

Housing Price Forecasts

Illinois and Chicago PMSA, December 2018

Presented To
Illinois Realtors®

From

R | E | A | L

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

December 19, 2018

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

Housing Price Forecast: Illinois and Chicago PMSA, December 2018

The Housing Market

In November, median prices continued to experience positive growth while sales experienced a negative annual change in both Illinois and the Chicago PMSA. 11,608 houses were sold in Illinois, changing by -12.3% from a month ago and -1.6% from a year ago. In the Chicago PMSA, 8,021 houses were sold, changing by -12.4% from a month ago and -2.8% from a year ago. The median price was \$190,000 in Illinois, up 2.7% from November last year; the comparable figure for the Chicago PMSA was \$232,500, up 3.3% from this time last year.

In November, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 8.8%. 7,235 regular sales were made, 0.8% less than last year. 724 foreclosed properties were sold, 19.0% less than last year. The median price was \$241,500 for regular property sales, 2.8% higher than last year; the comparable figure for the foreclosed properties was \$162,250, up 1.4% 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 November 2008 has been adjusted to 2018 values to enable calculation of the housing price recovery considering the effects of inflation. In Illinois, the November 2008 median sales price was \$154,900 (in \$2008) and \$180,315 (in \$2018); the current price level was 105% of the 2008 level after adjusting (123% before adjusting). In the Chicago PMSA, the November 2008 median sales price was \$188,000 (in \$2008) and \$218,846 (in \$2018); the comparable figure for price recovery in November 2018 is 106% after adjustment (124% before adjusting).

The sales forecast for December, January and February 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 7.3% to 9.9%; the comparative figures for the Chicago PMSA are an increase in the range 6.5% to 8.8%. On a monthly basis, the three-month average sales are forecast to decrease in the range -5.6% to -7.6% for Illinois and decrease in the range -5.4% to -7.4% for the Chicago PMSA.

The pending home sales index¹ is a leading indicator based on contract signings. This November, the number of homes put under contract was lower than last year. The pending home sales index is 114.1 (2008=100) in Illinois, down 1.7% from a year ago. In the Chicago PMSA, the comparable figure is 127.7, down 0.2% from a year ago. At the latest average annual pending sales rate, Illinois had enough housing inventory for 4.0 months² (same as a year ago). In the Chicago PMSA, the comparable figure was 3.1 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 mild annual growth for December, January, and February in both Illinois and the Chicago PMSA. In Illinois, the median price is forecast to change by 1.5% in December 0.8% in January and 0.4% in February. For the Chicago PMSA, the comparable figures are 3.0% in December 2.6% in January and 1.8% in February. As a complement to 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.

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 3.4% in December 3.3% in January and 3.4% in February. The comparable figures for the Chicago PMSA are 0.6% in December 0.7% in January and 0.1% in February. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month.

In November, two consumer sentiment indices both decreased. The Conference Board Consumer Confidence Index survey reported that consumers’ assessment of current conditions increased slightly, with job growth the main driver of improvement. Expectations, on the other hand, weakened somewhat, primarily due to a less optimistic view of future business conditions and personal income prospects. The University of Michigan Consumer Sentiment Index survey reported that the biggest decline in sentiment occurred among the richest one-third of U.S. households. Wealthier Americans have more money in the stock market and the recent decline in prices appears to have made them more anxious. The more housing specific sentiment index, the Fannie Mae Home Purchase Sentiment Index (HPSI) slightly increased. The increase can be attributed primarily to an increase in the net share of Americans who reported significantly higher income, which hit a new survey high.

The Housing Market – Current Condition

- In November, median prices continued to experience positive growth while sales experienced a negative annual change in both Illinois and the Chicago PMSA. 11,608 houses were sold in Illinois, changing by -12.3% from a month ago and -1.6% from a year ago. In the Chicago PMSA, 8,021 houses were sold, changing by -12.4% from a month ago and -2.8% from a year ago. The median price was \$190,000 in Illinois, up 2.7% from November last year; the comparable figure for the Chicago PMSA was \$232,500, up 3.3% from this time last year. (Reference: Illinois and Chicago PMSA Total Home Sales and Median Home Sales Price figures; Forecast for December 2018 report table)
- In November, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 8.8%. 7,235 regular sales were made, 0.8% less than last year. 724 foreclosed properties were sold, 19.0% less than last year. The median price was \$241,500 for regular property sales, 2.8% higher than last year; the comparable figure for the foreclosed properties was \$162,250, up 1.4% from this time last year. (Reference: Ratio of Foreclosed Sales over Total Sales, Sales & Median Prices: Foreclosed vs. Regular figures)
- In November, at the latest average annual pending sales rate, Illinois had enough housing inventory for 4.0 months⁴ (same as a year ago). In the Chicago PMSA, the comparable figure was 3.1 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 November, 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 19.1% from 20.4% a year ago; the comparative figure for the Chicago PMSA showed a decrease to 8.5% from 10.2% a year ago. (Reference: Illinois and Chicago PMSA Price Stratification figures)

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.

The Housing Market – Forecast and Future Condition

- The median price forecast indicates mild annual growth for December, January, and February in both Illinois and the Chicago PMSA. In Illinois, the median price is forecast to change by 1.5% in December 0.8% in January and 0.4% in February. For the Chicago PMSA, the comparable figures are 3.0% in December 2.6% in January and 1.8% in February. (Reference: Forecast for December 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 December 3.3% in January and 3.4% in February. The comparable figures for the Chicago PMSA are 0.6% in December 0.7% in January and 0.1% in February. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month. (Reference: Housing Price Index)
- The sales forecast for December, January and February 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 7.3% to 9.9%; the comparative figures for the Chicago PMSA are an increase in the range 6.5% to 8.8%. On a monthly basis, the three-month average sales are forecast to decrease in the range -5.6% to -7.6% for Illinois and decrease in the range -5.4% to -7.4% for the Chicago PMSA. (Reference: Forecast for December 2018 report table)
- The pending home sales index⁶ is a leading indicator based on contract signings. This November, the number of homes put under contract was lower than last year. The pending home sales index is 114.1 (2008=100) in Illinois, down 1.7% from a year ago. In the Chicago PMSA, the comparable figure is 127.7, down 0.2% from a year ago. (Reference: Illinois and Chicago PMSA Pending Home Sales Index figure)
- In November 2018, 1,370 houses were newly filed for foreclosure in the Chicago PMSA (down 9.6% and up 7.6% respectively from a year and a month ago). 1,192 foreclosures were completed⁷ (down 0.3% and up 1.9% respectively from a year and a month ago). As of November 2018, there are 30,593 homes at some stage of foreclosure — the foreclosure inventory. The monthly average net flows of foreclosures (foreclosure inflows - outflows) were 286.3 in the past 6 months, 410.9 in the last 12 months and 507.7 in the last 24 months. (Reference: Chicago PMSA Foreclosure Inflows and Outflows, and Inventory figures).

The Economy

- In November 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 155,000 jobs. Employment increased in health care (+32,000), manufacturing (+27,000), and transportation and warehousing (+25,000).
- In November 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,

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

transportation and utilities (+5,300), information services (+2,000), and manufacturing (+1,300). (not updated)

- In October 2018, the one-year-ahead forecast for Illinois indicates that the non-farm employment will change at a rate between 0.39% and 0.44%, corresponding to job gains between 23,700 and 26,800. The largest contributors to the forecast increase are education and health, manufacturing, and leisure and hospitality.
- In November 2018, a new study from Apartment List found that based on a survey of 6,400 millennials who rent their homes, almost 90 percent said they hoped to buy a house at some point in the future. However, based on further responses from survey-takers and a look at other data on this generation's financial health, Apartment List delivered some sobering news. Assuming housing costs, wage growth and savings rates remain at current levels, it could take more than 20 years for the majority of millennial renters in the U.S. to save for a standard 20 percent down payment. 62 percent of respondents agreed that saving enough for a down payment was the primary challenge. Concerns about credit health were the second most-cited concern.

Longer-term Outlook

- In November, two consumer sentiment indices both decreased. The Conference Board Consumer Confidence Index declined to 135.7 from 137.9 last month. The survey revealed that consumers' assessment of current conditions increased slightly, with job growth the main driver of improvement. Expectations, on the other hand, weakened somewhat in November, primarily due to a less optimistic view of future business conditions and personal income prospects. Overall, consumers are still quite confident that economic growth will continue at a solid pace into early 2019. The University of Michigan Consumer Sentiment Index declined to 97.5 from 98.6 last month. The survey reported that the biggest decline in sentiment occurred among the richest one-third of U.S. households. Wealthier Americans have more money in the stock market. The recent decline in prices appears to have made them more anxious. By contrast, sentiment rose sharply among Americans whose incomes put them in the bottom third of the country.
- In November, Fannie Mae Home Purchase Sentiment Index (HPSI) increased slightly to 86.2 from 85.7 last month. The increase can be attributed primarily to an increase in the net share of Americans who reported significantly higher income, which hit a new survey high. The survey reported that the HPSI has moved within a tight range over the past five months, as positive sentiment regarding the overall economy continued to offset cooling housing sentiment and consumers' perceptions of growth in their household income reached a survey high, helping to absorb some of the impact of increasing mortgage rates on housing market activity.
- The Chicago Business Activity Index (CBAI) increased to 103.3 in October from 98.4 in September. The increase is mainly attributed to positive non-manufacturing, manufacturing, and construction job growth, an improvement in retail sales, and a increase in nationwide economic activities measured by the Chicago Fed National Activity Index (CFNAI).

“Prices continue to grow modestly, but the forecast for the next three months suggests a slowing trend,” noted Geoffrey J.D. Hewings, Director of the Regional Economics Applications Laboratory. “Consumer sentiment indicators suggest concerns about the short-term outlook with volatility in the stock market and rising interest rates dampening expectations.”

Forecast for December 2018 report

PERCENTAGE CHANGE FOR THE TOTAL NUMBER OF SALES					
	Annual			Monthly	
	Illinois	Chicago PMSA		Illinois	Chicago PMSA
Sep-18	-8.9%	-10.8%		-24.6%	-25.8%
Oct-18	1.3%	-0.4%		4.7%	5.0%
Nov-18	-1.6%	-2.8%		-12.3%	-12.4%
3 Month Avg.	-3.2%	-4.8%		-12.1%	-12.6%
SUMMARY OF THE FORECAST INTERVALS FOR THE TOTAL NUMBER OF SALES					
	Annual			Monthly	
	Illinois	Chicago PMSA		Illinois	Chicago PMSA
Dec-18	3.0% 4.0%	2.2% 3.0%		3.6% 4.9%	4.3% 5.9%
Jan-19	9.2% 12.5%	8.6% 11.6%		-20.5% -27.7%	-19.9% -26.9%
Feb-19	11.4% 15.4%	10.4% 14.1%		2.3% 3.1%	1.2% 1.7%
3 Month Avg.	7.3% 9.9%	6.5% 8.8%		-5.6% -7.6%	-5.4% -7.4%
SUMMARY OF THE FORECAST FOR THE MEDIAN PRICE					
	Illinois	Chicago PMSA		Illinois	Chicago PMSA
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	\$190,000	\$232,500	Nov-17	\$185,000	\$225,000
Dec-18	\$187,742	\$231,715	Dec-17	\$185,000	\$225,000
Jan-19	\$186,409	\$228,821	Jan-18	\$185,000	\$223,000
Feb-19	\$185,820	\$231,529	Feb-18	\$185,000	\$227,500
ANNUAL PERCENTAGE CHANGE OF THE MEDIAN PRICE					
	Illinois	Chicago PMSA		Illinois	Chicago PMSA
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	2.7%	3.3%	Nov-17	4.2%	5.1%
Dec-18	1.5%	3.0%	Dec-17	6.3%	5.1%
Jan-19	0.8%	2.6%	Jan-18	8.2%	6.7%
Feb-19	0.4%	1.8%	Feb-18	8.8%	8.3%

Median Prices and Recovery

	Illinois		Chicago PMSA	
	[\$2008]	[\$2018]	[\$2008]	[\$2018]
November 2008 Median Price	\$154,900	\$180,315	\$188,000	\$218,846
November 2018 Median Price	\$163,220	\$190,000	\$199,730	\$232,500
Price Ratio (November 18/ November 08)	Adjusted	1.05	Adjusted	1.06
	Unadjusted	1.23	Unadjusted	1.24

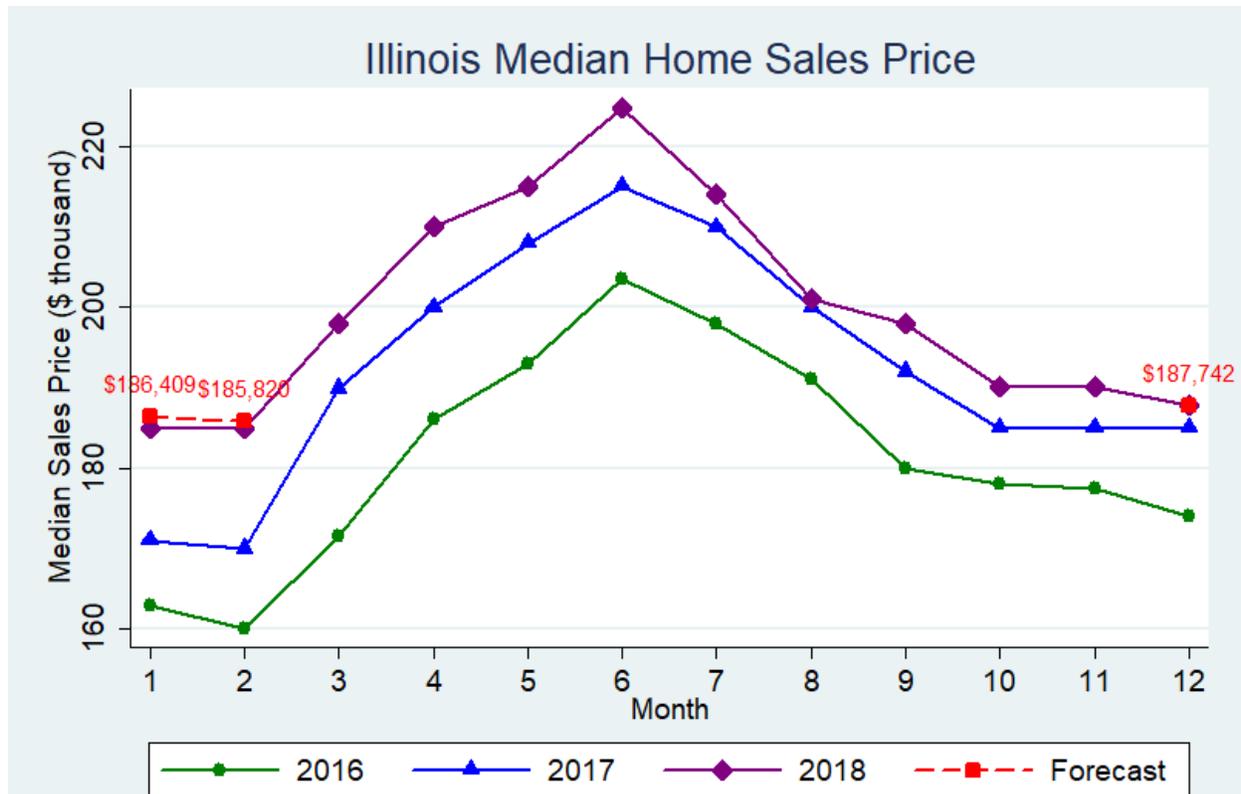
Recovery Forecasts using *Annually Growth Rates*

	Illinois	Chicago PMSA		
	Annual Recovery Rate*	Years to Recover**	Recovery Rate	Years to Recover
Current Month	0.6%	-9.4	1.2%	-5.2
Past 3 months	0.5%	-10.0	1.1%	-5.4
Past 6 months	0.0%	450.0	0.3%	-19.5
Past 9 months	0.6%	-9.5	0.5%	-11.3
Past 12 months	1.8%	-2.9	1.5%	-4.0

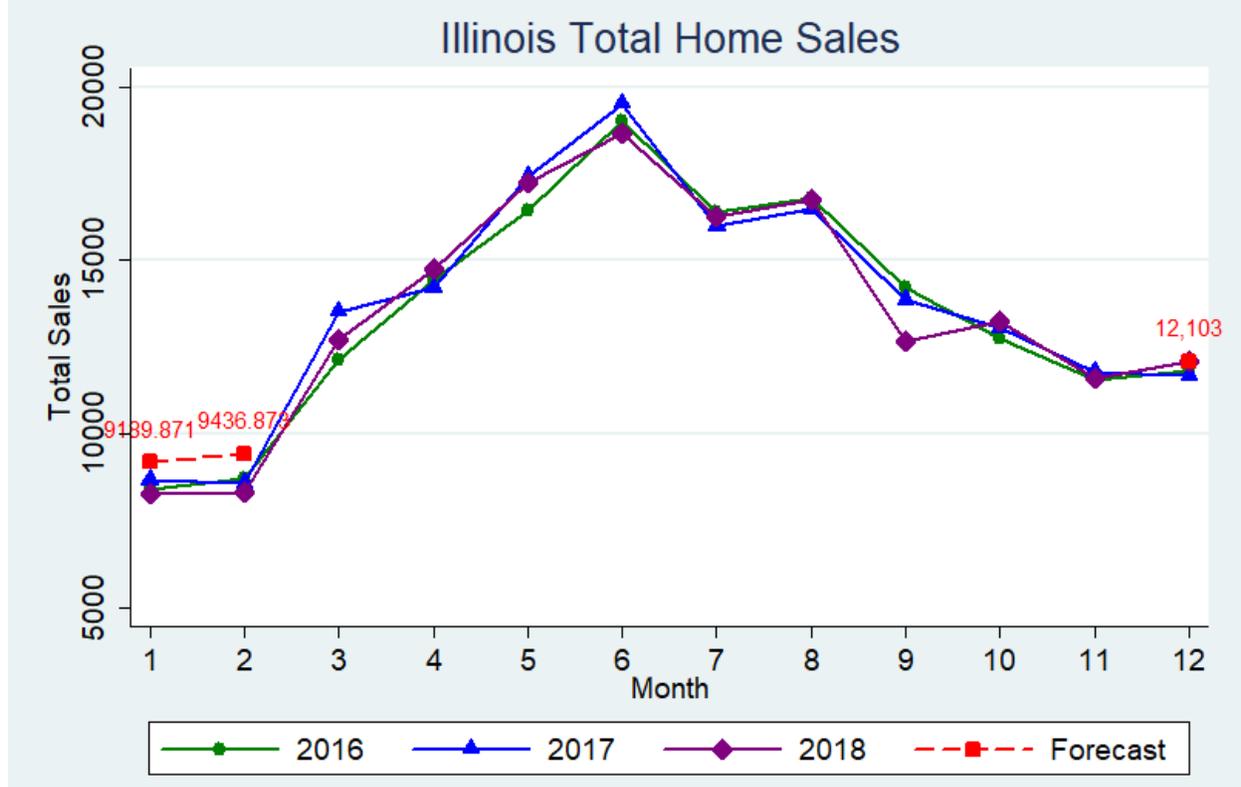
*Annual recovery rate is the average of *annual* change rates in past months

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

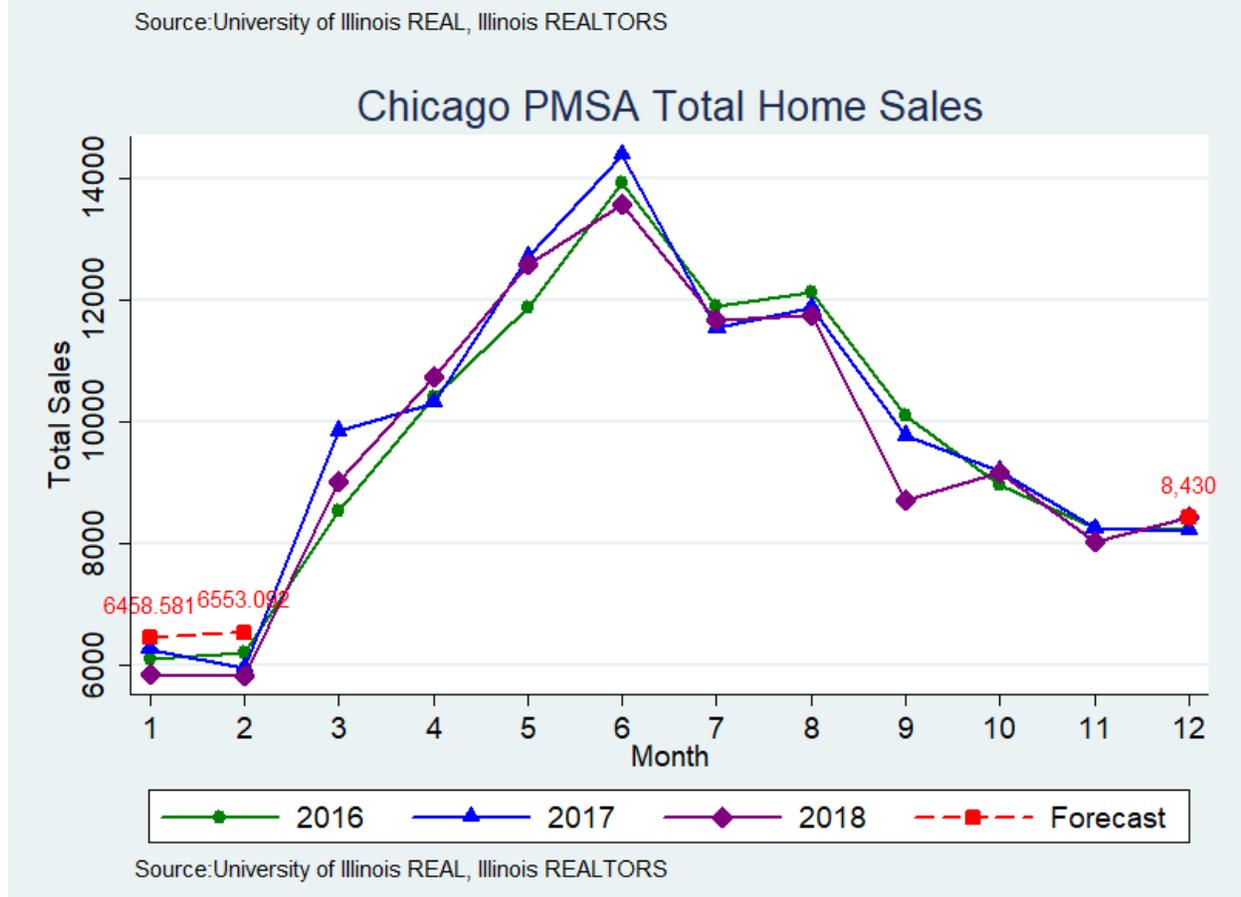
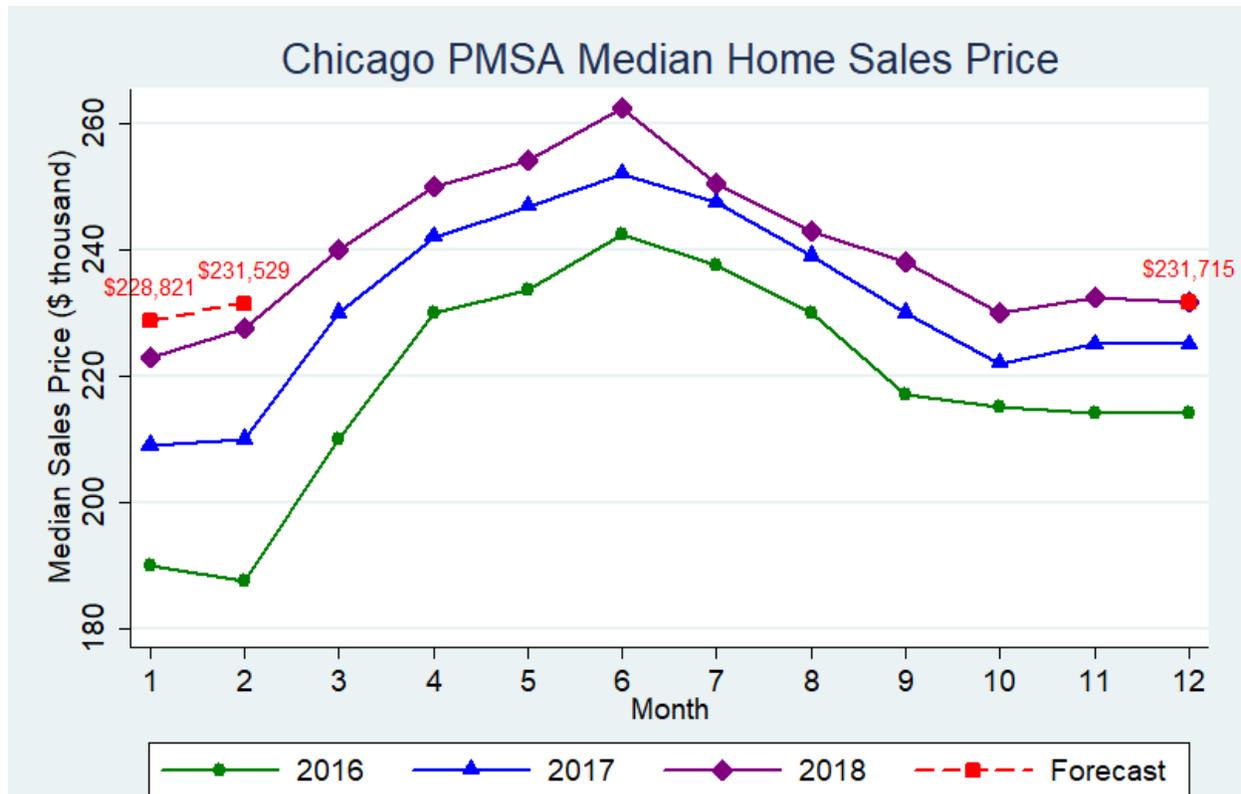
$Price_{November2018} * (1 + \text{recovery rate})^{\text{years}} = Price_{November2008}$. Prices used in the formula are inflation adjusted. The recovery rate is applied as a constant annual change rate to recoup the differences between the current month and its corresponding month in 2008.

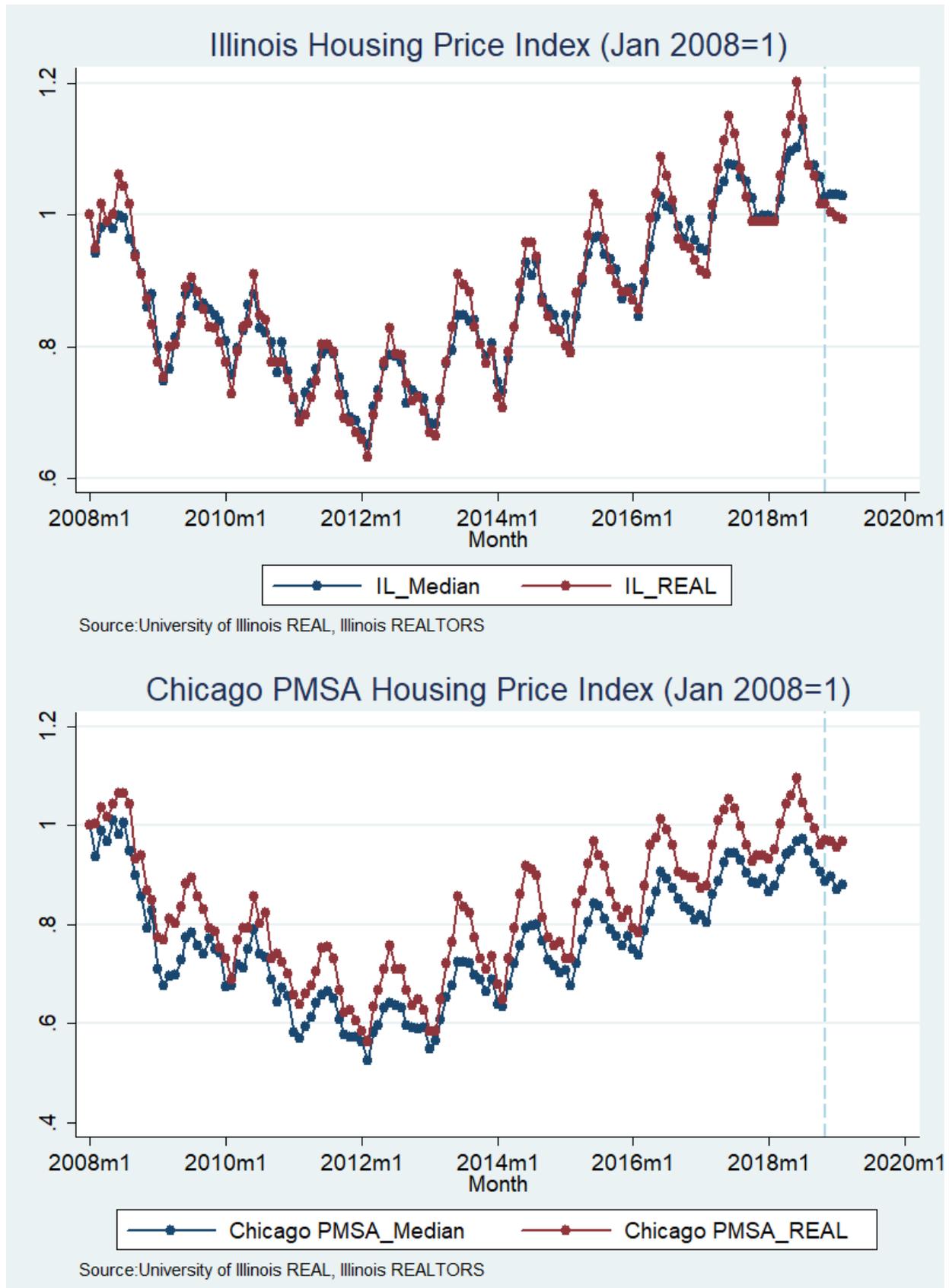


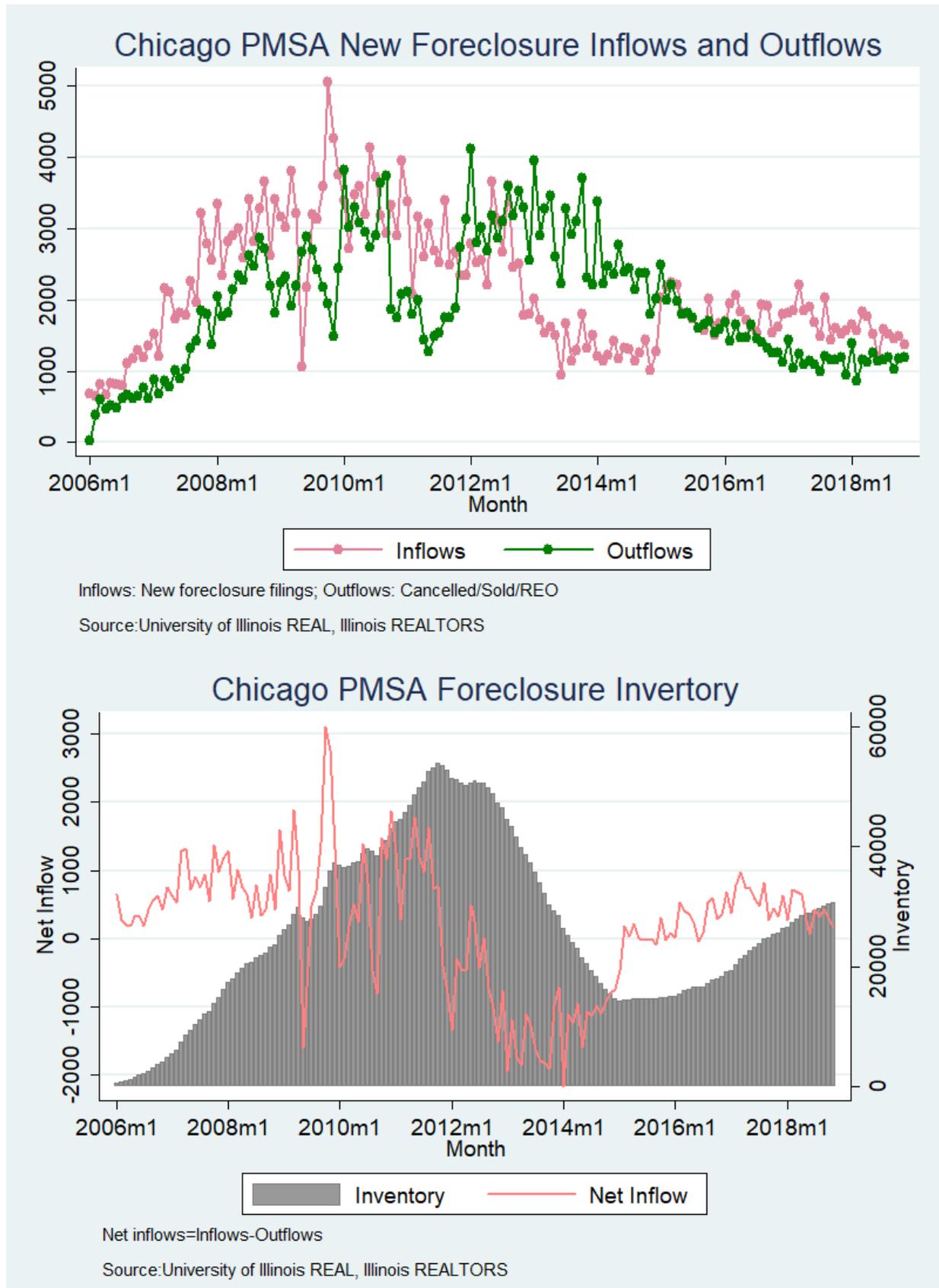
Source: University of Illinois REAL, Illinois REALTORS

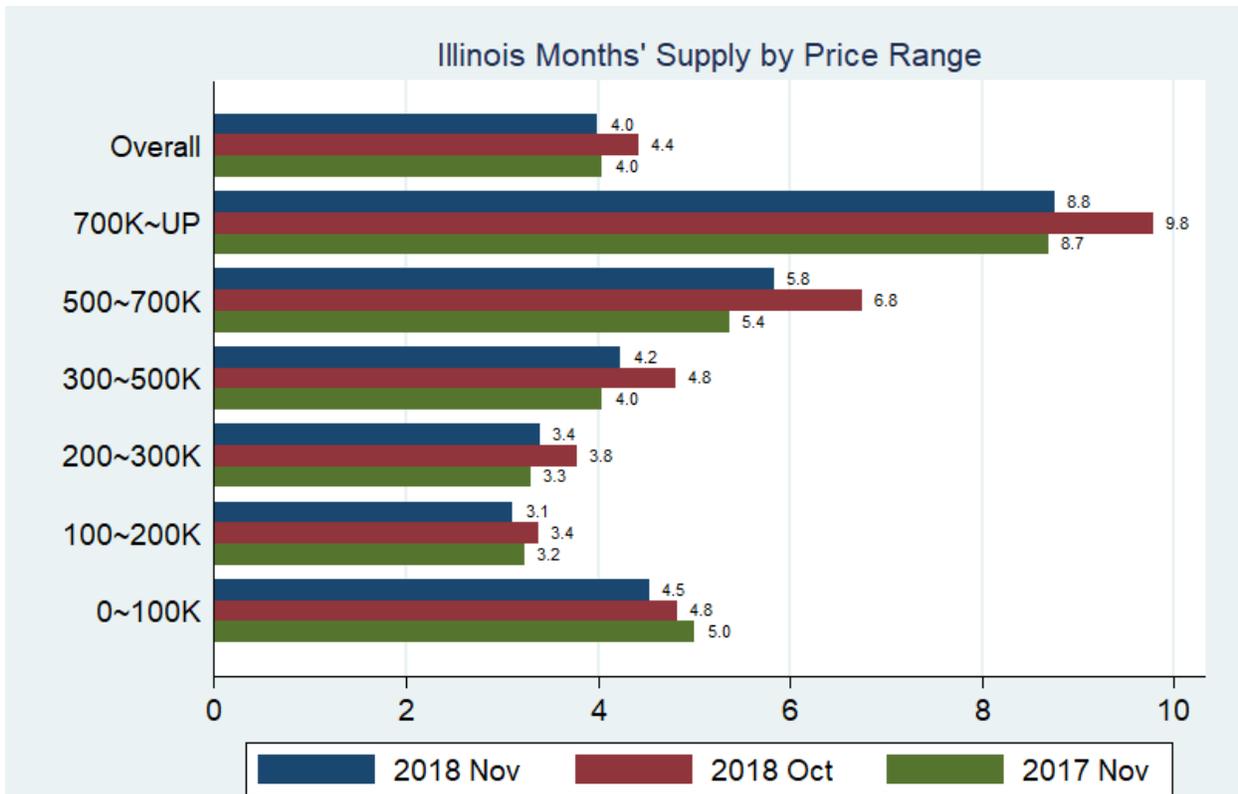


Source: University of Illinois REAL, Illinois REALTORS

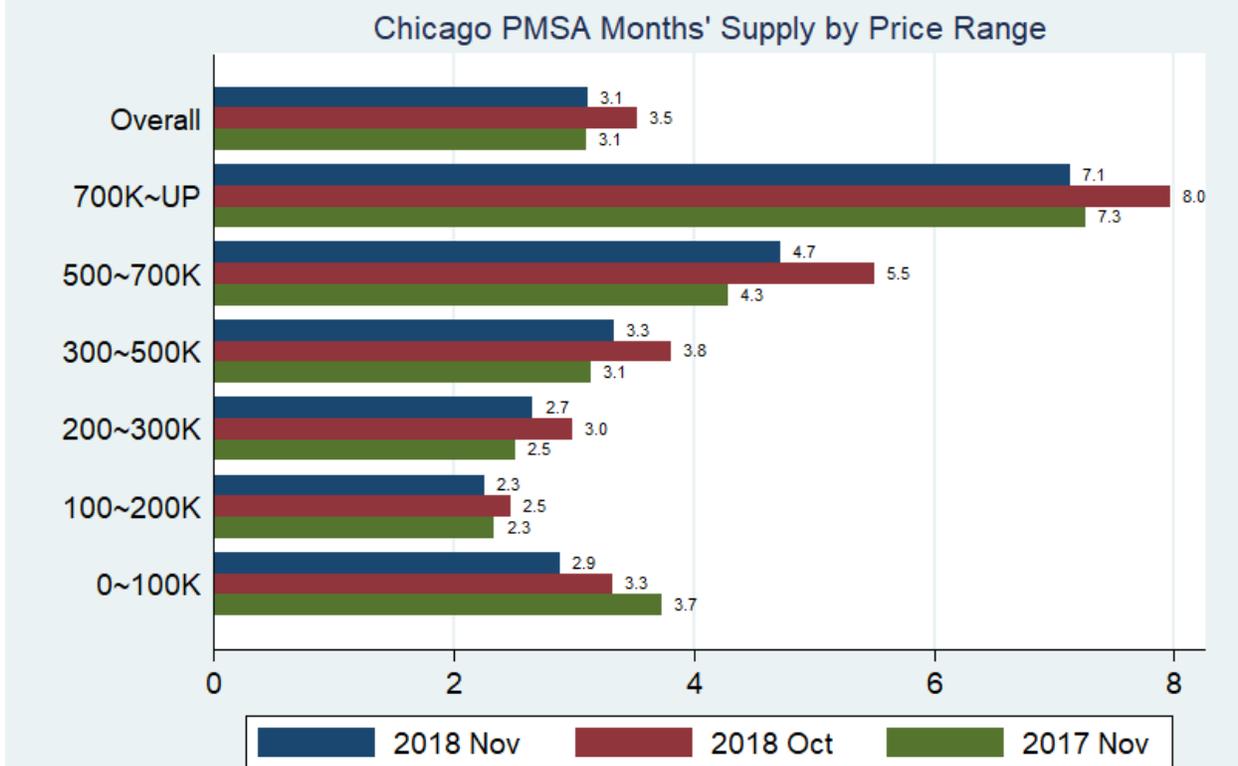




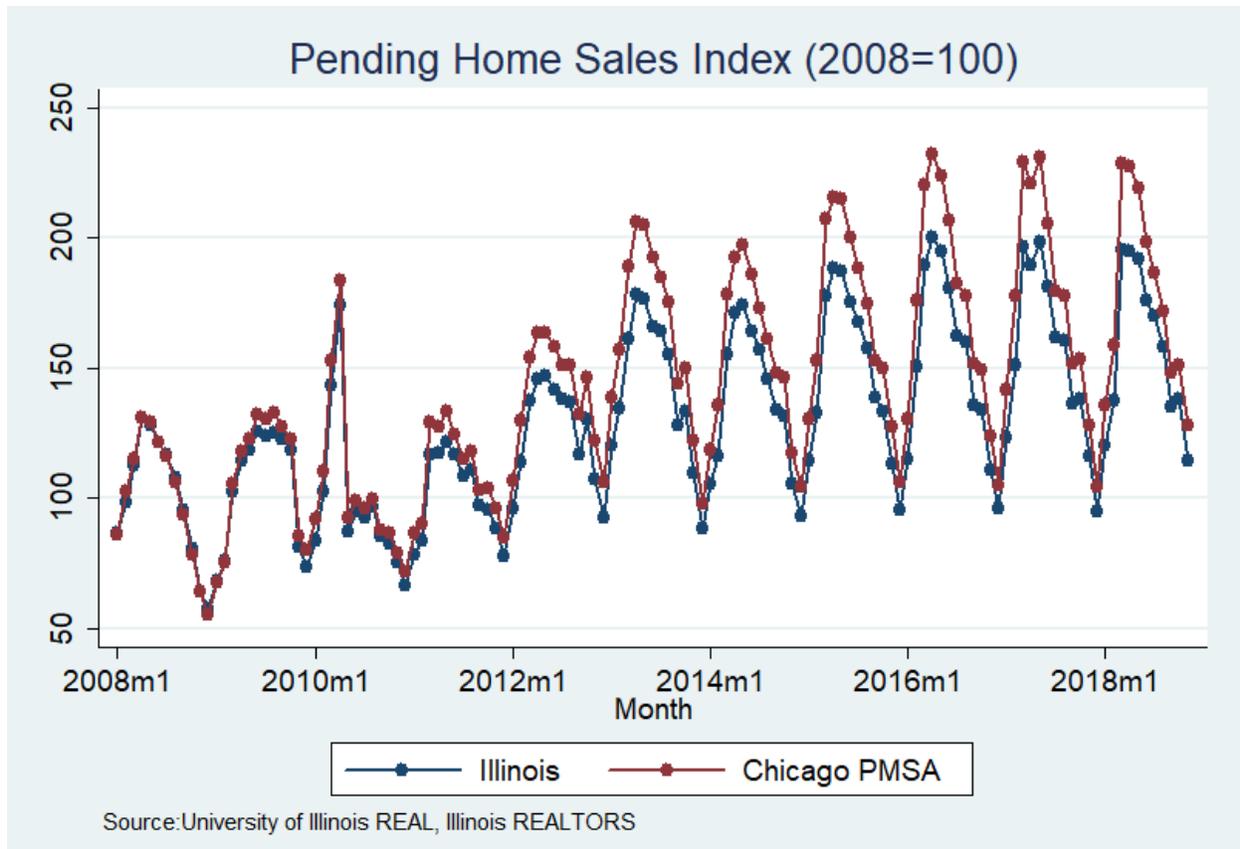


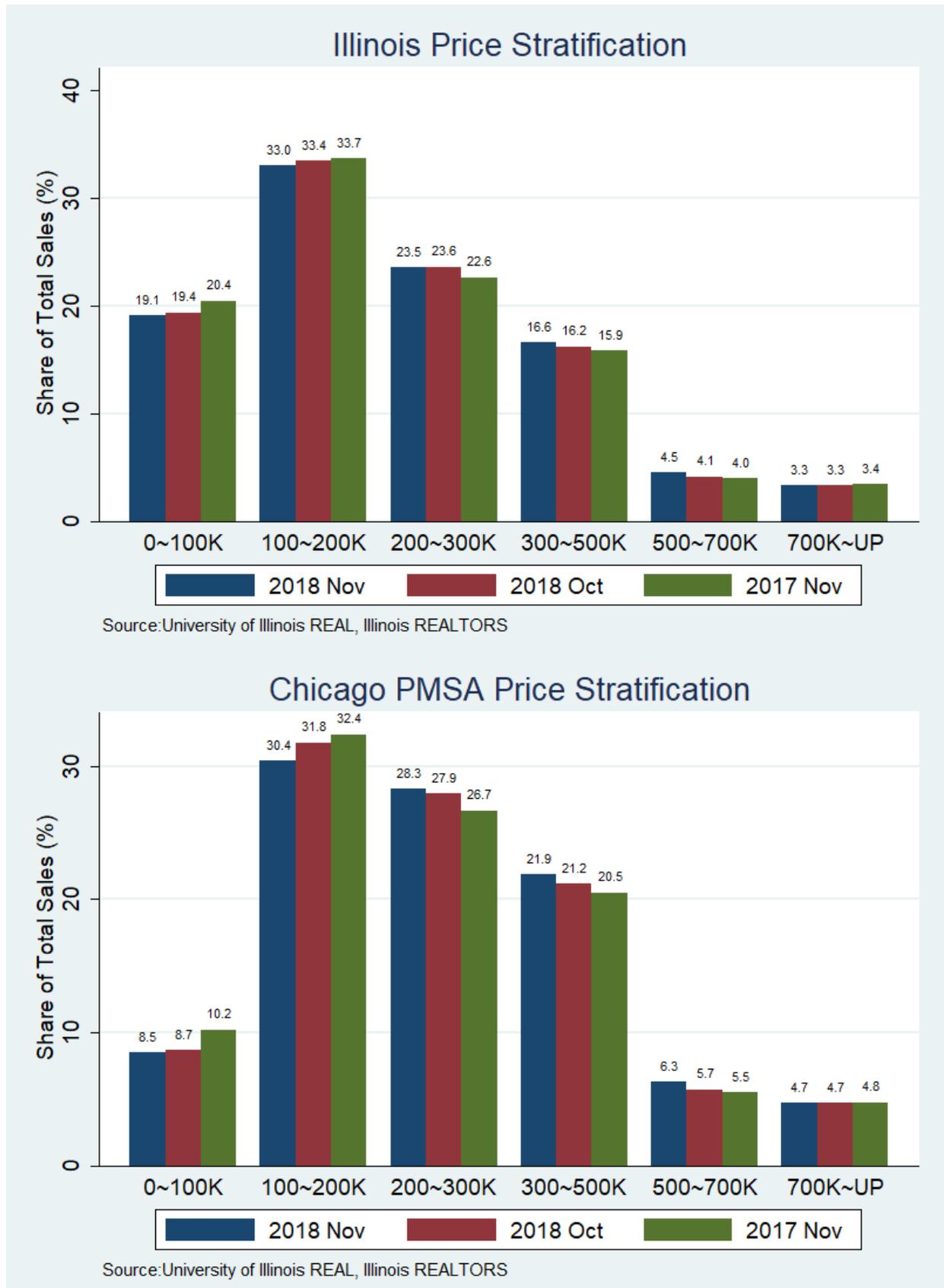


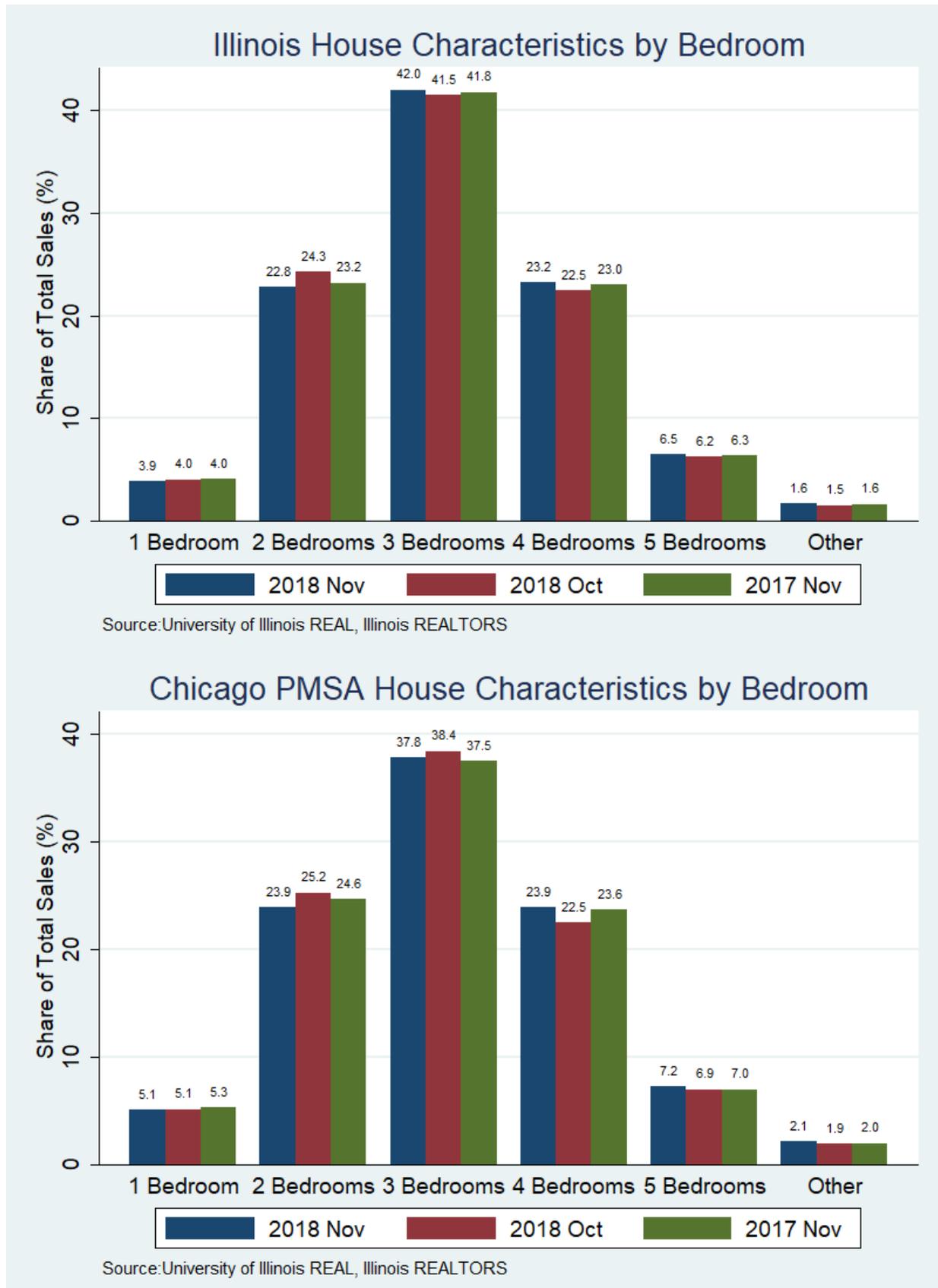
Source: University of Illinois REAL, Illinois REALTORS



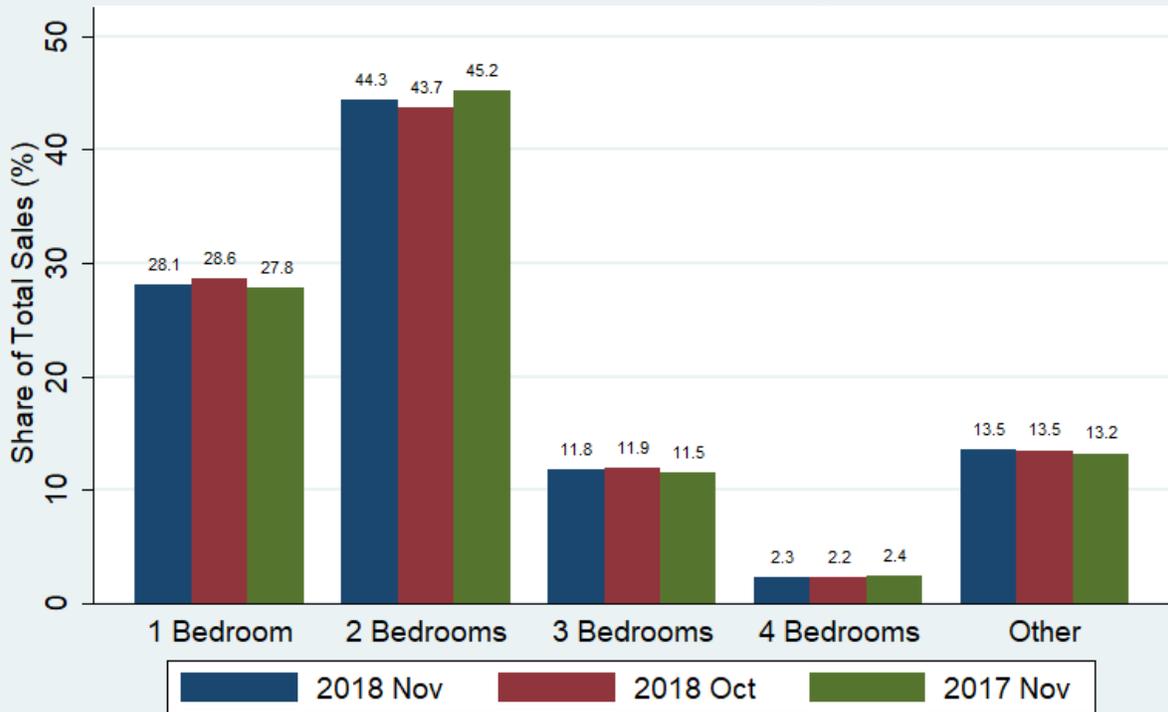
Source: University of Illinois REAL, Illinois REALTORS





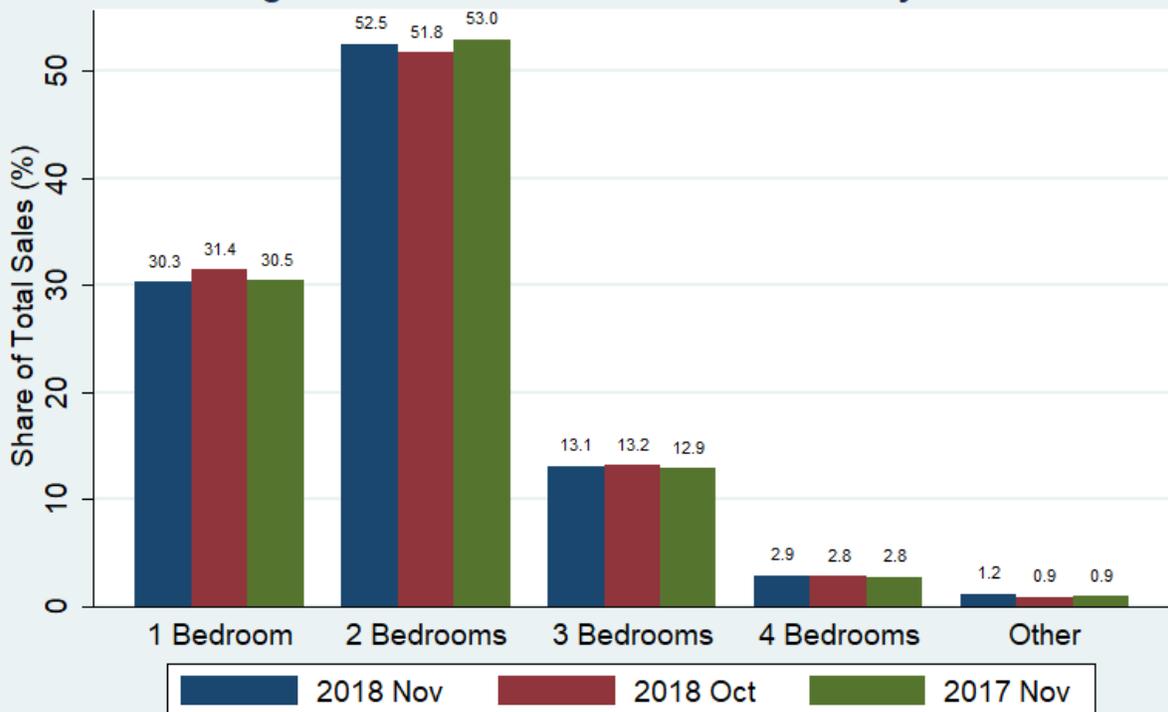


Illinois House Characteristics by Bathroom



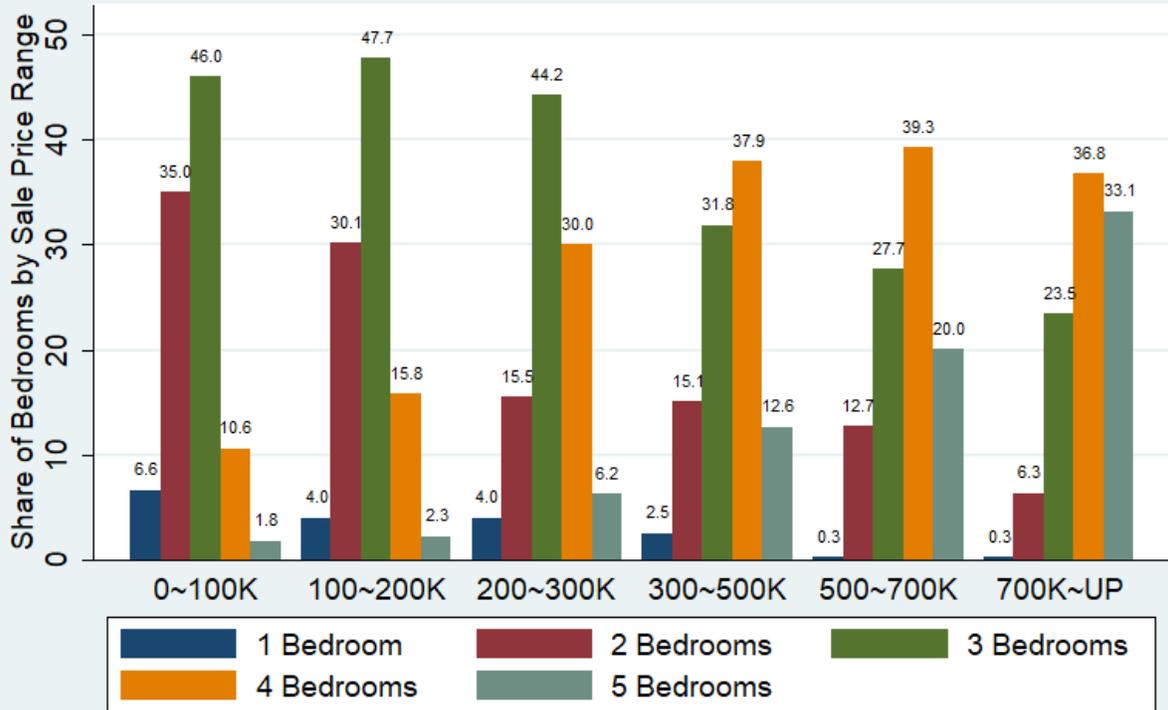
Source: University of Illinois REAL, Illinois REALTORS

Chicago PMSA House Characteristics by Bathroom



Source: University of Illinois REAL, Illinois REALTORS

Illinois Bedroom Shares by Sale Price Stratification



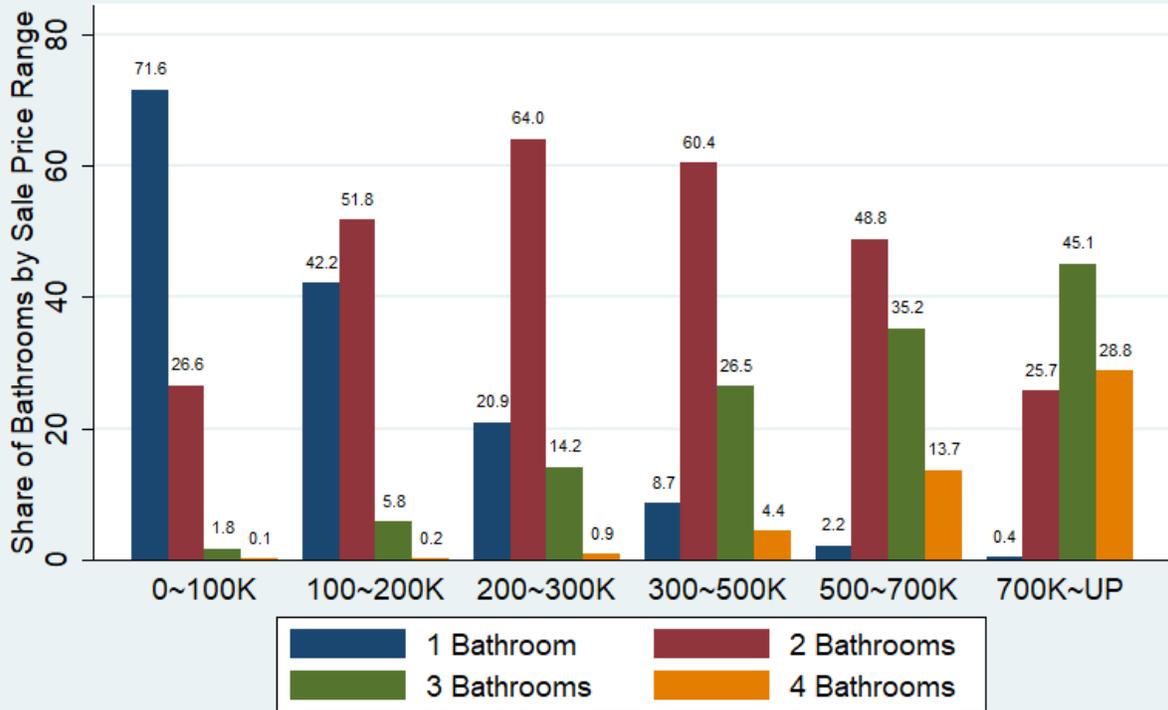
Source: University of Illinois REAL, Illinois REALTORS

Chicago PMSA Bedroom Shares by Sale Price Stratification



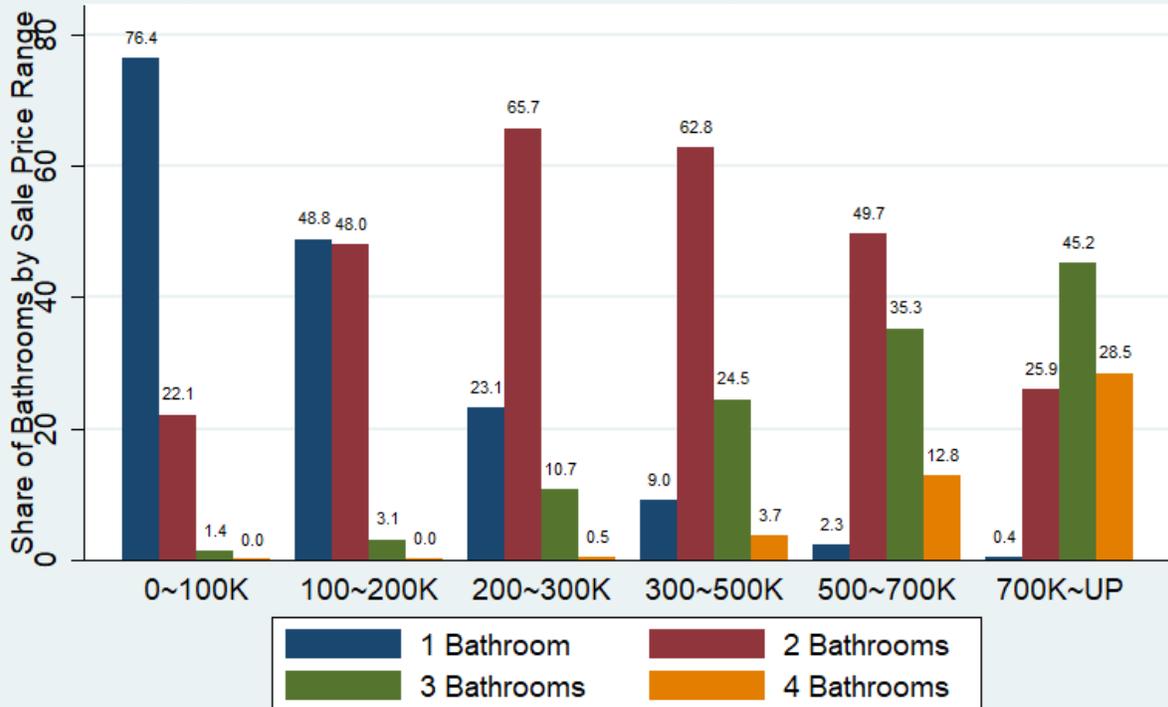
Source: University of Illinois REAL, Illinois REALTORS

Illinois Bathroom Shares by Sale Price Stratification



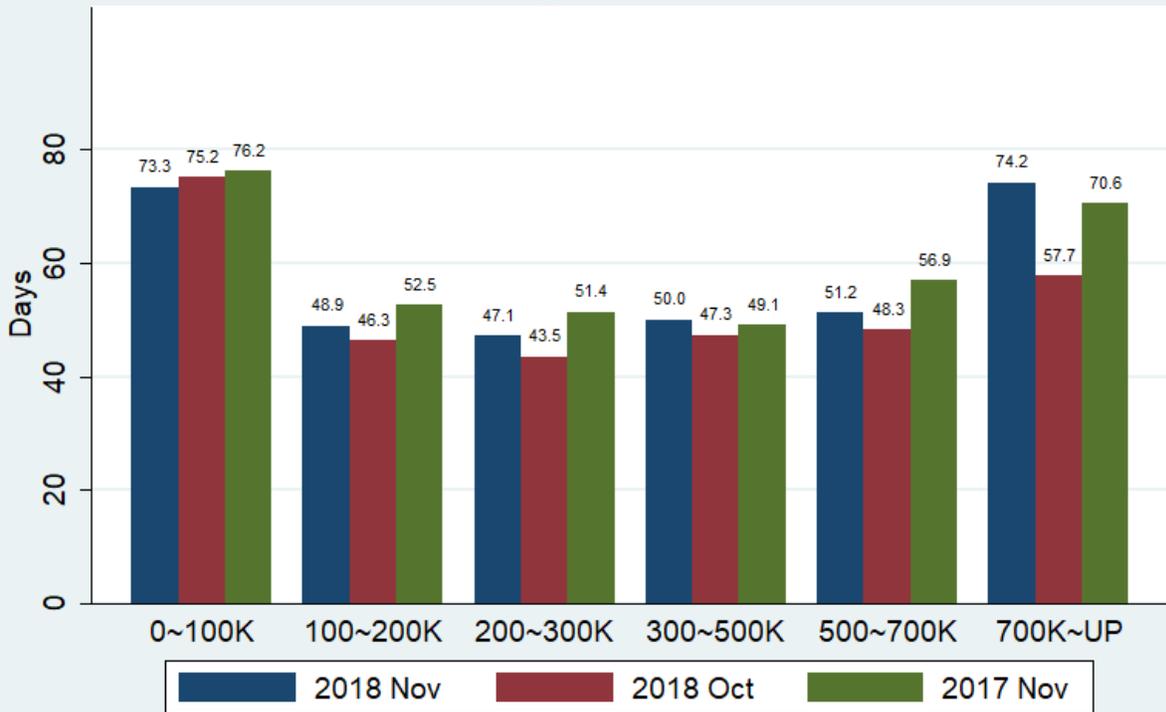
Source: University of Illinois REAL, Illinois REALTORS

Chicago PMSA Bathroom Shares by Sale Price Stratification



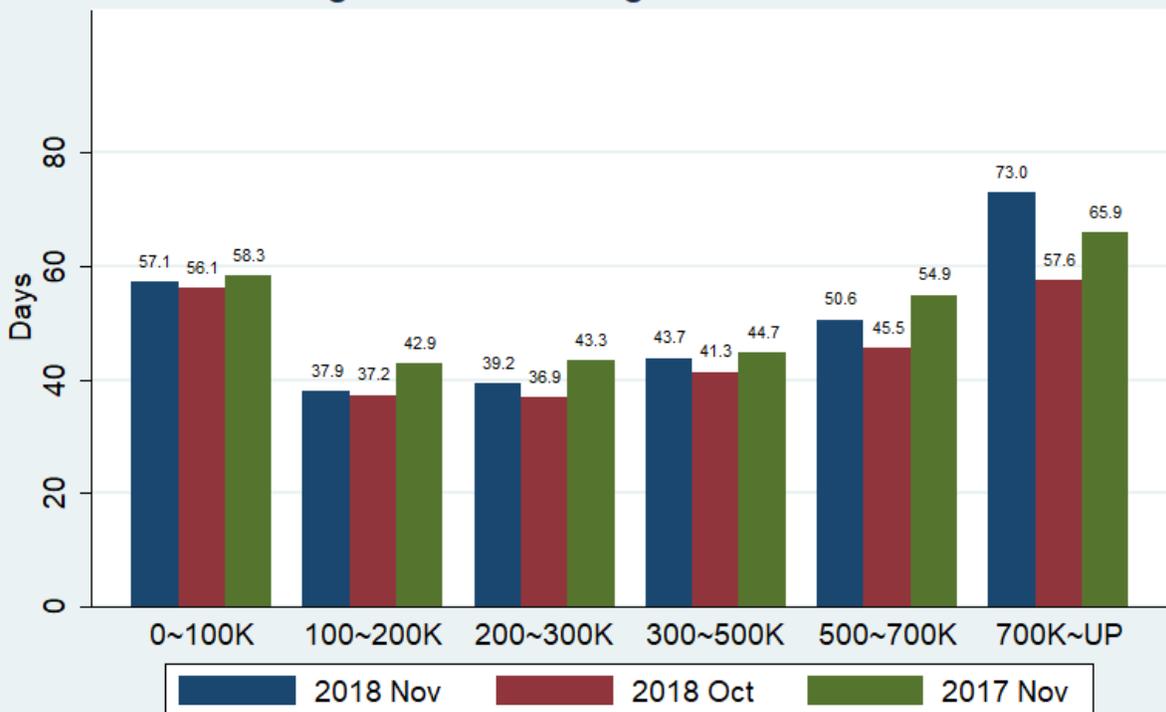
Source: University of Illinois REAL, Illinois REALTORS

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

