

Housing Price Forecasts

Illinois and Chicago PMSA, November 2018

Presented To

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Institute of Government and Public Affairs
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Housing Price Forecast: Illinois and Chicago PMSA, November 2018

The Housing Market

In October, median prices continued to experience positive growth while sales experienced a negative annual change in both Illinois and the Chicago PMSA. 13,035 houses were sold in Illinois, changing by 3.3% from a month ago and -0.2% from a year ago. In the Chicago PMSA, 9,038 houses were sold, changing by 3.8% from a month ago and -1.7% from a year ago. The median price was \$190,000 in Illinois, up 2.7% from October last year; the comparable figure for the Chicago PMSA was \$230,000, up 3.6% from this time last year.

In October, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 8.3%. 8,151 regular sales were made, 0.1% less than last year. 808 foreclosed properties were sold, 16.4% less than last year. The median price was \$237,500 for regular property sales, 3.3% higher than last year; the comparable figure for the foreclosed properties was \$161,500, up 0.9% from this time last year.

Illinois and Chicago PMSA both have already recovered to their pre-bubble levels on average. The median sales price in October 2008 has been adjusted to 2018 values to enable calculation of the housing price recovery considering the effects of inflation. In Illinois, the October 2008 median sales price was \$155,000 (in \$2008) and \$180,404 (in \$2018); the current price level was 105% of the 2008 level after adjusting (123% before adjusting). In the Chicago PMSA, the October 2008 median sales price was \$189,900 (in \$2008) and \$221,024 (in \$2018); the comparable figure for price recovery in October 2018 is 104% after adjustment (121% before adjusting).

The sales forecast for November, December and January 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 4.0% to 5.4%; 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 -8.6% to -11.7% for Illinois and decrease in the range -8.2% to -11.1% for the Chicago PMSA.

The pending home sales index¹ is a leading indicator based on contract signings. This October, the number of homes put under contract was greater than last year. The pending home sales index is 144.2 (2008=100) in Illinois, up 4.2% from a year ago. In the Chicago PMSA, the comparable figure is 161.6, up 5.5% from a year ago. At the latest average annual pending sales rate, Illinois had enough housing inventory for 4.3 months² (down from 4.4 months a year ago). In the Chicago PMSA, the comparable figure was 3.4 months (same as a year ago). Months of supply for homes in lower price ranges (<200K) 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 for November, December, and January in both Illinois and the Chicago PMSA. In Illinois, the median price is forecast to change by 3.4% in November 2.1% in December and 1.5% in January. For the Chicago PMSA, the comparable figures are 3.5% in November 3.1% in December and 2.8% in January. As a

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.

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 4.1% in November 4.0% in December and 4.0% in January. The comparable figures for the Chicago PMSA are 2.3% in November 1.8% in December and 2.4% in January. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month.

In October, while the Conference Board Consumer Confidence Index increased, the University of Michigan Consumer Sentiment Index slightly declined but still remained high. The Conference Board Consumer Confidence Index survey revealed that the present situation index based on consumers’ assessment of current business and labor market conditions improved and the expectations index based on consumers’ short-term outlook for income, business and labor market conditions also increased. The University of Michigan reported that the current conditions gauge that measures Americans’ perceptions of their finances, dropped and the expectations measure also decreased. The more housing specific sentiment index, the Fannie Mae Home Purchase Sentiment Index (HPSI) decreased, continuing its recent downward trend. The survey reported that while the October drop was broad-based - all but one of the six HPSI components declined - the net share of consumers who said it’s a good time to buy a home posted the largest decrease, tying its second lowest reading in the survey’s history.

The Housing Market – Current Condition

- In October, median prices continued to experience positive growth while sales experienced a negative annual change in both Illinois and the Chicago PMSA. 13,035 houses were sold in Illinois, changing by 3.3% from a month ago and -0.2% from a year ago. In the Chicago PMSA, 9,038 houses were sold, changing by 3.8% from a month ago and -1.7% from a year ago. The median price was \$190,000 in Illinois, up 2.7% from October last year; the comparable figure for the Chicago PMSA was \$230,000, up 3.6% from this time last year. (Reference: Illinois and Chicago PMSA Total Home Sales and Median Home Sales Price figures; Forecast for November 2018 report table)
- In October, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 8.3%. 8,151 regular sales were made, 0.1% less than last year. 808 foreclosed properties were sold, 16.4% less than last year. The median price was \$237,500 for regular property sales, 3.3% higher than last year; the comparable figure for the foreclosed properties was \$161,500, up 0.9% from this time last year. (Reference: Ratio of Foreclosed Sales over Total Sales, Sales & Median Prices: Foreclosed vs. Regular figures)
- In October, at the latest average annual pending sales rate, Illinois had enough housing inventory for 4.3 months⁴ (down from 4.4 months a year ago). In the Chicago PMSA, the comparable figure was 3.4 months (same as a year ago). Months of supply for homes in lower price ranges (<200K) 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 October, the market shares of homes at all price ranges experienced small changes compared to a year ago. In Illinois, the market share for homes less than \$100K decreased to 19.3% from 20.0% a year ago; the comparative figure for the Chicago PMSA showed a

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.

decrease to 8.6% from 9.9% 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 for November, December, and January in both Illinois and the Chicago PMSA. In Illinois, the median price is forecast to change by 3.4% in November 2.1% in December and 1.5% in January. For the Chicago PMSA, the comparable figures are 3.5% in November 3.1% in December and 2.8% in January. (Reference: Forecast for November 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 4.1% in November 4.0% in December and 4.0% in January. The comparable figures for the Chicago PMSA are 2.3% in November 1.8% in December and 2.4% in January. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month. (Reference: Housing Price Index)
- The sales forecast for November, December and January 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 4.0% to 5.4%; 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 -8.6% to -11.7% for Illinois and decrease in the range -8.2% to -11.1% for the Chicago PMSA. (Reference: Forecast for November 2018 report table)
- The pending home sales index⁶ is a leading indicator based on contract signings. This October, the number of homes put under contract was greater than last year. The pending home sales index is 144.2 (2008=100) in Illinois, up 4.2% from a year ago. In the Chicago PMSA, the comparable figure is 161.6, up 5.5% from a year ago. (Reference: Illinois and Chicago PMSA Pending Home Sales Index figure)
- In October 2018, 1,482 houses were newly filed for foreclosure in the Chicago PMSA (down 7.8% and up 2.2% respectively from a year and a month ago). 1,196 foreclosures were completed⁷ (up 2.7% and up 14.2% respectively from a year and a month ago). As of October 2018, there are 30,239 homes at some stage of foreclosure — the foreclosure inventory. The monthly average net flows of foreclosures (foreclosure inflows - outflows) were 282.5 in the past 6 months, 410.3 in the last 12 months and 508.1 in the last 24 months. (Reference: Chicago PMSA Foreclosure Inflows and Outflows, and Inventory figures).

The Economy

- In October 2018, according to the Bureau of Labor Statistics (BLS) Employment Situation report, the national unemployment rate was unchanged at 3.7% and nonfarm payroll jobs experienced a gain of 250,000 jobs. Employment increased in health care (+36,000), manufacturing (+32,000), construction (+30,000), and transportation and warehousing (+25,000).

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

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

⁷ Including cancelled foreclosures and auctions

- In October 2018, according to the Illinois Department of Employment Security (IDES) news release, the Illinois unemployment increased to 4.2%. However, non-farm payroll jobs increased by +10,300 over the month. The largest gains were in three sectors; trade, transportation and utilities (+5,300), information services (+2,000), and manufacturing (+1,300).
- In September 2018, the one-year-ahead forecast for Illinois indicates that the non-farm employment will change at a rate between 0.27% and 0.56%, corresponding to job gains between 16,300 and 34,000. The largest contributors to the forecast increase are professional and business, education and health, and manufacturing.
- In October 2018, according to new research by Freddie Mac Multifamily, a large and growing segment of renters continue to believe renting is a more affordable option than owning, even as many of those same renters are feeling the squeeze of rising housing costs. The survey found nearly 9 in 10 renters employed in the essential workforce, such as healthcare and education, had significant difficulty affording the rent over the past two years. “While renting is seen as more affordable, this research underscores that renters are feeling the effects of the rising cost of housing, driven in part by lack of supply, increased demand and the cost of construction,” said David Brickman, president of Freddie Mac and Head of Multifamily.

Longer-term Outlook

- In October, while the Conference Board Consumer Confidence Index increased, the University of Michigan Consumer Sentiment Index slightly declined. The Conference Board Consumer Confidence Index increased to 137.9 from 135.3 last month. The survey revealed that the present situation index based on consumers’ assessment of current business and labor market conditions improved and the expectations index based on consumers’ short-term outlook for income, business and labor market conditions also increased. The University of Michigan Consumer Sentiment Index declined to 98.6 from 100.1 last month. The University of Michigan reported that current conditions gauge, which measures Americans’ perceptions of their finances, dropped and expectations measure also decreased. However, even with the decline, the confidence remained near a 14-year high just before midterm elections.
- In October, Fannie Mae Home Purchase Sentiment Index (HPSI) decreased to 85.7 from 87.7 last month, continuing its recent downward trend. The survey reported that while the October drop was broad-based - all but one of the six HPSI components declined - the net share of consumers who said it’s a good time to buy a home posted the largest decrease, tying its second lowest reading in the survey’s history.
- The Chicago Business Activity Index (CBAI) decreased to 100.9 in September from 103.1 in August. The decrease is mainly attributed to negative non-manufacturing job growth and a decline in nationwide economic activities measured by the Chicago Fed National Activity Index (CFNAI).

“The Illinois and Chicago markets appear to be following normal patterns for this time of year,” noted Geoffrey J.D. Hewings, Director of the Regional Economics Applications Laboratory. “There is some uncertainty among consumers whose outlook, while positive overall, is a little cautious about the housing market reflected in Fannie Mae’s Purchase Sentiment Index that revealed that the net share of consumers who said it’s a good time to buy a home posted a large decrease.”

Forecast for November 2018 report

PERCENTAGE CHANGE FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Aug-18	1.6%	-1.2%		3.0%	0.7%			
Sep-18	-9.1%	-10.9%		-24.7%	-25.9%			
Oct-18	-0.2%	-1.7%		3.3%	3.8%			
3 Month Avg.	-2.4%	-4.4%		-7.1%	-8.2%			
SUMMARY OF THE FORECAST INTERVALS FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Nov-18	-0.2%	-0.2%	-0.7%	-0.9%	-8.2%	-11.2%	-8.0%	-10.9%
Dec-18	3.9%	5.2%	3.5%	4.7%	3.2%	4.4%	3.8%	5.2%
Jan-19	10.1%	13.7%	10.0%	13.5%	-20.5%	-27.7%	-19.9%	-26.9%
3 Month Avg.	4.0%	5.4%	3.7%	5.0%	-8.6%	-11.7%	-8.2%	-11.1%
SUMMARY OF THE FORECAST FOR THE MEDIAN PRICE								
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Aug-18	\$201,000	\$243,000	Aug-17	\$200,000	\$239,000			
Sep-18	\$198,000	\$238,000	Sep-17	\$192,000	\$230,000			
Oct-18	\$190,000	\$230,000	Oct-17	\$185,000	\$222,000			
Nov-18	\$191,273	\$232,927	Nov-17	\$185,000	\$225,000			
Dec-18	\$188,861	\$232,023	Dec-17	\$185,000	\$225,000			
Jan-19	\$187,787	\$229,239	Jan-18	\$185,000	\$223,000			
ANNUAL PERCENTAGE CHANGE OF THE MEDIAN PRICE								
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Aug-18	0.5%	1.7%	Aug-17	4.7%	3.9%			
Sep-18	3.1%	3.5%	Sep-17	6.7%	5.9%			
Oct-18	2.7%	3.6%	Oct-17	3.9%	3.3%			
Nov-18	3.4%	3.5%	Nov-17	4.2%	5.1%			
Dec-18	2.1%	3.1%	Dec-17	6.3%	5.1%			
Jan-19	1.5%	2.8%	Jan-18	8.2%	6.7%			

Median Prices and Recovery

	Illinois		Chicago PMSA	
	[\$2008]	[\$2018]	[\$2008]	[\$2018]
October 2008 Median Price	\$155,000	\$180,404	\$189,900	\$221,024
October 2018 Median Price	\$163,245	\$190,000	\$197,612	\$230,000
Price Ratio (October 18/ October 08)	Adjusted	1.05	Adjusted	1.04
	Unadjusted	1.23	Unadjusted	1.21

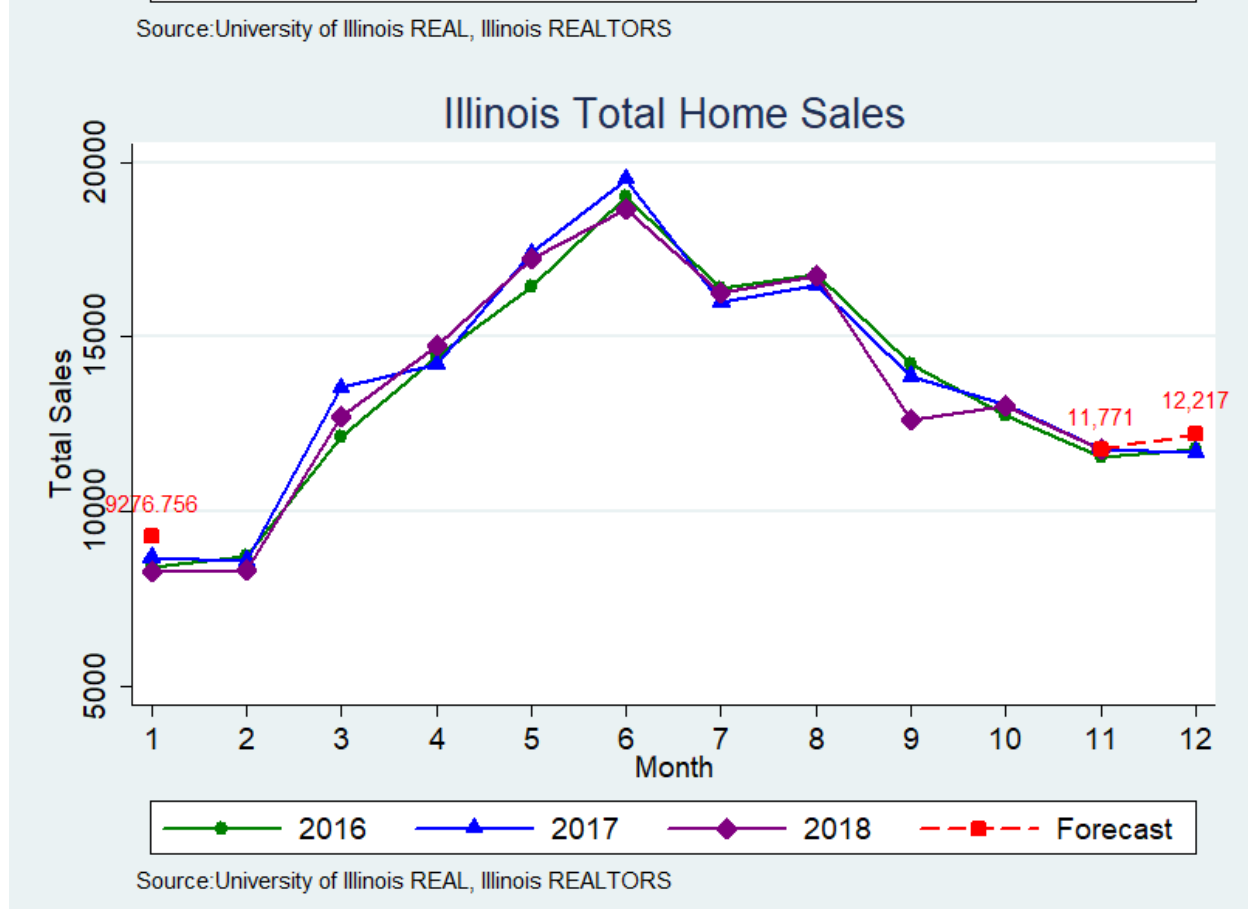
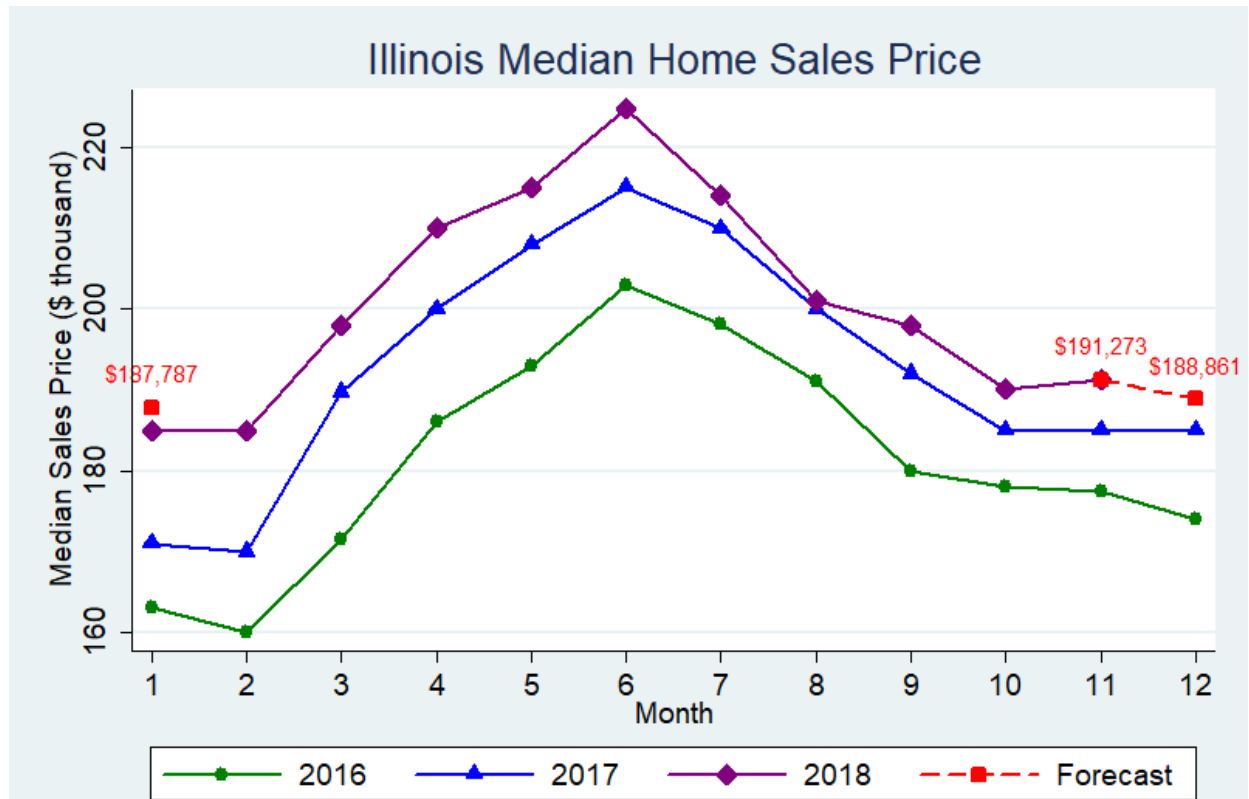
Recovery Forecasts using *Annually Growth Rates*

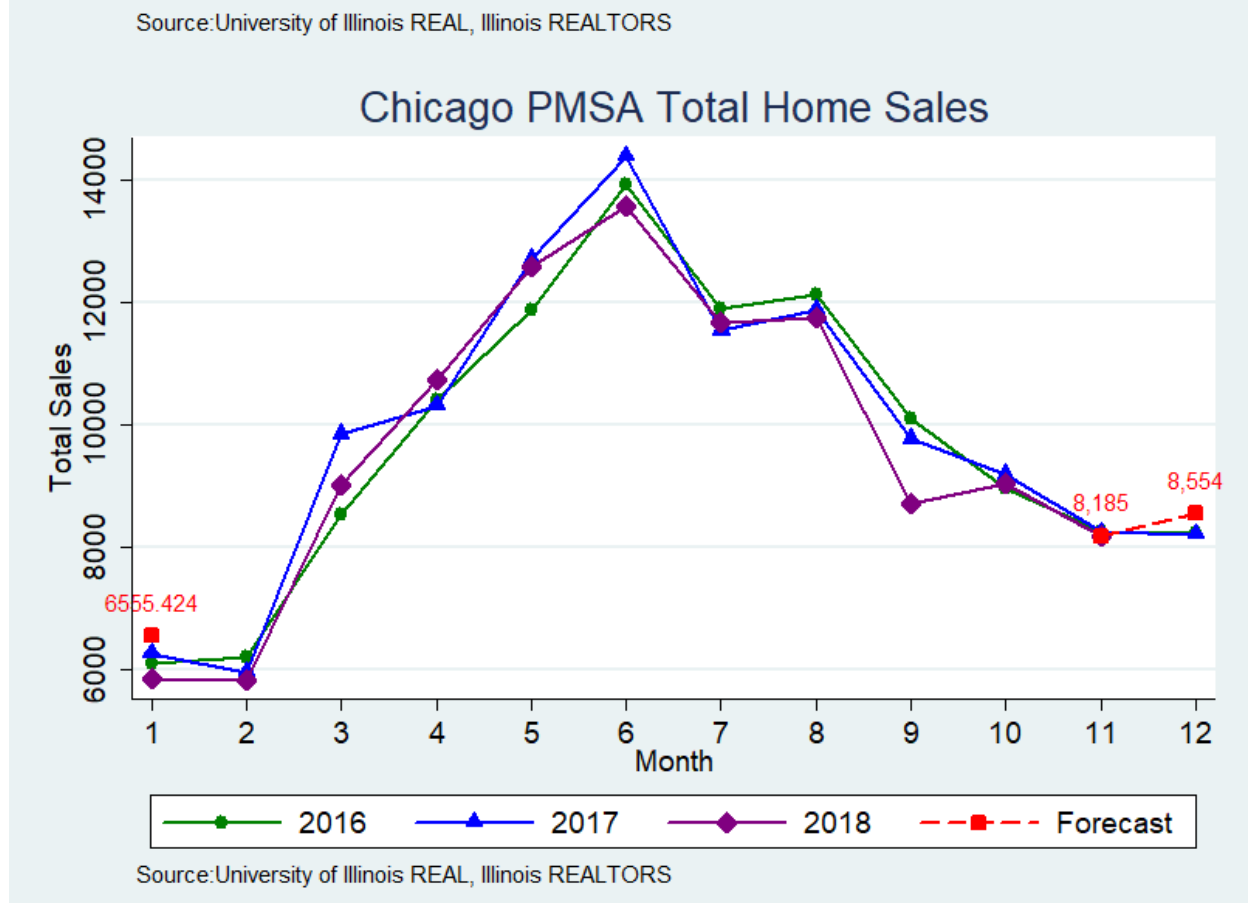
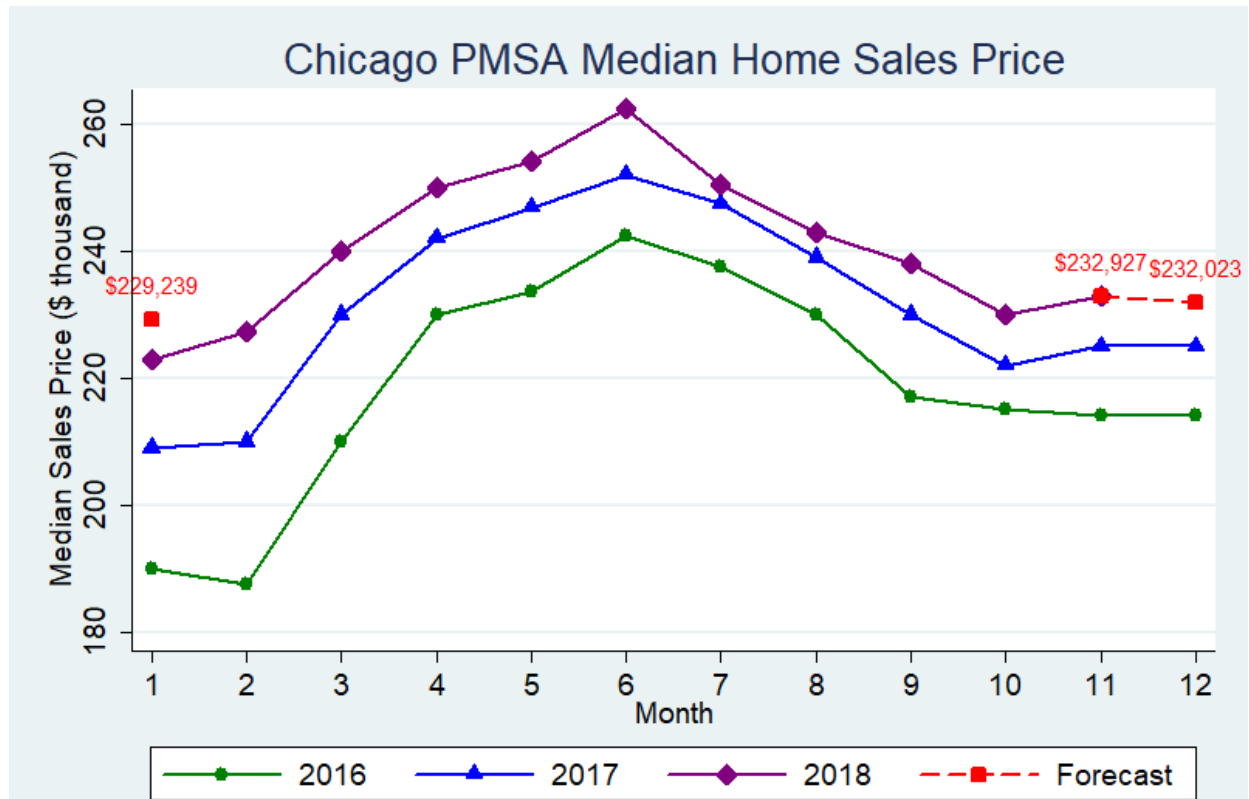
	Illinois	Chicago PMSA		
	Annual Recovery Rate*	Years to Recover**	Recovery Rate	Years to Recover
Current Month	0.5%	-10.0	1.4%	-2.9
Past 3 months	-0.3%	17.7	0.5%	-8.0
Past 6 months	0.1%	-100.3	0.2%	-20.8
Past 9 months	1.3%	-4.1	1.1%	-3.6
Past 12 months	2.0%	-2.7	1.7%	-2.4

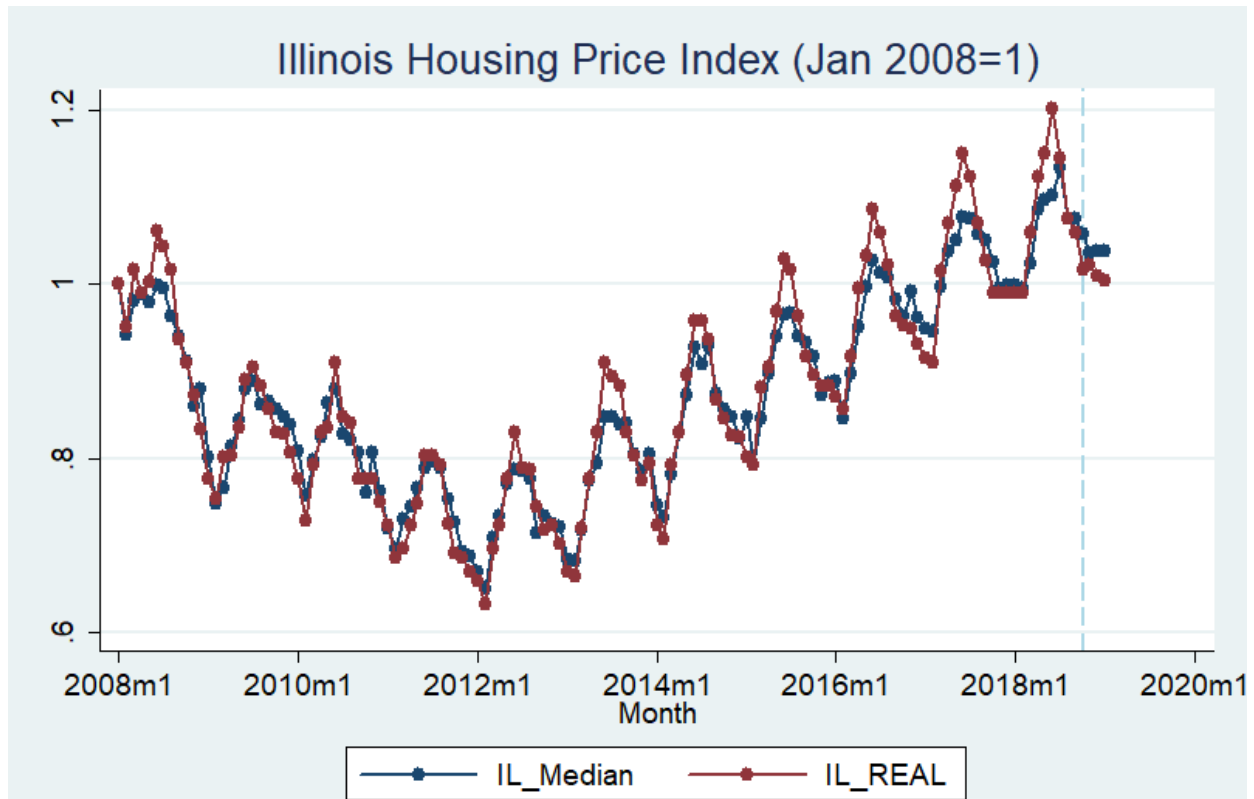
*Annual recovery rate is the average of *annual* change rates in past months

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

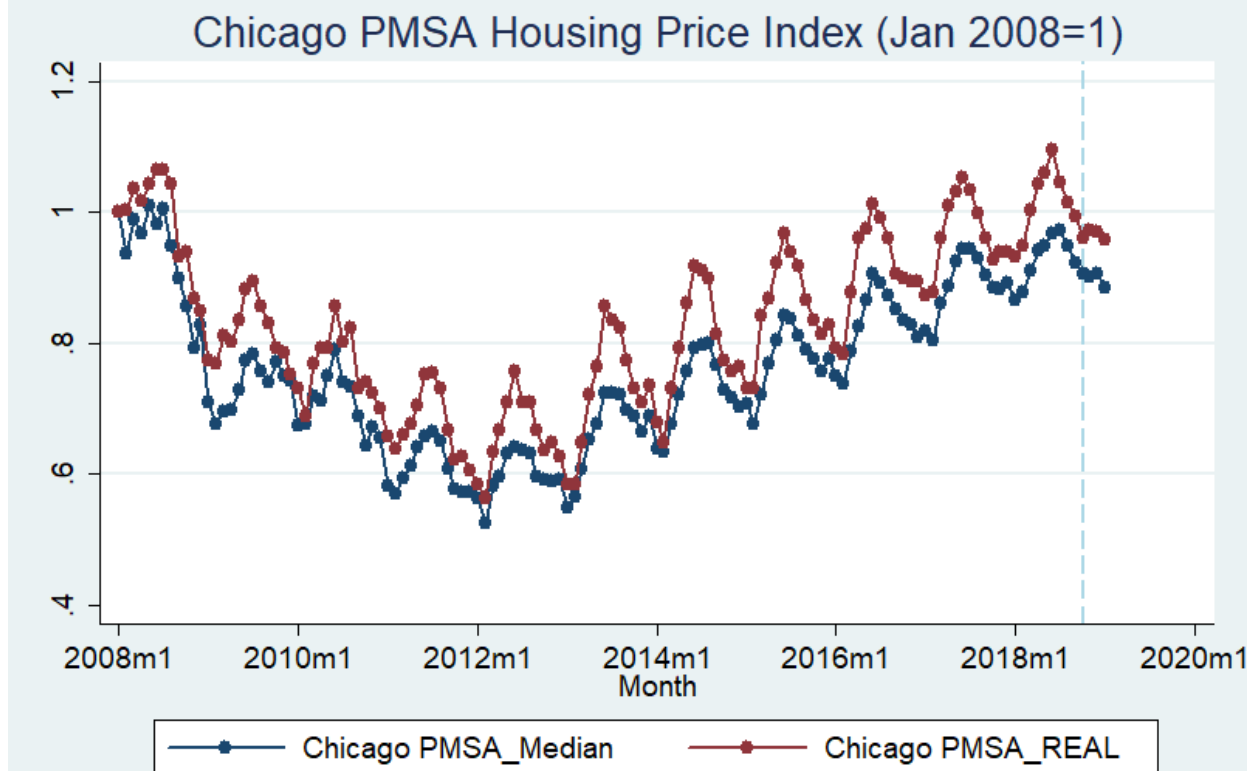
$Price_{\text{October 2018}} * (1 + \text{recovery rate})^{\text{years}} = Price_{\text{October 2008}}$. Prices used in the formula are inflation adjusted. The recovery rate is applied as a constant annual change rate to recoup the differences between the current month and its corresponding month in 2008.



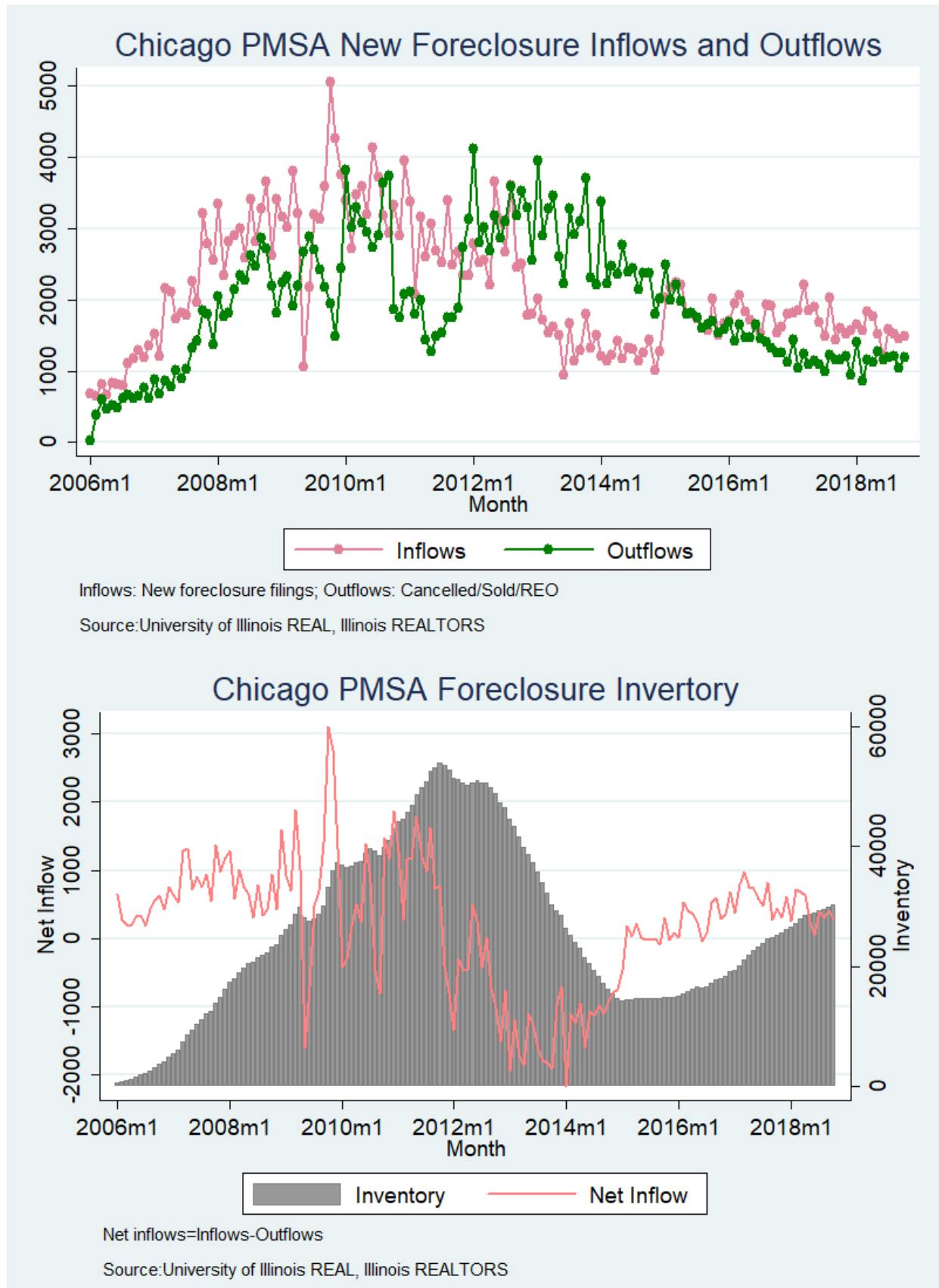


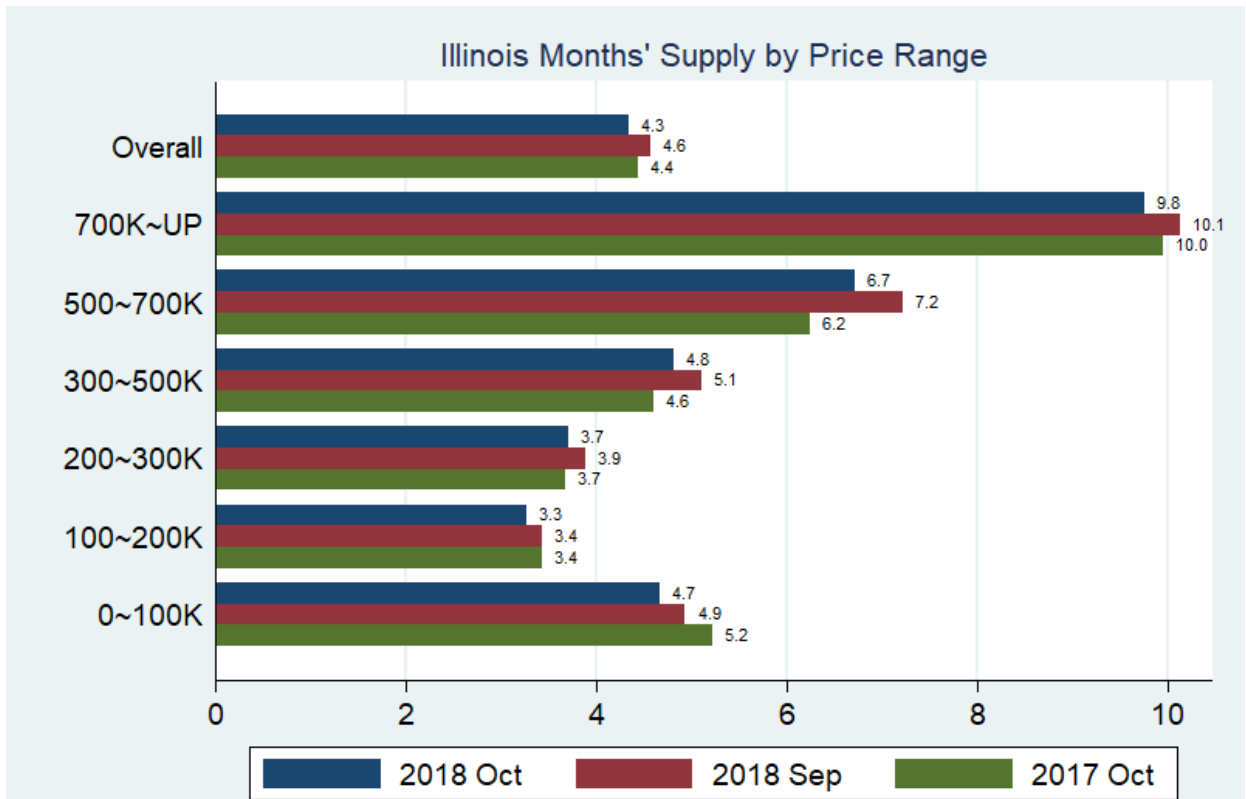


Source: University of Illinois REAL, Illinois REALTORS

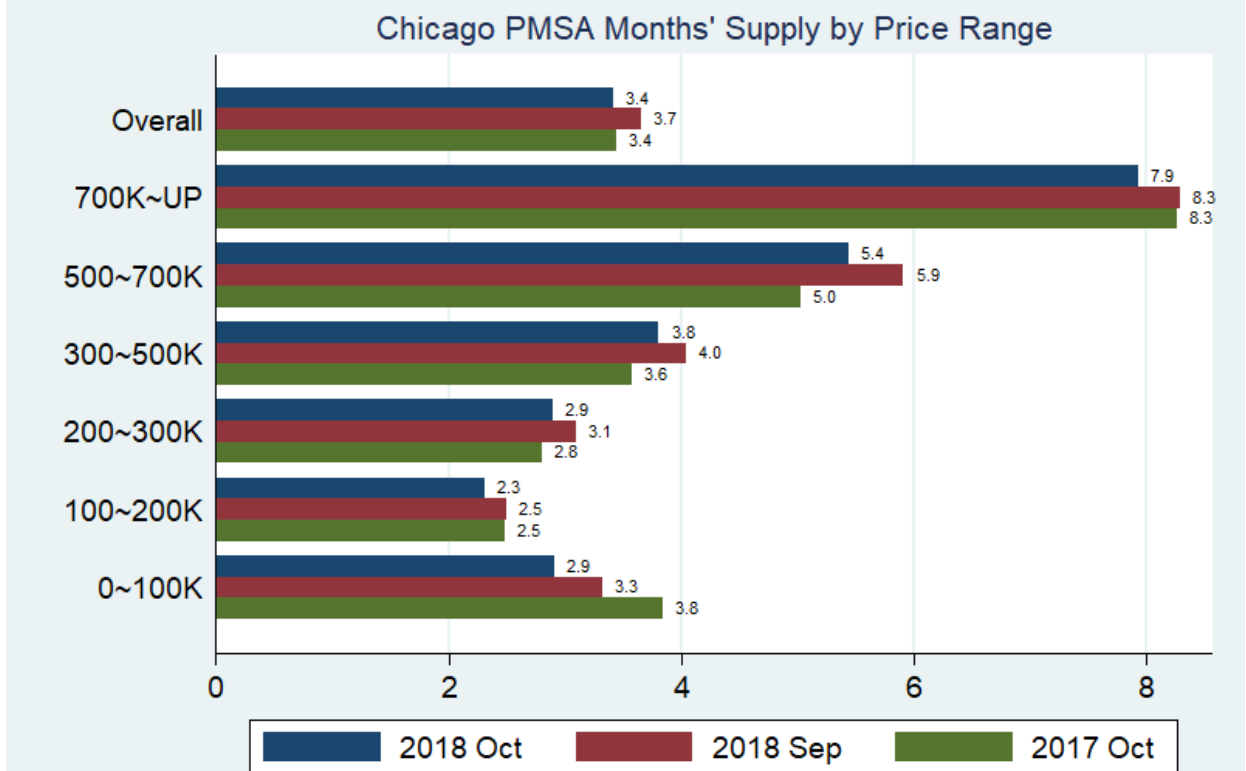


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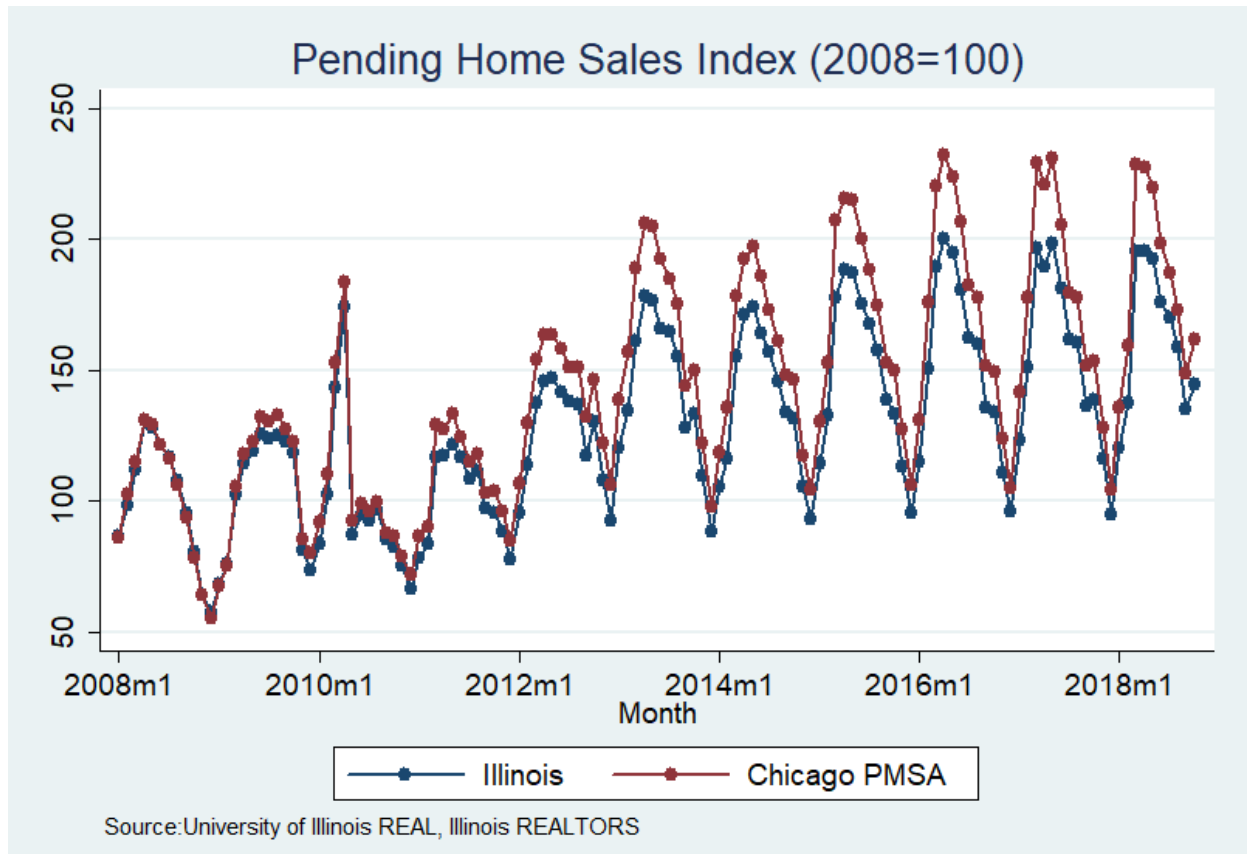


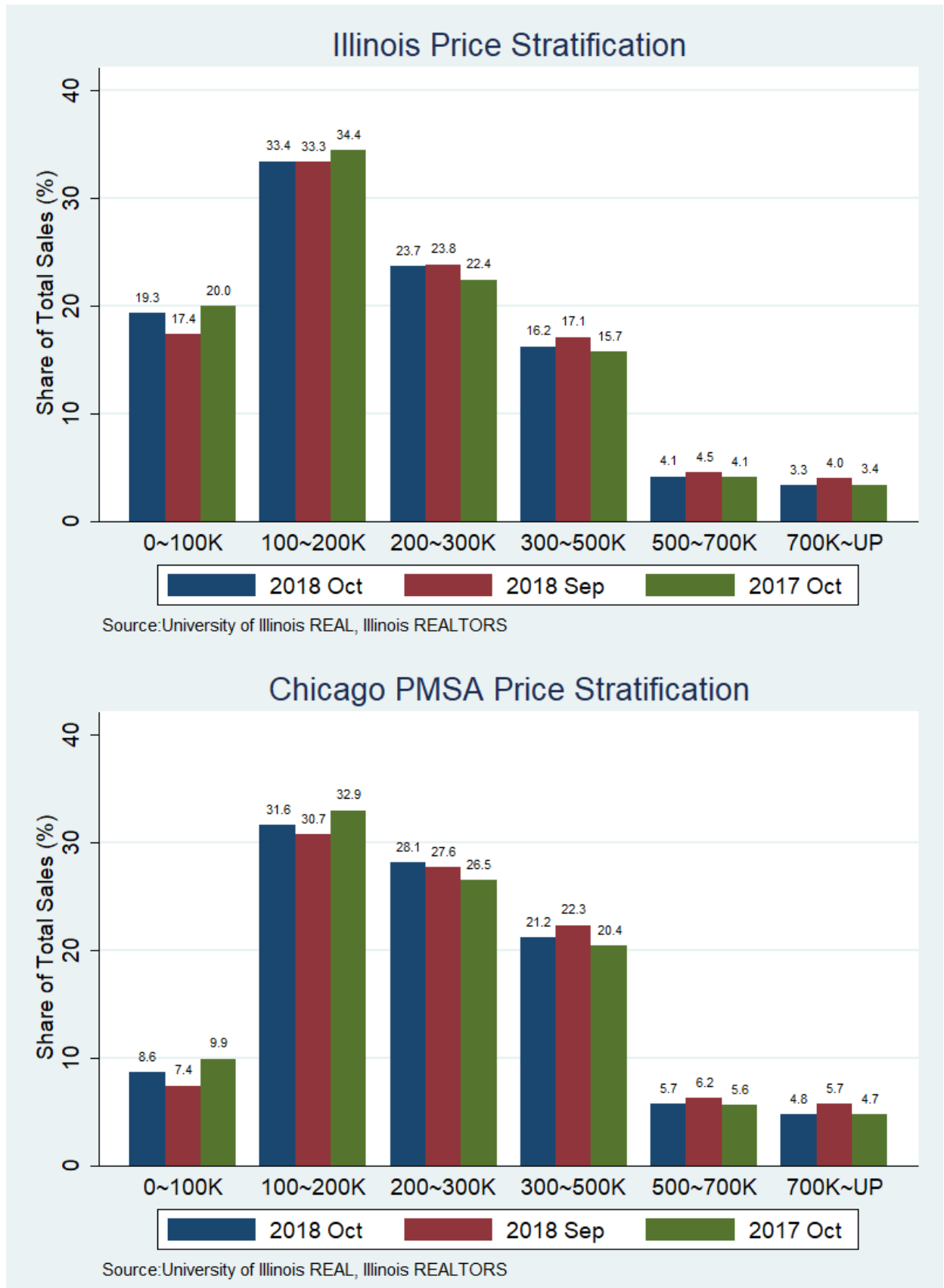


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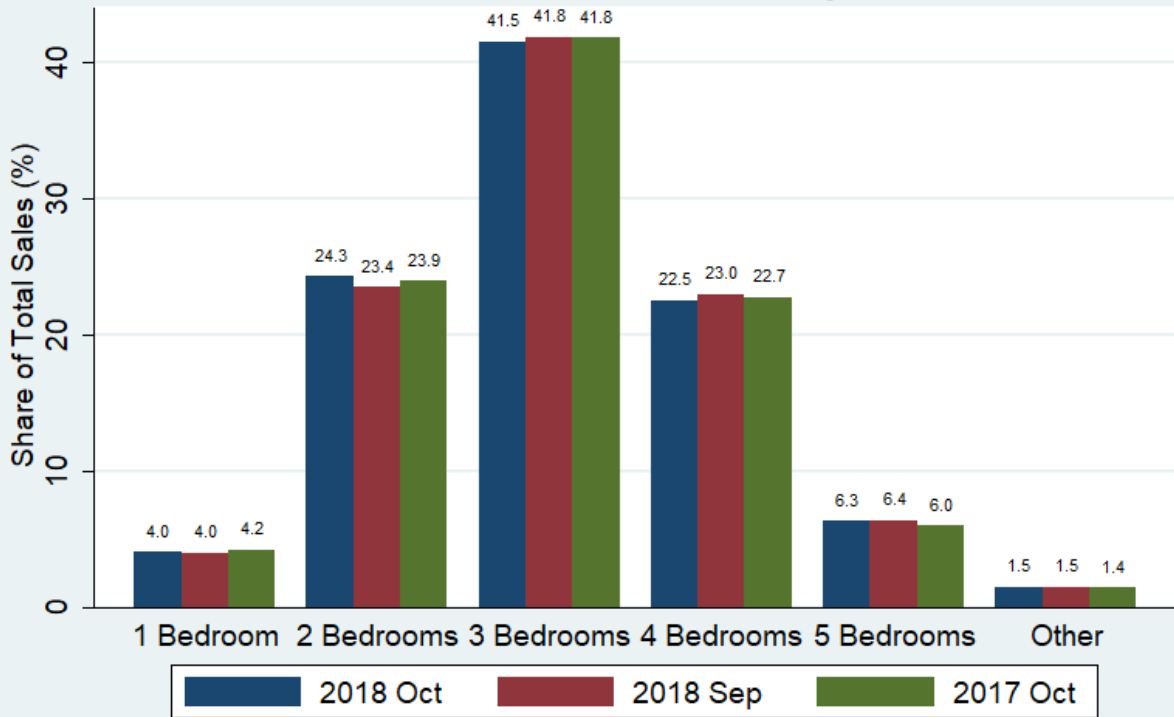


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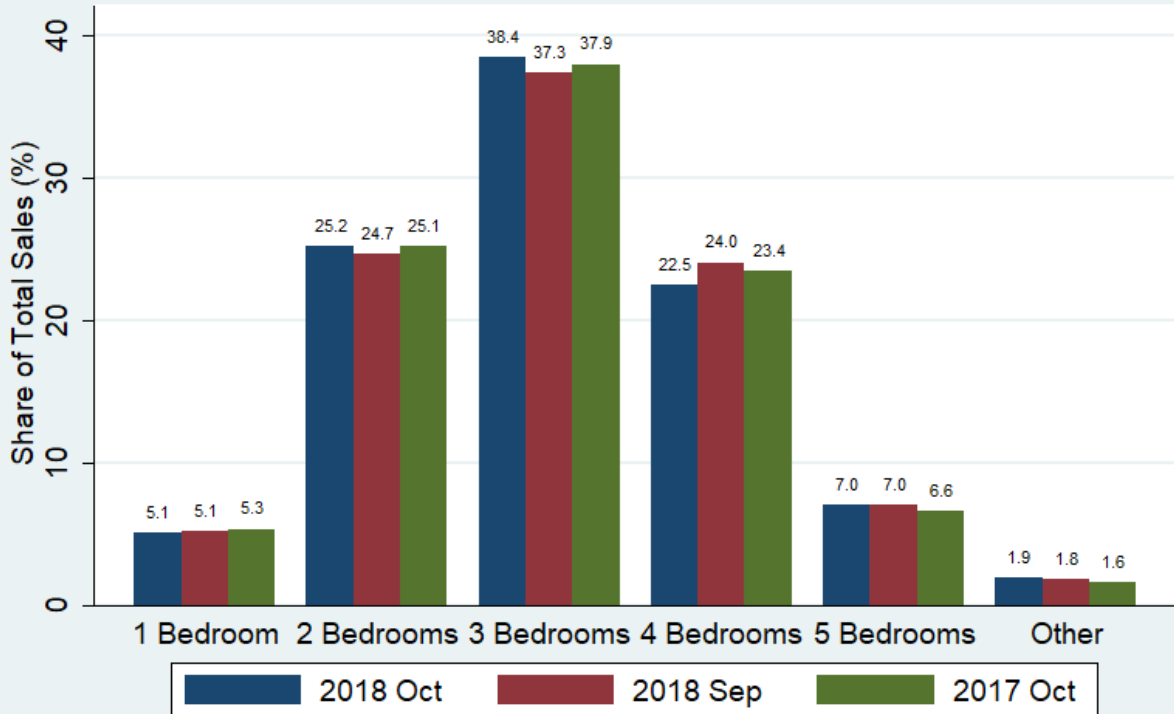


Illinois House Characteristics by Bedroom



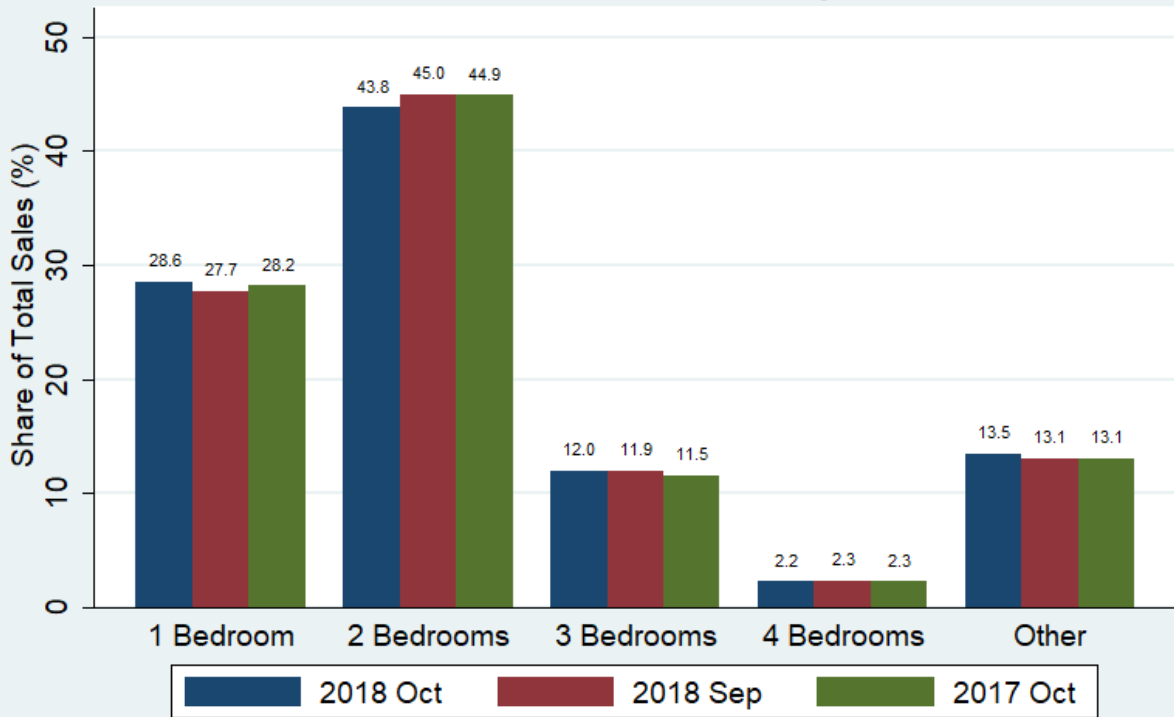
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Chicago PMSA House Characteristics by Bedroom



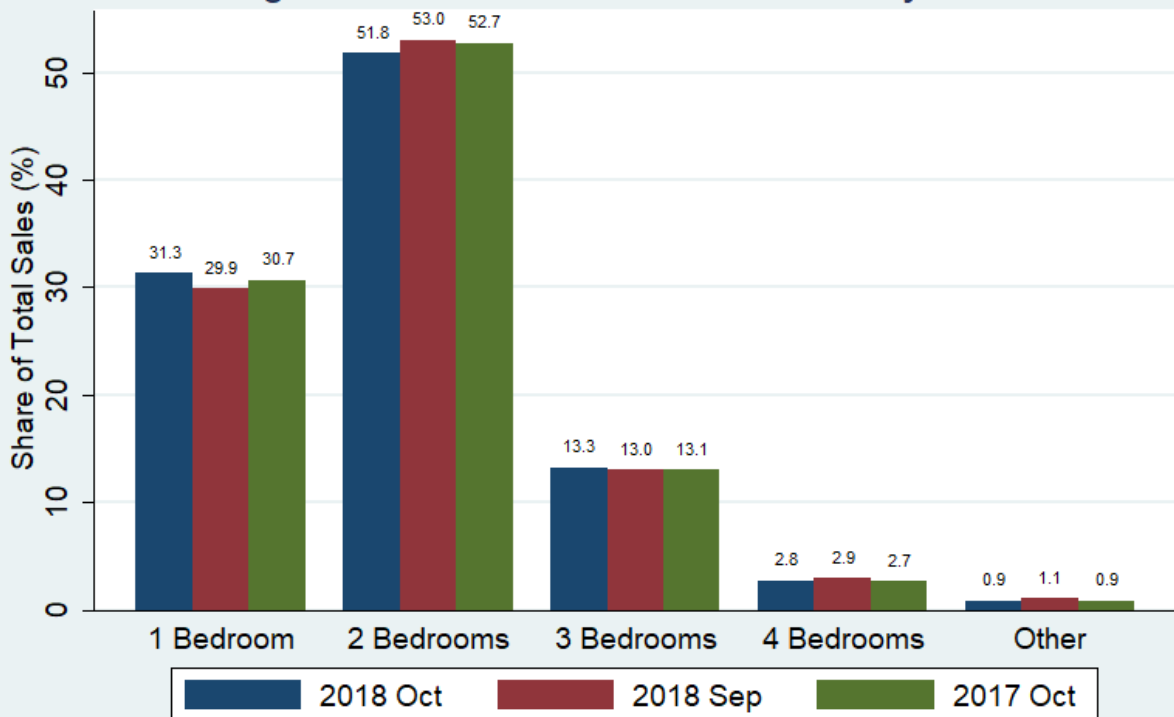
Source: University of Illinois REAL, Illinois REALTORS

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



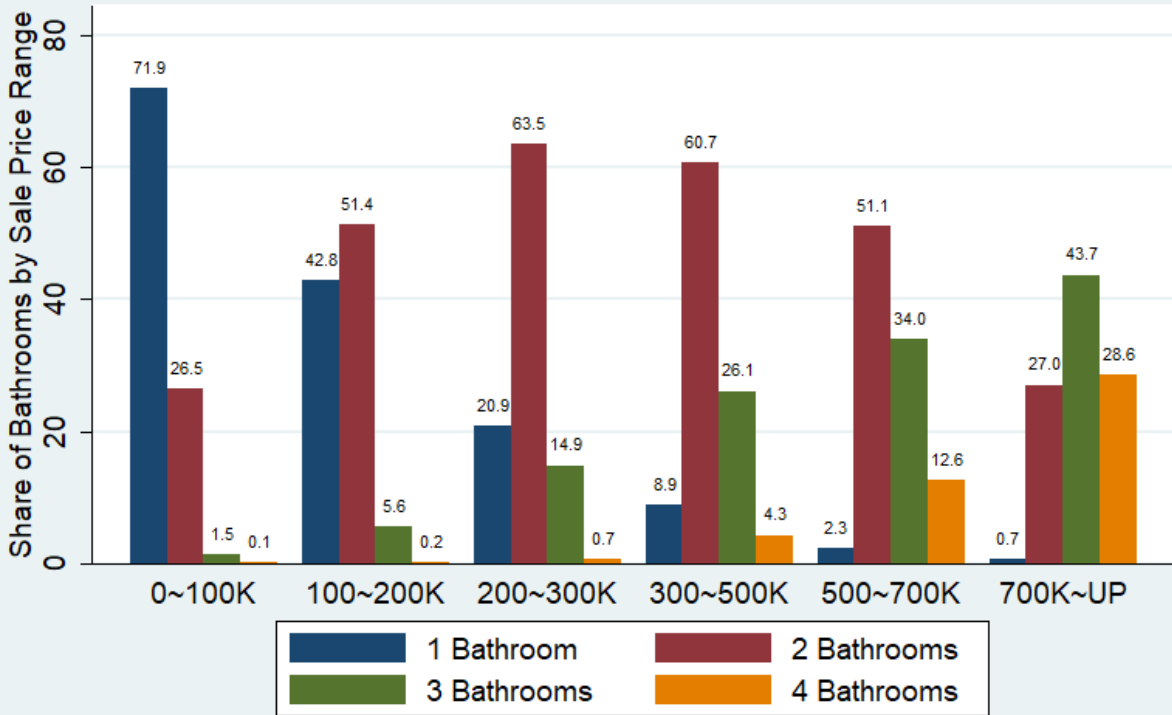
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Chicago PMSA Bedroom Shares by Sale Price Stratification



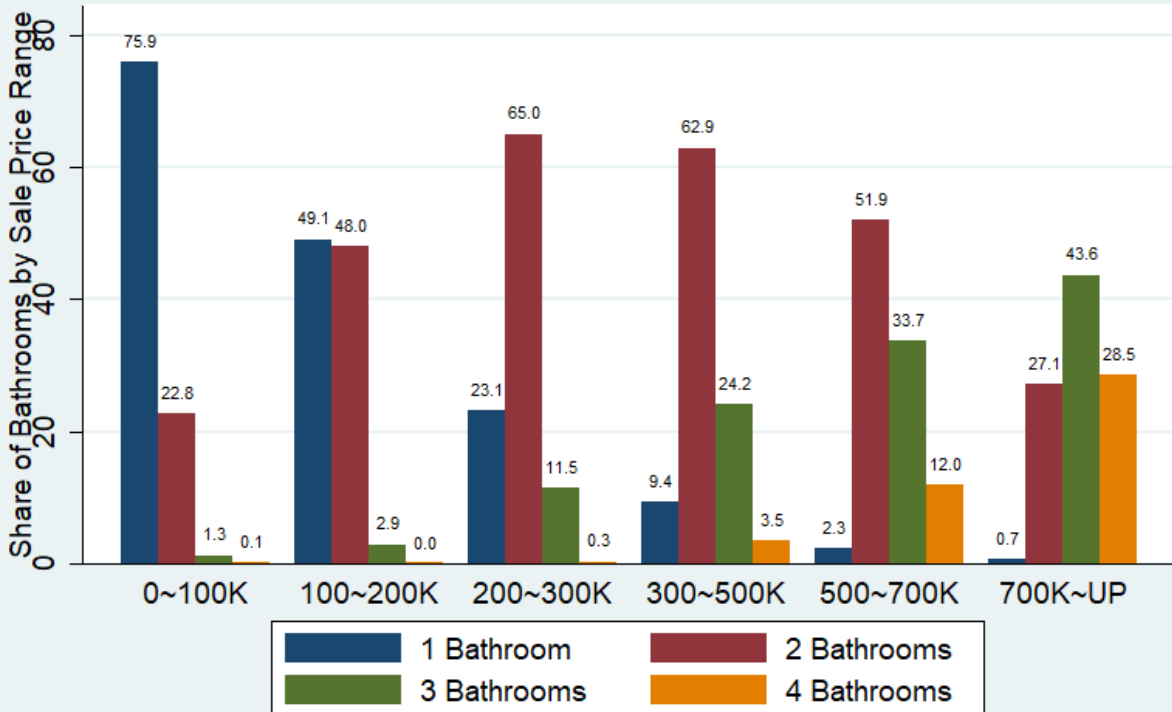
Source: University of Illinois REAL, Illinois REALTORS

Illinois Bathroom Shares by Sale Price Stratification



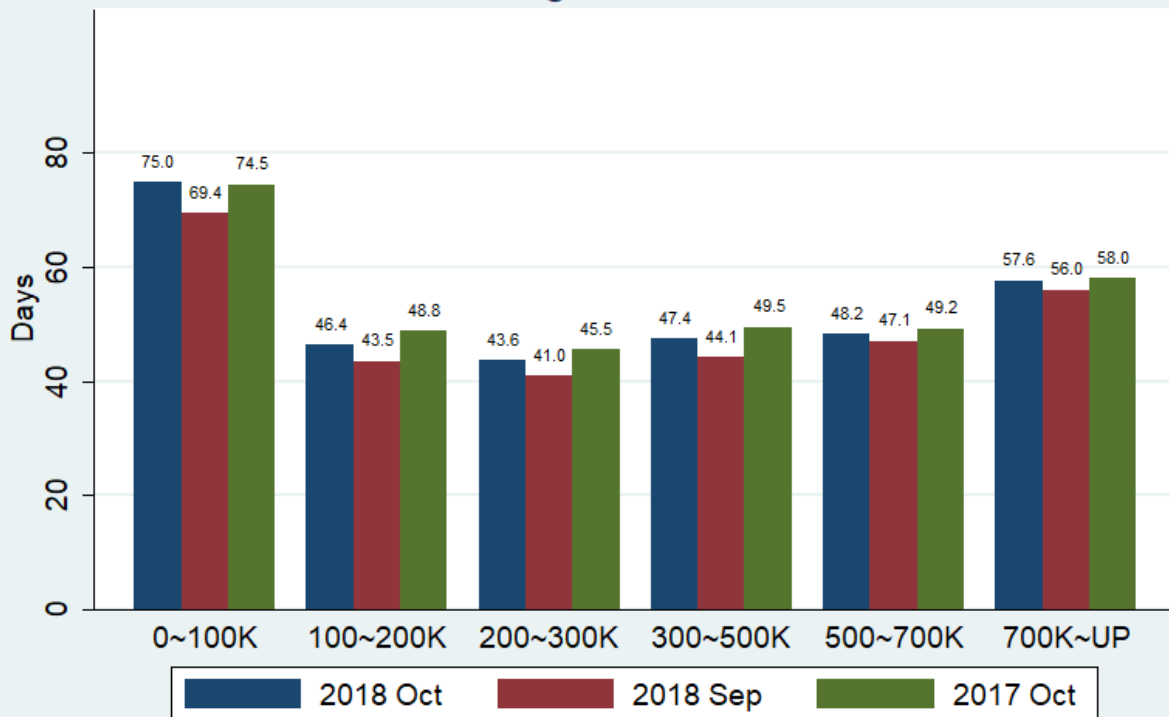
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Chicago PMSA Bathroom Shares by Sale Price Stratification



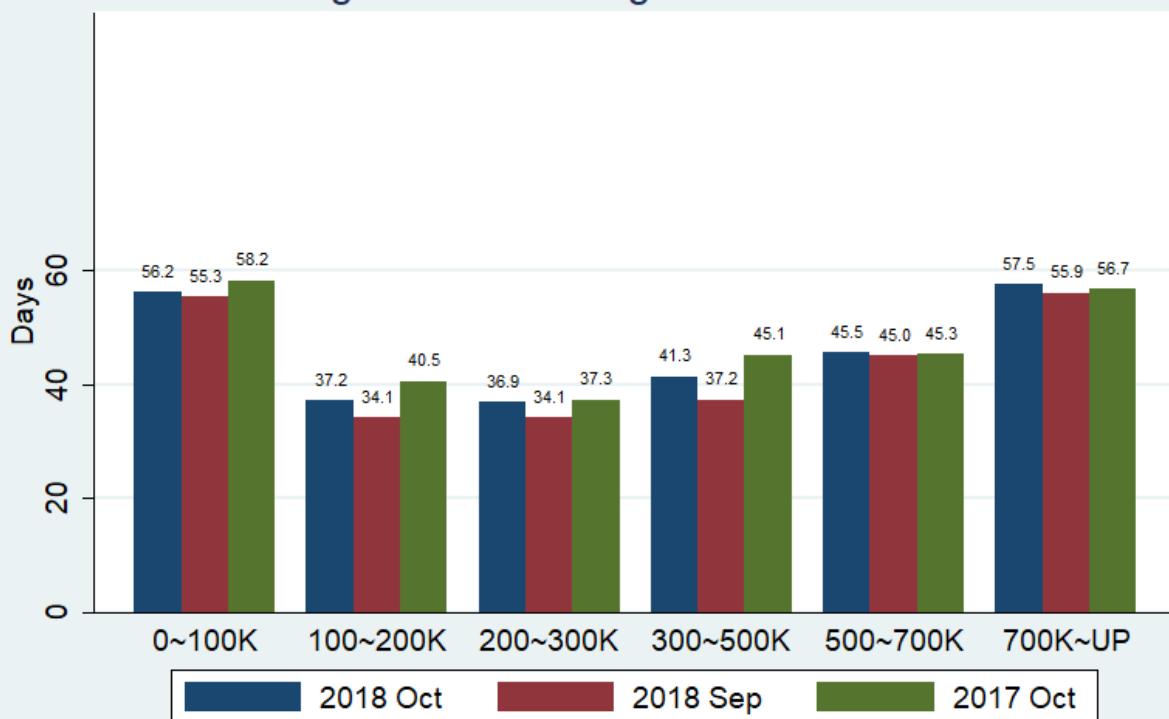
Source: University of Illinois REAL, Illinois REALTORS

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

