

Housing Price Forecasts

Illinois and Chicago PMSA, September 2018

Presented To
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Regional Economics Applications Laboratory,
Institute of Government and Public Affairs
University of Illinois

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Contact: Geoffrey Hewings 217-333-4740 (hewings@illinois.edu)
Jiyoung Chae 217-244-7226 (jchae3@illinois.edu)

Housing Price Forecast: Illinois and Chicago PMSA, September 2018

The Housing Market

In August, median prices continued to experience positive growth while sales experienced a negative annual change in both Illinois and the Chicago PMSA. 16,453 houses were sold in Illinois, changing by 1.4% from a month ago and -0.2% from a year ago. In the Chicago PMSA, 11,545 houses were sold, changing by -0.8% from a month ago and -2.8% from a year ago. The median price was \$202,100 in Illinois, up 1.1% from August last year; the comparable figure for the Chicago PMSA was \$244,000, up 2.1% from this time last year.

In August, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 7.3%. 10,589 regular sales were made, 1.7% less than last year. 868 foreclosed properties were sold, 15.6% less than last year. The median price was \$250,000 for regular property sales, 0.4% higher than last year; the comparable figure for the foreclosed properties was \$160,000, up 3.2% from this time last year.

Illinois and Chicago PMSA both have almost recovered to their pre-bubble price levels on average. The median sales price in August 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 August 2008 median sales price was \$165,000 (in \$2008) and \$192,878 (in \$2018); the current price level was 105% of the 2008 level after adjusting (122% before adjusting). In the Chicago PMSA, the August 2008 median sales price was \$205,000 (in \$2008) and \$239,636 (in \$2018); the comparable figure for price recovery in August 2018 is 102% after adjustment (119% before adjusting).

The sales forecast for September, October and November 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 4.1% to 5.6%; the comparative figures for the Chicago PMSA are an increase in the range 3.7% to 5.0%. On a monthly basis, the three-month average sales are forecast to decrease in the range -7.8% to -10.5% for Illinois and decrease in the range -7.7% to -10.4% for the Chicago PMSA.

The pending home sales index¹ is a leading indicator based on contract signings. This August, the number of homes put under contract was greater than last year. The pending home sales index is 169.3 (2008=100) in Illinois, up 5.4% from a year ago. In the Chicago PMSA, the comparable figure is 190.0, up 6.8% from a year ago. At the latest average annual pending sales rate, Illinois had enough housing inventory for 4.4 months² (down from 4.6 months a year ago). In the Chicago PMSA, the comparable figure was 3.4 months (down from 3.6 months a year ago). Months of supply for homes in lower price ranges (<300K) 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 slight annual growth for September, October, and November in Illinois, while for the Chicago PMSA the median price forecast indicates slight annual growth for September and October, and slight negative annual growth for November. In Illinois, the median price is forecast to change by 0.0% in September 1.1% in October and 0.9% in November. For the Chicago PMSA, the comparable figures are 1.5% in September 0.8% in October and -0.2%

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.

in November. 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 3.1% in September 3.6% in October and 4.7% in November. The comparable figures for the Chicago PMSA are 2.9% in September 3.2% in October and 3.1% in November. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month.

In August, the Conference Board Consumer Confidence Index increased while the University of Michigan Consumer Sentiment Index declined. The Conference Board Consumer Confidence Index survey revealed that consumer confidence increased to its highest level since October 2000. Consumers’ assessment of current business and labor market conditions, and appraisal of current conditions both improved further in August. The University of Michigan Consumer Sentiment Index decreased and the survey reported that most of the August decline was in the current economic conditions index, which fell to its lowest level in almost two years. The worsening mood came despite strong gross domestic product. The causes of the decline were less favorable assessments of buying conditions, caused by worries about prices and rising interest rates. The more housing specific sentiment index, the Fannie Mae Home Purchase Sentiment Index (HPSI) increased for the first time since May. The survey reported that the small boost in positivity was generated by surges in the job and income components of the HPSI.

The Housing Market – Current Condition

- In August, median prices continued to experience positive growth while sales experienced a negative annual change in both Illinois and the Chicago PMSA. 16,453 houses were sold in Illinois, changing by 1.4% from a month ago and -0.2% from a year ago. In the Chicago PMSA, 11,545 houses were sold, changing by -0.8% from a month ago and -2.8% from a year ago. The median price was \$202,100 in Illinois, up 1.1% from August last year; the comparable figure for the Chicago PMSA was \$244,000, up 2.1% from this time last year. (Reference: Illinois and Chicago PMSA Total Home Sales and Median Home Sales Price figures; Forecast for September 2018 report table)
- In August, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 7.3%. 10,589 regular sales were made, 1.7% less than last year. 868 foreclosed properties were sold, 15.6% less than last year. The median price was \$250,000 for regular property sales, 0.4% higher than last year; the comparable figure for the foreclosed properties was \$160,000, up 3.2% from this time last year. (Reference: Ratio of Foreclosed Sales over Total Sales, Sales & Median Prices: Foreclosed vs. Regular figures)
- In August, at the latest average annual pending sales rate, Illinois had enough housing inventory for 4.4 months⁴ (down from 4.6 months a year ago). In the Chicago PMSA, the comparable figure was 3.4 months (down from 3.6 months a year ago). Months of supply for homes in lower price ranges (<300K) 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 August, the market shares of homes priced at all ranges remained almost unchanged from a year ago. In Illinois, the market share for homes less than \$100K decreased to 16.6% from

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.

17.0% a year ago; the comparative figure for the Chicago PMSA showed a decrease to 7.2% from 7.9% a year ago. (Reference: Illinois and Chicago PMSA Price Stratification figures)

The Housing Market – Forecast and Future Condition

- The median price forecast indicates slight annual growth for September, October, and November in Illinois, while for the Chicago PMSA the median price forecast indicates slight annual growth for September and October, and slight negative annual growth for November. In Illinois, the median price is forecast to change by 0.0% in September 1.1% in October and 0.9% in November. For the Chicago PMSA, the comparable figures are 1.5% in September 0.8% in October and -0.2% in November. (Reference: Forecast for September 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 3.1% in September 3.6% in October and 4.7% in November. The comparable figures for the Chicago PMSA are 2.9% in September 3.2% in October and 3.1% in November. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month. (Reference: Housing Price Index)
- The sales forecast for September, October and November 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 4.1% to 5.6%; the comparative figures for the Chicago PMSA are an increase in the range 3.7% to 5.0%. On a monthly basis, the three-month average sales are forecast to decrease in the range -7.8% to -10.5% for Illinois and decrease in the range -7.7% to -10.4% for the Chicago PMSA. (Reference: Forecast for September 2018 report table)
- The pending home sales index⁶ is a leading indicator based on contract signings. This August, the number of homes put under contract was greater than last year. The pending home sales index is 169.3 (2008=100) in Illinois, up 5.4% from a year ago. In the Chicago PMSA, the comparable figure is 190.0, up 6.8% from a year ago. (Reference: Illinois and Chicago PMSA Pending Home Sales Index figure)
- In August 2018, 1,511 houses were newly filed for foreclosure in the Chicago PMSA (down 25.6% and down 4.5% respectively from a year and a month ago). 1,288 foreclosures were completed⁷ (up 5.3% and up 1.9% respectively from a year and a month ago). As of August 2018, there are 29,068 homes at some stage of foreclosure — the foreclosure inventory. The monthly average net flows of foreclosures (foreclosure inflows - outflows) were 335.5 in the past 6 months, 378.8 in the last 12 months and 498.1 in the last 24 months. (Reference: Chicago PMSA Foreclosure Inflows and Outflows, and Inventory figures).

The Economy

- In August 2018, according to the Bureau of Labor Statistics (BLS) Employment Situation report, the national unemployment rate unchanged at 3.9% and nonfarm payroll jobs

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

⁷ Including cancelled foreclosures and auctions

experienced a gain of 201,000 jobs. Employment increased in professional and business services (+53,000), health care (+33,000), and wholesale trade (+22,000).

- In July 2018, according to the Illinois Department of Employment Security (IDES) news release, the Illinois unemployment fell to 4.2%. Non-farm payroll jobs increased by +3,700 over the month. The largest gains were in three sectors; manufacturing (+2,400); leisure and hospitality (+2,000); and professional and business services (+1,900). The industry sectors with the largest payroll decline was: government (-1,700). Furthermore, the job growth in May was slightly revised from the preliminary estimate of +18,100 jobs to +17,200 jobs. **(not updated)**
- In July 2018, the one-year-ahead forecast for Illinois indicates that the non-farm employment will change at a rate between 0.92% and 1.08%, corresponding to job gains between 56,100 and 66,300. The largest contributors to the forecast increase are professional and business, education and health, and leisure and hospitality.
- In August 2018, according to the 2018 Q3 Zillow Survey, home seller's market will last until 2020. The majority of the 100 surveyed economists predicted that the housing market would remain a seller's market despite the recent uptick in listings and slowing growth in prices. Only the Midwest region is expected to turn in favor of buyers next year.
- In August 2018, according to Fannie Mae, the economy likely peaked in the second quarter, and gross domestic product (GDP) growth will likely slow next year. They reported that on the whole, macroeconomic fundamentals remain strong, but signs increasingly point to a softening of third quarter real GDP growth as trade resumes its role as a drag on GDP, and consumer and business demand growth retreat from previous high.

Longer-term Outlook

- In August, the Conference Board Consumer Confidence Index increased while the University of Michigan Consumer Sentiment Index declined. The Conference Board Consumer Confidence Index increased to 133.4 from 127.9 last month. The survey revealed that consumer confidence increased to its highest level since October 2000. Consumers' assessment of current business and labor market conditions, and appraisal of current conditions both improved further in August. The University of Michigan Consumer Sentiment Index fell to 96.2 from 97.9 last month. The University of Michigan reported that most of the August decline was in the current economic conditions index, which fell to its lowest level in almost two years. The worsening mood came despite strong gross domestic product. The causes of the decline were less favorable assessments of buying conditions, caused by worries about prices and rising interest rates.
- In August, Fannie Mae Home Purchase Sentiment Index (HPSI) increased for the first time since May, to 88.0 from 86.5 last month. The survey reported that the small boost in positivity was generated by surges in the job and income components of the HPSI.
- The Chicago Business Activity Index (CBAI) decreased to 95.2 in July from 106.6 in June. The decrease is mainly attributed to the negative construction job growth and a decline in nationwide economic activities measured by the Chicago Fed National Activity Index (CFNAI).

“Both sales and price growth slowed in the last few months and the forecasts for the next three months suggest modest growth on an annual basis” noted Geoffrey J.D. Hewings, Director of the Regional Economics Applications Laboratory. “The two consumer sentiment indices

(Conference Board and University of Michigan) pointed in different directions suggesting some uncertainty in the direction of the economy in the near term. However, the Fannie Mae Home Purchase Sentiment Index did increase for the first time since May.”

Forecast for September 2018 report

PERCENTAGE CHANGE FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Jun-18	-4.6%	-5.8%		8.0%	7.7%			
Jul-18	1.4%	0.9%		-12.8%	-14.1%			
Aug-18	-0.2%	-2.8%		1.4%	-0.8%			
3 Month Avg.	-1.3%	-2.8%		-1.5%	-2.7%			
SUMMARY OF THE FORECAST INTERVALS FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Sep-18	3.2%	4.4%	2.2%	2.9%	-10.6%	-14.3%	-11.2%	-15.2%
Oct-18	5.1%	6.9%	4.5%	6.1%	-3.3%	-4.5%	-2.9%	-3.9%
Nov-18	4.0%	5.4%	4.7%	6.4%	-9.1%	-12.3%	-8.5%	-11.6%
3 Month Avg.	4.1%	5.6%	3.7%	5.0%	-7.8%	-10.5%	-7.7%	-10.4%
SUMMARY OF THE FORECAST FOR THE MEDIAN PRICE								
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Jun-18	\$224,900	\$262,500	Jun-17	\$215,500	\$252,000			
Jul-18	\$214,000	\$250,600	Jul-17	\$210,000	\$247,500			
Aug-18	\$202,100	\$244,000	Aug-17	\$200,000	\$239,000			
Sep-18	\$192,056	\$233,337	Sep-17	\$192,000	\$230,000			
Oct-18	\$186,980	\$223,885	Oct-17	\$185,000	\$222,000			
Nov-18	\$186,701	\$224,480	Nov-17	\$185,000	\$225,000			
ANNUAL PERCENTAGE CHANGE OF THE MEDIAN PRICE								
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Jun-18	4.4%	4.2%	Jun-17	6.2%	3.9%			
Jul-18	1.9%	1.3%	Jul-17	6.1%	4.1%			
Aug-18	1.1%	2.1%	Aug-17	4.7%	3.9%			
Sep-18	0.0%	1.5%	Sep-17	6.7%	5.9%			
Oct-18	1.1%	0.8%	Oct-17	3.9%	3.3%			
Nov-18	0.9%	-0.2%	Nov-17	4.2%	5.1%			

Median Prices and Recovery

	Illinois		Chicago PMSA	
	[\$2008]	[\$2018]	[\$2008]	[\$2018]
August 2008 Median Price	\$165,000	\$192,878	\$205,000	\$239,636
August 2018 Median Price	\$172,889	\$202,100	\$208,733	\$244,000
Price Ratio (August 18/ August 08)	Adjusted	1.05	Adjusted	1.02
	Unadjusted	1.22	Unadjusted	1.19

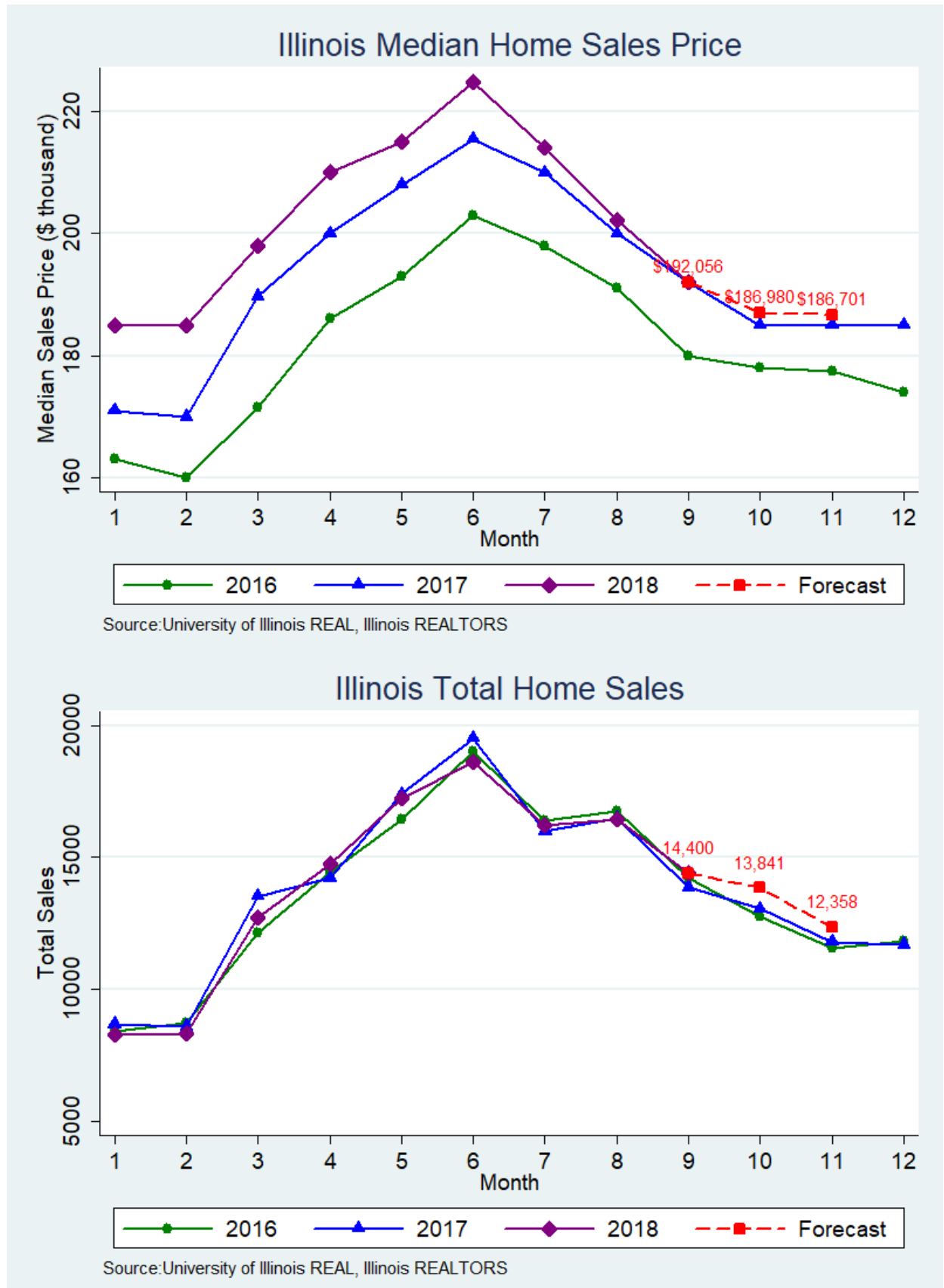
Recovery Forecasts using *Annually Growth Rates*

	Illinois	Chicago PMSA		
	Annual Recovery Rate*	Years to Recover**	Recovery Rate	Years to Recover
Current Month	-1.7%	2.7	-0.7%	2.7
Past 3 months	-0.4%	10.8	-0.4%	4.9
Past 6 months	0.6%	-7.3	0.3%	-5.8
Past 9 months	2.3%	-2.1	1.7%	-1.1
Past 12 months	2.4%	-2.0	1.9%	-0.9

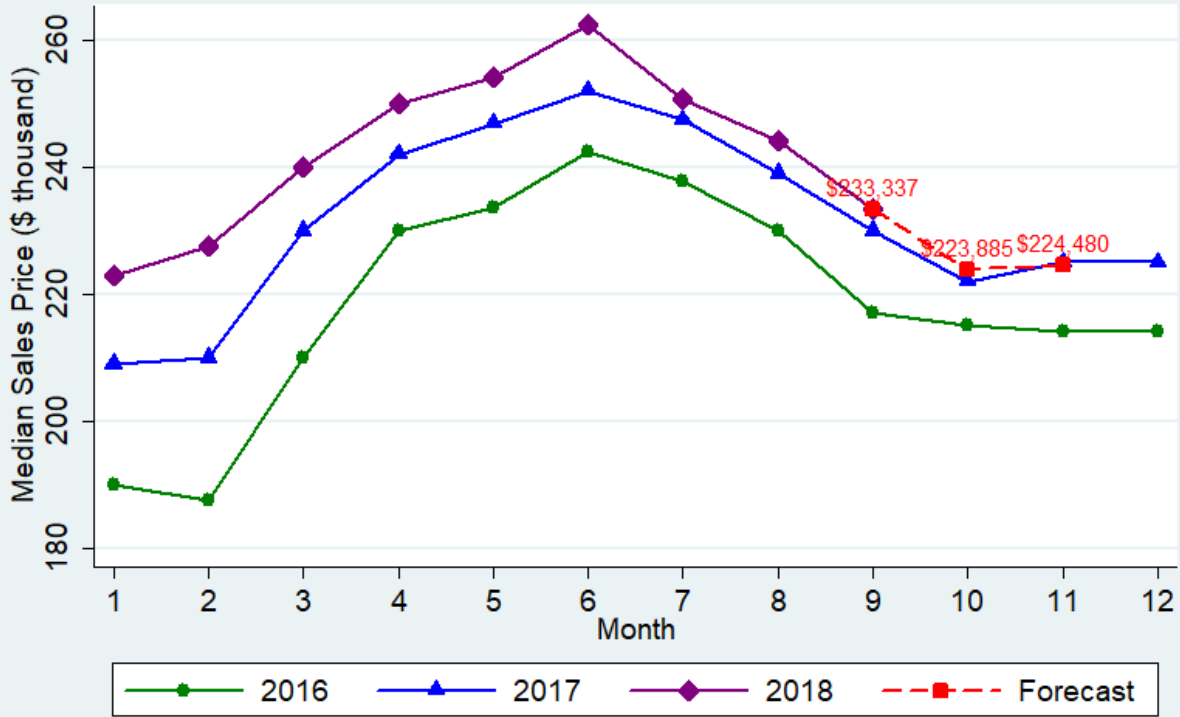
*Annual recovery rate is the average of *annual* change rates in past months

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

$Price_{August2018} * (1 + \text{recovery rate})^{\text{years}} = Price_{August2008}$. 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.

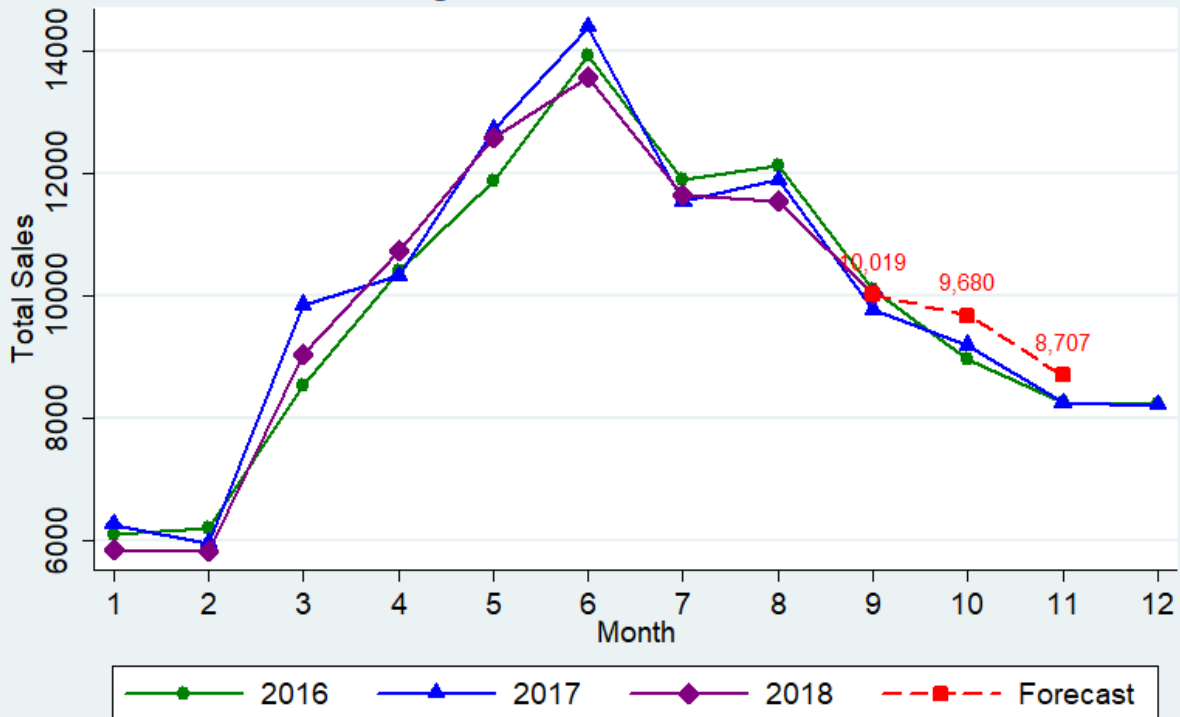


Chicago PMSA Median Home Sales Price

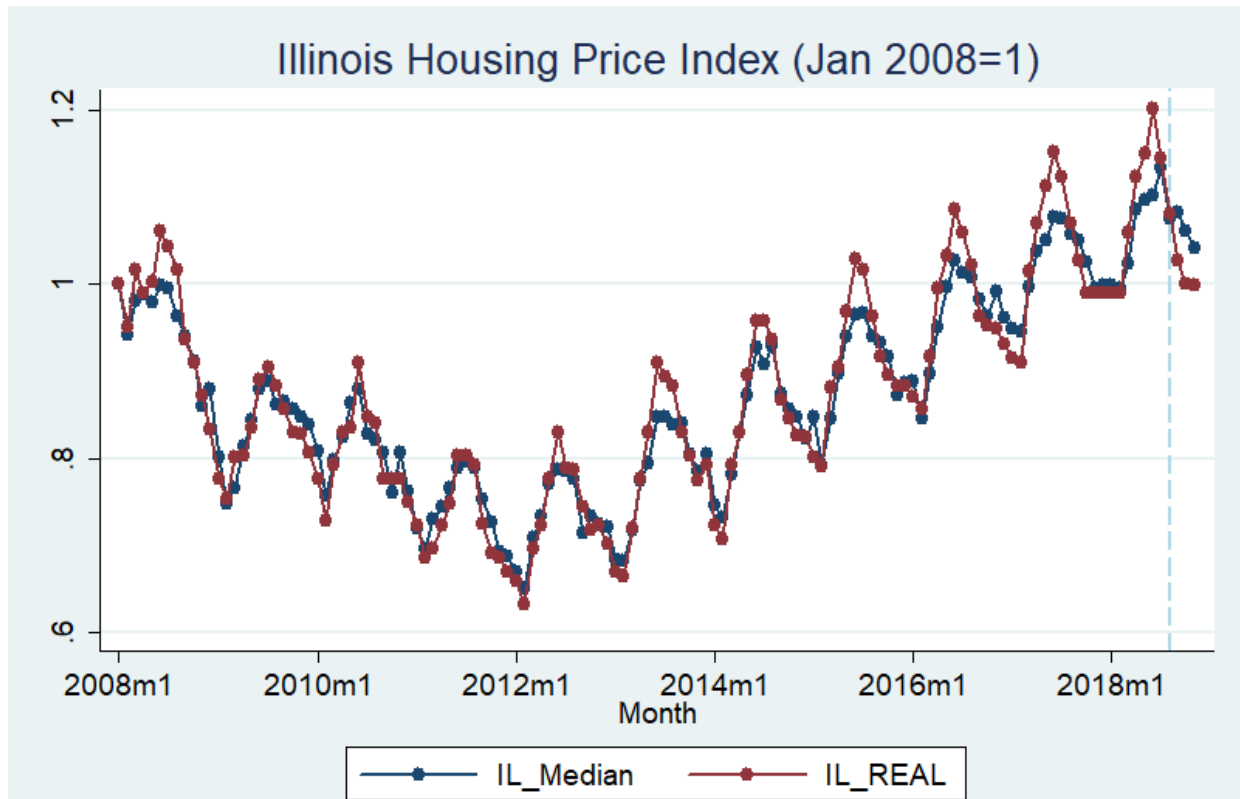


Source: University of Illinois REAL, Illinois REALTORS

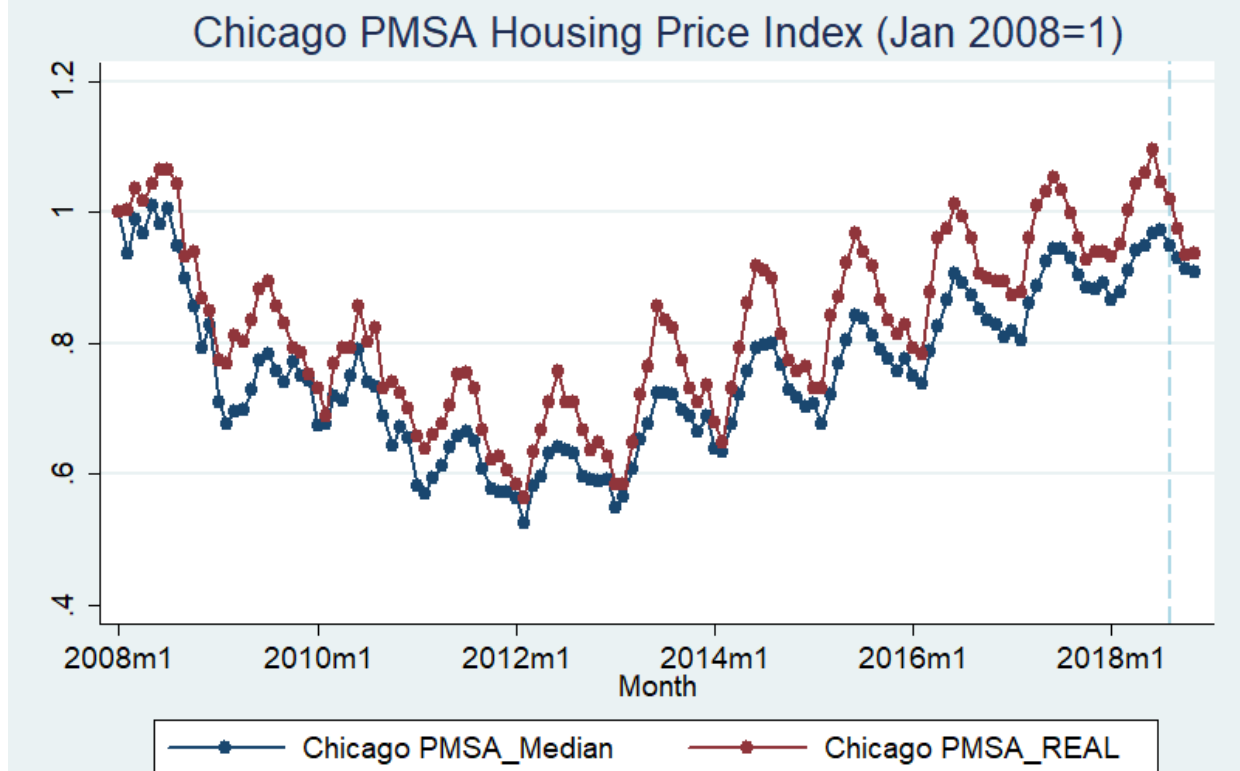
Chicago PMSA Total Home Sales



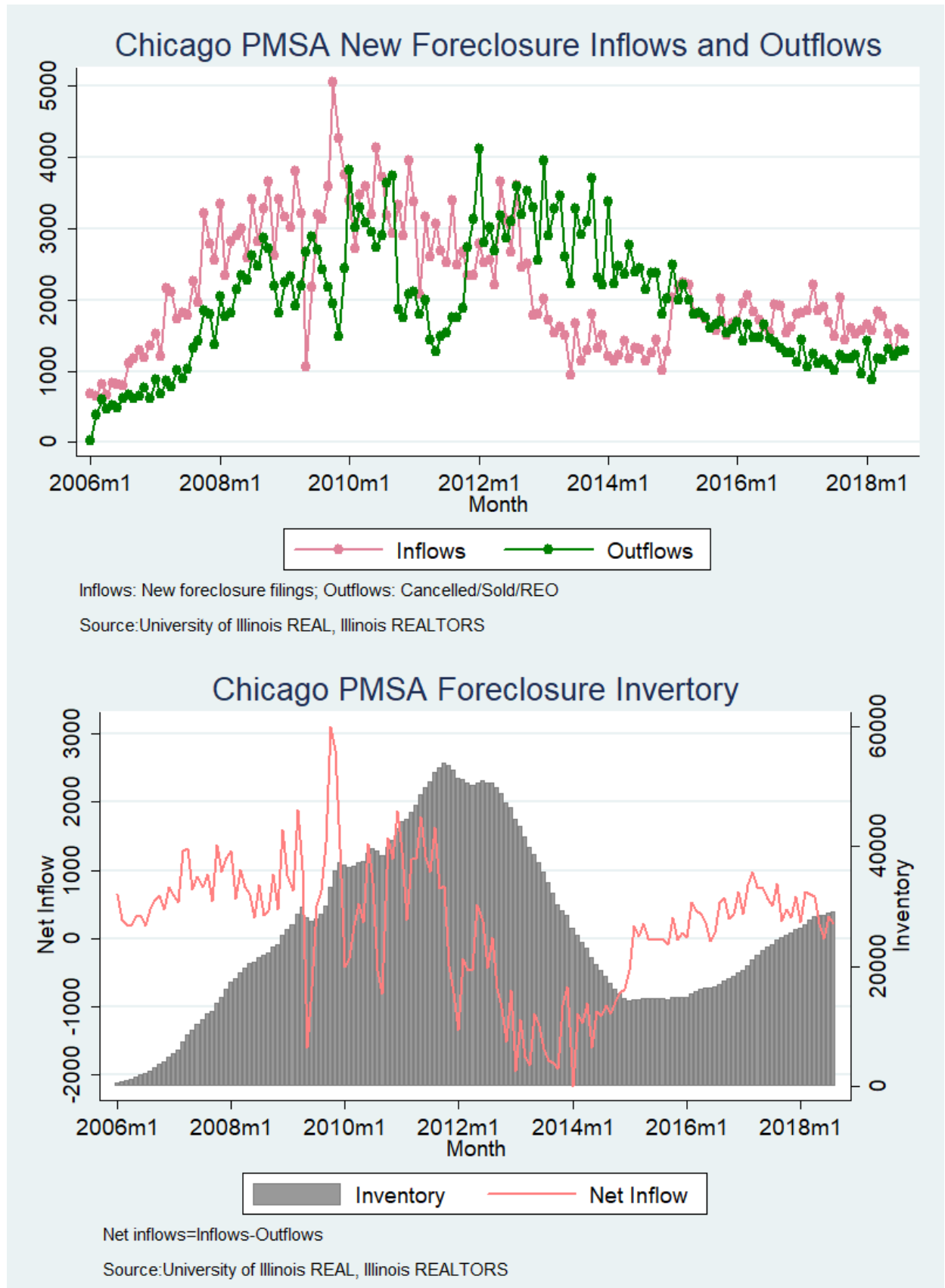
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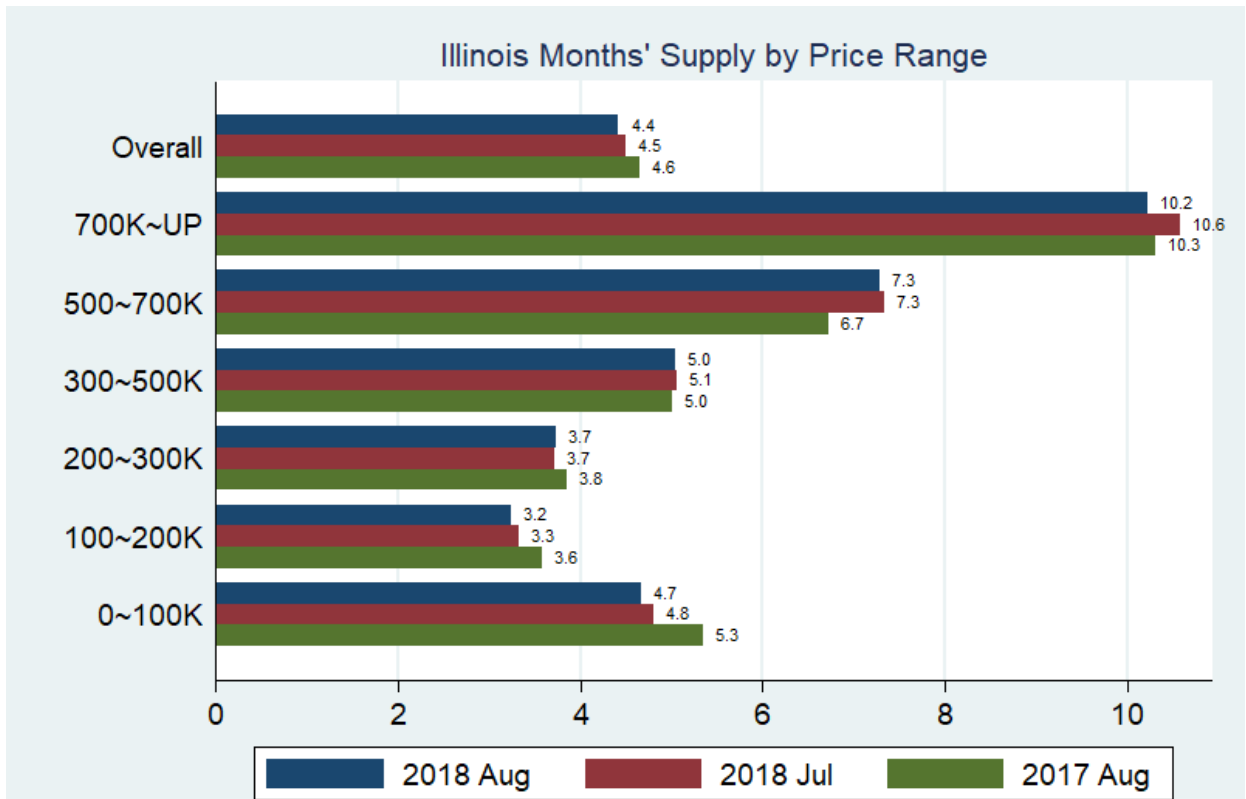


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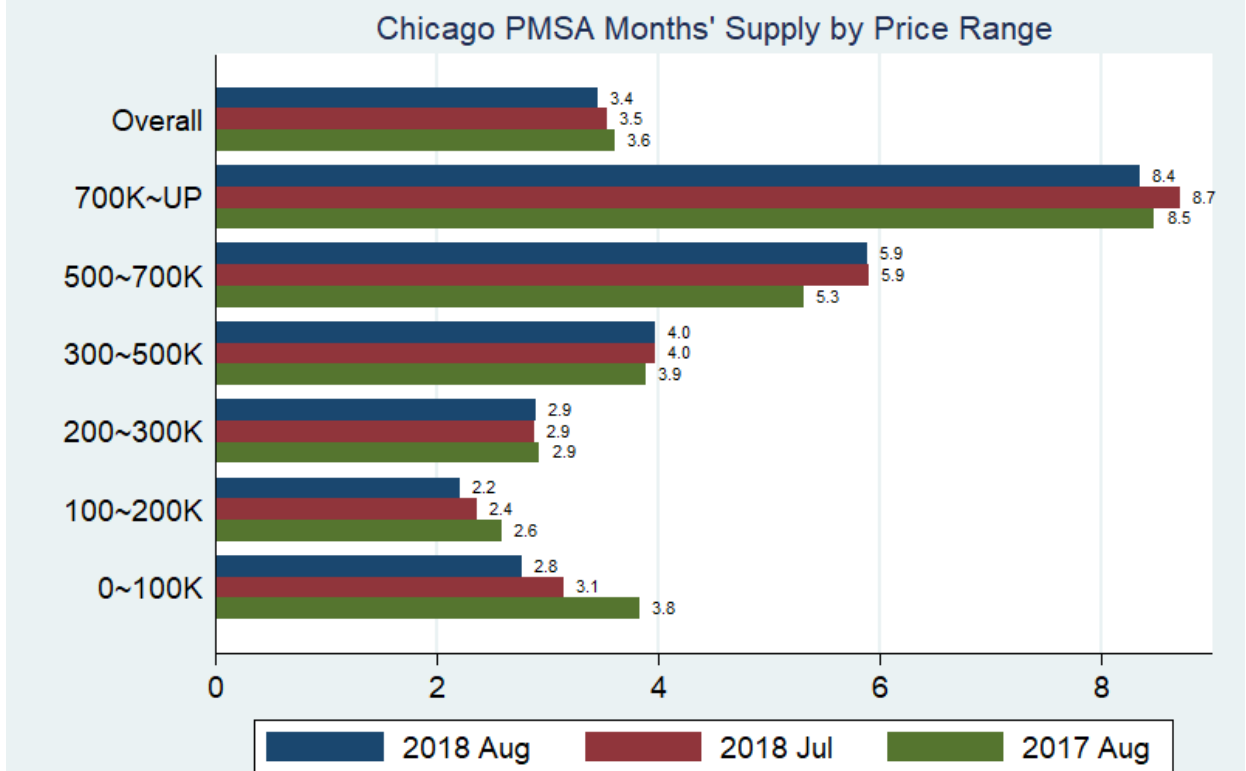


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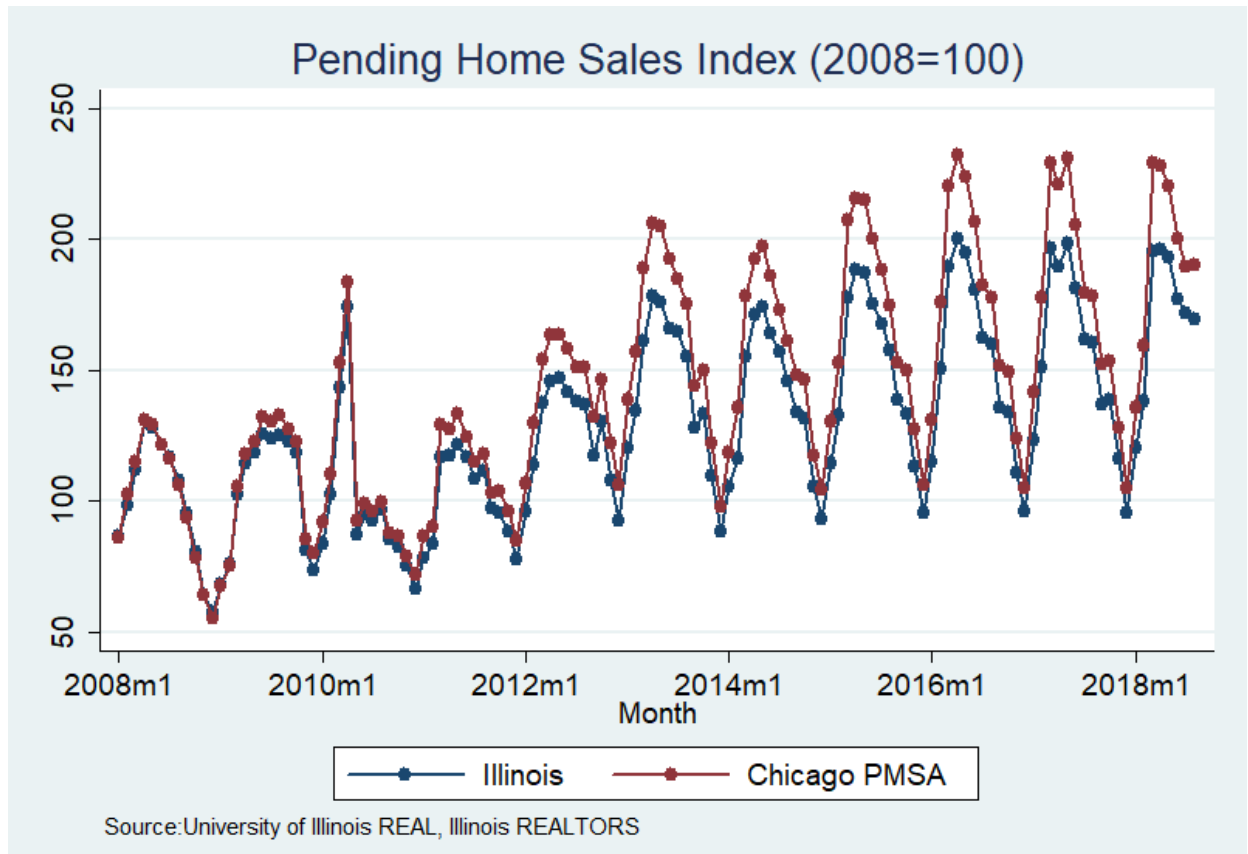


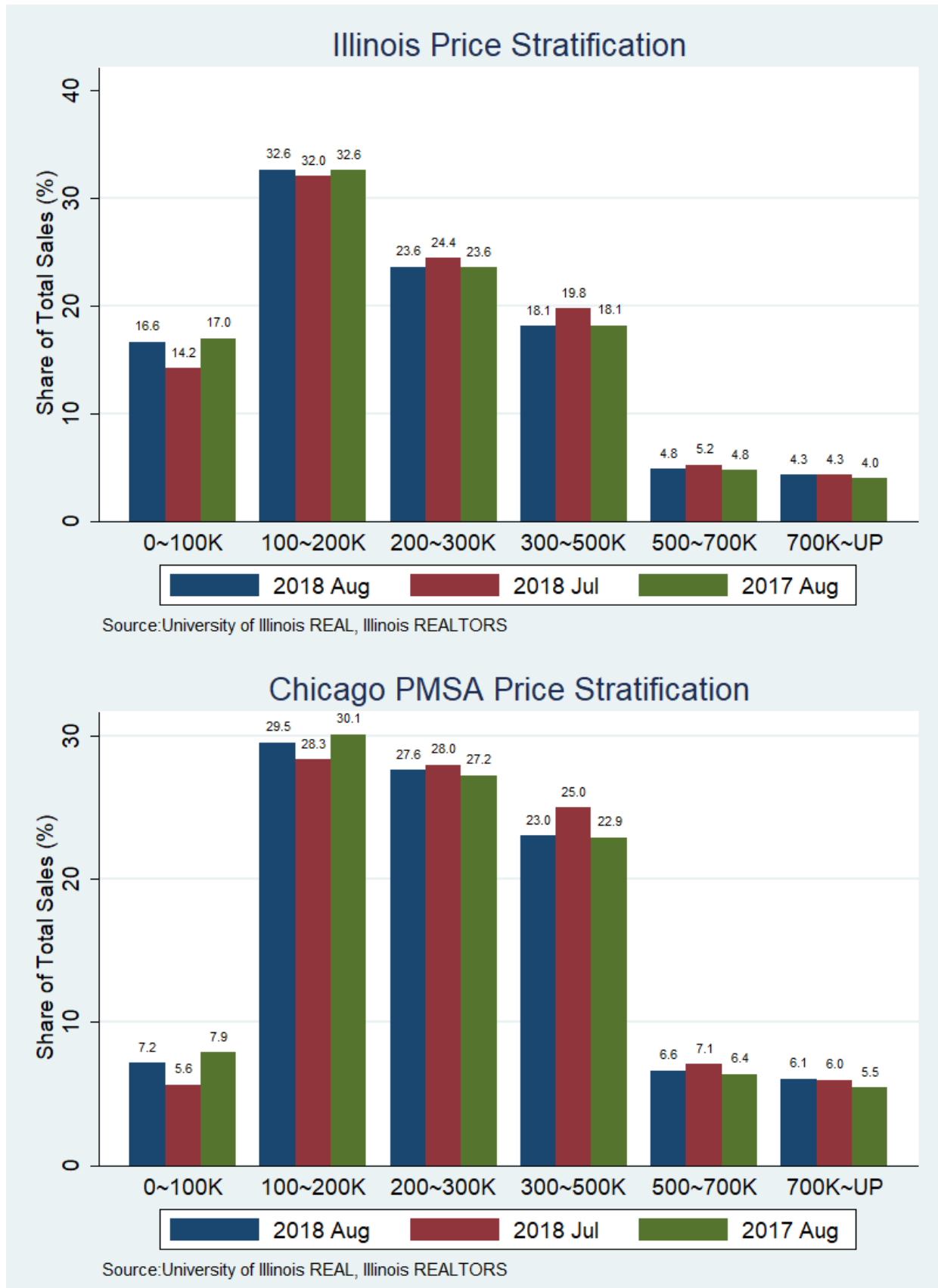


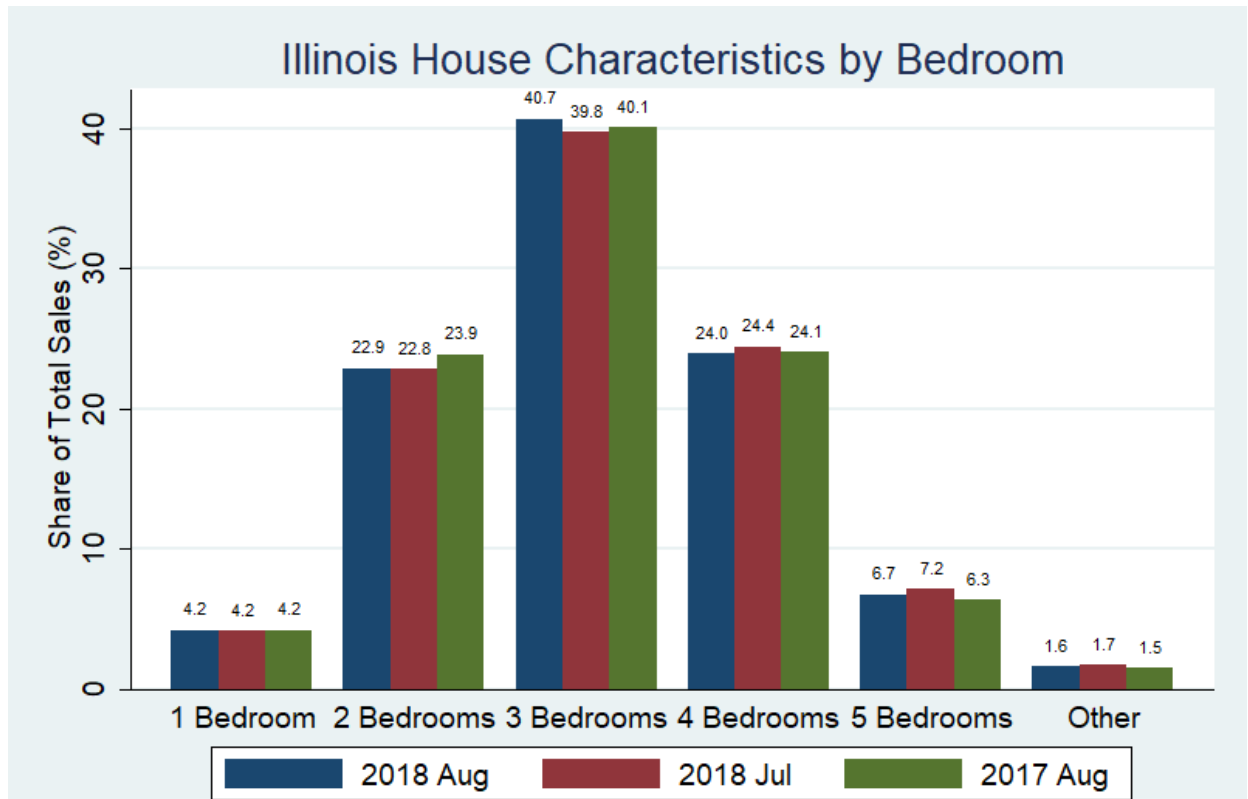
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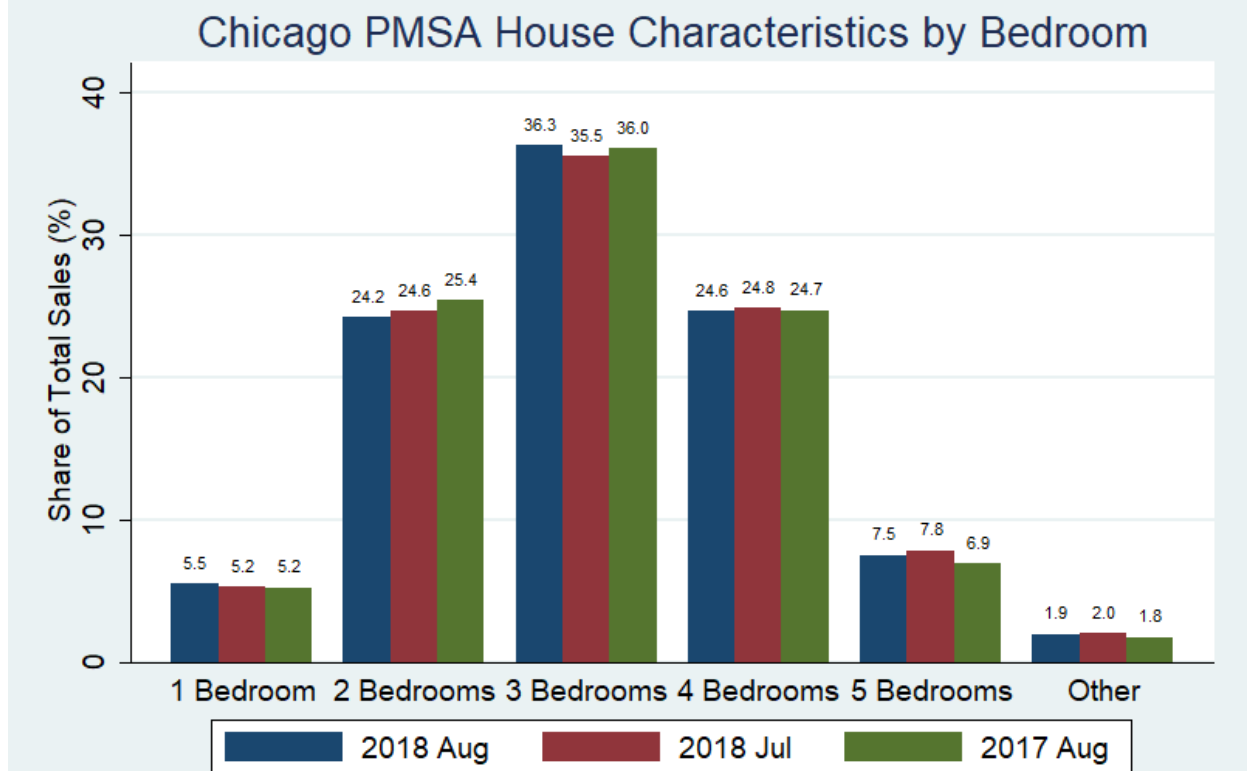
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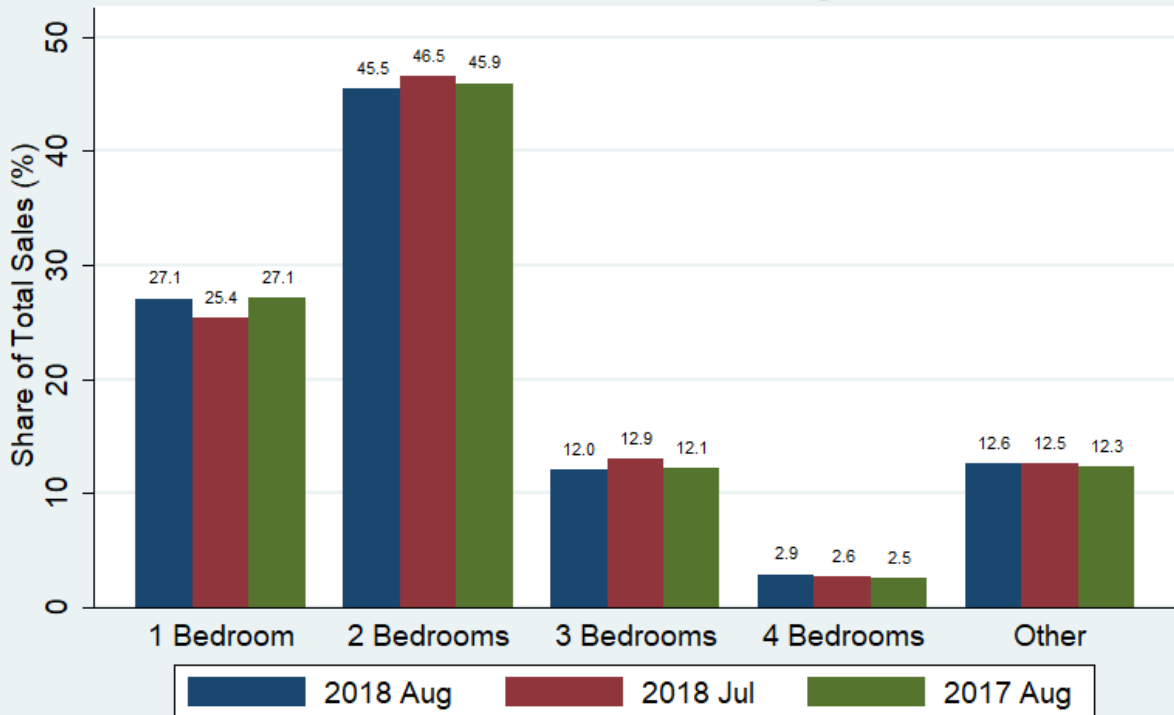


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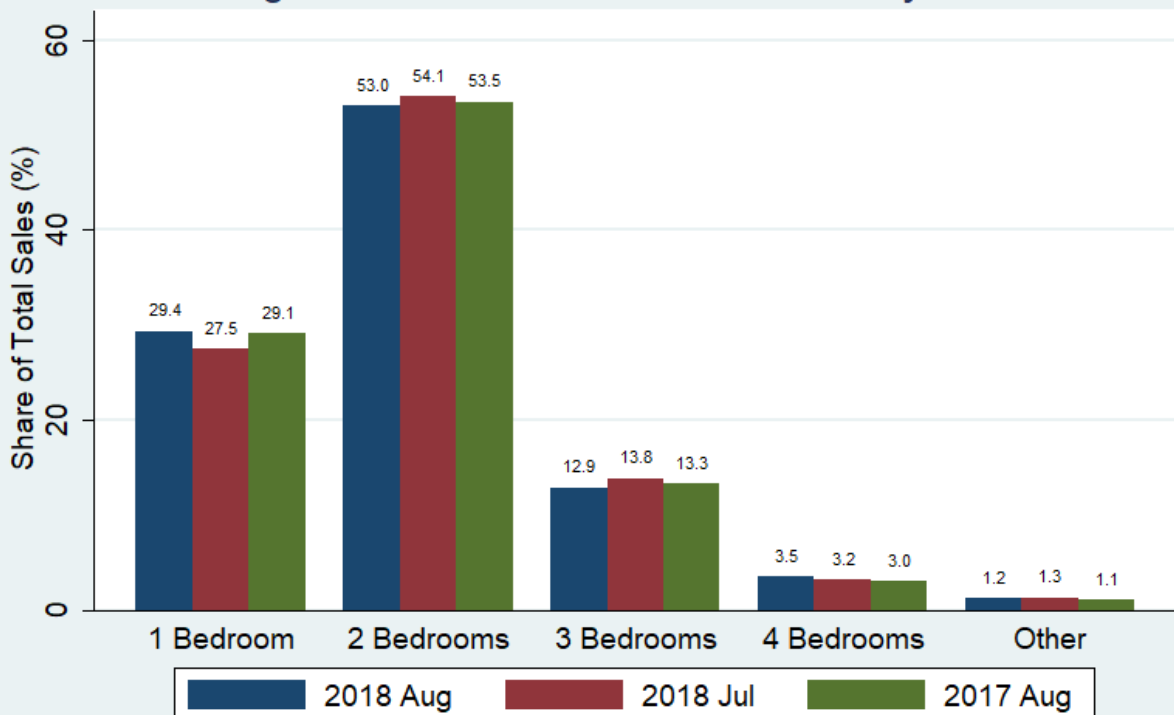
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Illinois House Characteristics by Bathroom



Source: University of Illinois REAL, Illinois REALTORS

Chicago PMSA House Characteristics by Bathroom



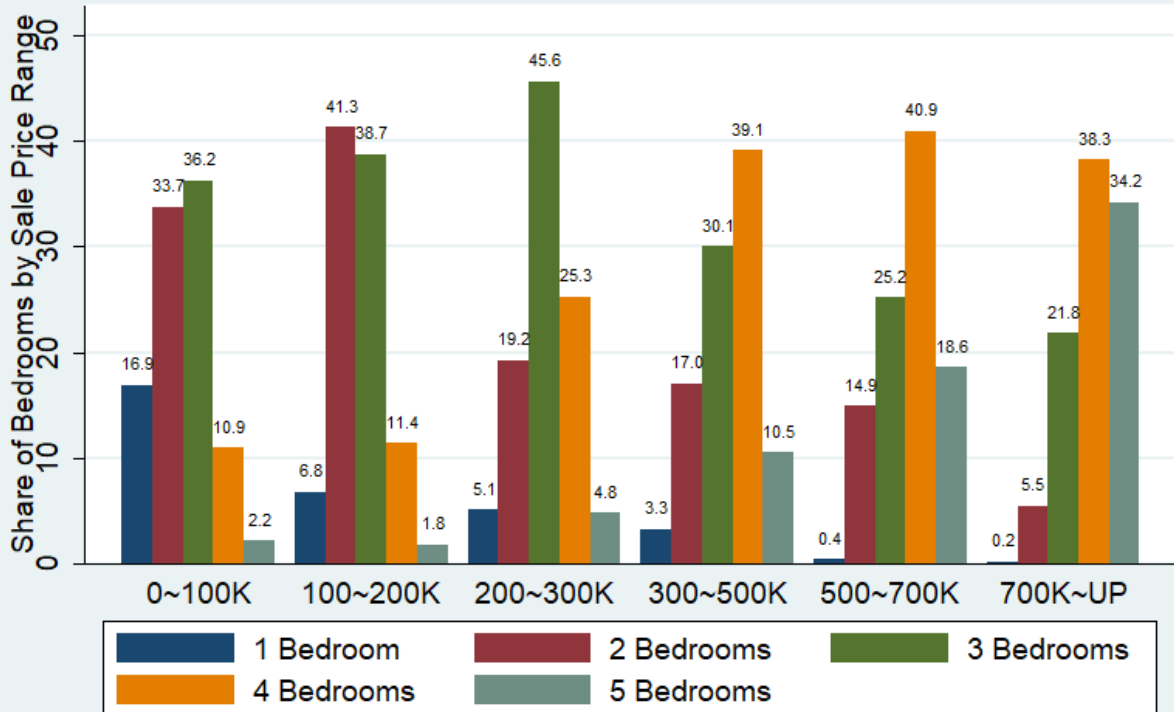
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Illinois Bedroom Shares by Sale Price Stratification



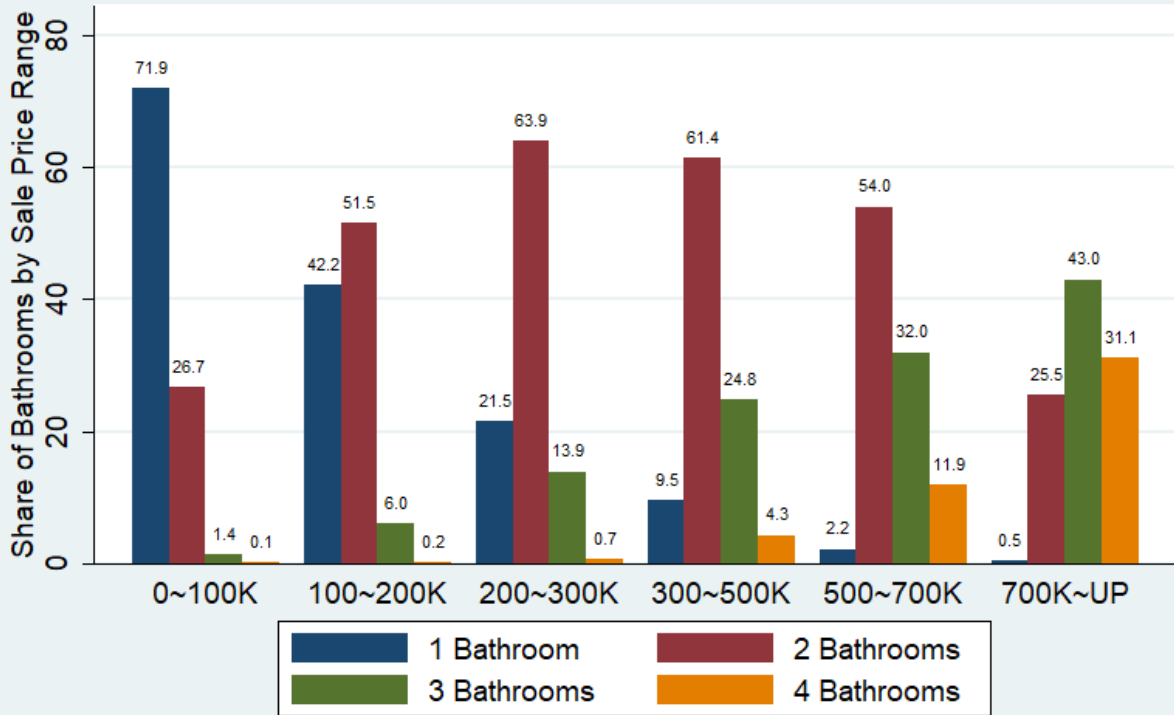
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Chicago PMSA Bedroom Shares by Sale Price Stratification



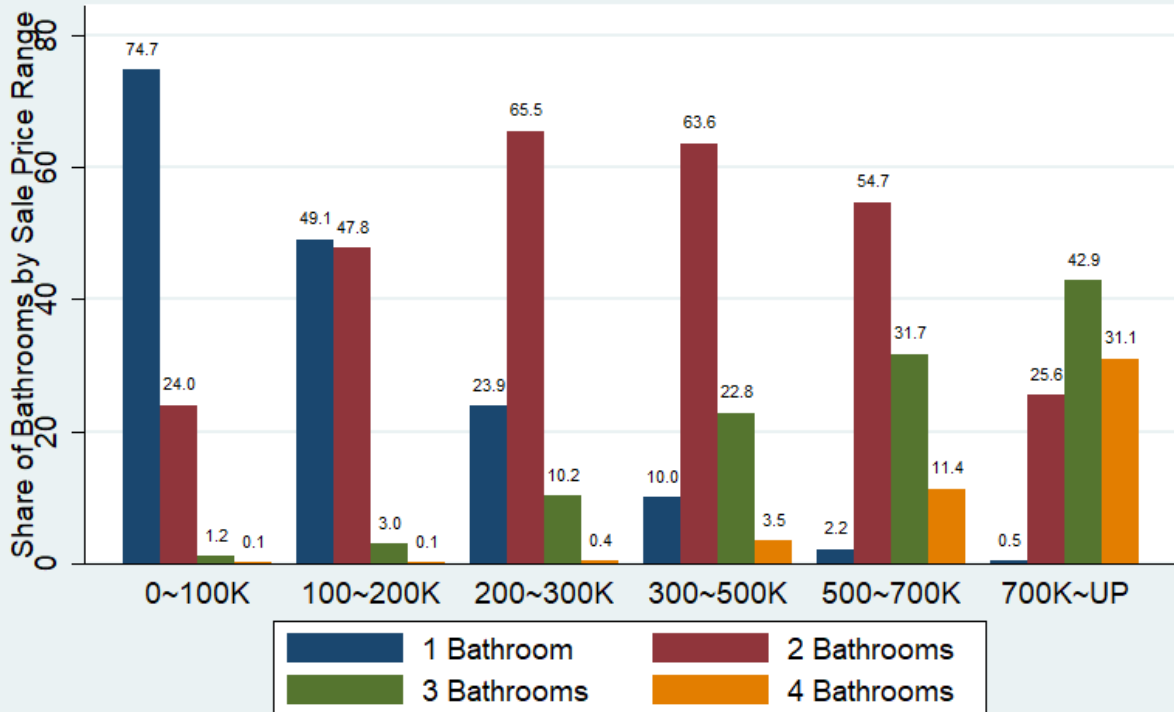
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Illinois Bathroom Shares by Sale Price Stratification



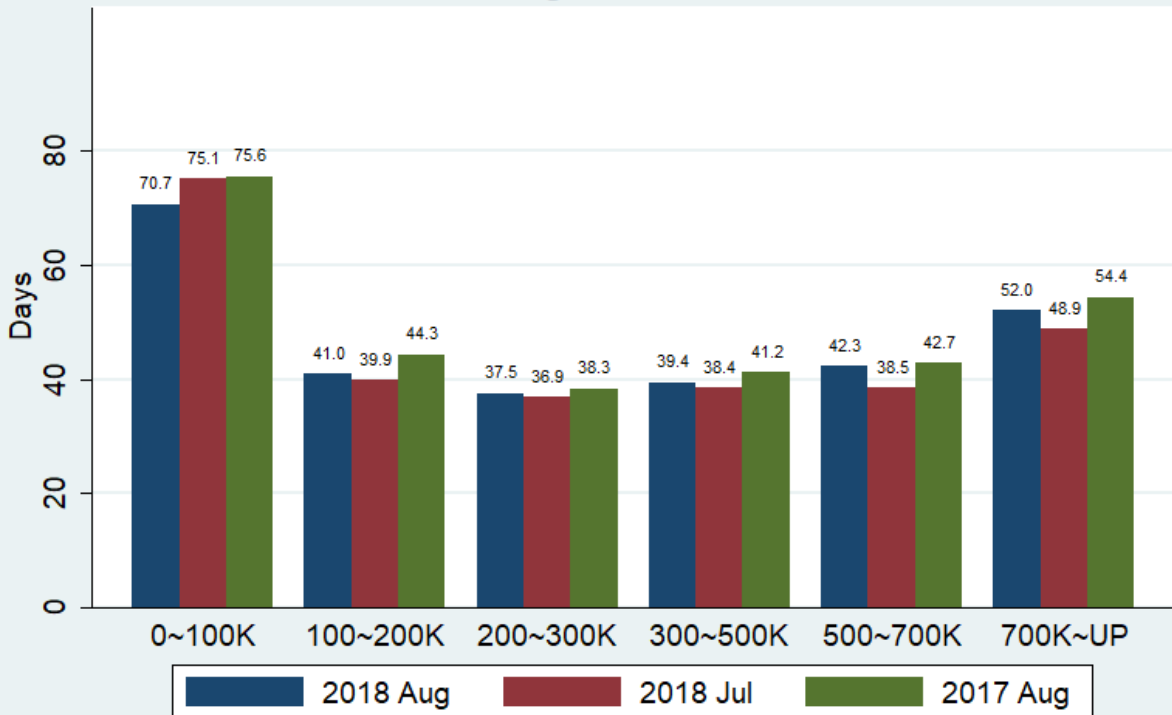
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Chicago PMSA Bathroom Shares by Sale Price Stratification



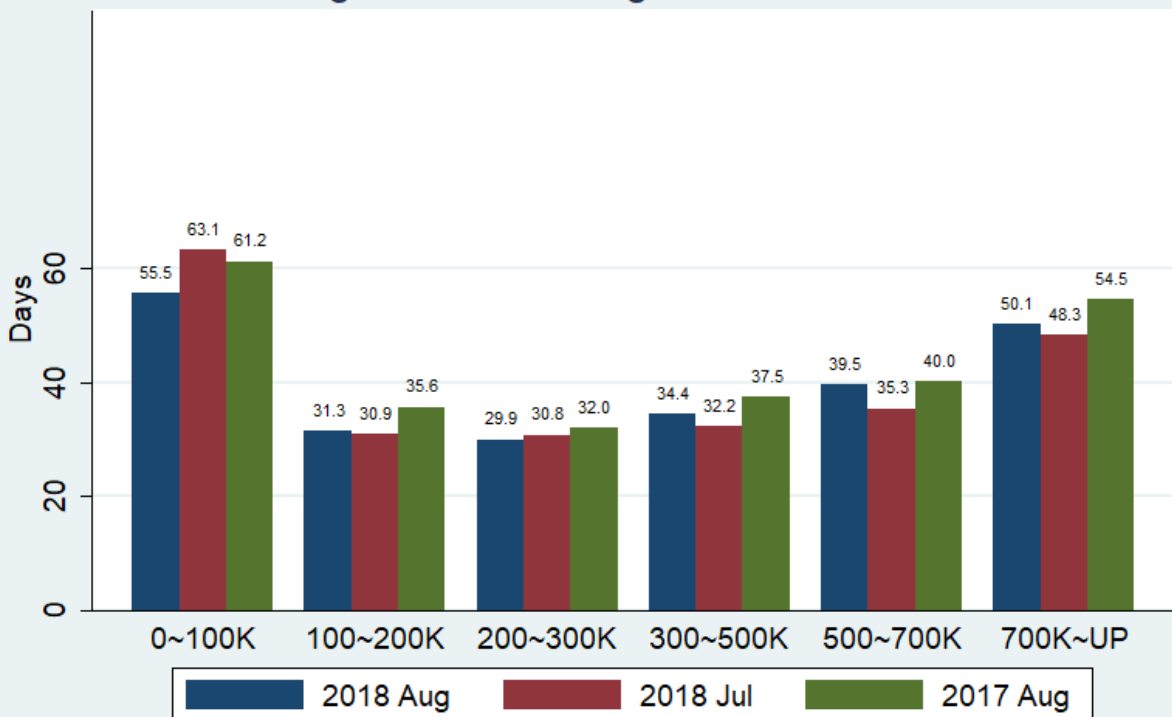
Source: University of Illinois REAL, Illinois REALTORS

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

