

Housing Price Forecasts

Illinois and Chicago PMSA, June 2019

Presented To
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Institute of Government and Public Affairs
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June 21, 2019

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Housing Price Forecast: Illinois and Chicago PMSA, June 2019

The Housing Market

In May, median prices experienced positive growth while sales experienced a negative annual change in both Illinois and the Chicago PMSA. 17,034 houses were sold in Illinois, changing by 20.8% from a month ago and -1.3% from a year ago. In the Chicago PMSA, 12,129 houses were sold, changing by 18.8% from a month ago and -3.6% from a year ago. The median price was \$219,000 in Illinois, up 1.9% from May last year; the comparable figure for the Chicago PMSA was \$259,000, up 2.0% from May last year.

In May, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 8.2%. 11,249 regular sales were made, 2.4% less than last year. 794 foreclosed properties were sold, 19.1% less than last year. The median price was \$265,000 for regular property sales, up 1.3% from last year; the comparable figure for the foreclosed properties was \$193,875, up 10.8% 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 May 2008 has been adjusted to 2019 values to enable calculation of the housing price recovery considering the effects of inflation. In Illinois, the May 2008 median sales price was \$156,000 (in \$2008) and \$186,855 (in \$2019); the current price level was 117% of the 2008 level after adjusting (140% before adjusting). In the Chicago PMSA, the May 2008 median sales price was \$200,000 (in \$2008) and \$239,557 (in \$2019); the comparable figure for price recovery in May 2019 is 108% after adjustment (130% before adjusting).

The sales forecast for June, July and August suggests a slight increase on a yearly basis and a decrease on a monthly basis for Illinois. For the Chicago PMSA, the forecast suggests a slight decrease on both yearly and monthly basis. Annually for Illinois, the three-month average forecasts point to an increase in the range 0.8% to 1.0%; the comparative figures for the Chicago PMSA are a decrease in the range -0.1% to -0.1%. On a monthly basis, the three-month average sales are forecast to decrease in the range -0.1% to -0.2% for Illinois and decrease in the range -0.6% to -0.8% for the Chicago PMSA.

The pending home sales index¹ is a leading indicator based on contract signings. This May, the number of homes put under contract was more than last year in both Illinois and the Chicago PMSA. The pending home sales index is 203.8 (2008=100) in Illinois, up 6.3% from a year ago. In the Chicago PMSA, the comparable figure is 238.8, up 9.1% from a year ago. At the latest average annual pending sales rate, Illinois had enough housing inventory for 4.3 months² (same as a year ago). In the Chicago PMSA, the comparable figure was 3.5 months (up from 3.4 last year). Months of supply for homes in the lowest price ranges (<100K) experienced declines both in Illinois and the Chicago PMSA.

The median price forecast indicates mild positive annual growth for June, July, and August in both Illinois and the Chicago PMSA. In Illinois, the median price is forecast to change by 1.8% in June, 3.0% in July and 4.6% in August. For the Chicago PMSA, the comparable figures are 1.8% in June, 2.7% in July and 3.4% in August. As a complement to the median housing price

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.

index (HPI), the REAL HPI³ forecasts a mild positive growth trend for both Illinois and the Chicago PMSA. In Illinois, the REAL HPI (Jan 2008=1) is forecast to change by 2.0% in June - 0.7% in July and 2.5% in August. The comparable figures for the Chicago PMSA are 4.2% in June 3.7% in July and 4.7% in August. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month.

In May, both the Conference Board Consumer Confidence Index and the University of Michigan Consumer Sentiment Index improved. The Conference Board Consumer Confidence Index survey revealed that expectations regarding the short-term outlook for business conditions and employment improved, but consumers’ sentiment regarding their income prospects was mixed. The University of Michigan Consumer Sentiment Index survey reported that most of the gain was in the expectations index and the gauge of current conditions ticked up as well. The gauge of current economic situation also went up; consumers viewed prospects for the overall economy much more favorably. The more housing specific sentiment index, the Fannie Mae Home Purchase Sentiment Index (HPSI) also increased. The survey noted that the increase was mainly due to net positive responses to whether it is a good time to buy. Consumers also showed increased confidence that home prices would increase while mortgage rates would move lower.

The Housing Market – Current Condition

- In May, median prices experienced positive growth while sales experienced a negative annual change in both Illinois and the Chicago PMSA. 17,034 houses were sold in Illinois, changing by 20.8% from a month ago and -1.3% from a year ago. In the Chicago PMSA, 12,129 houses were sold, changing by 18.8% from a month ago and -3.6% from a year ago. The median price was \$219,000 in Illinois, up 1.9% from May last year; the comparable figure for the Chicago PMSA was \$259,000, up 2.0% from May last year. (Reference: Illinois and Chicago PMSA Total Home Sales and Median Home Sales Price figures; Forecast for June 2019 report table)
- In May, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 8.2%. 11,249 regular sales were made, 2.4% less than last year. 794 foreclosed properties were sold, 19.1% less than last year. The median price was \$265,000 for regular property sales, up 1.3% from last year; the comparable figure for the foreclosed properties was \$193,875, up 10.8% 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 4.3 months⁴ (same as a year ago). In the Chicago PMSA, the comparable figure was 3.5 months (up from 3.4 last year). Months of supply for homes in the lowest price ranges (<100K) experienced declines both in Illinois and the Chicago PMSA. (Reference: Illinois and Chicago PMSA Annual Months’ Supply by Price Range figures)
- In May, 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 14.1% from 15.2% a year ago; the comparative figure for the Chicago PMSA showed a decrease to

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.

5.4% from 6.6% a year ago. (Reference: Illinois and Chicago PMSA Price Stratification figures)

The Housing Market – Forecast and Future Condition

- The median price forecast indicates mild positive annual growth for June, July, and August in both Illinois and the Chicago PMSA. In Illinois, the median price is forecast to change by 1.8% in June, 3.0% in July and 4.6% in August. For the Chicago PMSA, the comparable figures are 1.8% in June, 2.7% in July and 3.4% in August. (Reference: Forecast for June 2019 report table)
- As a complement to the median housing price index (HPI), the REAL HPI⁵ forecasts a mild positive growth trend for both Illinois and the Chicago PMSA. In Illinois, the REAL HPI (Jan 2008=1) is forecast to change by 2.0% in June -0.7% in July and 2.5% in August. The comparable figures for the Chicago PMSA are 4.2% in June 3.7% in July and 4.7% 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 a slight increase on a yearly basis and a decrease on a monthly basis for Illinois. For the Chicago PMSA, the forecast suggests a slight decrease on both yearly and monthly basis. Annually for Illinois, the three-month average forecasts point to an increase in the range 0.8% to 1.0%; the comparative figures for the Chicago PMSA are a decrease in the range -0.1% to -0.1%. On a monthly basis, the three-month average sales are forecast to decrease in the range -0.1% to -0.2% for Illinois and decrease in the range -0.6% to -0.8% for the Chicago PMSA. (Reference: Forecast for June 2019 report table)
- The pending home sales index⁶ is a leading indicator based on contract signings. This May, the number of homes put under contract was more than last year in both Illinois and the Chicago PMSA. The pending home sales index is 203.8 (2008=100) in Illinois, up 6.3% from a year ago. In the Chicago PMSA, the comparable figure is 238.8, up 9.1% from a year ago. (Reference: Illinois and Chicago PMSA Pending Home Sales Index figure)
- In May 2019, 1,697 houses were newly filed for foreclosure in the Chicago PMSA (up 11.7% and up 3.5% respectively from a year and a month ago). 1,078 foreclosures were completed⁷ (down 9.5% and up 9.2% respectively from a year and a month ago). As of May 2019, there are 25,683 homes at some stage of foreclosure — the foreclosure inventory. The monthly average net flows of foreclosures (foreclosure inflows - outflows) were 576 in the past 6 months, 479 in the last 12 months and 506 in the last 24 months. (Reference: Chicago PMSA Foreclosure Inflows and Outflows, and Inventory figures).

The Economy

- In May 2019, according to the Bureau of Labor Statistics (BLS) Employment Situation report, the national unemployment rate remained at 3.6% and nonfarm payroll jobs experienced a gain of 75,000 jobs. Employment increased in professional and business services (+33,000), construction (+4,000), and health care (+16,000).

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 April 2019, according to the Illinois Department of Employment Security (IDES) news release, the Illinois unemployment was 4.4%, unchanged from the previous month. Non-farm payroll jobs increased by +20,900 over the month. The industry sectors with the largest payroll gains were: construction (+7,500), leisure and hospitality (+7,300), and professional and business services (+7,100) (not updated).
- In March 2018, the one-year-ahead forecast for Illinois indicates that the non-farm employment will change at a rate between 0.45% and 0.87%, corresponding to job gains between 27,500 and 53,400. The largest contributors to the forecast increase are education and health, leisure and hospitality, and professional and business services.
- In May 2019, Fannie Mae's second-quarter Mortgage Lender Sentiment Survey revealed that, for the first time since the third quarter of 2016, lenders responded positively about their net profit margins over the next three months. The survey noted that lenders are signaling strong demand-driven mortgage-market dynamics, with optimism for both their consumer demand and profitability outlooks reaching multi-year highs.
- In May 2019, a quarterly report from the Federal Housing Administration (FHA) revealed that the average credit score for an FHA mortgage borrower in the second quarter of this year was 665 — the lowest figure since 2008. The FHA report appears to confirm the reasoning behind changes to the agency's underwriting regulations earlier this year, when the FHA announced new manual underwriting standards for loans it deemed to be “high risk.”

Longer-term Outlook

- In May, both the Conference Board Consumer Confidence Index and the University of Michigan Consumer Sentiment Index improved. The Conference Board Consumer Confidence Index stands at 134.1, up from 129.2 last month. The survey revealed that expectations regarding the short-term outlook for business conditions and employment improved, but consumers' sentiment regarding their income prospects was mixed. Consumers expect the economy to continue growing at a solid pace in the short-term, and despite weak retail sales in April, these high levels of confidence suggest no significant pullback in consumer spending in the months ahead. The University of Michigan Consumer Sentiment Index rose to 100 from 97.2 last month. The survey reported that most of the gain was in the expectations index and the gauge of current conditions ticked up as well. The gauge of current economic situation also went up; consumers viewed prospects for the overall economy much more favorably.
- In May, Fannie Mae Home Purchase Sentiment Index (HPSI) increased to 92.0 from 88.3 last month. The survey reported that the increase was mainly due to net positive responses to whether it is a good time to buy. Consumers also showed increased confidence that home prices would increase while mortgage rates would move lower.
- The Chicago Business Activity Index (CBAI) decreased to 92.2 in March from 94.0 in February. The decrease is mainly attributed to negative nonmanufacturing and construction job growth and a decline in retail sales (not updated).

“While consumer sentiment has become more broadly positive nationally, Illinois consumers appear to be responding a little more conservatively” noted Geoffrey J.D. Hewings, Director of the Regional Economics Applications Laboratory. “Housing sales continue to grow more slowly compared to prior years' experience at this time of the year.”

Forecast for June 2019 report

PERCENTAGE CHANGE FOR THE TOTAL NUMBER OF SALES								
	Annual				Monthly			
	Illinois		Chicago PMSA		Illinois		Chicago PMSA	
Mar-19	-8.7%		-8.9%		40.3%		45.1%	
Apr-19	-4.6%		-4.8%		21.2%		24.0%	
May-19	-1.3%		-3.6%		20.8%		18.8%	
3 Month Avg.	-4.5%		-5.5%		25.7%		26.8%	
SUMMARY OF THE FORECAST INTERVALS FOR THE TOTAL NUMBER OF SALES								
	Annual				Monthly			
	Illinois		Chicago PMSA		Illinois		Chicago PMSA	
Jun-19	-0.3%	-0.4%	-0.9%	-1.2%	7.8%	10.6%	9.2% 12.4%	
Jul-19	2.1%	2.8%	0.1%	0.2%	-8.7%	-11.8%	-11.1% -15.0%	
Aug-19	0.7%	0.9%	0.6%	0.7%	1.4%	1.8%	1.3% 1.7%	
3 Month Avg.	0.8%	1.0%	-0.1%	-0.1%	-0.1%	-0.2%	-0.6% -0.8%	
SUMMARY OF THE FORECAST FOR THE MEDIAN PRICE								
	Illinois		Chicago PMSA			Illinois		Chicago PMSA
Mar-19	\$200,000		\$241,000		Mar-18	\$198,000		\$240,000
Apr-19	\$214,000		\$253,000		Apr-18	\$210,000		\$250,000
May-19	\$219,000		\$259,000		May-18	\$215,000		\$254,000
Jun-19	\$227,956		\$267,137		Jun-18	\$224,000		\$262,500
Jul-19	\$220,404		\$257,071		Jul-18	\$214,000		\$250,250
Aug-19	\$209,263		\$250,640		Aug-18	\$200,000		\$242,500
ANNUAL PERCENTAGE CHANGE OF THE MEDIAN PRICE								
	Illinois		Chicago PMSA			Illinois		Chicago PMSA
Mar-19	1.0%		0.4%		Mar-18	4.5%		4.3%
Apr-19	1.9%		1.2%		Apr-18	5.0%		3.3%
May-19	1.9%		2.0%		May-18	3.4%		2.9%
Jun-19	1.8%		1.8%		Jun-18	4.2%		4.2%
Jul-19	3.0%		2.7%		Jul-18	1.9%		1.1%
Aug-19	4.6%		3.4%		Aug-18	0.0%		1.5%

Median Prices and Recovery

	Illinois		Chicago PMSA	
	[\$2008]	[\$2019]	[\$2008]	[\$2019]
May 2008 Median Price	\$156,000	\$186,855	\$200,000	\$239,557
May 2019 Median Price	\$182,837	\$219,000	\$216,232	\$259,000
Price Ratio (May 19/ May 08)	Adjusted	1.17	Adjusted	1.08
	Unadjusted	1.40	Unadjusted	1.30

Recovery Forecasts using *Annually Growth Rates*

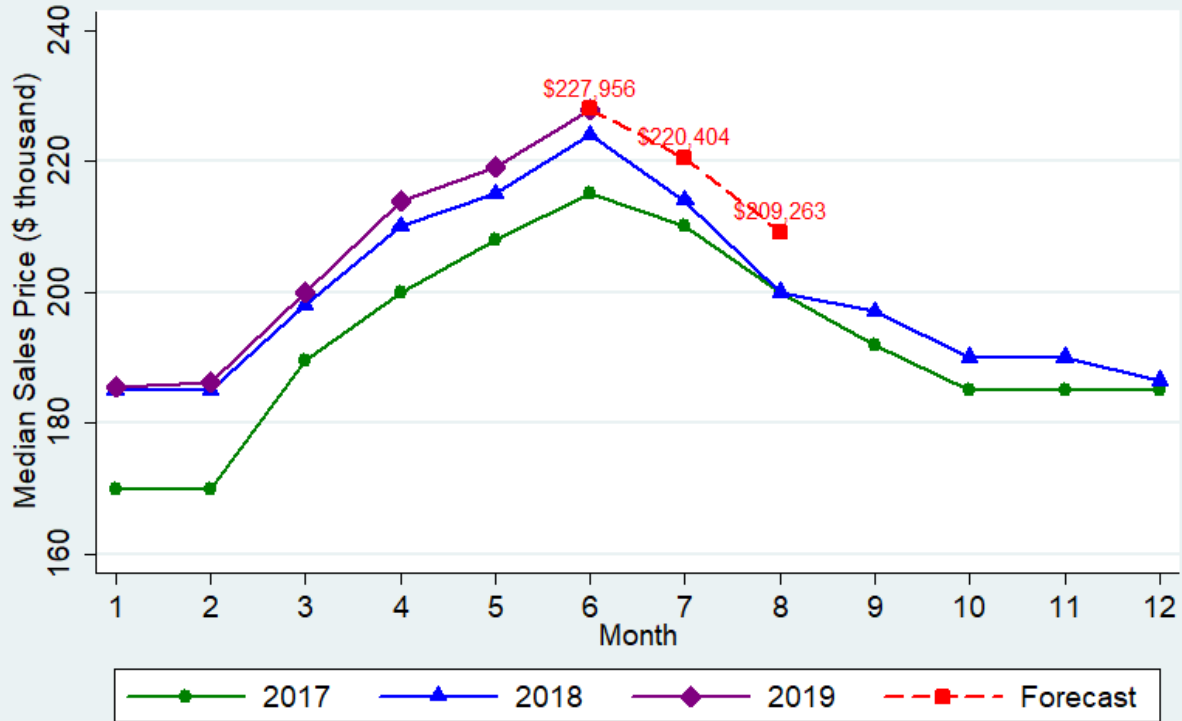
	Illinois	Chicago PMSA		
	Annual Recovery Rate*	Years to Recover**	Recovery Rate	Years to Recover
Current Month	0.0%	-985.2	0.1%	-63.9
Past 3 months	-0.3%	52.4	-0.7%	11.2
Past 6 months	-0.6%	25.1	-0.9%	9.0
Past 9 months	-0.3%	52.5	-0.2%	32.0
Past 12 months	-0.4%	36.5	-0.3%	23.1

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

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

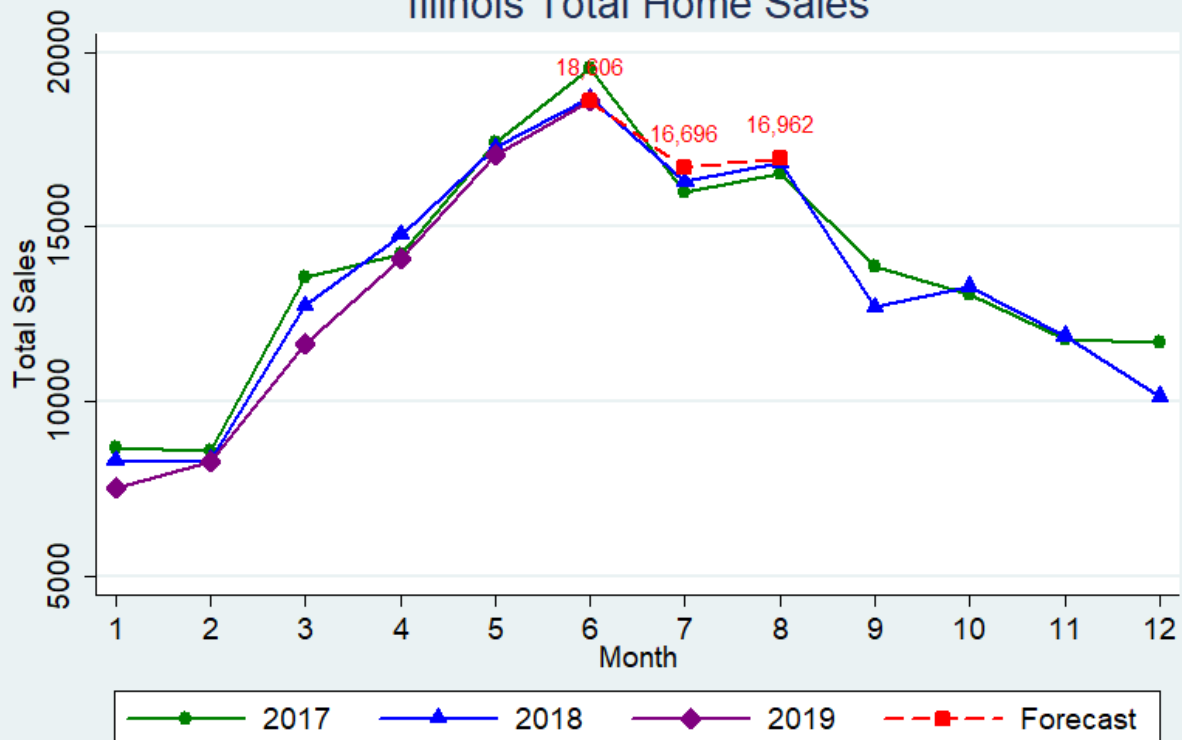
$\text{Price}_{\text{May2019}} * (1 + \text{recovery rate})^{\text{years}} = \text{Price}_{\text{May2008}}$. Prices used in the formula are inflation adjusted. The recovery rate is applied as a constant annual change rate to recoup the differences between the current month and its corresponding month in 2008.

Illinois Median Home Sales Price



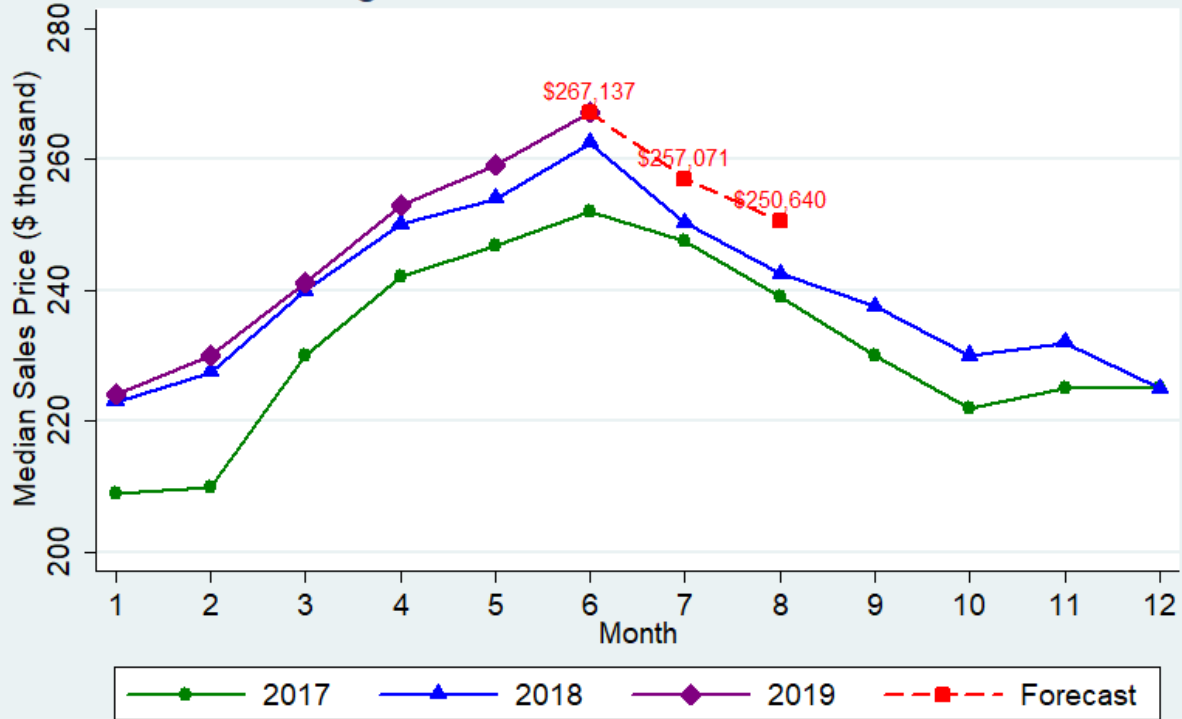
Source: University of Illinois REAL, Illinois REALTORS

Illinois Total Home Sales



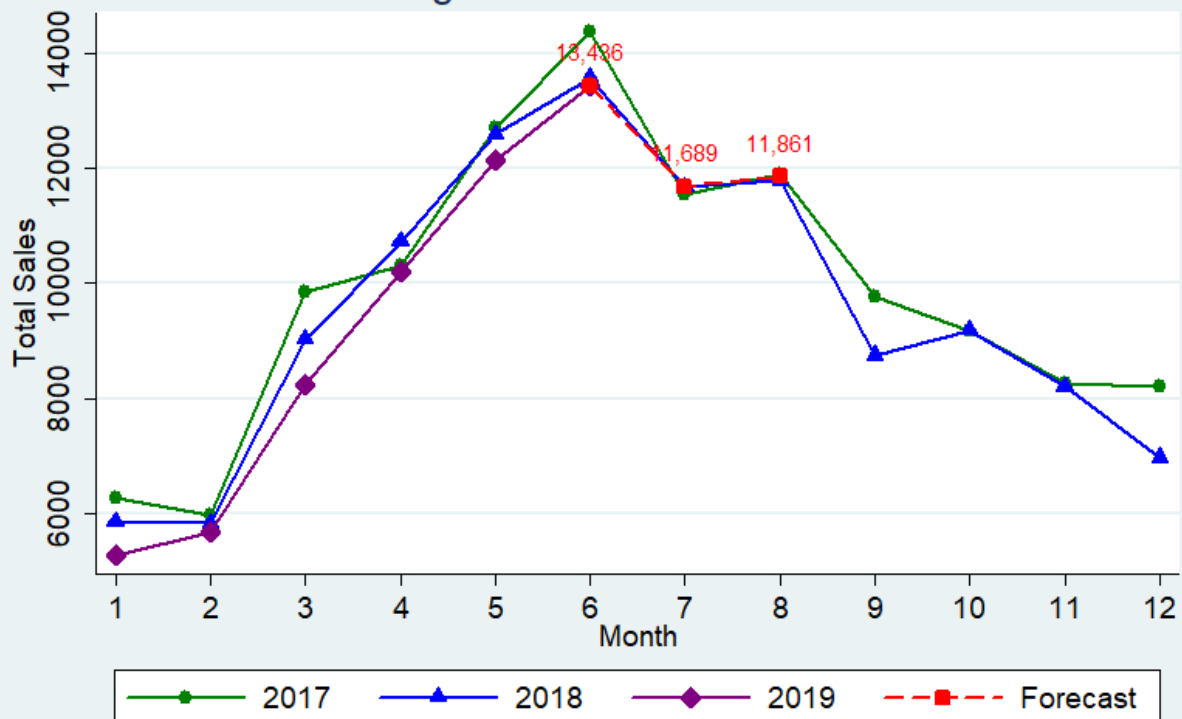
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Chicago PMSA Median Home Sales Price

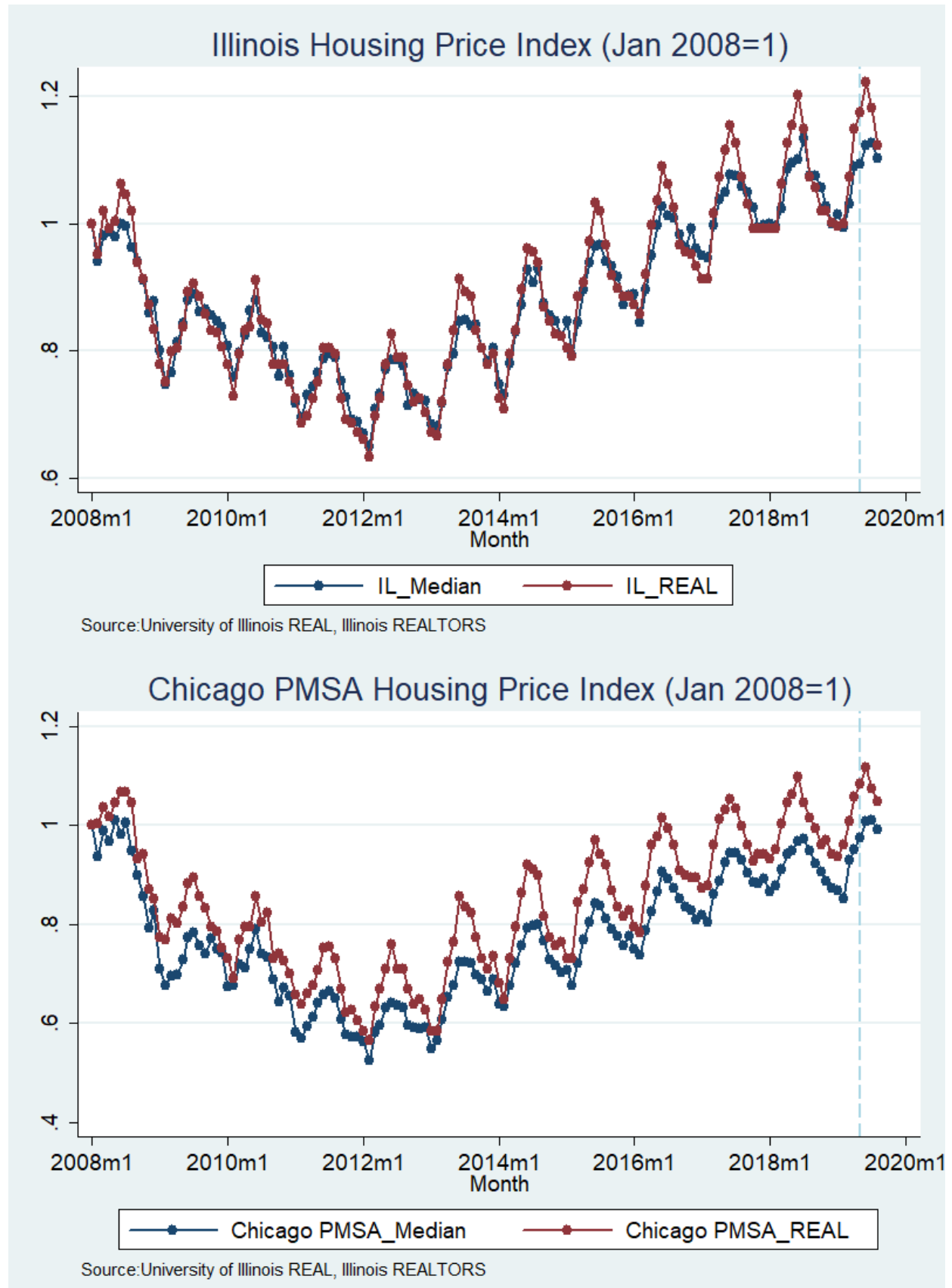


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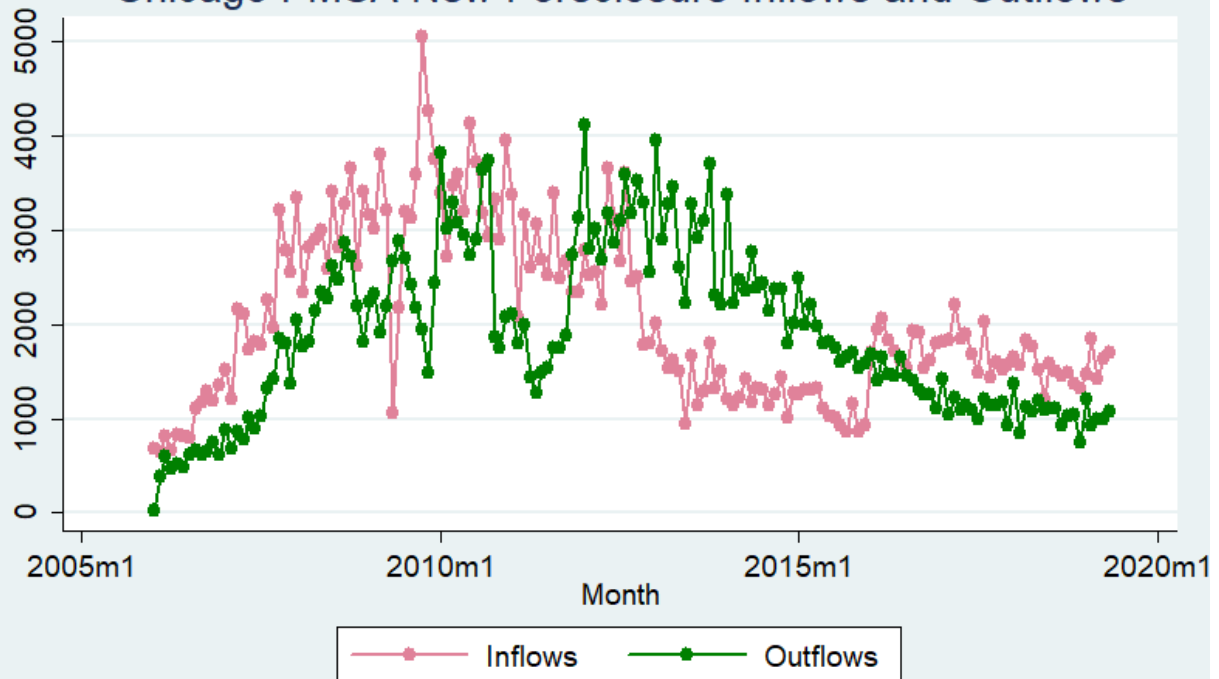
Chicago PMSA Total Home Sales



Source: University of Illinois REAL, Illinois REALTORS



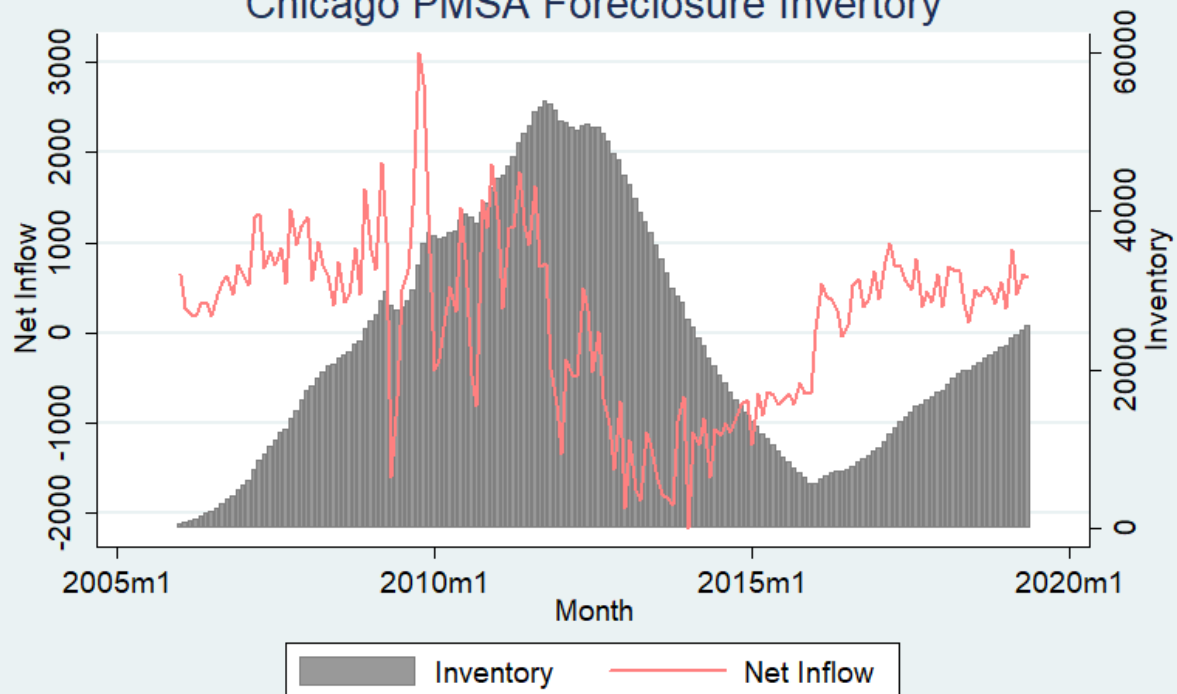
Chicago PMSA New Foreclosure Inflows and Outflows



Inflows: New foreclosure filings; Outflows: Cancelled/Sold/REO

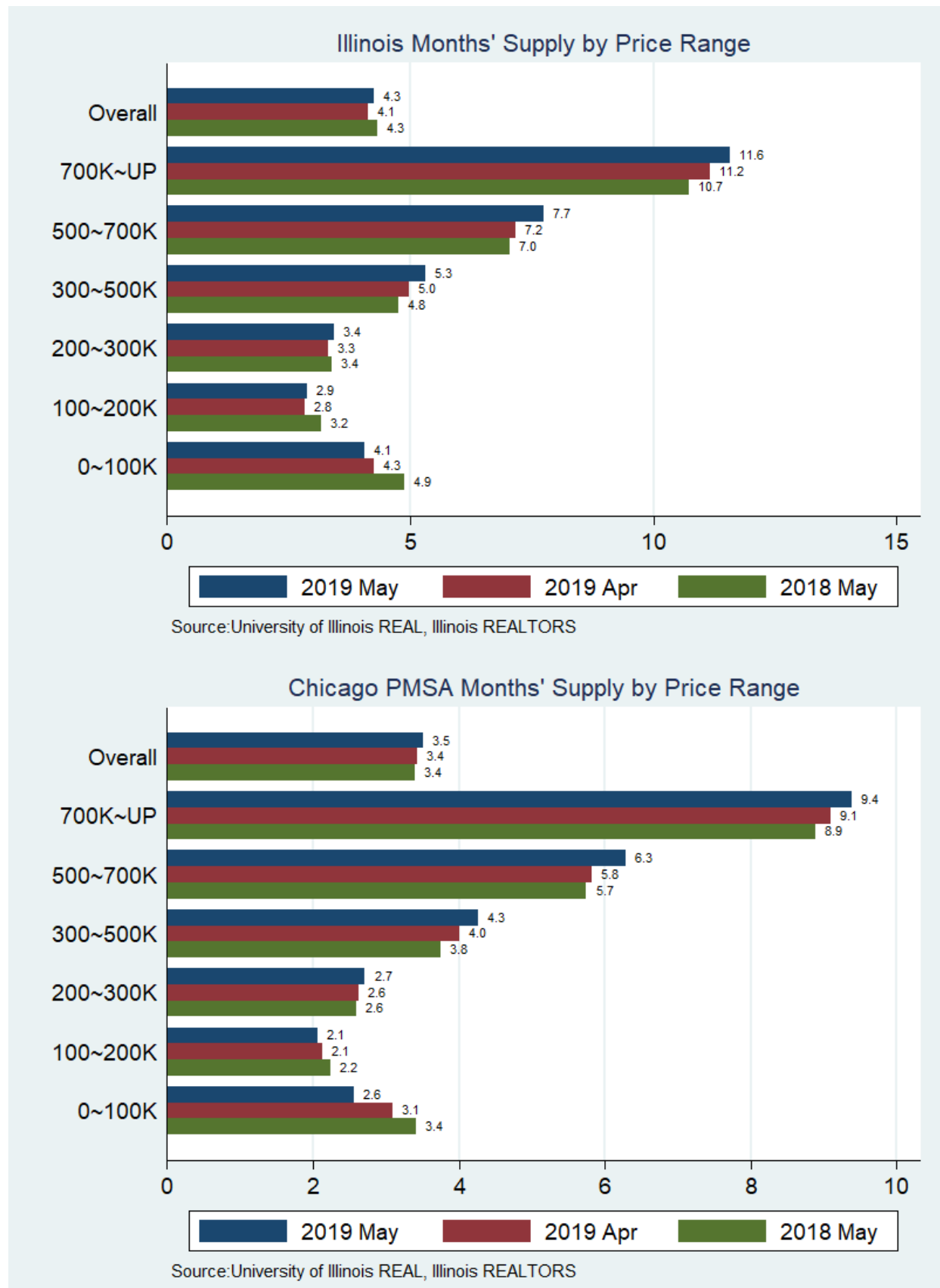
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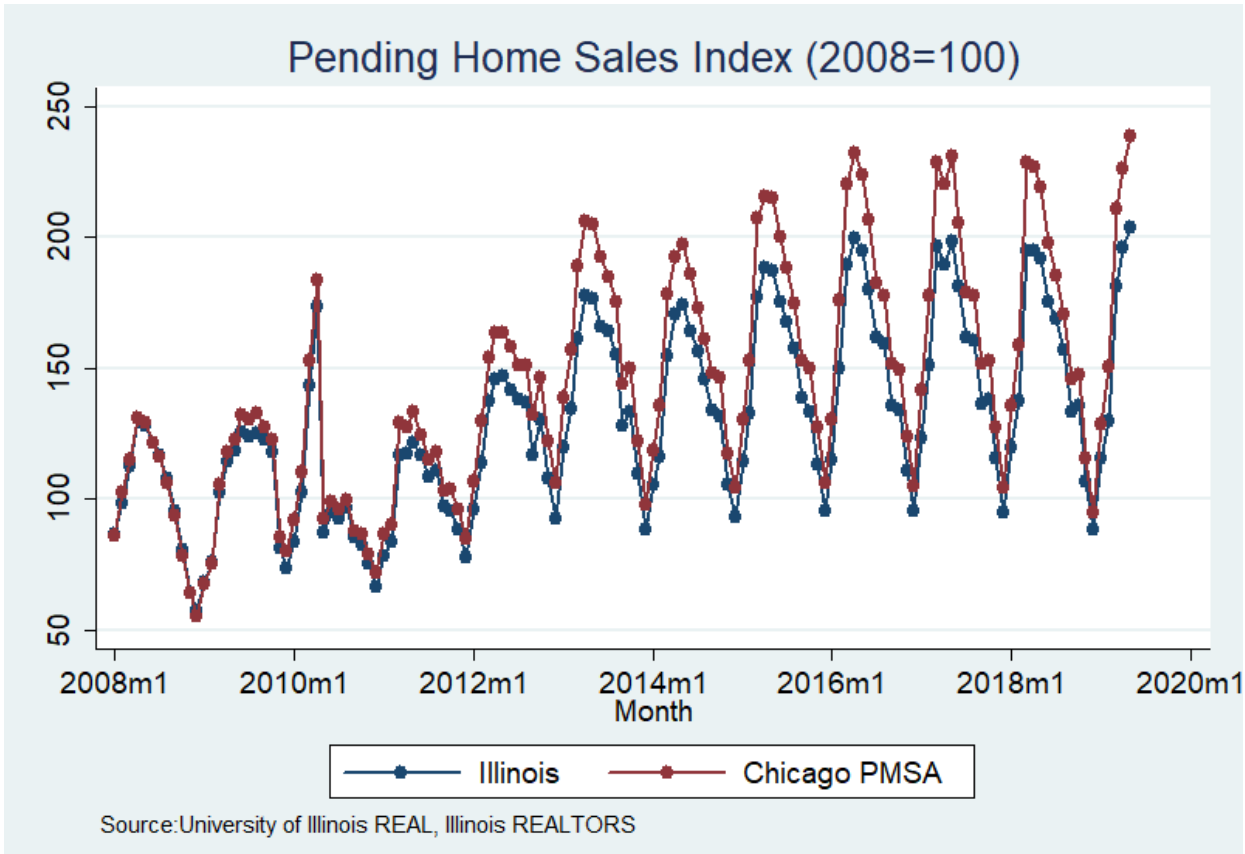
Chicago PMSA Foreclosure Inventory

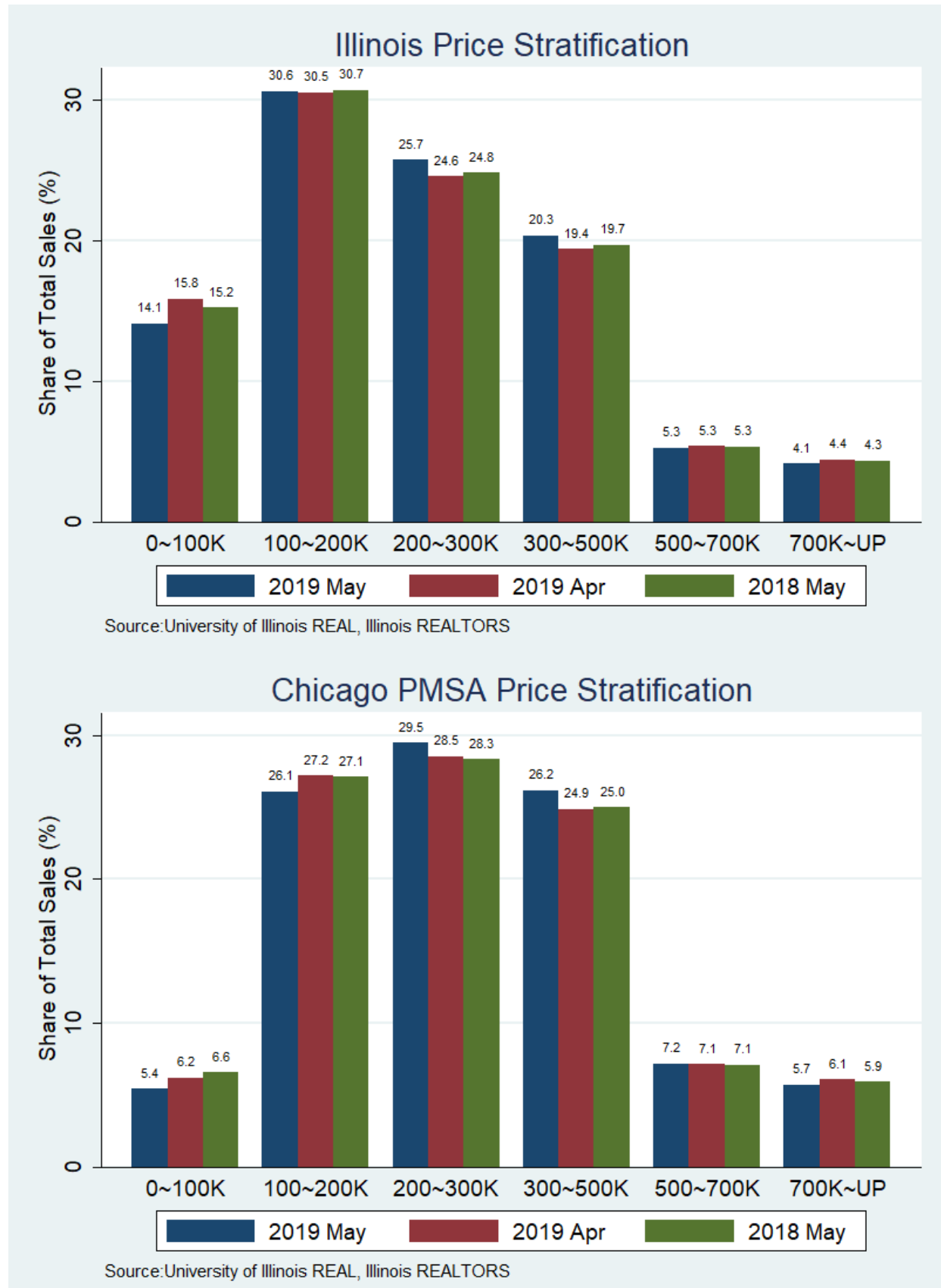


Net inflows=Inflows-Outflows

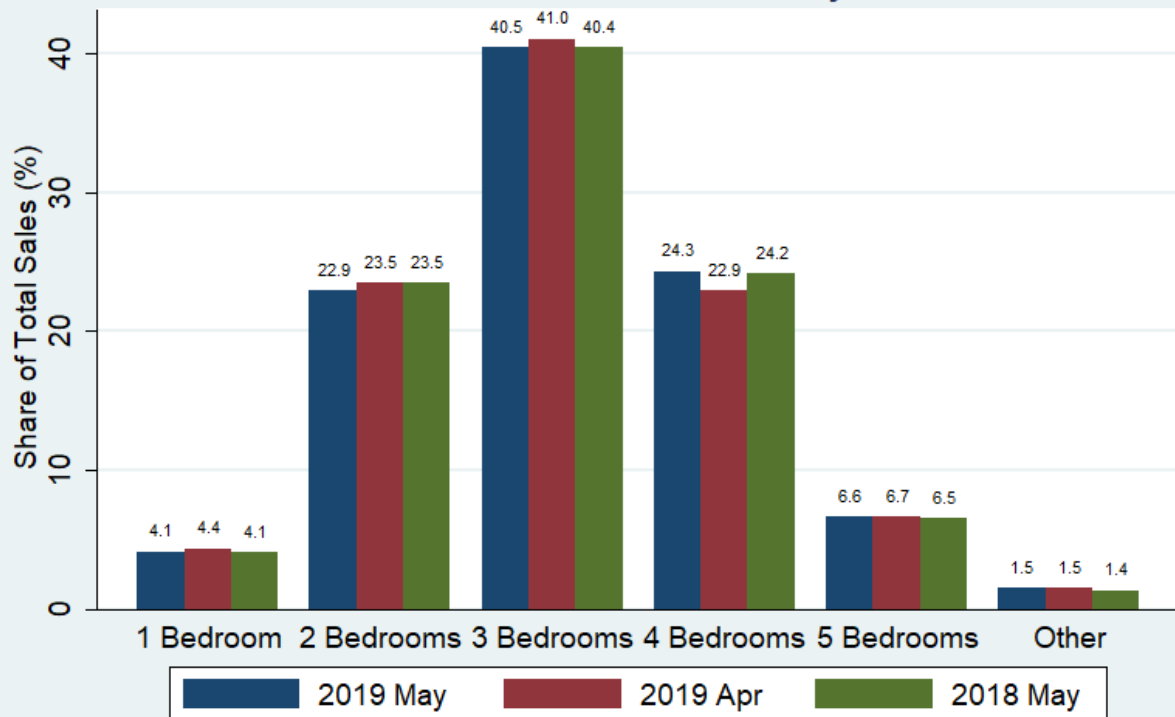
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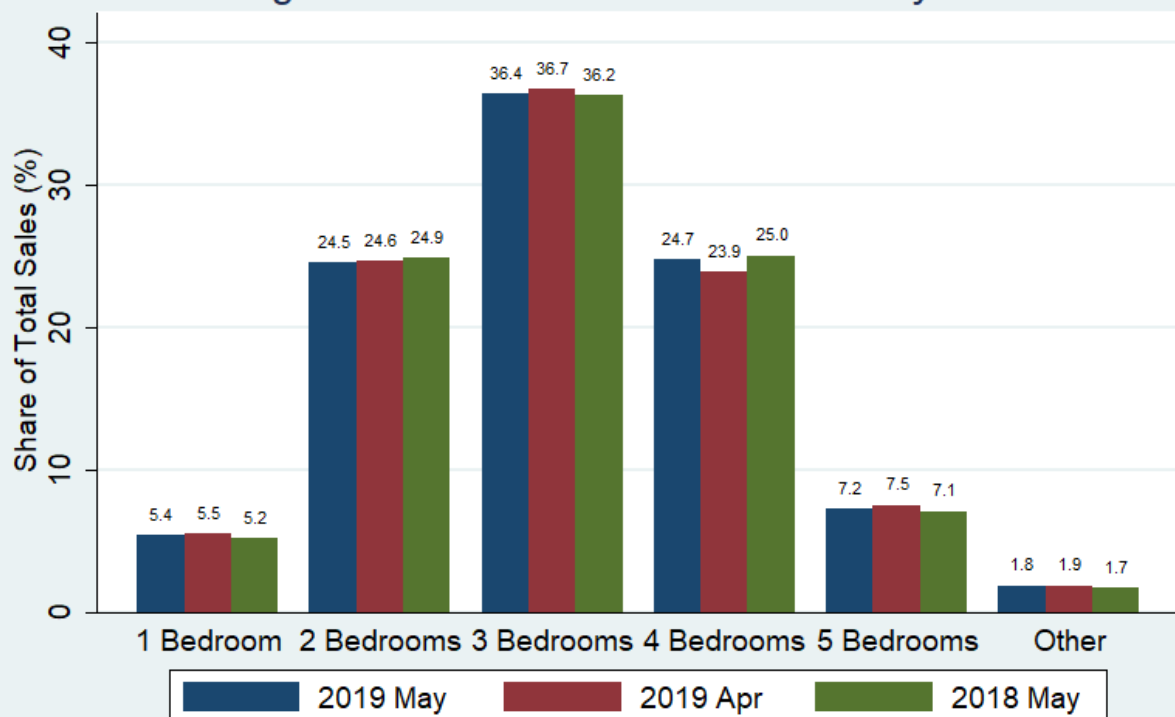


Illinois House Characteristics by Bedroom



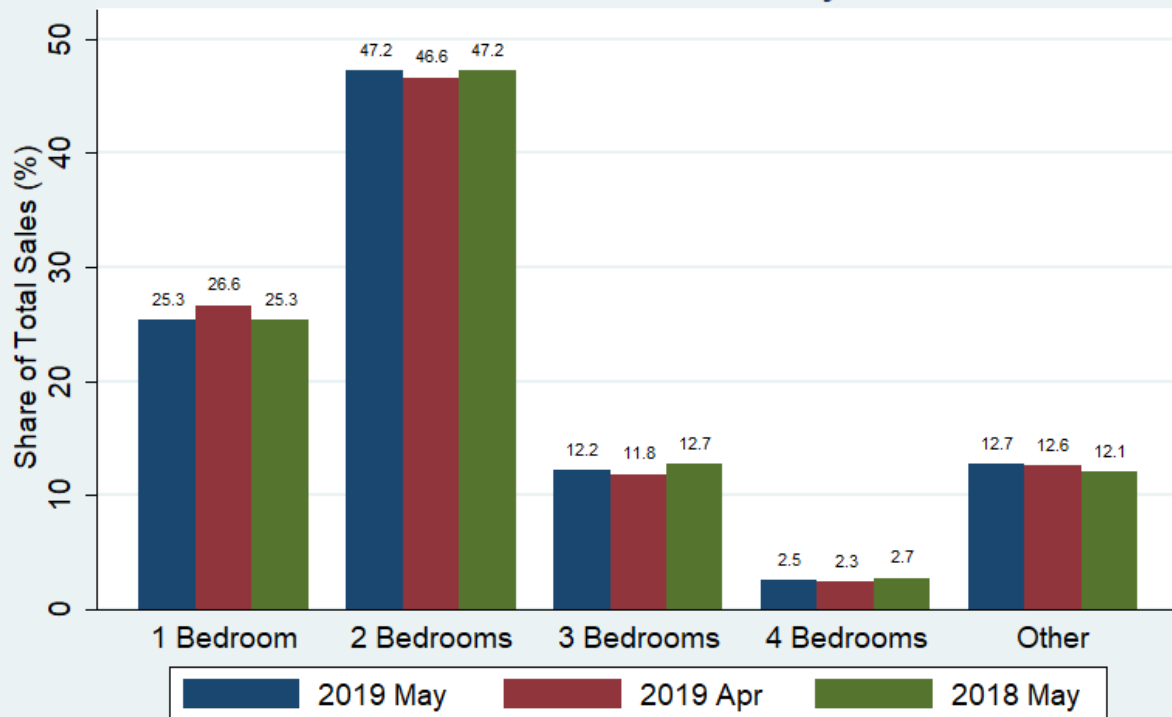
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Chicago PMSA House Characteristics by Bedroom



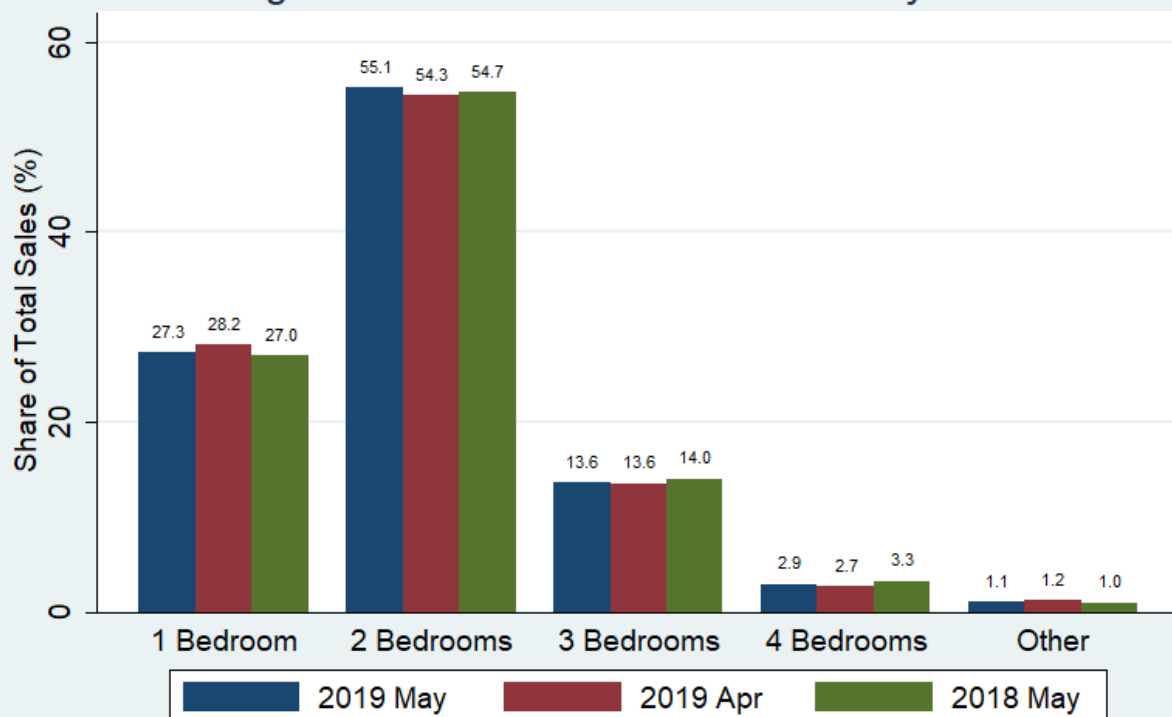
Source: University of Illinois REAL, Illinois REALTORS

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



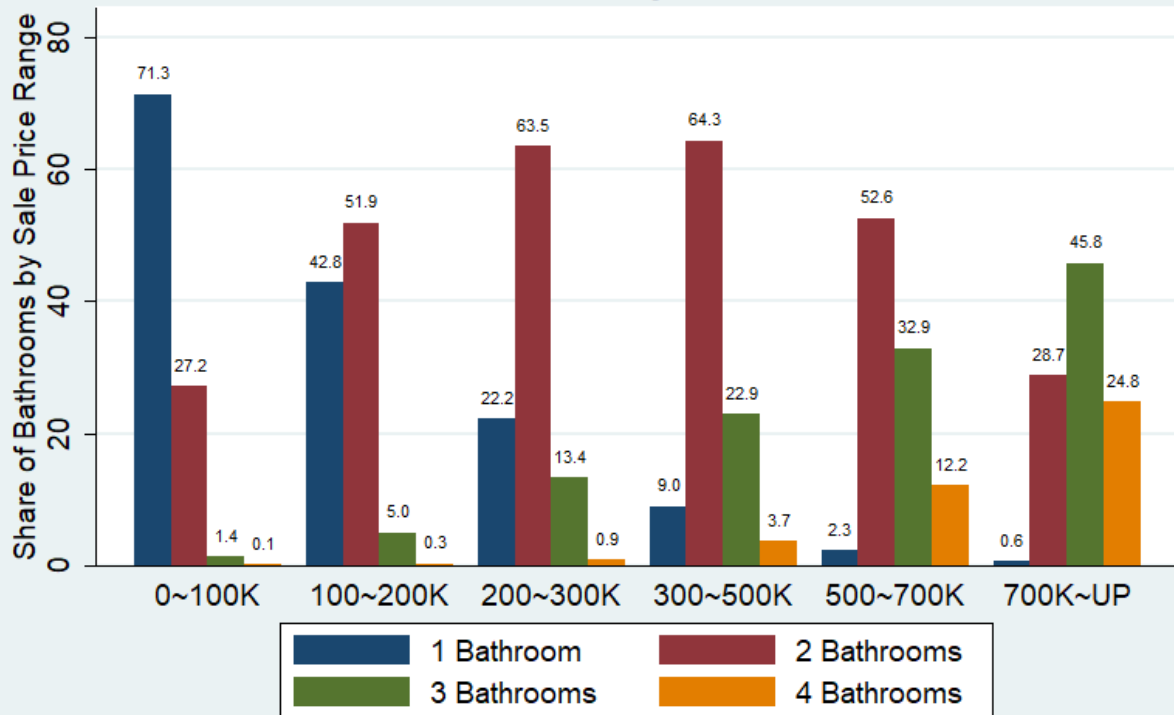
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Chicago PMSA Bedroom Shares by Sale Price Stratification



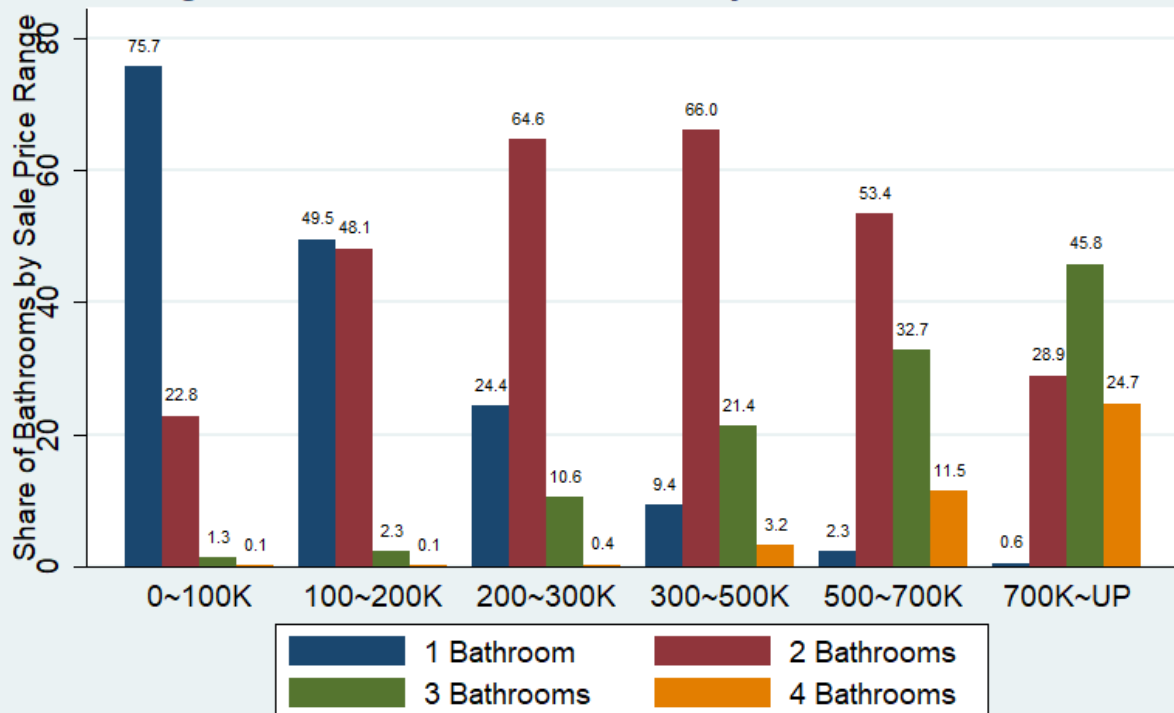
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Illinois Bathroom Shares by Sale Price Stratification



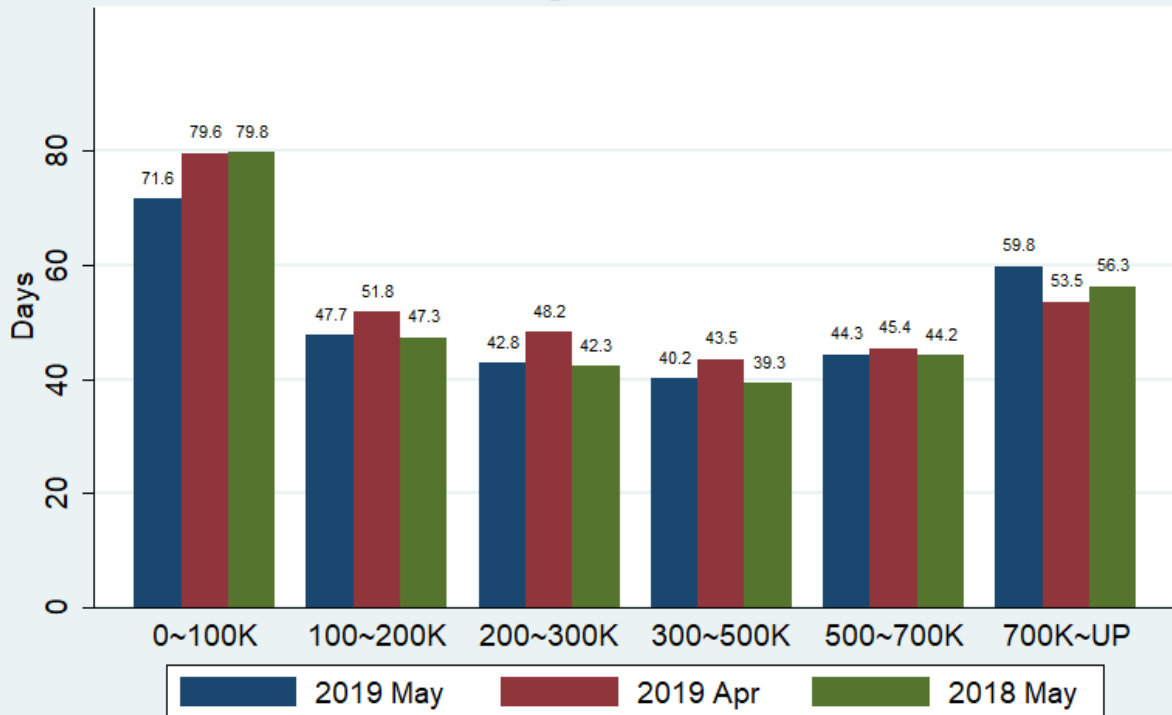
Source: University of Illinois REAL, Illinois REALTORS

Chicago PMSA Bathroom Shares by Sale Price Stratification



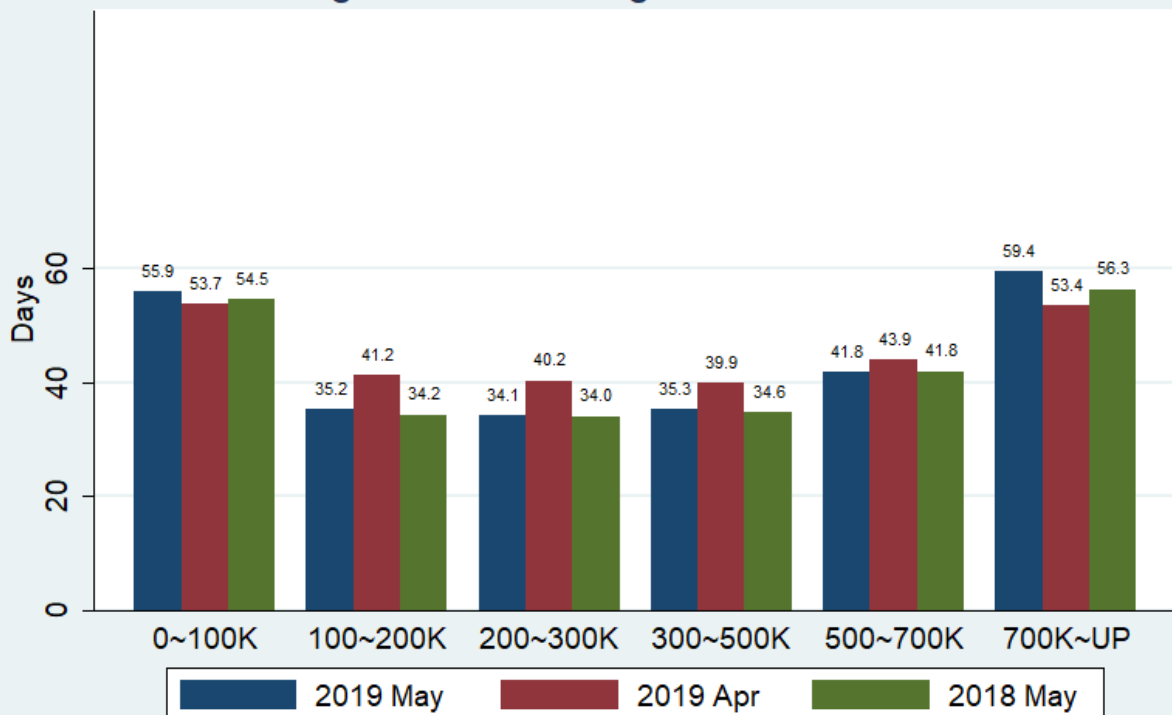
Source: University of Illinois REAL, Illinois REALTORS

Illinois Average Time on the Market



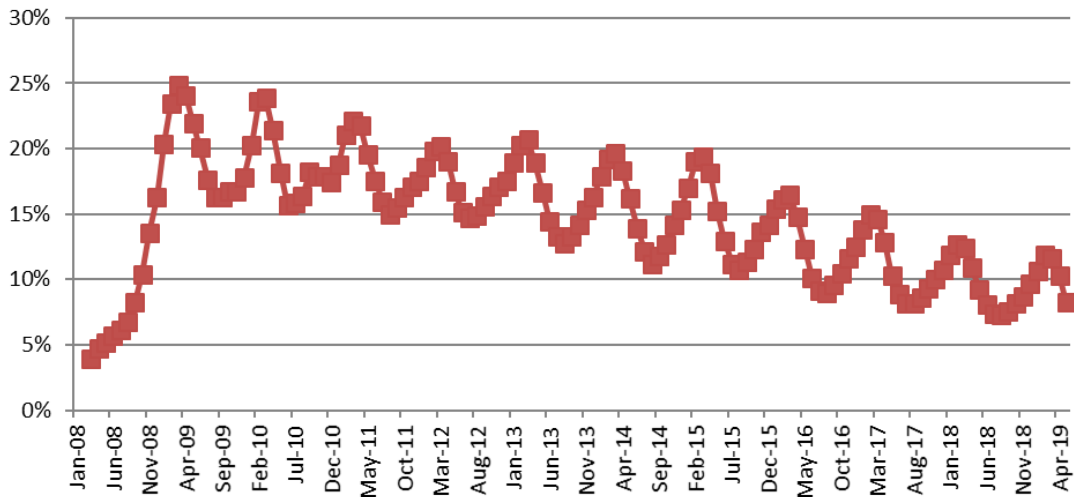
Source: University of Illinois REAL, Illinois REALTORS

Chicago PMSA Average Time on the Market



Source: University of Illinois REAL, Illinois REALTORS

Ratio of Foreclosed Sales over Total Sales Chicago PMSA - 3 Month Average



Median Sales Price: Foreclosed vs. Regular Sales

