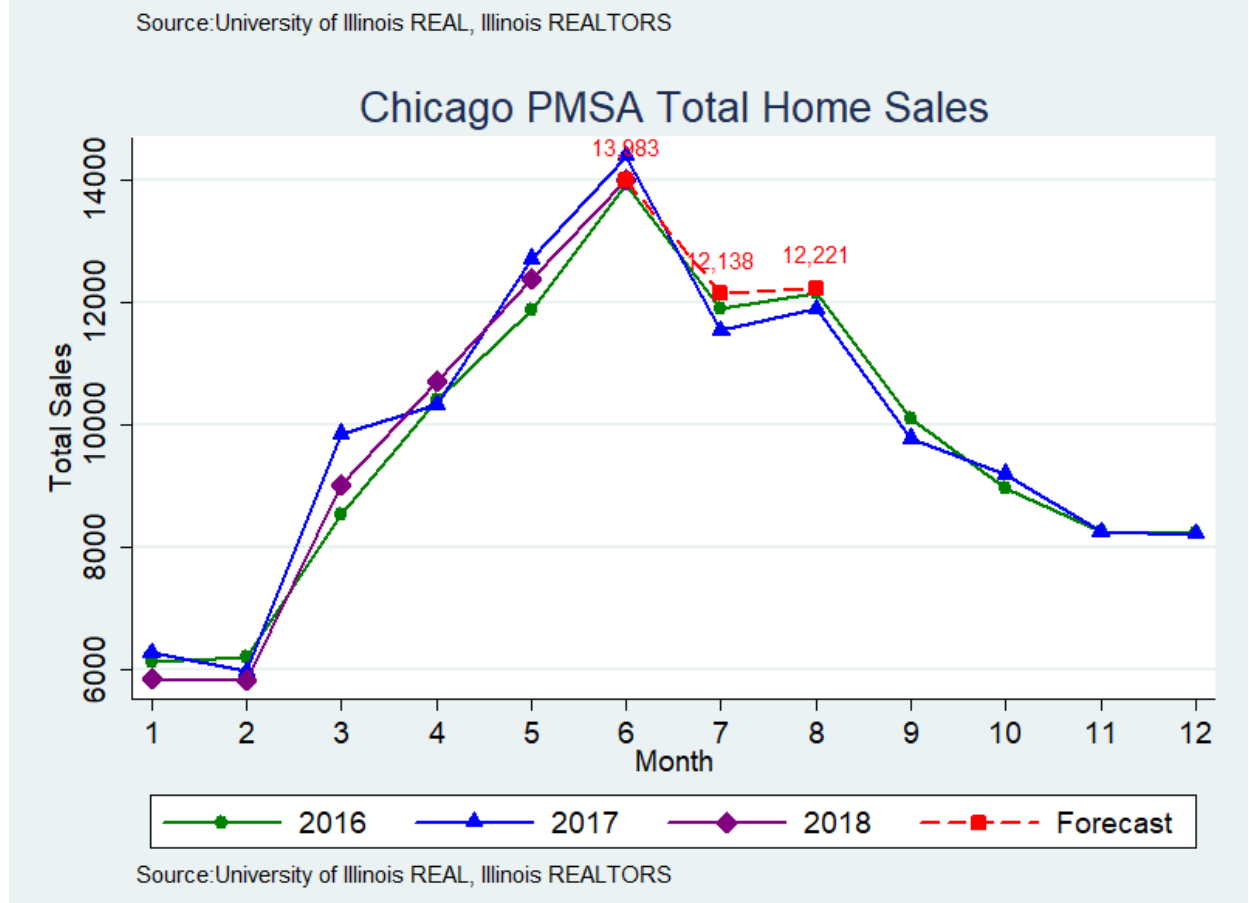
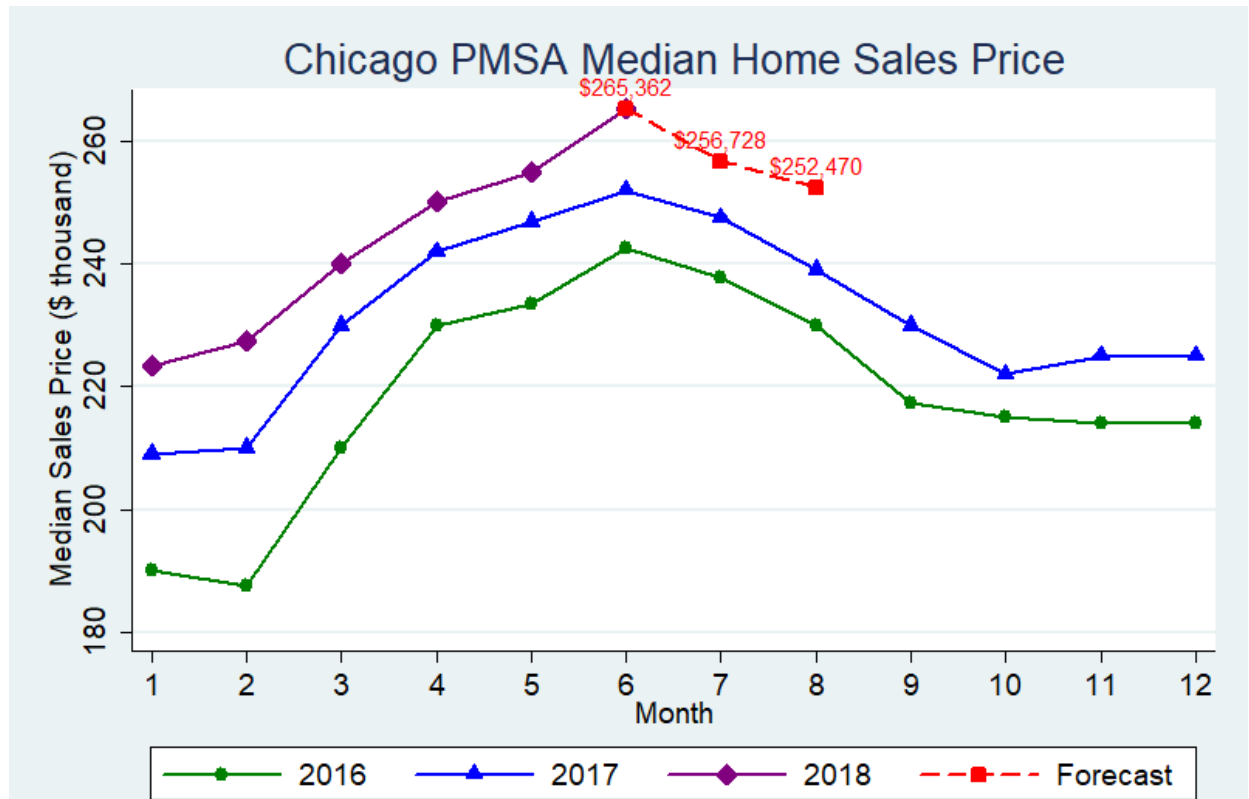
\*Annual recovery rate is the average of *annual* change rates in past months

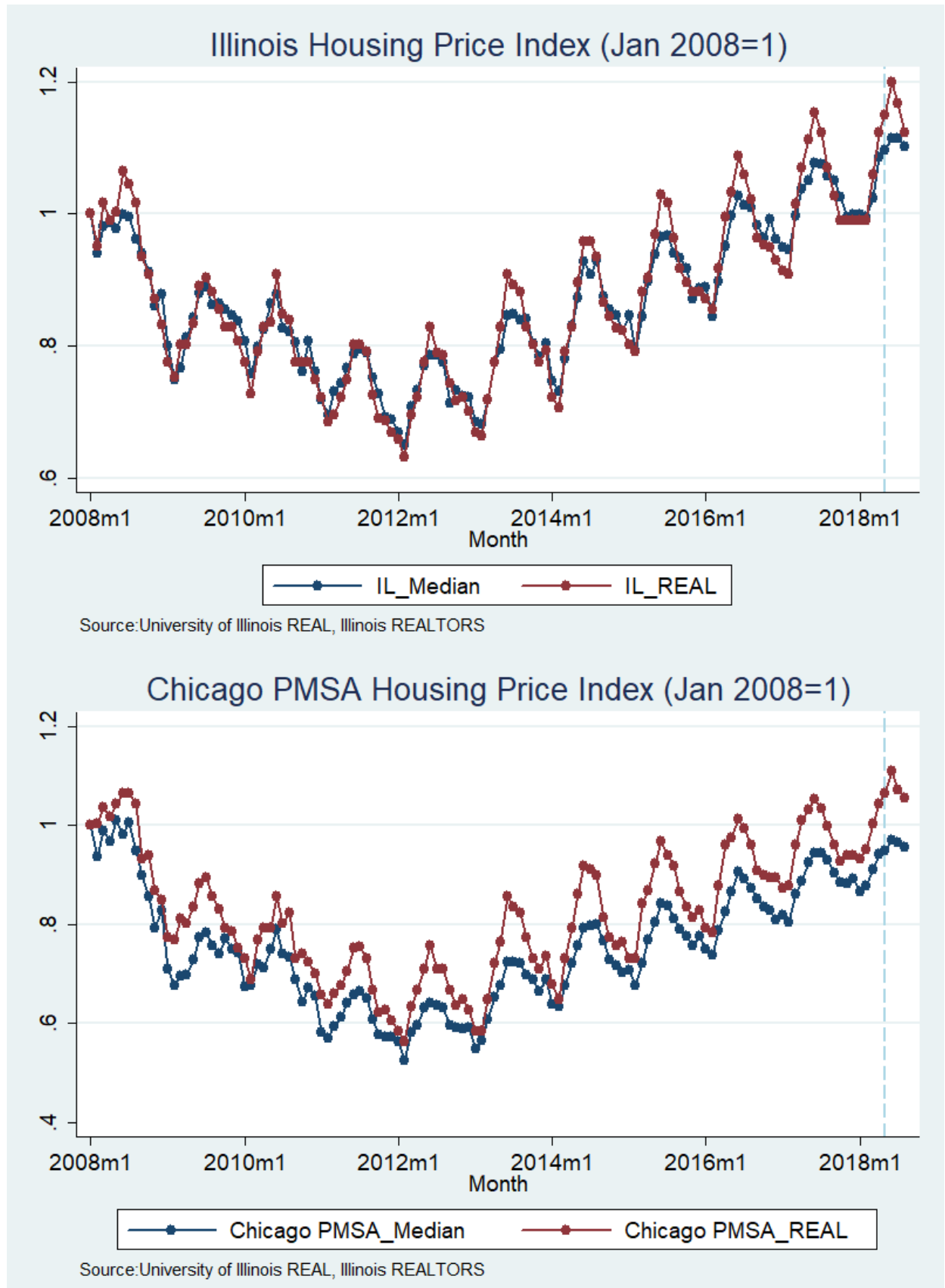
\*\* Years to recover is calculated using the following formula:

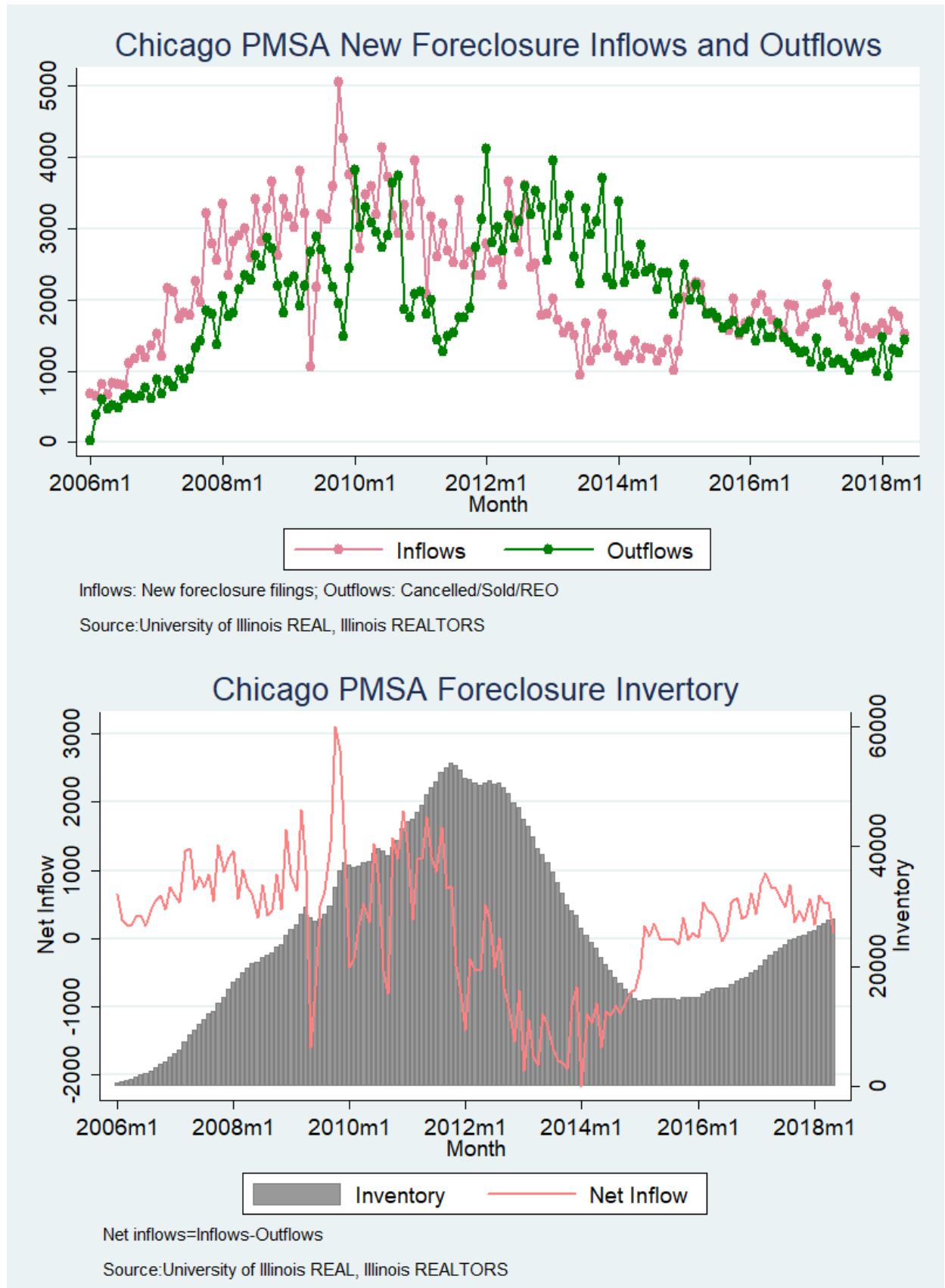
$Price_{May2018} * (1 + \text{recovery rate})^{\text{years}} = Price_{May2008}$ . Prices used in the formula are inflation adjusted. The recovery rate is applied as a constant annual change rate to recoup the differences between the current month and its corresponding month in 2008.

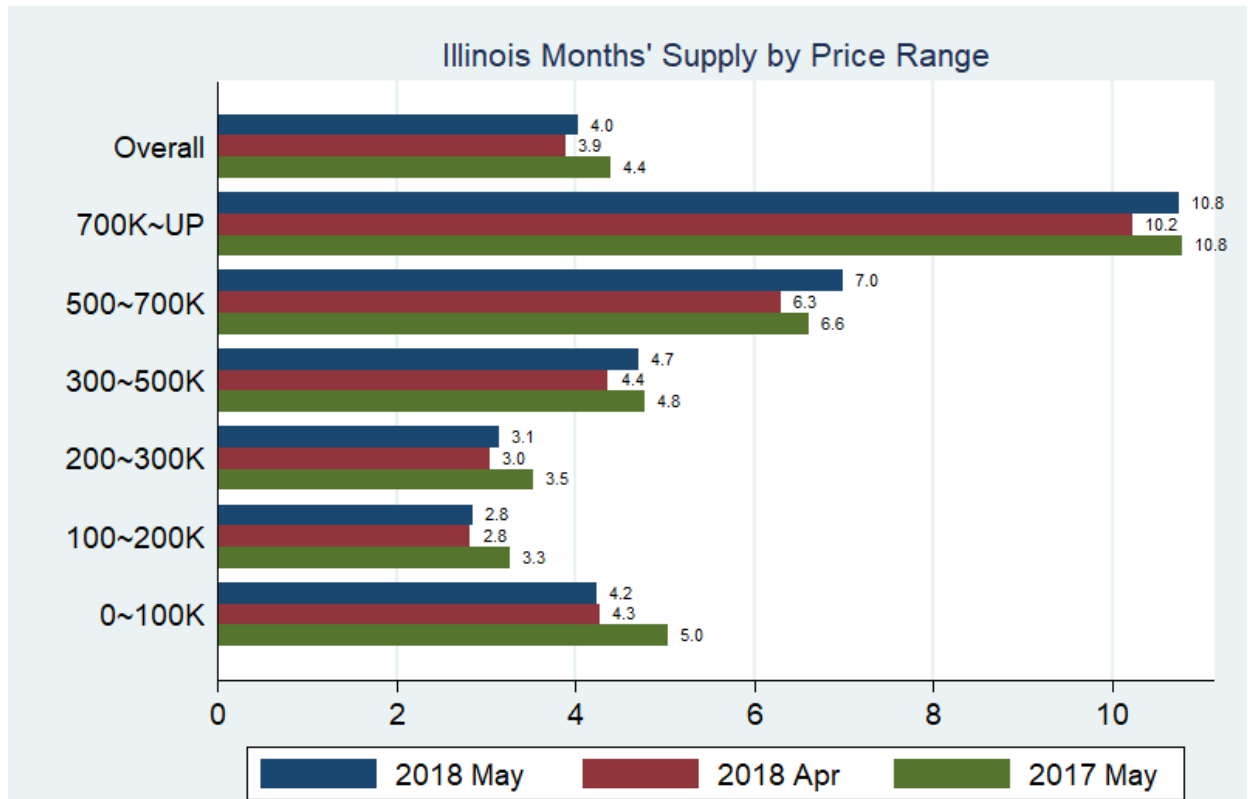




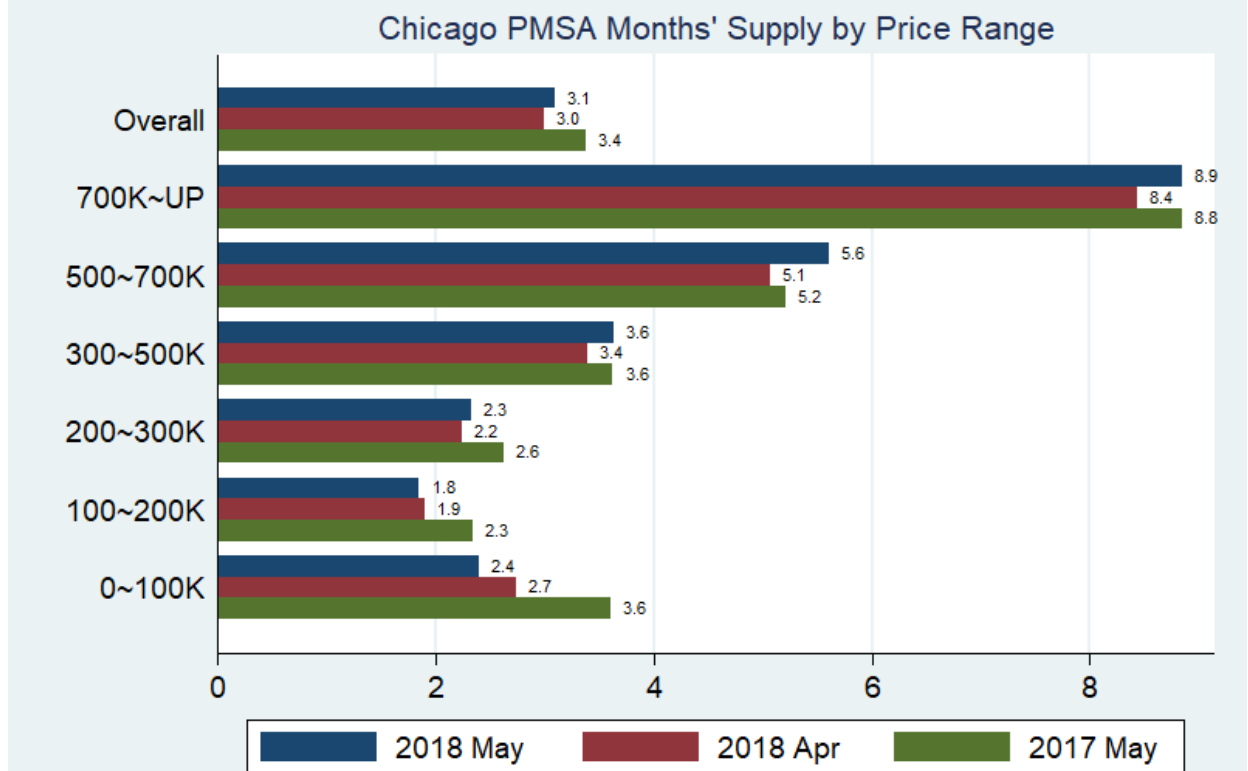




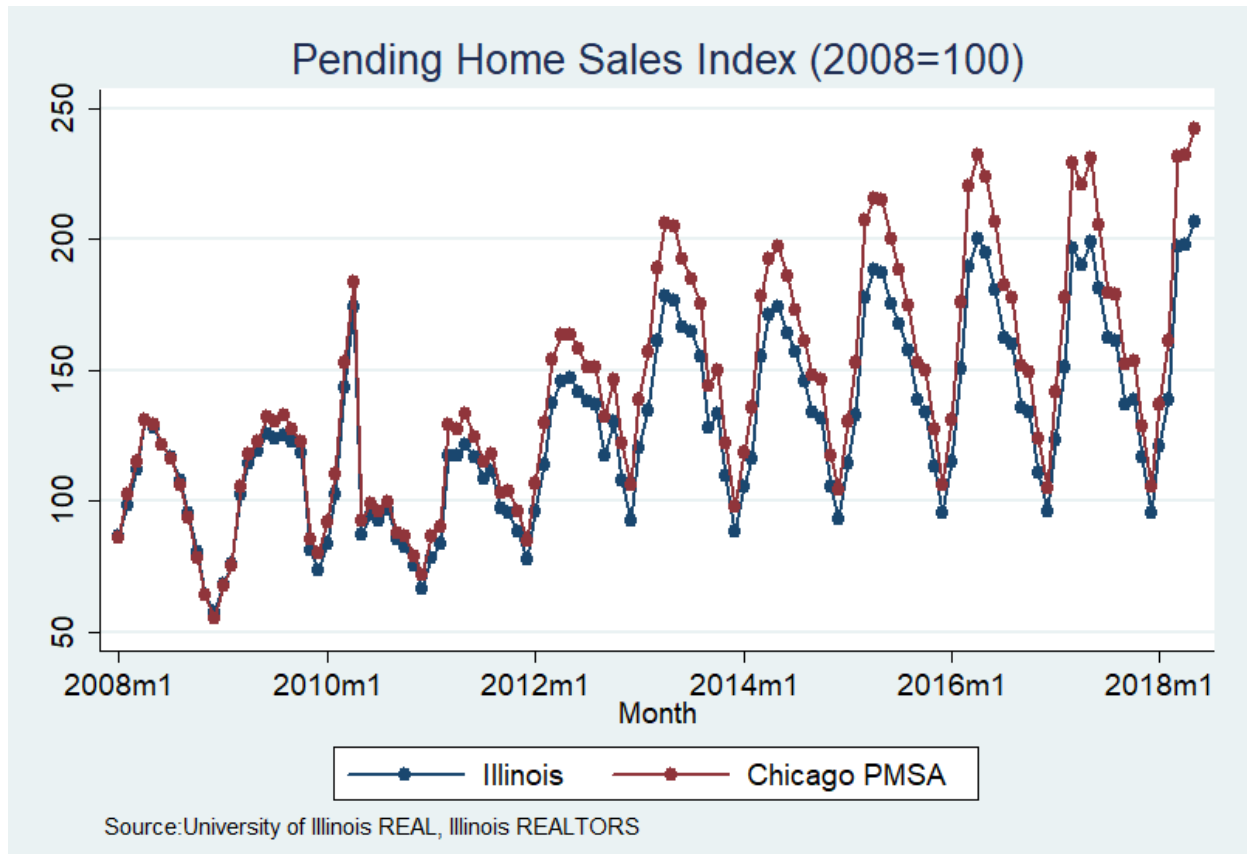


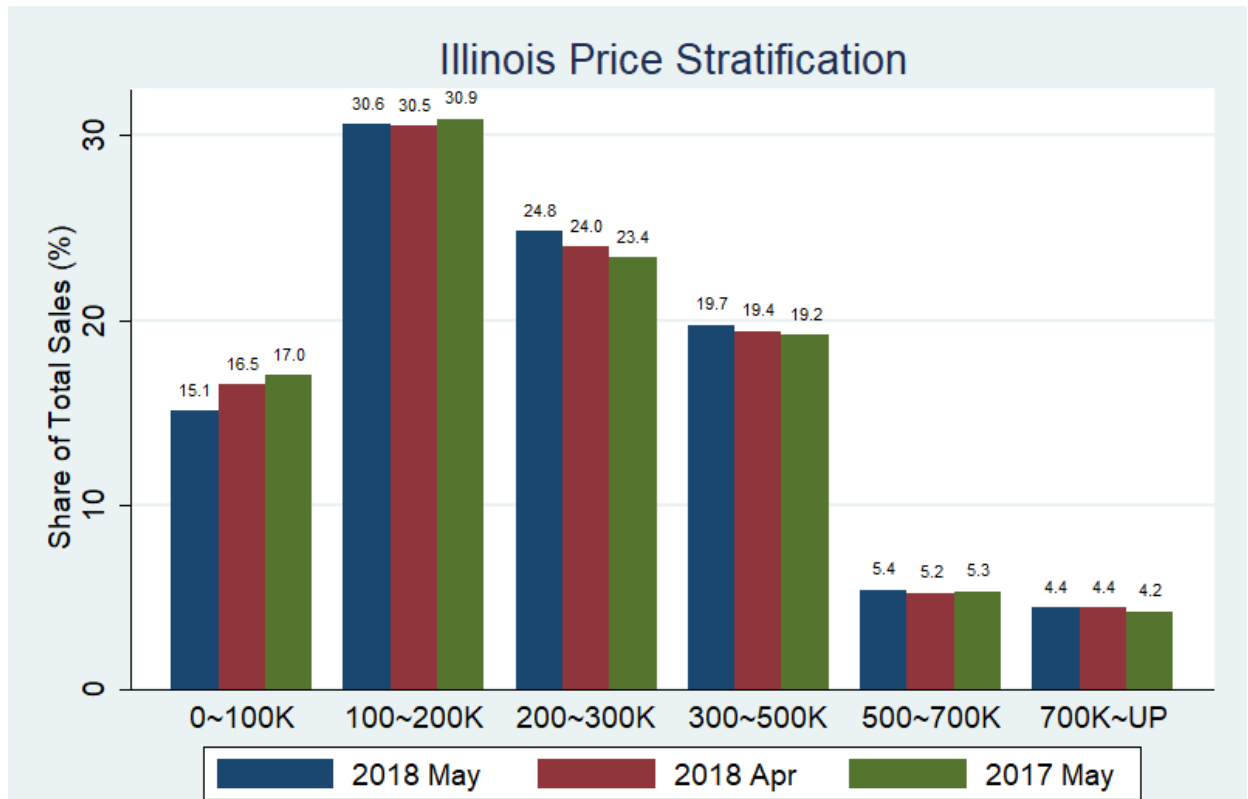


Source: University of Illinois REAL, Illinois REALTORS

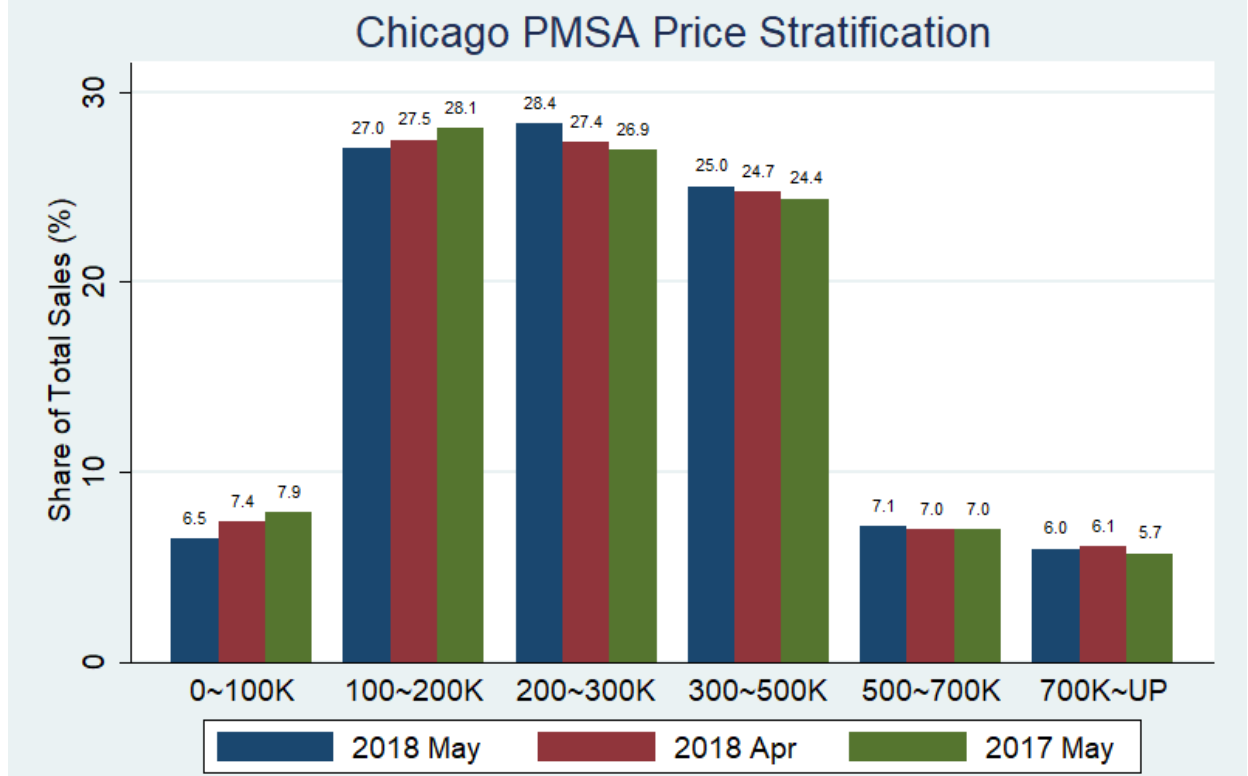


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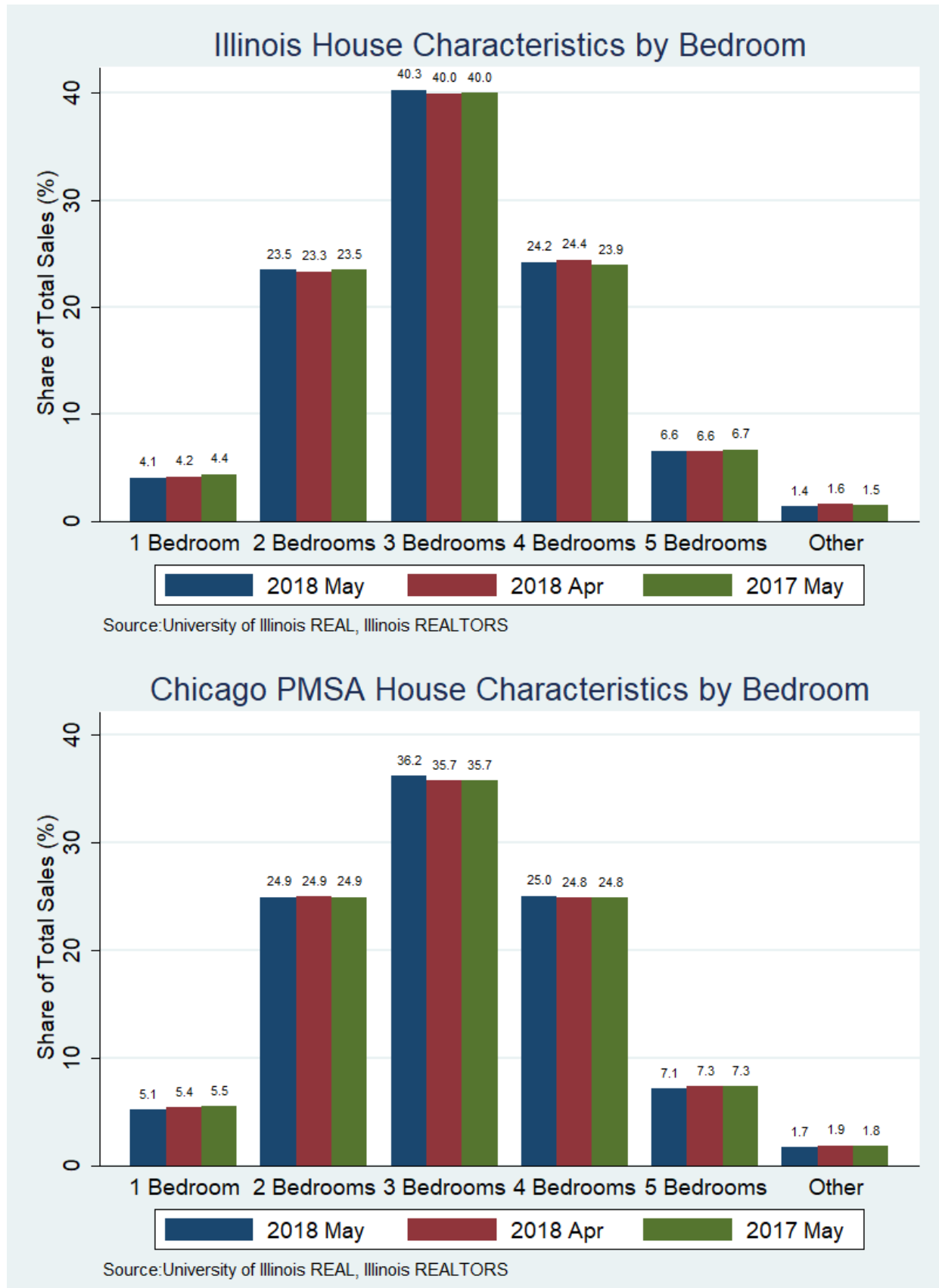




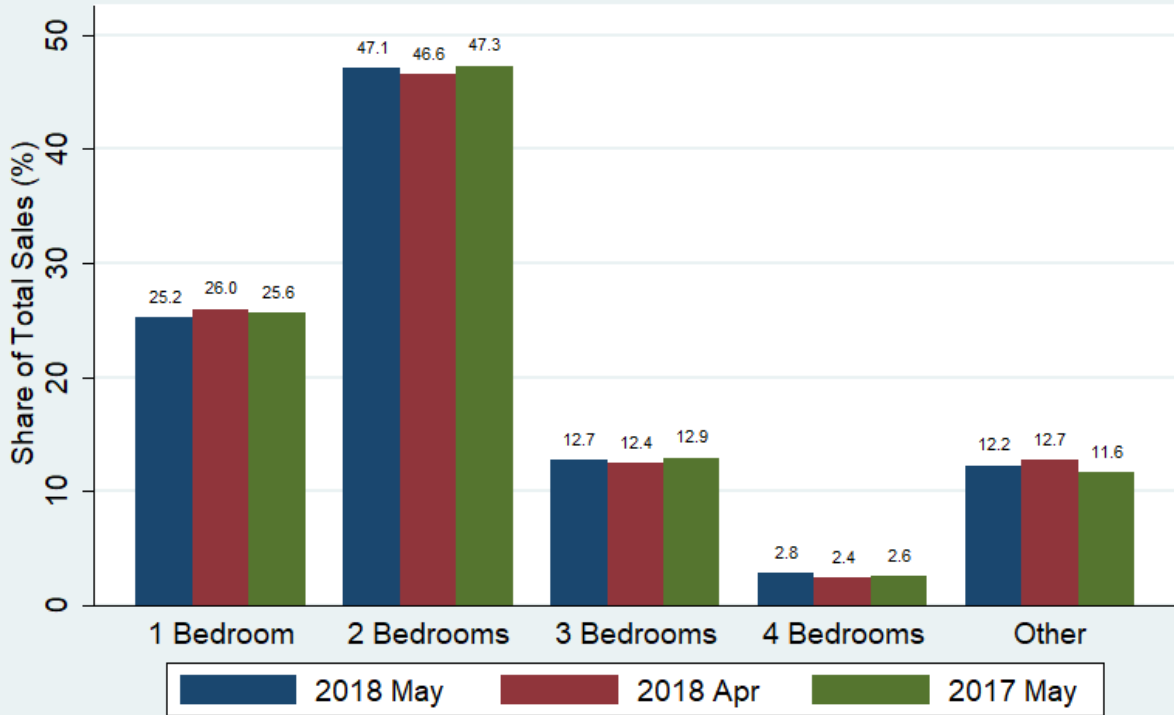
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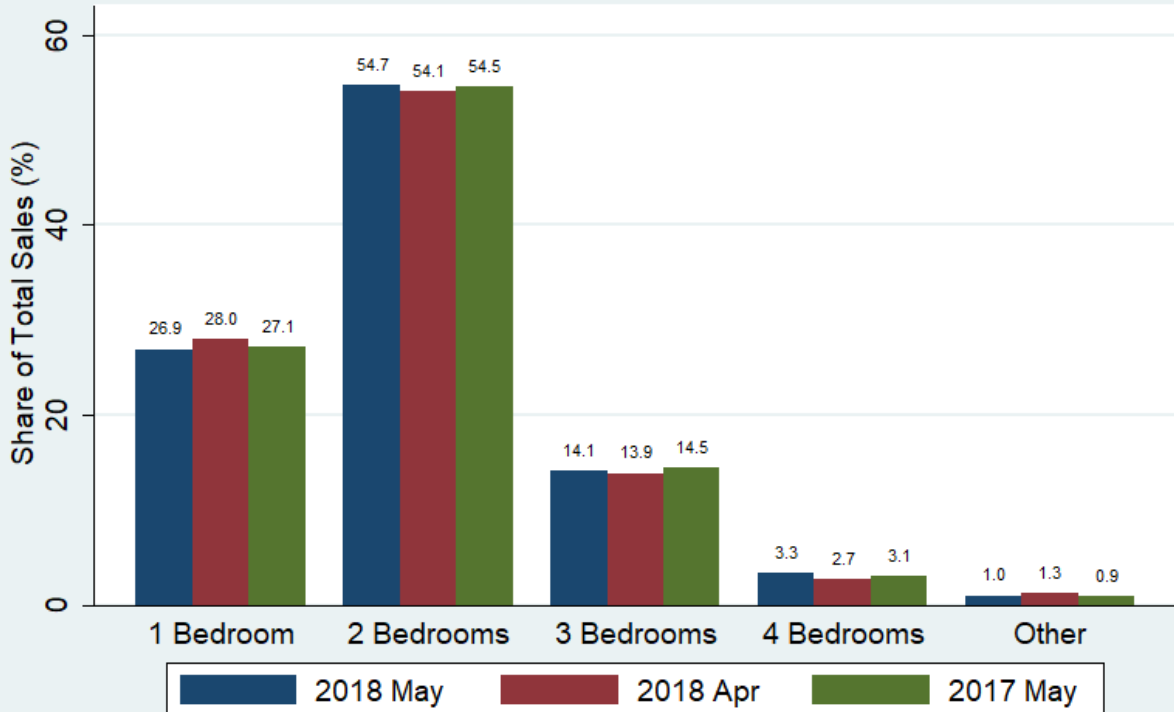


### Illinois House Characteristics by Bathroom



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



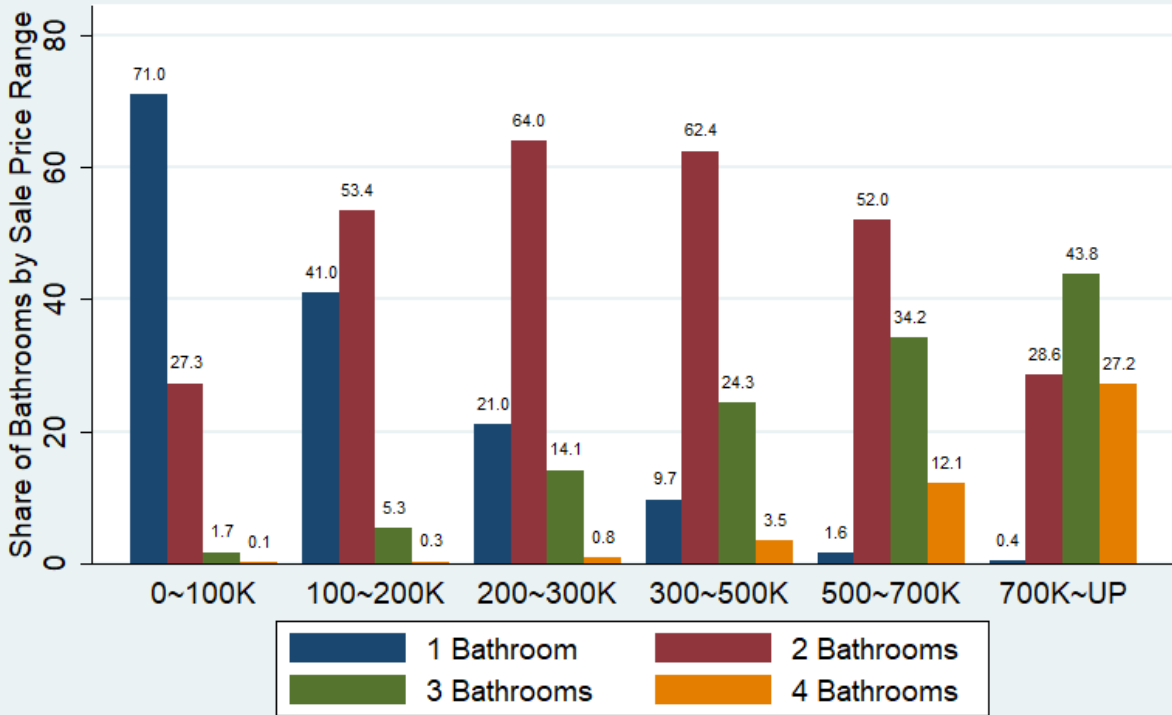
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### Chicago PMSA Bedroom Shares by Sale Price Stratification



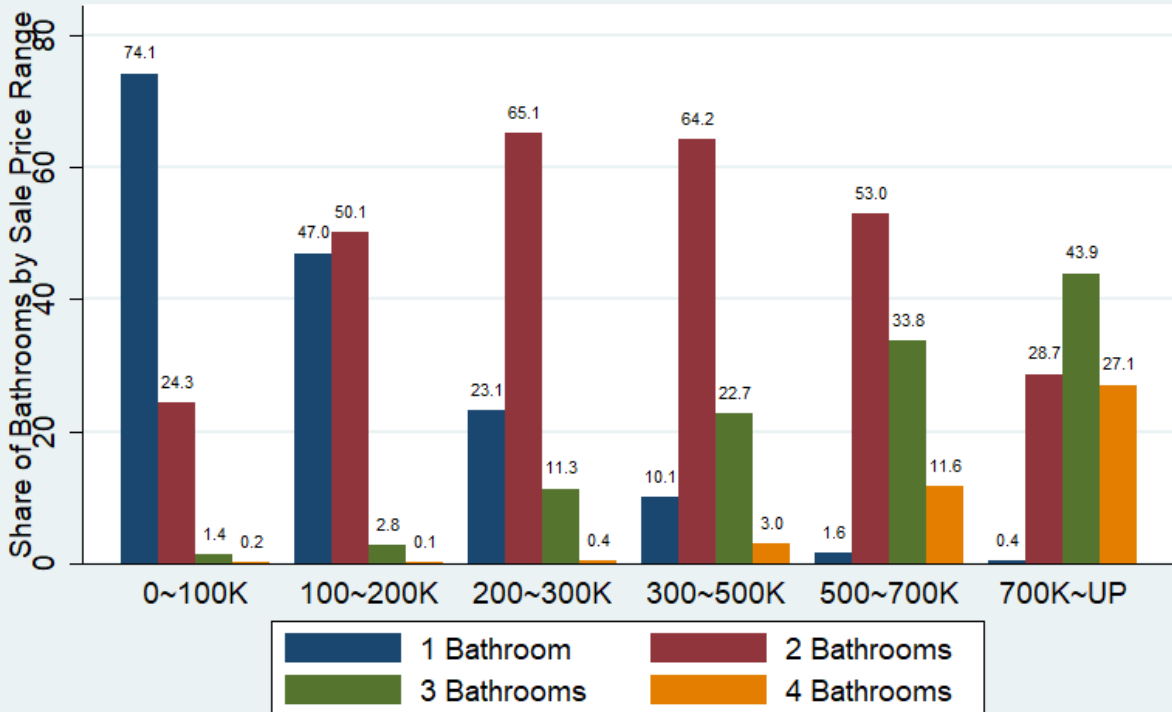
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### Illinois Bathroom Shares by Sale Price Stratification



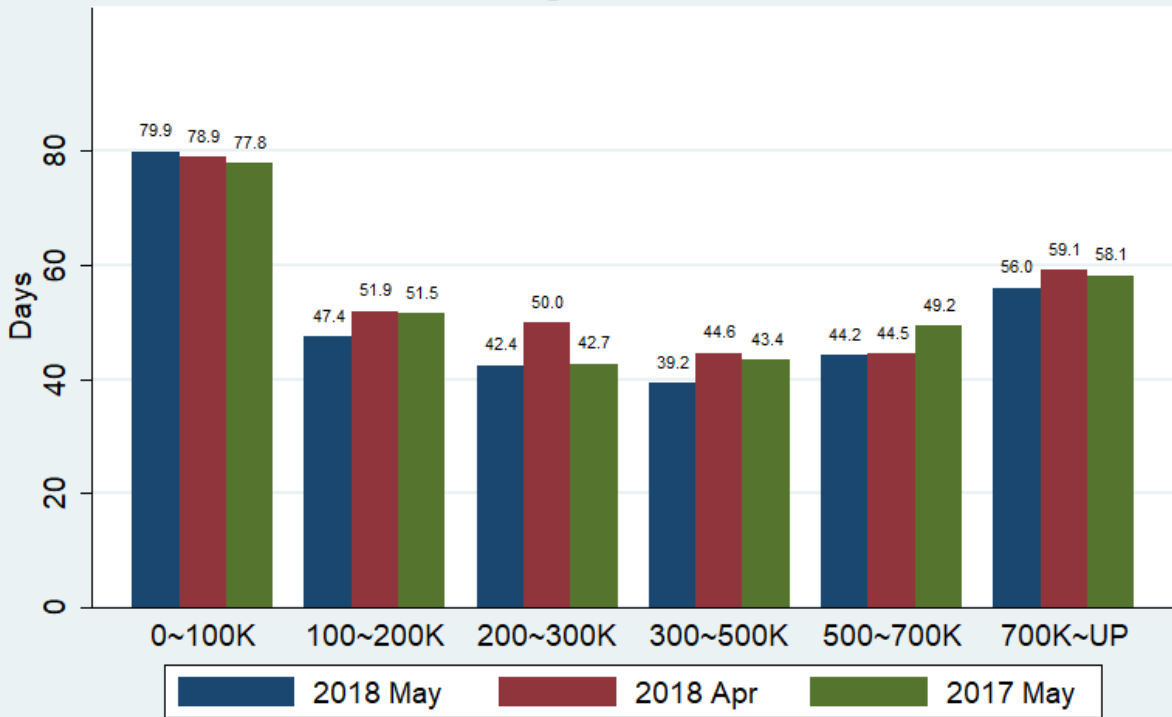
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### Chicago PMSA Bathroom Shares by Sale Price Stratification



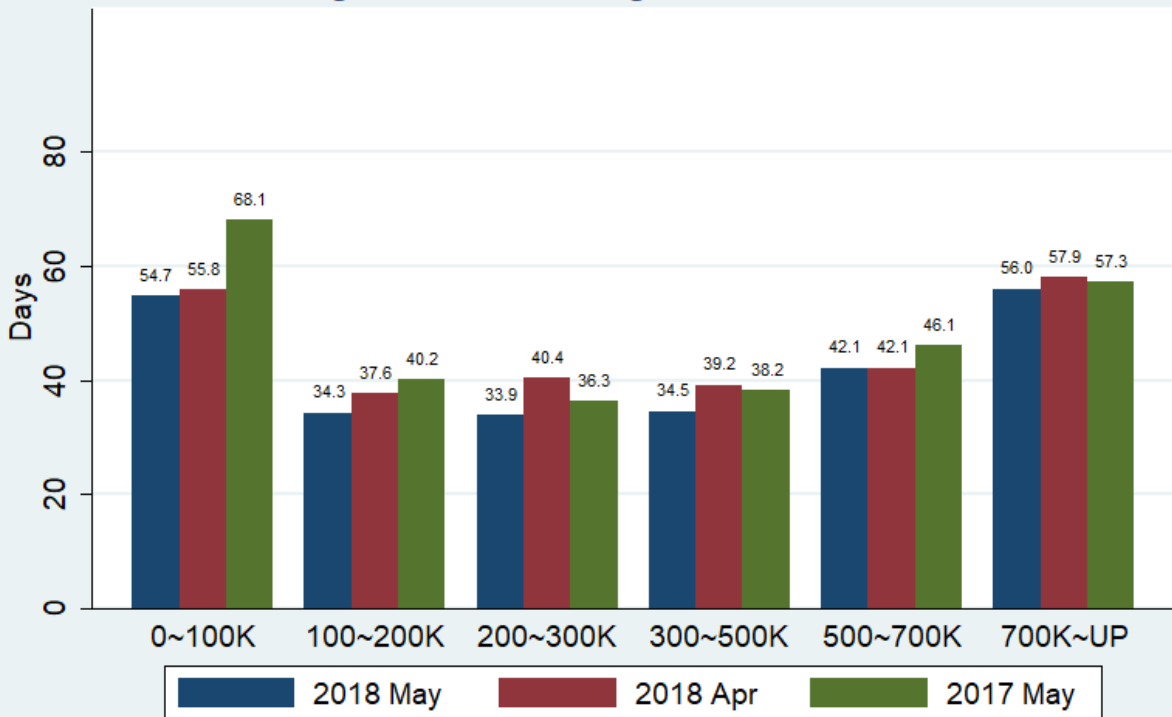
Source: University of Illinois REAL, Illinois REALTORS

### 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

