

Housing Price Forecasts

Illinois and Chicago PMSA, July 2018

Presented To
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Housing Price Forecast: Illinois and Chicago PMSA, July 2018

The Housing Market

In June, median prices continued to experience positive growth while sales experienced a negative annual change. 18,310 houses were sold in Illinois, changing by 6.6% from a month ago and -6.2% from a year ago. In the Chicago PMSA, 13,323 houses were sold, changing by 6.2% from a month ago and -7.3% from a year ago. The median price was \$225,000 in Illinois, up 4.5% from June last year; the comparable figure for the Chicago PMSA was \$263,000, up 4.4% from this time last year.

In June, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 8.2%. 12,306 regular sales were made, 6.2% less than last year. 947 foreclosed properties were sold, 18.2% less than last year. The median price was \$271,215 for regular property sales, 3.5% higher than last year; the comparable figure for the foreclosed properties was \$175,000, up 9.1% from this time last year.

Illinois and Chicago PMSA both have already recovered to their pre-bubble price levels. The median sales price in June 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 June 2008 median sales price was \$166,500 (in \$2008) and \$194,458 (in \$2018); the current price level was 116% of the 2008 level after adjusting (135% before adjusting). In the Chicago PMSA, the June 2008 median sales price was \$211,200 (in \$2008) and \$246,664 (in \$2018); the comparable figure for price recovery in June 2018 is 107% after adjustment (125% before adjusting).

The sales forecast for July, August and September 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 1.4% to 1.9%; the comparative figures for the Chicago PMSA are an increase in the range 1.3% to 1.8%. On a monthly basis, the three-month average sales are forecast to decrease in the range -6.5% to -8.8% for Illinois and decrease in the range -7.1% to -9.6% for the Chicago PMSA.

The pending home sales index¹ is a leading indicator based on contract signings. This June, the number of homes put under contract was greater than last year. The pending home sales index is 188.9 (2008=100) in Illinois, up 4.1% from a year ago. In the Chicago PMSA, the comparable figure is 219.0, up 6.5% from a year ago. At the latest average annual pending sales rate, Illinois had enough housing inventory for 4.3 months² (down from 4.6 months a year ago). In the Chicago PMSA, the comparable figure was 3.3 months (down from 3.5 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.

The median price forecast indicates moderate annual growth in both Illinois and the Chicago PMSA for July, August and September. In Illinois, the median price is forecast to rise by 4.7% in July 6.1% in August and 5.5% in September. For the Chicago PMSA, the comparable figures are 4.5% in July 6.1% in August and 5.4% in September. As a complement to the median housing price index (HPI), the REAL HPI³ forecasts a positive growth trend for both Illinois and the

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.

Chicago PMSA. In Illinois, the REAL HPI (Jan 2008=1) is forecast to change by 2.6% in July 3.1% in August and 3.4% in September. The comparable figures for the Chicago PMSA are 2.1% in July 2.5% in August and 3.1% in September. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month.

In June, the Conference Board Consumer Confidence Index decreased while the University of Michigan Consumer Sentiment Index slightly increased. The Conference Board Consumer Confidence Index survey revealed that consumers' optimism about the short-term outlook eased in June and the modest curtailment in optimism suggests that consumers do not foresee the economy gaining much momentum in the months ahead. The University of Michigan Consumer Sentiment Index slightly increased. Survey respondents expected declines in the unemployment rate and higher wage gains in the year ahead while one-in-four consumers spontaneously cited the potential negative impact of tariffs on the domestic economy. On the other hand, the more housing specific sentiment index, the Fannie Mae Home Purchase Sentiment Index (HPSI) fell after reaching new survey highs in April and May. The survey revealed that tight supply and lackluster income growth continue to weigh on housing activity, and consumer expectations for home price growth over the next 12 months have moderated while consumers expressed increased optimism about the direction of the economy and their personal financial situations over the next 12 months.

The Housing Market – Current Condition

- In June, median prices continued to experience positive growth while sales experienced a negative annual change. 18,310 houses were sold in Illinois, changing by 6.6% from a month ago and -6.2% from a year ago. In the Chicago PMSA, 13,323 houses were sold, changing by 6.2% from a month ago and -7.3% from a year ago. The median price was \$225,000 in Illinois, up 4.5% from June last year; the comparable figure for the Chicago PMSA was \$263,000, up 4.4% from this time last year. (Reference: Illinois and Chicago PMSA Total Home Sales and Median Home Sales Price figures; Forecast for July 2018 report table)
- In June, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 8.2%. 12,306 regular sales were made, 6.2% less than last year. 947 foreclosed properties were sold, 18.2% less than last year. The median price was \$271,215 for regular property sales, 3.5% higher than last year; the comparable figure for the foreclosed properties was \$175,000, up 9.1% from this time last year. (Reference: Ratio of Foreclosed Sales over Total Sales, Sales & Median Prices: Foreclosed vs. Regular figures)
- In June, at the latest average annual pending sales rate, Illinois had enough housing inventory for 4.3 months⁴ (down from 4.6 months a year ago). In the Chicago PMSA, the comparable figure was 3.3 months (down from 3.5 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 June, 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 13.7% from 15.1% a year ago; the comparative figure for the Chicago PMSA showed a decrease to 5.8% from 7.2% a year ago. (Reference: Illinois and Chicago PMSA Price Stratification 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.

The Housing Market – Forecast and Future Condition

- The median price forecast indicates moderate annual growth in both Illinois and the Chicago PMSA for July, August and September. In Illinois, the median price is forecast to rise by 4.7% in July 6.1% in August and 5.5% in September. For the Chicago PMSA, the comparable figures are 4.5% in July 6.1% in August and 5.4% in September. (Reference: Forecast for July 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 2.6% in July 3.1% in August and 3.4% in September. The comparable figures for the Chicago PMSA are 2.1% in July 2.5% in August and 3.1% in September. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month. (Reference: Housing Price Index)
- The sales forecast for July, August and September 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 1.4% to 1.9%; the comparative figures for the Chicago PMSA are an increase in the range 1.3% to 1.8%. On a monthly basis, the three-month average sales are forecast to decrease in the range -6.5% to -8.8% for Illinois and decrease in the range -7.1% to -9.6% for the Chicago PMSA. (Reference: Forecast for July 2018 report table)
- The pending home sales index⁶ is a leading indicator based on contract signings. This June, the number of homes put under contract was greater than last year. The pending home sales index is 188.9 (2008=100) in Illinois, up 4.1% from a year ago. In the Chicago PMSA, the comparable figure is 219.0, up 6.5% from a year ago. (Reference: Illinois and Chicago PMSA Pending Home Sales Index figure)
- In June 2018, 1,203 houses were newly filed for foreclosure in the Chicago PMSA (down 28.4% and down 21.1% respectively from a year and a month ago). 1,268 foreclosures were completed⁷ (up 15.5% and down 9.9% respectively from a year and a month ago). As of June 2018, there are 28,035 homes at some stage of foreclosure — the foreclosure inventory. The monthly average net flows of foreclosures (foreclosure inflows - outflows) were 341.3 in the past 6 months, 405.6 in the last 12 months and 481.7 in the last 24 months. (Reference: Chicago PMSA Foreclosure Inflows and Outflows, and Inventory figures).

The Economy

- In June 2018, according to the Bureau of Labor Statistics (BLS) Employment Situation report, the national unemployment rate rose to 4.0% and nonfarm payroll jobs experienced a gain of 213,000 jobs. Employment increased in professional and business services (+50,000), manufacturing (+36,000), and health care (+25,000).
- In June 2018, according to the Illinois Department of Employment Security (IDES) news release, the Illinois unemployment held steady at 4.3%. Non-farm payroll jobs increased by +18,100 over the month. The largest gains were in three sectors; government (+7,400); leisure

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

and hospitality (+6,300); and professional and business services (+5,300). The industry sectors with the largest payroll decline was: trade, transportation and utilities (-5,000). Furthermore, the job growth in May was slightly revised from the preliminary estimate of +8,600 jobs to +7,700 jobs.

- In May 2018, the one-year-ahead forecast for Illinois indicates that the non-farm employment will change at a rate of 0.62% corresponding to job changes of 38,100. The largest contributors to the forecast increase are education and trade, transportation and utilities, and leisure and hospitality.
- In June 2018, according to the U.S. Census Bureau, home building levels fell to a nine-month low. “It’s alarming that the single-family construction permit growth is decelerating at a time when homeownership is rising and millennials are reaching their peak age to really enter the market and buy their first home,” said Freddie Mac Chief Economist Sam Khater. “The growing imbalance between demand and supply is the reason home prices continue to escalate.”
- In June 2018, mortgage credit availability increased according to the Mortgage Credit Availability Index (MCAI), a report from the Mortgage Bankers Association (MBA). A decline in the MCAI indicates that lending standards are tightening, while increases in the index are indicative of loosening credit. The survey explained that mortgage credit loosened slightly, led mainly by an increase in the jumbo MCAI which represented fierce competition among lenders for prime jumbo borrowers; however, this loosening was almost completely offset by a decline in credit for government loan programs. The Government MCAI has tightened in recent months, driven largely by policy actions to reduce churning in the Veterans Administration's Interest Rate Reduction Refinance Loan program.

Longer-term Outlook

- In June, the Conference Board Consumer Confidence Index decreased while the University of Michigan Consumer Sentiment Index slightly increased. The Conference Board Consumer Confidence Index decreased to 126.4 from 128.8 last month. The survey revealed that consumers' optimism about the short-term outlook eased in June and the modest curtailment in optimism suggests that consumers do not foresee the economy gaining much momentum in the months ahead. The University of Michigan Consumer Sentiment Index increased slightly to 98.2, up from 98.0 last month. Survey respondents expected declines in the unemployment rate and higher wage gains in the year ahead while one-in-four consumers spontaneously cited the potential negative impact of tariffs on the domestic economy.
- In June, Fannie Mae Home Purchase Sentiment Index (HPSI) fell to 90.7 from 92.3 last month after reaching new survey highs in April and May. The survey revealed that tight supply and lackluster income growth continue to weigh on housing activity, and consumer expectations for home price growth over the next 12 months have moderated while consumers expressed increased optimism about the direction of the economy and their personal financial situations over the next 12 months.
- The Chicago Business Activity Index (CBAI) increased to 101.6 in May from 97.2 in April. The increase is mainly attributed to the positive manufacturing and nonmanufacturing job growth and an improvement in expected retail sales.

Forecast for July 2018 report

PERCENTAGE CHANGE FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Apr-18	3.8%	3.9%		16.0%	18.7%			
May-18	-1.3%	-1.3%		16.6%	17.1%			
Jun-18	-6.2%	-7.3%		6.6%	6.2%			
3 Month Avg.	-1.7%	-2.2%		12.6%	13.3%			
SUMMARY OF THE FORECAST INTERVALS FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Jul-18	1.2%	1.6%	0.8%	1.0%	-9.7%	-13.1%	-10.8%	-14.6%
Aug-18	0.0%	0.0%	-0.4%	-0.5%	1.4%	1.9%	1.4%	1.9%
Sep-18	3.3%	4.4%	4.1%	5.5%	-10.8%	-14.6%	-11.4%	-15.4%
3 Month Avg.	1.4%	1.9%	1.3%	1.8%	-6.5%	-8.8%	-7.1%	-9.6%
SUMMARY OF THE FORECAST FOR THE MEDIAN PRICE								
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Apr-18	\$210,000	\$250,000	Apr-17	\$200,000	\$242,000			
May-18	\$215,000	\$254,900	May-17	\$208,000	\$246,900			
Jun-18	\$225,000	\$263,000	Jun-17	\$215,101	\$252,000			
Jul-18	\$219,916	\$258,533	Jul-17	\$210,000	\$247,500			
Aug-18	\$212,155	\$253,578	Aug-17	\$200,000	\$239,000			
Sep-18	\$202,579	\$242,384	Sep-17	\$192,000	\$230,000			
ANNUAL PERCENTAGE CHANGE OF THE MEDIAN PRICE								
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Apr-18	5.0%	3.3%	Apr-17	7.5%	5.2%			
May-18	3.4%	3.2%	May-17	7.8%	5.7%			
Jun-18	4.5%	4.4%	Jun-17	5.9%	3.9%			
Jul-18	4.7%	4.5%	Jul-17	6.1%	4.2%			
Aug-18	6.1%	6.1%	Aug-17	4.7%	3.9%			
Sep-18	5.5%	5.4%	Sep-17	6.7%	5.9%			

Median Prices and Recovery

	Illinois		Chicago PMSA	
	[\$2008]	[\$2018]	[\$2008]	[\$2018]
June 2008 Median Price	\$166,500	\$194,458	\$211,200	\$246,664
June 2018 Median Price	\$192,651	\$225,000	\$225,187	\$263,000
Price Ratio (June 18/ June 08)	Adjusted	1.16	Adjusted	1.07
	Unadjusted	1.35	Unadjusted	1.25

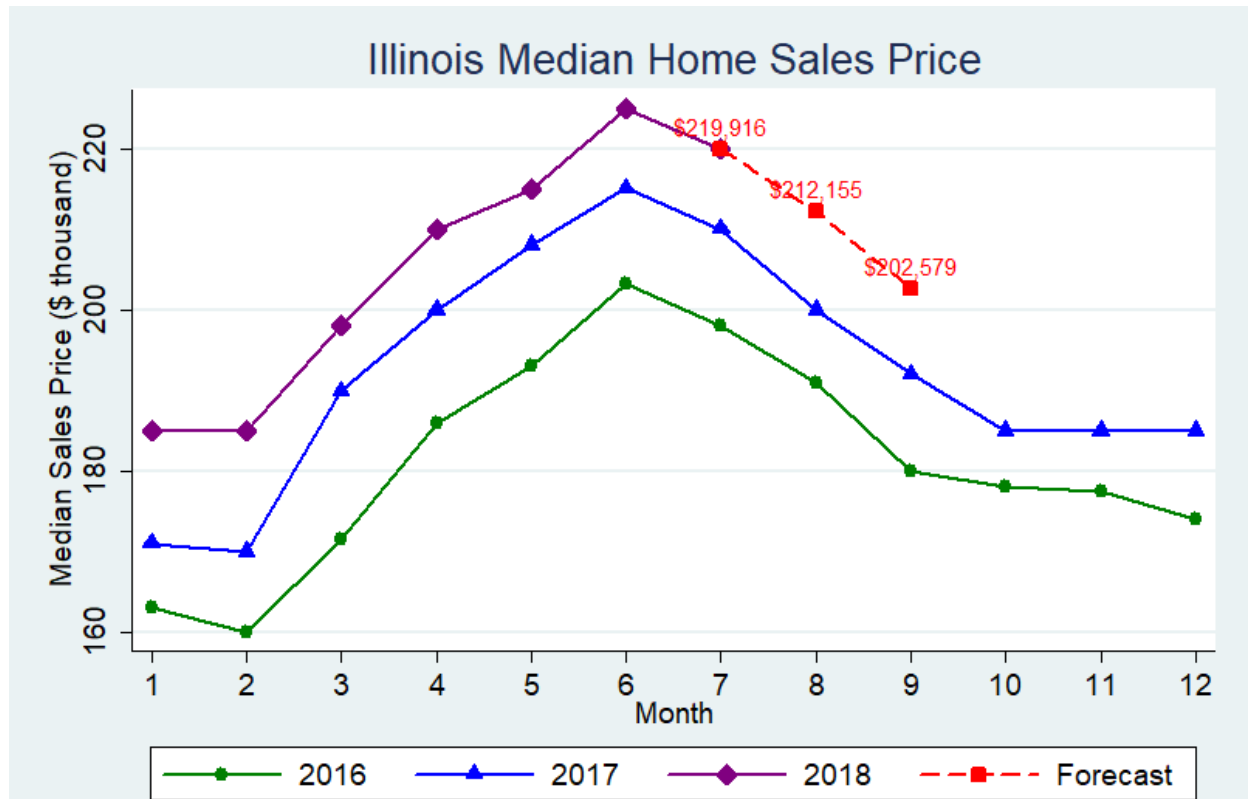
Recovery Forecasts using *Annually Growth Rates*

	Illinois	Chicago PMSA		
	Annual Recovery Rate*	Years to Recover**	Recovery Rate	Years to Recover
Current Month	1.7%	-8.9	1.4%	-4.5
Past 3 months	1.6%	-9.2	0.9%	-6.9
Past 6 months	3.2%	-4.6	2.6%	-2.5
Past 9 months	3.0%	-4.9	2.5%	-2.6
Past 12 months	3.2%	-4.6	2.5%	-2.6

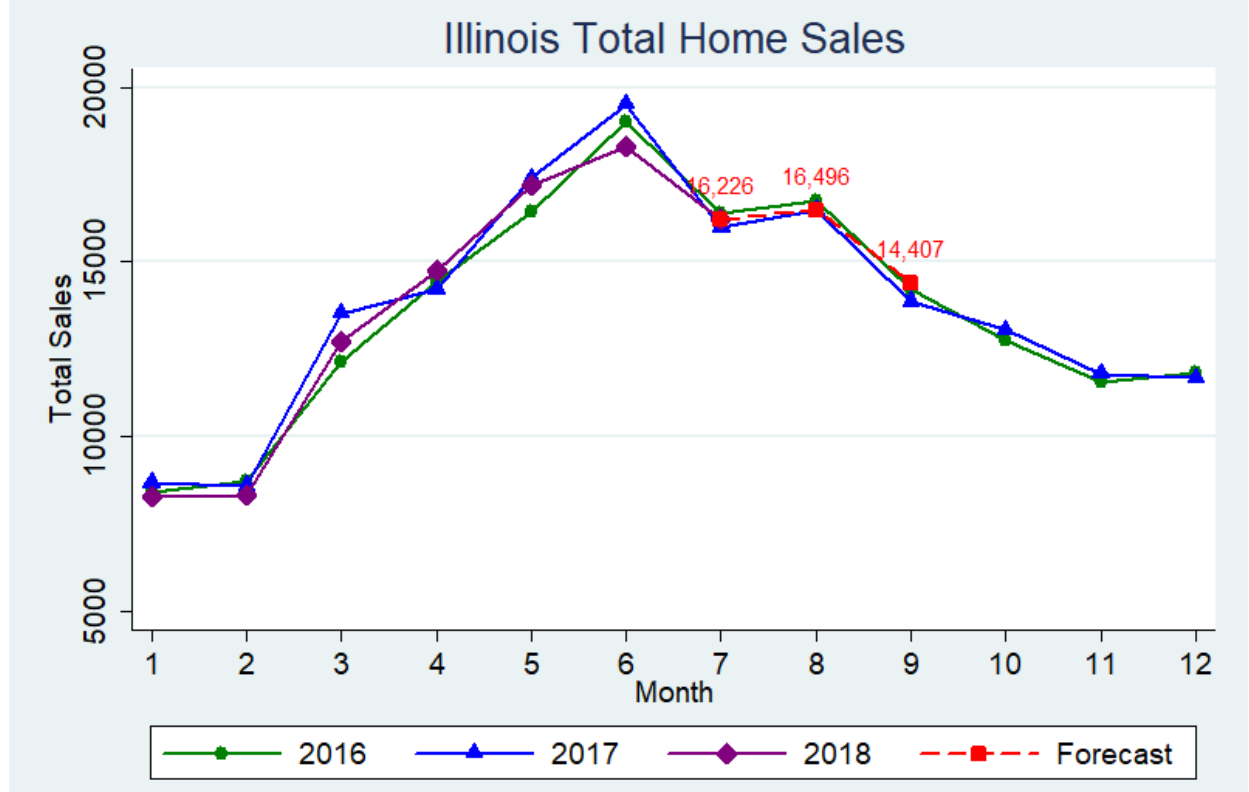
*Annual recovery rate is the average of *annual* change rates in past months

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

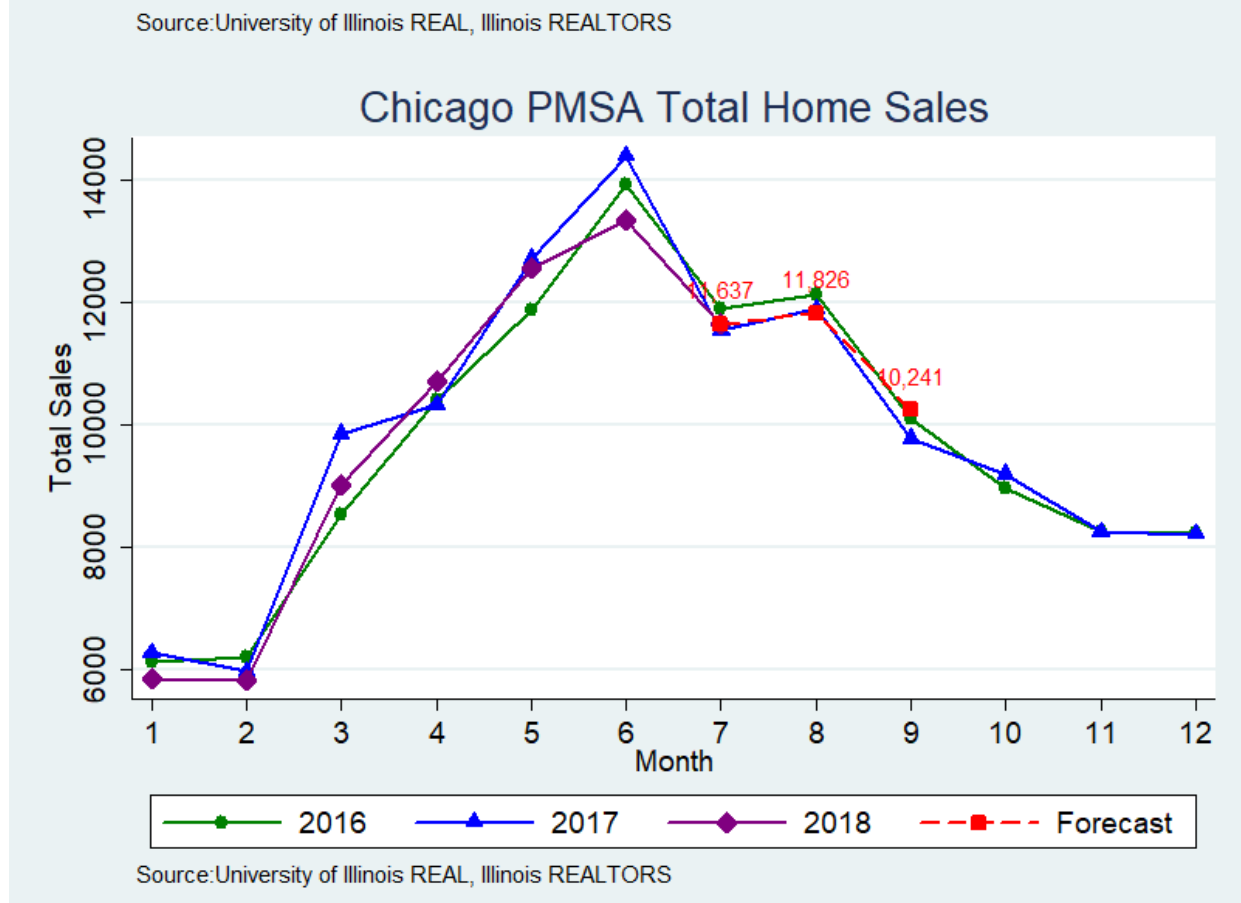
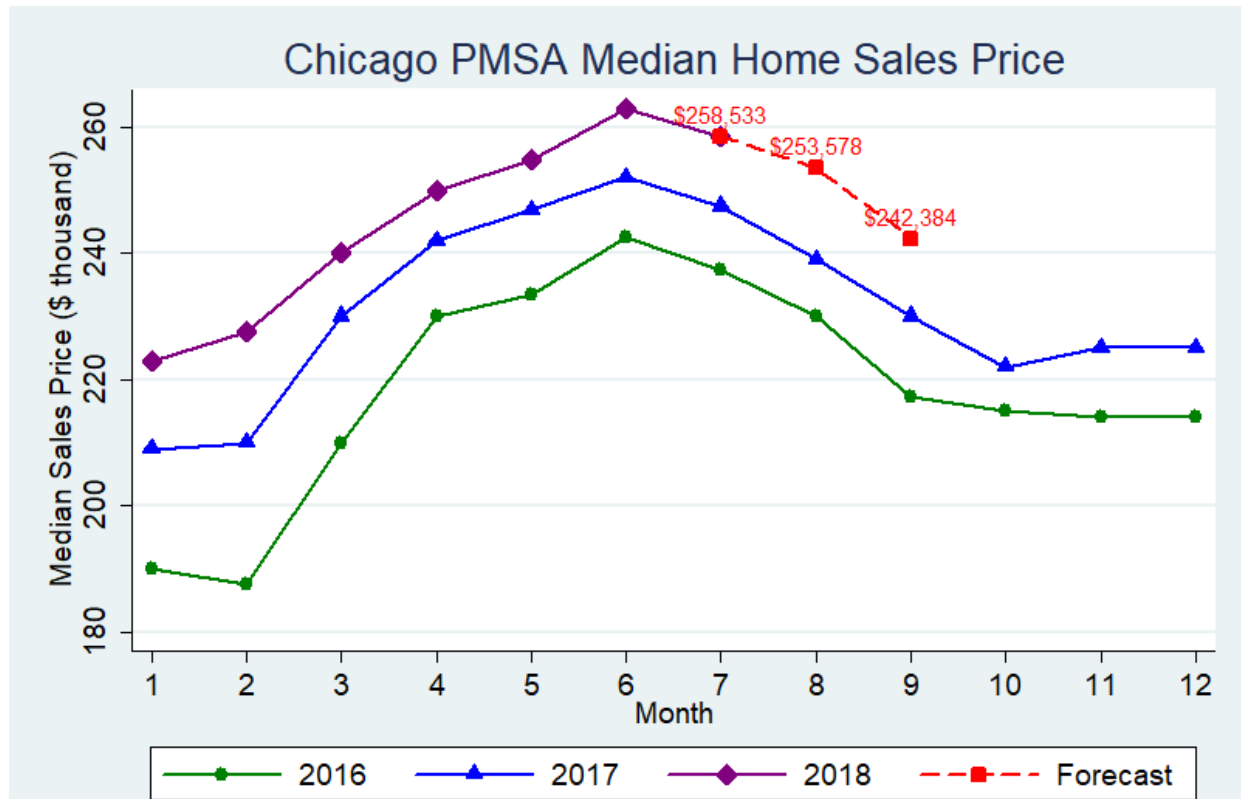
$Price_{June2018} * (1 + \text{recovery rate})^{\text{years}} = Price_{June2008}$. Prices used in the formula are inflation adjusted. The recovery rate is applied as a constant annual change rate to recoup the differences between the current month and its corresponding month in 2008.

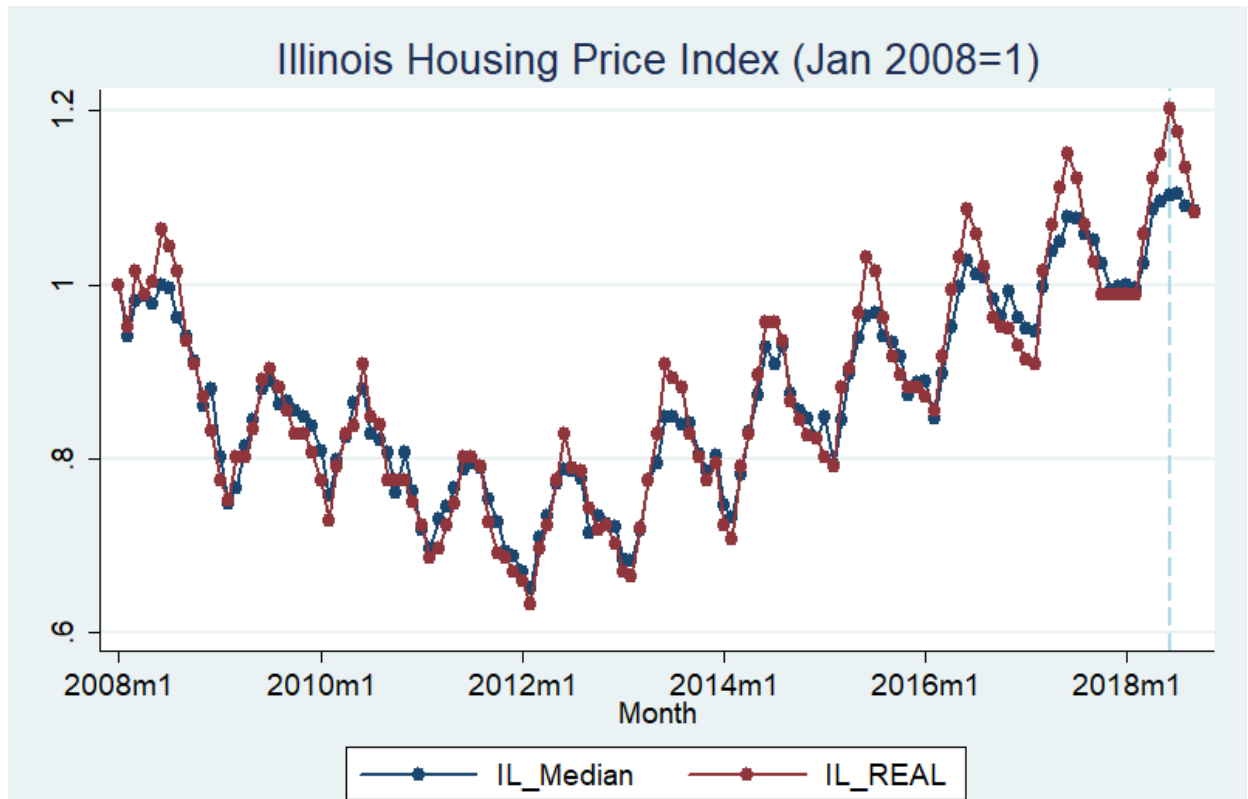


Source: University of Illinois REAL, Illinois REALTORS

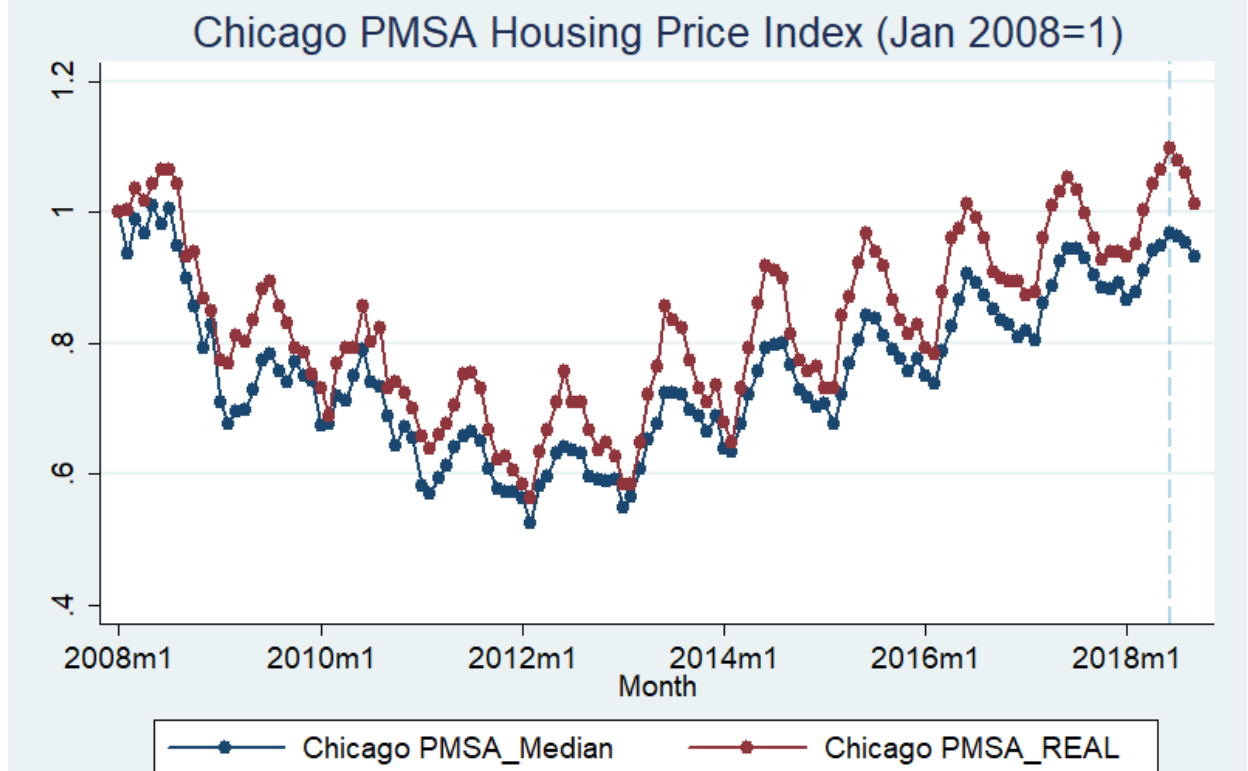


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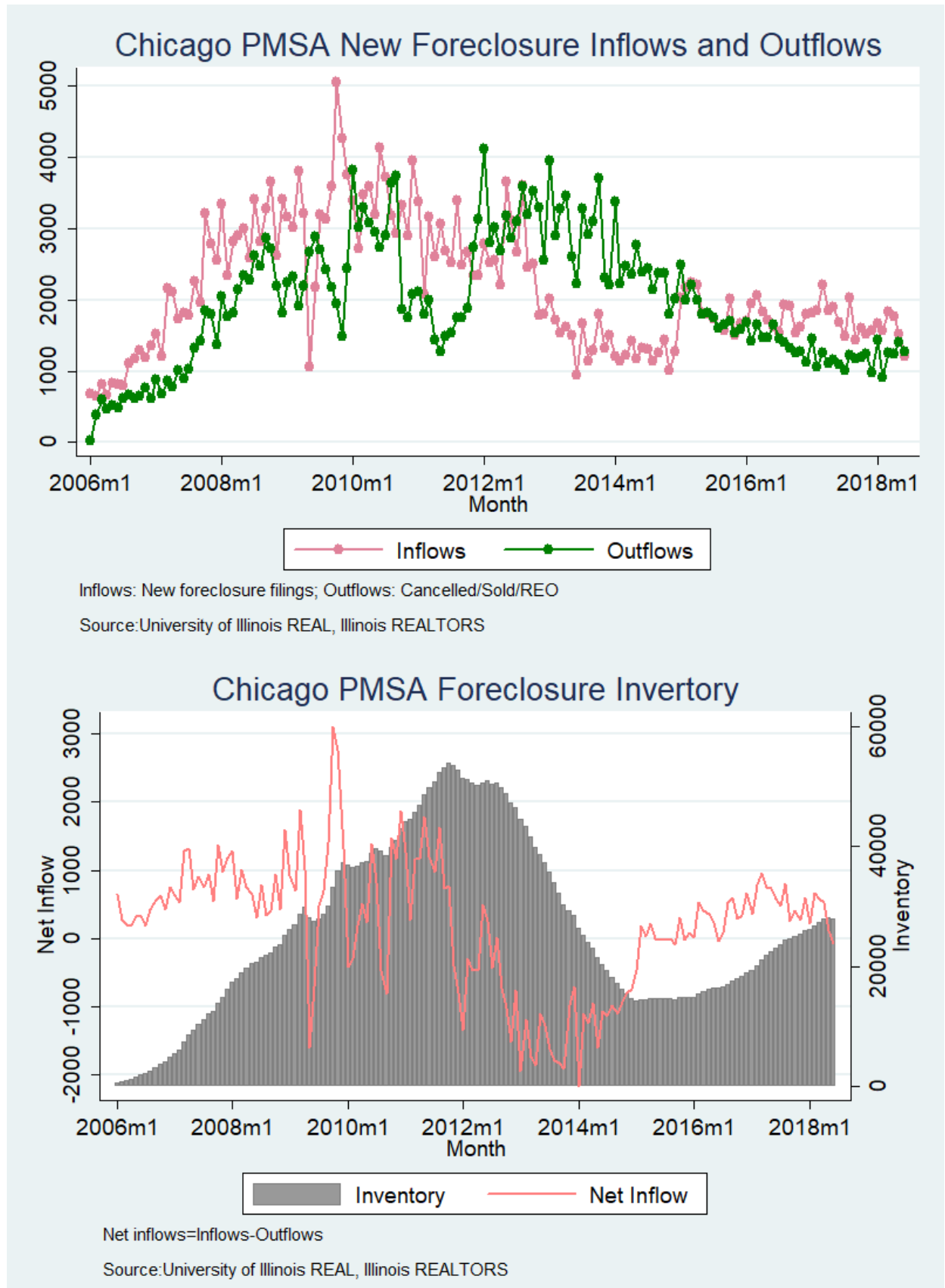


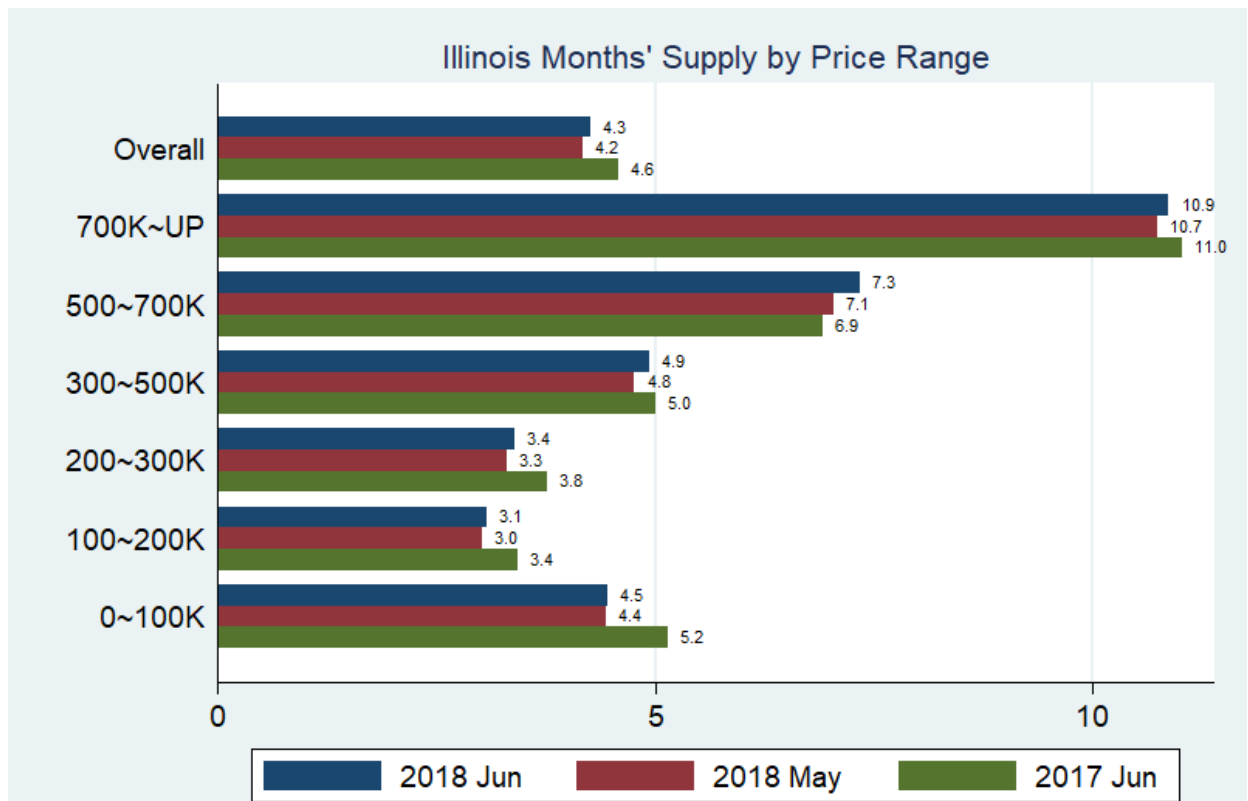


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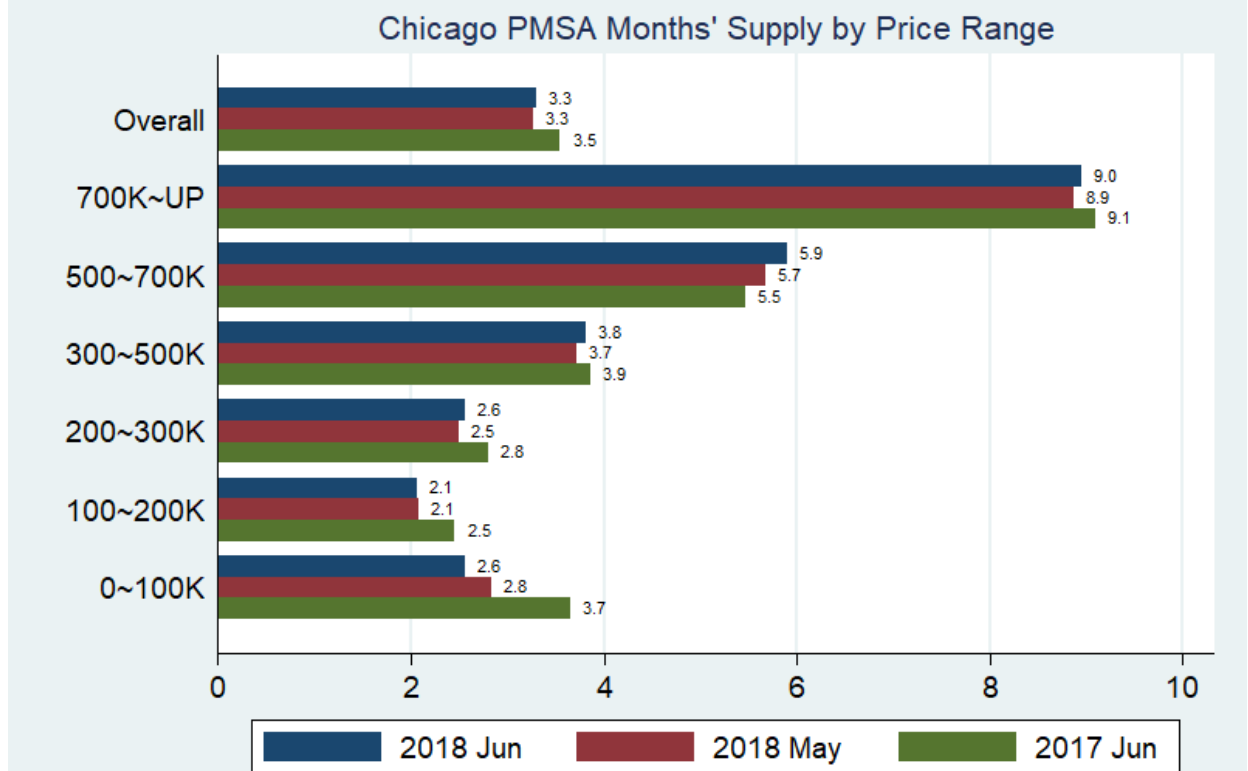


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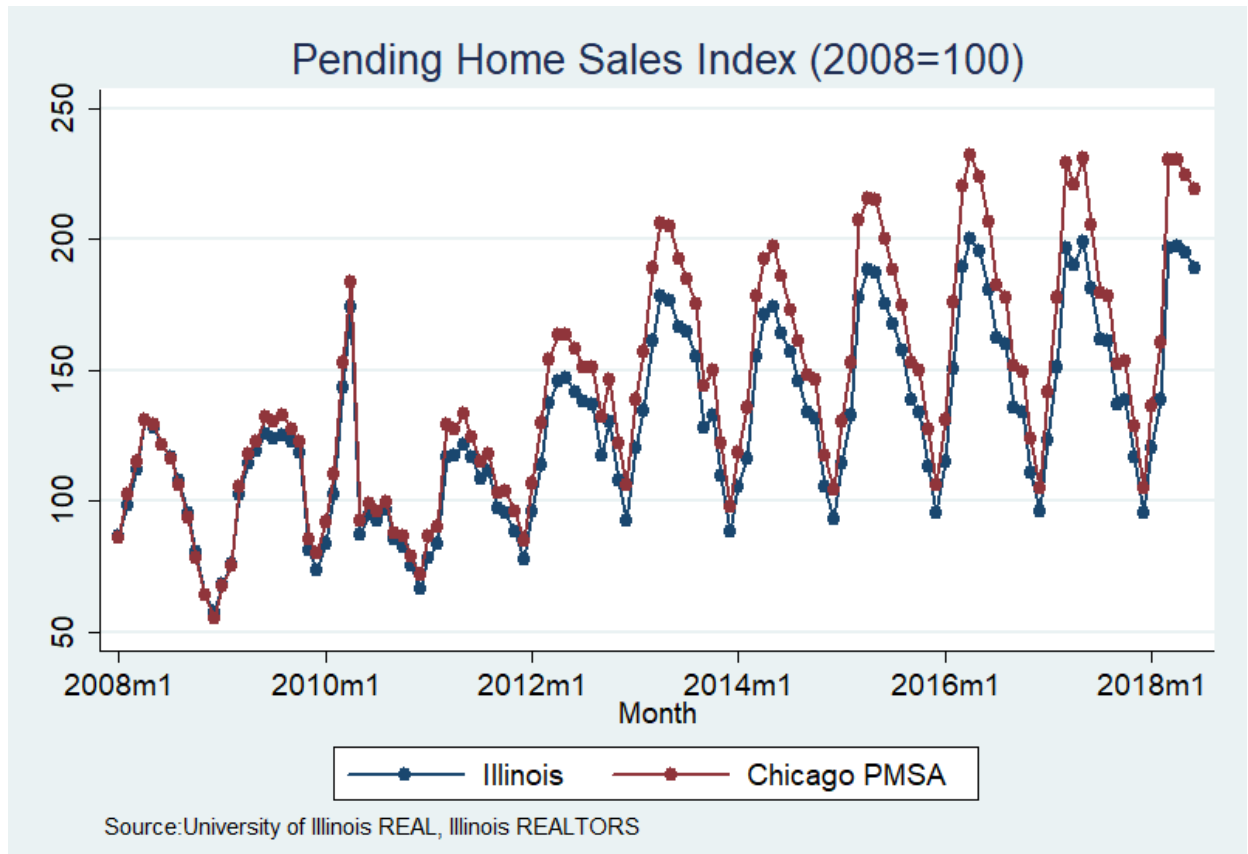


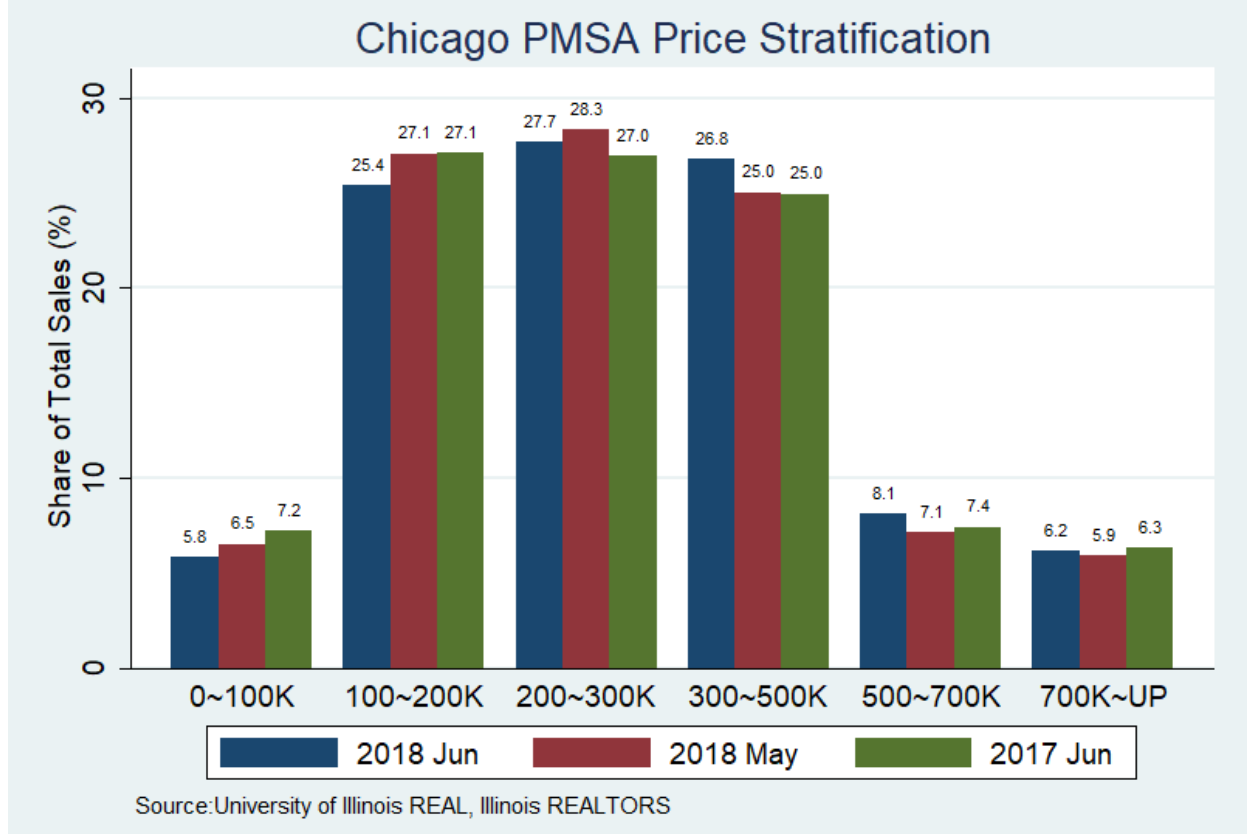
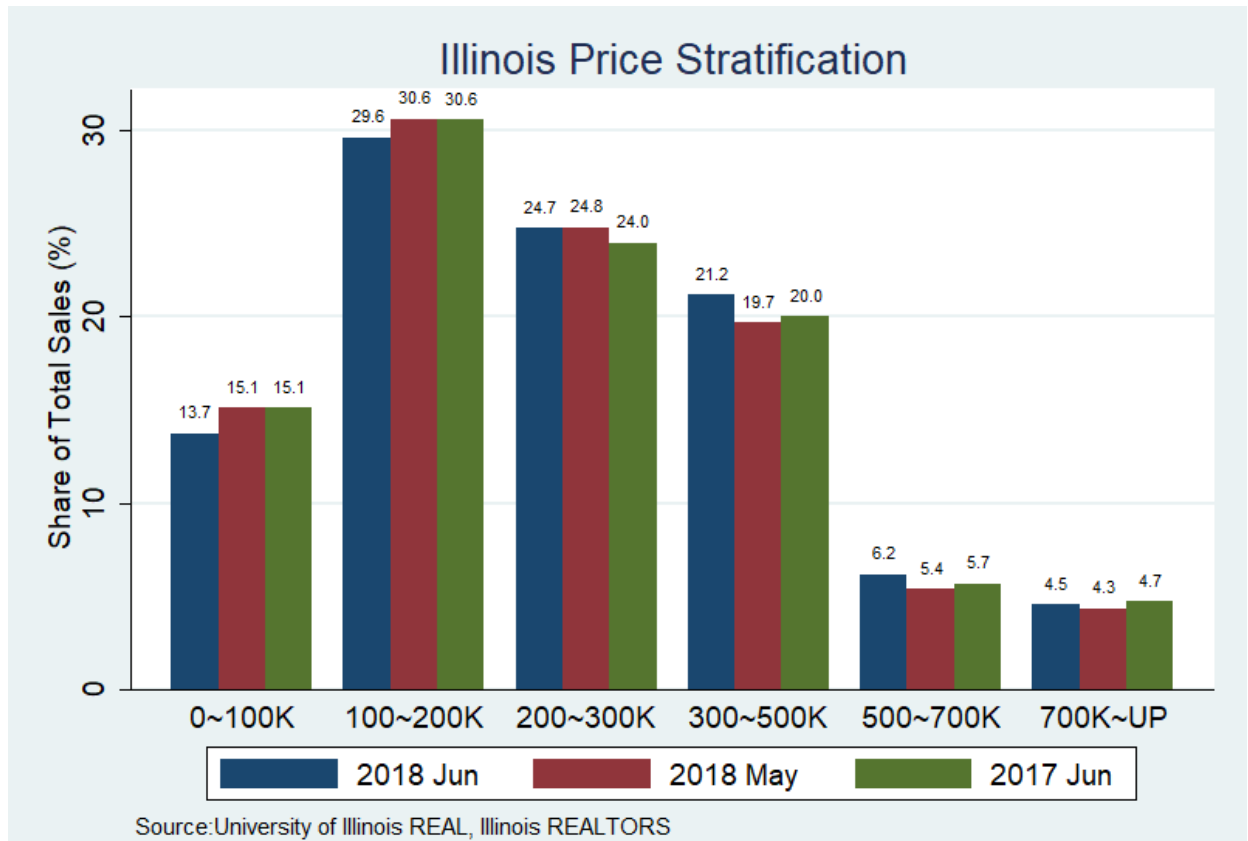


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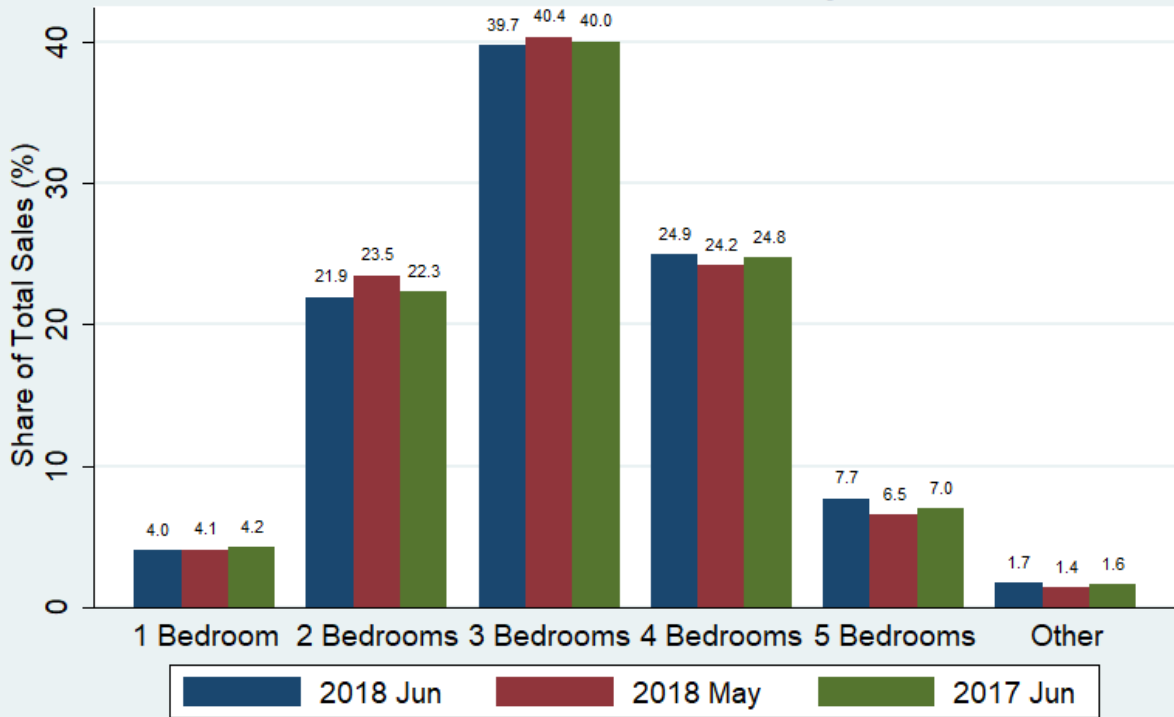


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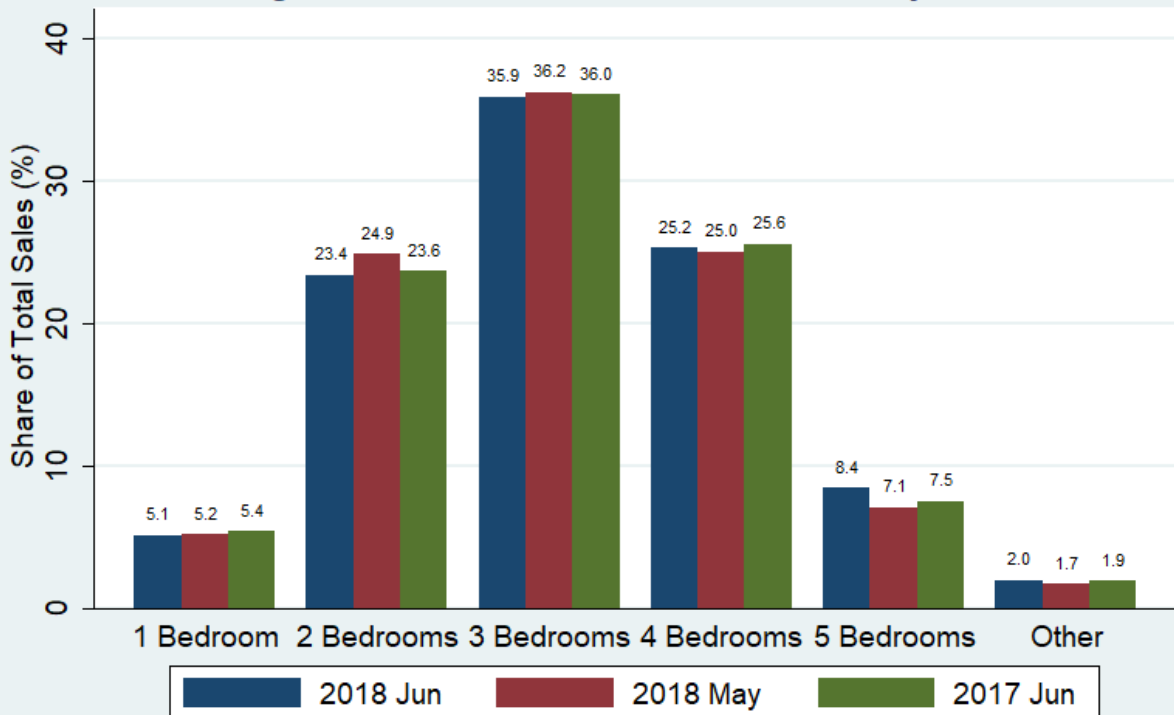


Illinois House Characteristics by Bedroom



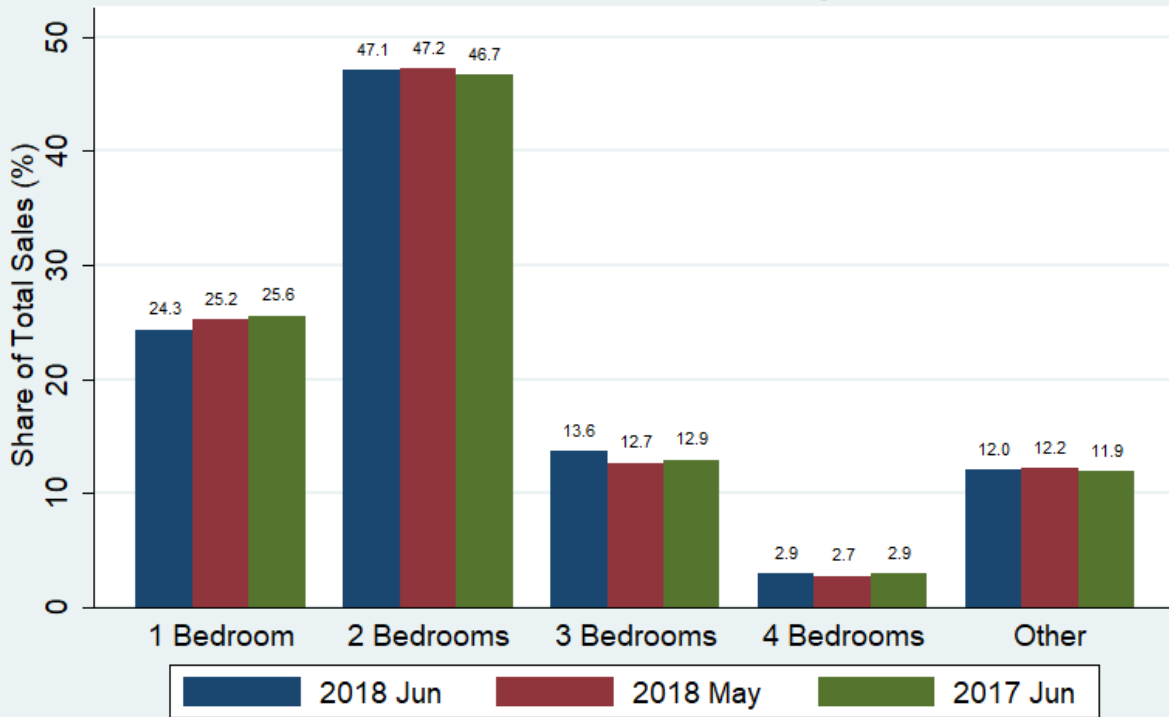
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Chicago PMSA House Characteristics by Bedroom



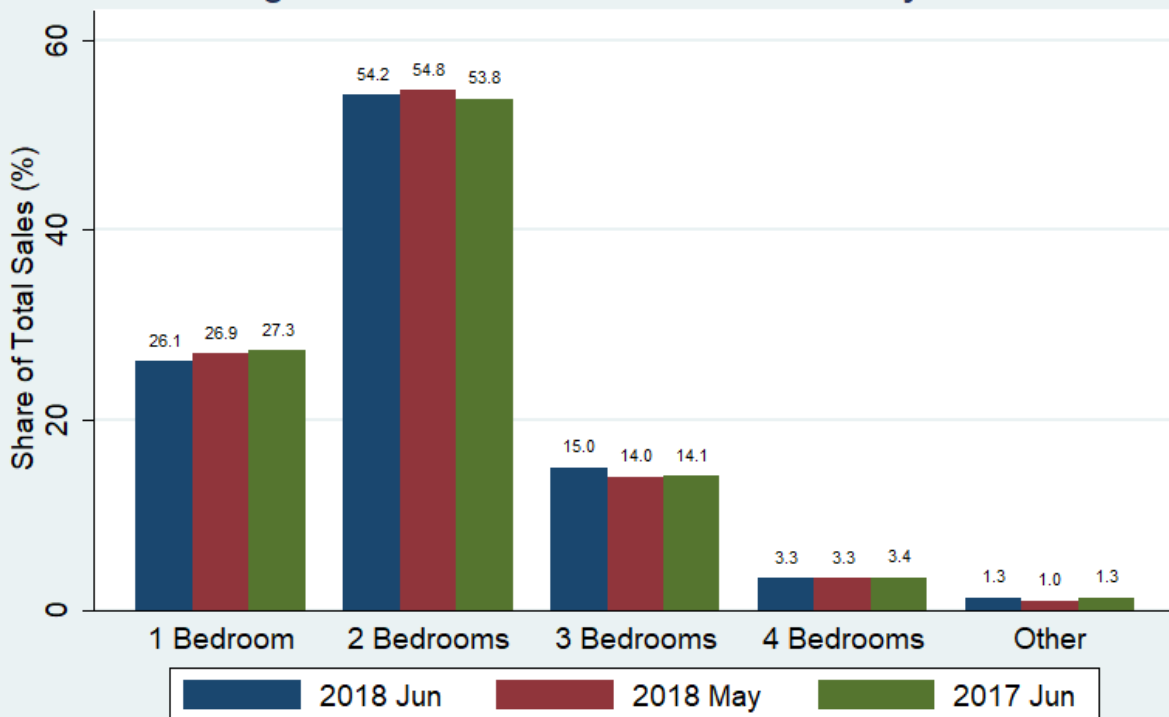
Source: University of Illinois REAL, Illinois REALTORS

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



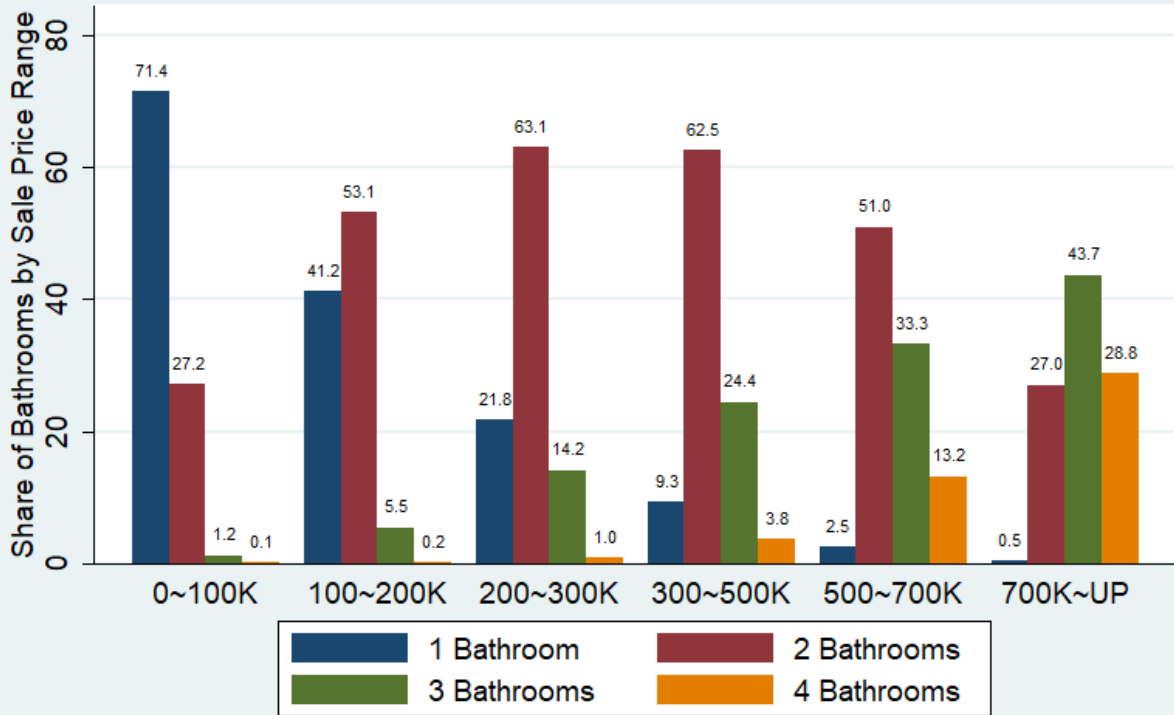
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Chicago PMSA Bedroom Shares by Sale Price Stratification



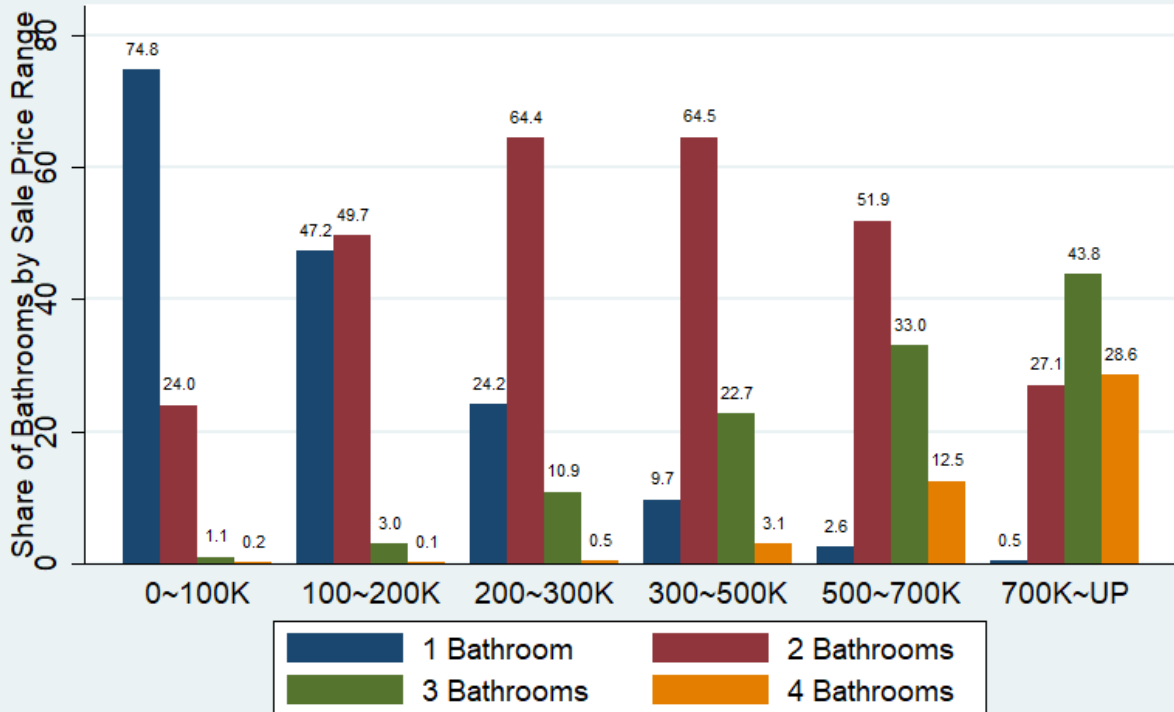
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Illinois Bathroom Shares by Sale Price Stratification



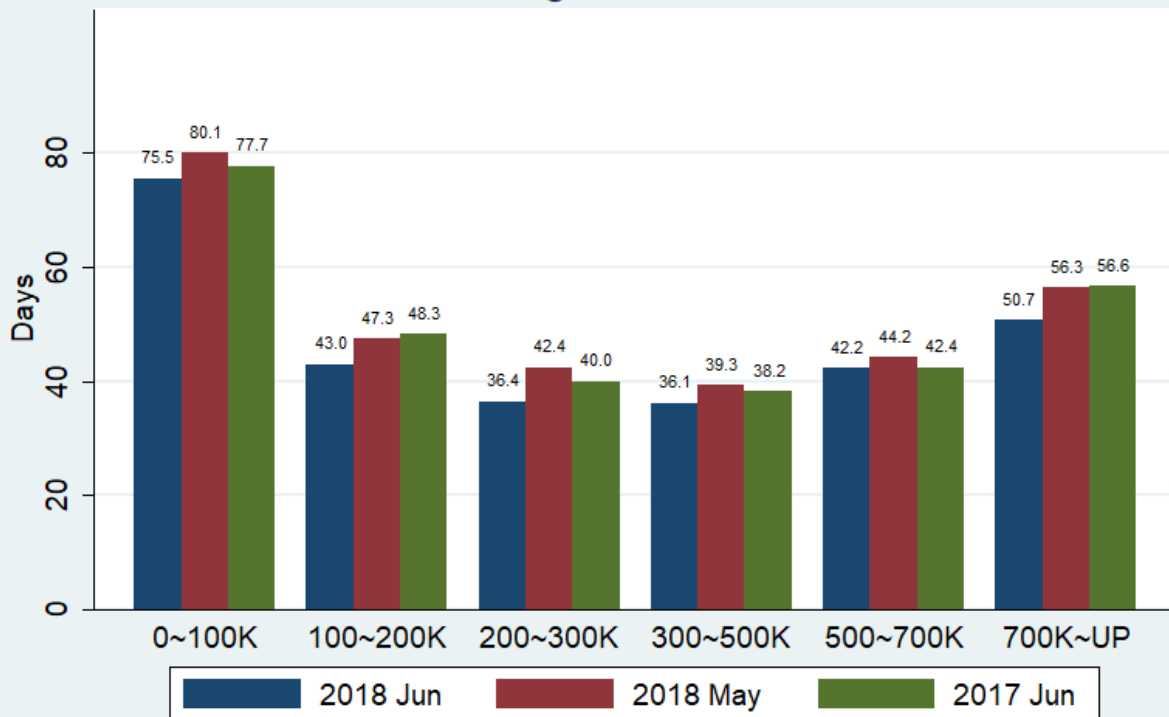
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Chicago PMSA Bathroom Shares by Sale Price Stratification



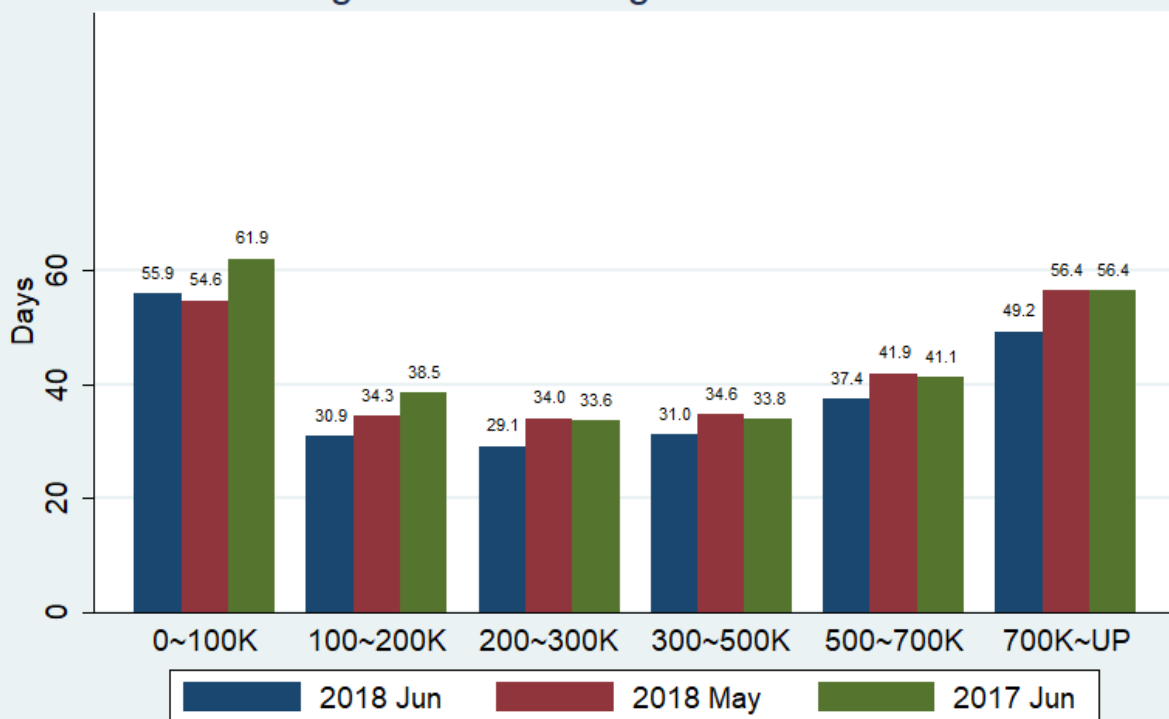
Source: University of Illinois REAL, Illinois REALTORS

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

