

Housing Price Forecasts

Illinois and Chicago PMSA, July 2019

Presented To
Illinois Realtors®

From

R | E | A | L

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

July 23, 2019

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

Housing Price Forecast: Illinois and Chicago PMSA, July 2019

The Housing Market

In June, median prices experienced positive growth while sales experienced a negative annual change in both Illinois and the Chicago PMSA. 16,579 houses were sold in Illinois, changing by -3.8% from a month ago and -11.2% from a year ago. In the Chicago PMSA, 12,002 houses were sold, changing by -2.1% from a month ago and -11.6% from a year ago. The median price was \$225,000 in Illinois, up 0.2% from June last year; the comparable figure for the Chicago PMSA was \$263,000, up 0.2% from June last year.

In June, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 6.7%. 11,242 regular sales were made, 10.4% less than last year. 683 foreclosed properties were sold, 28.4% less than last year. The median price was \$268,950 for regular property sales, down 0.5% from last year; the comparable figure for the foreclosed properties was \$179,400, up 4.3% 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 June 2008 has been adjusted to 2019 values to enable calculation of the housing price recovery considering the effects of inflation. In Illinois, the June 2008 median sales price was \$166,500 (in \$2008) and \$197,906 (in \$2019); the current price level was 114% 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 \$251,038 (in \$2019); the comparable figure for price recovery in June 2019 is 105% after adjustment (125% before adjusting).

The sales forecast for July, August and September suggests a decrease on a yearly basis and a monthly basis for both Illinois and the Chicago PMSA. Annually for Illinois, the three-month average forecasts point to a decrease in the range -2.9% to -4.0%; the comparative figures for the Chicago PMSA are a decrease in the range -5.3% to -7.2%. 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 -8.7% to -11.8% 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 more than last year in both Illinois and the Chicago PMSA. The pending home sales index is 188.0 (2008=100) in Illinois, up 7.2% from a year ago. In the Chicago PMSA, the comparable figure is 216.6, up 9.7% from a year ago. At the latest average annual pending sales rate, Illinois had enough housing inventory for 4.4 months² (down from 4.5 last year). In the Chicago PMSA, the comparable figure was 3.7 months (up from 3.6 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 July, August, and September in both Illinois and the Chicago PMSA. In Illinois, the median price is forecast to change by 1.8% in July, 3.1% in August and 1.5% in September. For the Chicago PMSA, the comparable figures are 1.5% in July, 1.7% in August and 0.3% in September. As a complement to the median housing price index (HPI), the REAL HPI³ forecasts a mild 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 0.6% in July 4.2% in August and 2.9% in September. The comparable figures for the Chicago PMSA are 1.5% in July 1.7% in August and 1.3% in September. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month.

In June, both the Conference Board Consumer Confidence Index and the University of Michigan Consumer Sentiment Index declined. The Conference Board Consumer Confidence Index survey revealed that the decrease was driven by a less favorable assessment of business and labor market conditions, and consumers’ expectations regarding the short-term outlook also retreated. It is also noted that the escalation in trade and tariff tensions earlier this month appears to have shaken consumers’ confidence. The University of Michigan Consumer Sentiment Index survey also reported that wealthier consumers were rattled over tariffs. It is noted that consumers’ assessment of current conditions rose slightly, while the index of consumer expectations fell. The more housing specific sentiment index, the Fannie Mae Home Purchase Sentiment Index (HPSI) also decreased. The survey reported that the decrease was mainly due to negative responses to whether it is a good time to buy. Notably, the only component to increase this month, which was the index that measures whether or not mortgage rates will go down.

The Housing Market – Current Condition

- In June, median prices experienced positive growth while sales experienced a negative annual change in both Illinois and the Chicago PMSA. 16,579 houses were sold in Illinois, changing by -3.8% from a month ago and -11.2% from a year ago. In the Chicago PMSA, 12,002 houses were sold, changing by -2.1% from a month ago and -11.6% from a year ago. The median price was \$225,000 in Illinois, up 0.2% from June last year; the comparable figure for the Chicago PMSA was \$263,000, up 0.2% from June last year. (Reference: Illinois and Chicago PMSA Total Home Sales and Median Home Sales Price figures; Forecast for July 2019 report table)
- In June, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 6.7%. 11,242 regular sales were made, 10.4% less than last year. 683 foreclosed properties were sold, 28.4% less than last year. The median price was \$268,950 for regular property sales, down 0.5% from last year; the comparable figure for the foreclosed properties was \$179,400, up 4.3% 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 4.4 months⁴ (down from 4.5 last year). In the Chicago PMSA, the comparable figure was 3.7 months (up from 3.6 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 June, 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 13.5% from 13.9% a year ago; the comparative figure for the Chicago PMSA showed a decrease to 4.9% from 6.0% 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 mild positive annual growth for July, August, and September in both Illinois and the Chicago PMSA. In Illinois, the median price is forecast to change by 1.8% in July, 3.1% in August and 1.5% in September. For the Chicago PMSA, the comparable figures are 1.5% in July, 1.7% in August and 0.3% in September. (Reference: Forecast for July 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 0.6% in July 4.2% in August and 2.9% in September. The comparable figures for the Chicago PMSA are 1.5% in July 1.7% in August and 1.3% 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 a decrease on a yearly basis and a monthly basis for both Illinois and the Chicago PMSA. Annually for Illinois, the three-month average forecasts point to a decrease in the range -2.9% to -4.0%; the comparative figures for the Chicago PMSA are a decrease in the range -5.3% to -7.2%. 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 -8.7% to -11.8% for the Chicago PMSA. (Reference: Forecast for July 2019 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 more than last year in both Illinois and the Chicago PMSA. The pending home sales index is 188.0 (2008=100) in Illinois, up 7.2% from a year ago. In the Chicago PMSA, the comparable figure is 216.6, up 9.7% from a year ago. (Reference: Illinois and Chicago PMSA Pending Home Sales Index figure)
- In June 2019, 1,159 houses were newly filed for foreclosure in the Chicago PMSA (down 3.5% and down 31.7% respectively from a year and a month ago). 936 foreclosures were completed⁷ (down 14.0% and down 12.0% respectively from a year and a month ago). As of June 2019, there are 26,084 homes at some stage of foreclosure — the foreclosure inventory. The monthly average net flows of foreclosures (foreclosure inflows - outflows) were 537 in the past 6 months, 501 in the last 12 months and 497 in the last 24 months. (Reference: Chicago PMSA Foreclosure Inflows and Outflows, and Inventory figures).

The Economy

- In June 2019, according to the Bureau of Labor Statistics (BLS) Employment Situation report, the national unemployment rate was little changed at 3.7% and nonfarm payroll jobs experienced a gain of 224,000 jobs. Employment increased in professional and business services (+51,000), health care (+35,000), and transportation and warehousing (+24,000).
- In June 2019, according to the Illinois Department of Employment Security (IDES) news release, the Illinois unemployment was 4.3%, down 0.1% from the previous month. Non-farm payroll jobs increased by +11,400 over the month. The industry sectors with the largest

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

payroll gains were: leisure and hospitality (+3,800), professional and business services (+3,000), and government (+1,500).

- In May 2019, the one-year-ahead forecast for Illinois indicates that the non-farm employment will change at a rate between 0.20% and 0.35%, corresponding to job gains between 12,500 and 21,900. The largest contributors to the forecast increase are education and health, leisure and hospitality, and professional and business services.
- In June 2019, a new survey from Freddie Mac reports that there's an overwhelming belief that renting is more affordable than homeownership. Freddie Mac president David Brickman said that the research confirms that affordability remains the essential factor when it comes to determining whether to rent or purchase a home, and the cost of housing is having a significant impact on households of every age, size and location.
- In June 2019, according to RealPage, a real estate analytics company based in Richardson, Texas, rental-housing absorption in the U.S. hit a five-year high in the second quarter of this year, signaling an uptick in apartment demand as potential entry-level homebuyers continue to be shut out by affordability issues. RealPage chief economist Greg Willett said that solid economic growth is encouraging new household formation, and rentals are capturing a sizable share of the resulting housing demand, and at the same time, loss of existing renters to home purchase remains limited relative to historical levels.

Longer-term Outlook

- In June, both the Conference Board Consumer Confidence Index and the University of Michigan Consumer Sentiment Index declined. The Conference Board Consumer Confidence Index stands at 121.5, up from 131.3 last month. The survey revealed that the decrease was driven by a less favorable assessment of business and labor market conditions, and consumers' expectations regarding the short-term outlook also retreated. It is also noted that the escalation in trade and tariff tensions earlier this month appears to have shaken consumers' confidence. The University of Michigan Consumer Sentiment Index was 98.2, down from 100 last month. The survey reported that wealthier consumers were rattled over tariffs. It is also noted that consumers' assessment of current conditions rose slightly, while the index of consumer expectations fell.
- In June, Fannie Mae Home Purchase Sentiment Index (HPSI) decreased to 91.5 from 92.0 last month. The survey reported that the decrease was mainly due to negative responses to whether it is a good time to buy. Notably, the only component to increase this month, which was the index that measures whether or not mortgage rates will go down. Fannie Mae Senior Vice President and Chief Economist Doug Duncan said growing expectations that mortgage rates will remain steady suggest improved stability for housing affordability.
- The Chicago Business Activity Index (CBAI) decreased to 89.2 in May from 95.2 in April. The decrease is mainly attributed to negative nonmanufacturing and construction job growth and a sharp decline in retail sales.

“Housing affordability is being discussed once again as a contributor to sales declines that are once again lower than those recorded last year for the same month” noted Geoffrey J.D. Hewings, Director of the Regional Economics Applications Laboratory. “Price increases in Chicago and Illinois last month were barely positive and the increase in apartment rentals and declines in consumer sentiment indices suggest that many potential home buyers are sitting on the

sidelines, no doubt influenced by concerns about trade conflicts and the future growth of the economy.”

Forecast for July 2019 report

PERCENTAGE CHANGE FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Apr-19	-4.7%	-4.7%		21.0%	24.2%			
May-19	-0.1%	-2.5%		22.4%	20.0%			
Jun-19	-11.2%	-11.6%		-3.8%	-2.1%			
3 Month Avg.	-5.5%	-6.5%		11.5%	12.3%			
SUMMARY OF THE FORECAST INTERVALS FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Jul-19	-5.0%	-6.7%	-6.9%	-9.3%	-6.3%	-8.5%	-9.0%	-12.2%
Aug-19	-4.4%	-6.0%	-6.2%	-8.5%	3.4%	4.6%	1.5%	2.0%
Sep-19	1.6%	2.2%	-2.0%	-2.7%	-16.2%	-21.9%	-18.5%	-25.0%
3 Month Avg.	-2.9%	-4.0%	-5.3%	-7.2%	-6.5%	-8.8%	-8.7%	-11.8%
SUMMARY OF THE FORECAST FOR THE MEDIAN PRICE								
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Apr-19	\$214,000	\$253,000	Apr-18	\$210,000	\$250,000			
May-19	\$219,000	\$259,500	May-18	\$215,000	\$254,000			
Jun-19	\$225,000	\$263,000	Jun-18	\$224,500	\$262,500			
Jul-19	\$217,658	\$254,034	Jul-18	\$213,750	\$250,250			
Aug-19	\$206,152	\$246,734	Aug-18	\$200,000	\$242,500			
Sep-19	\$199,877	\$238,279	Sep-18	\$197,000	\$237,500			
ANNUAL PERCENTAGE CHANGE OF THE MEDIAN PRICE								
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Apr-19	1.9%	1.2%	Apr-18	5.0%	3.3%			
May-19	1.9%	2.2%	May-18	3.4%	2.9%			
Jun-19	0.2%	0.2%	Jun-18	4.4%	4.2%			
Jul-19	1.8%	1.5%	Jul-18	1.8%	1.1%			
Aug-19	3.1%	1.7%	Aug-18	0.0%	1.5%			
Sep-19	1.5%	0.3%	Sep-18	2.6%	3.3%			

Median Prices and Recovery

	Illinois		Chicago PMSA	
	[\$2008]	[\$2019]	[\$2008]	[\$2019]
June 2008 Median Price	\$166,500	\$197,906	\$211,200	\$251,038
June 2019 Median Price	\$189,294	\$225,000	\$221,264	\$263,000
Price Ratio (June 19/ June 08)	Adjusted	1.14	Adjusted	1.05
	Unadjusted	1.35	Unadjusted	1.25

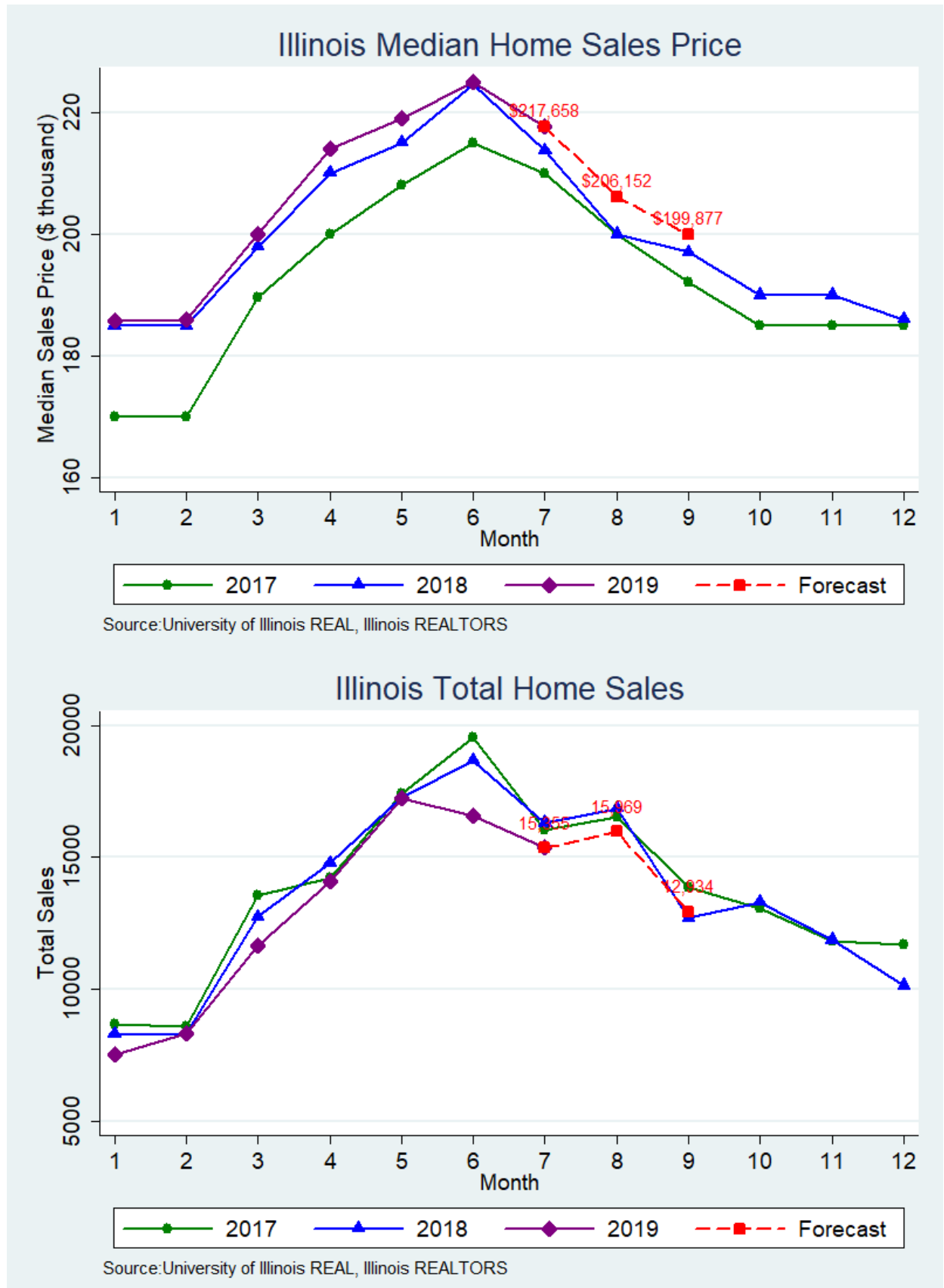
Recovery Forecasts using *Annually Growth Rates*

	Illinois	Chicago PMSA		
	Annual Recovery Rate*	Years to Recover**	Recovery Rate	Years to Recover
Current Month	-1.5%	8.4	-1.6%	3.0
Past 3 months	-0.5%	24.3	-0.7%	7.0
Past 6 months	-0.7%	18.1	-0.7%	6.3
Past 9 months	-0.5%	23.7	-0.5%	9.7
Past 12 months	-0.7%	18.3	-0.5%	8.7

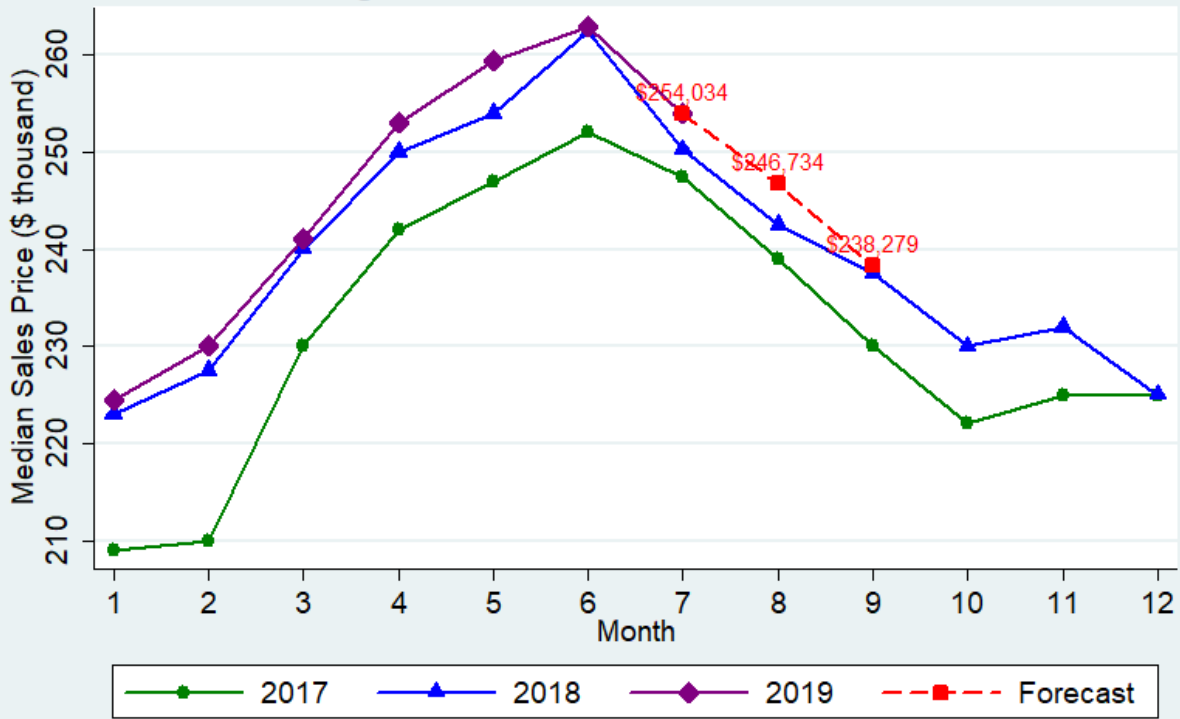
*Annual recovery rate is the average of *annual* change rates in past months

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

$Price_{June2019} * (1 + \text{recovery rate})^{\text{years}} = Price_{June2008}$. 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.

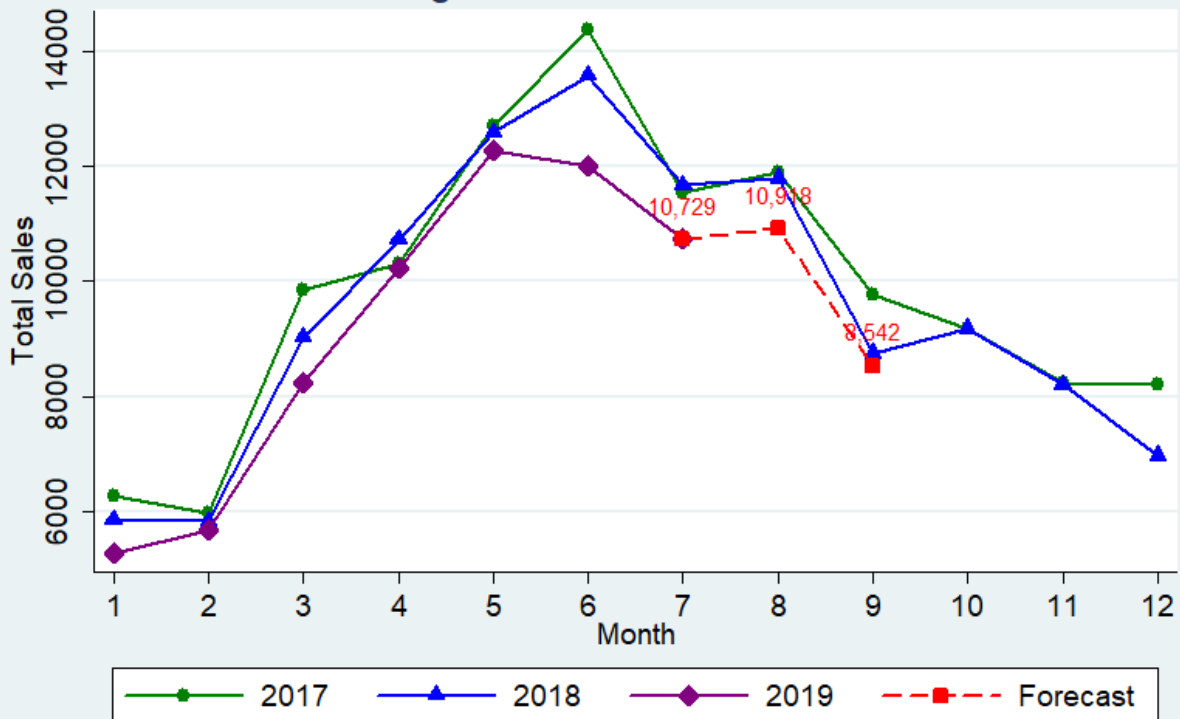


Chicago PMSA Median Home Sales Price

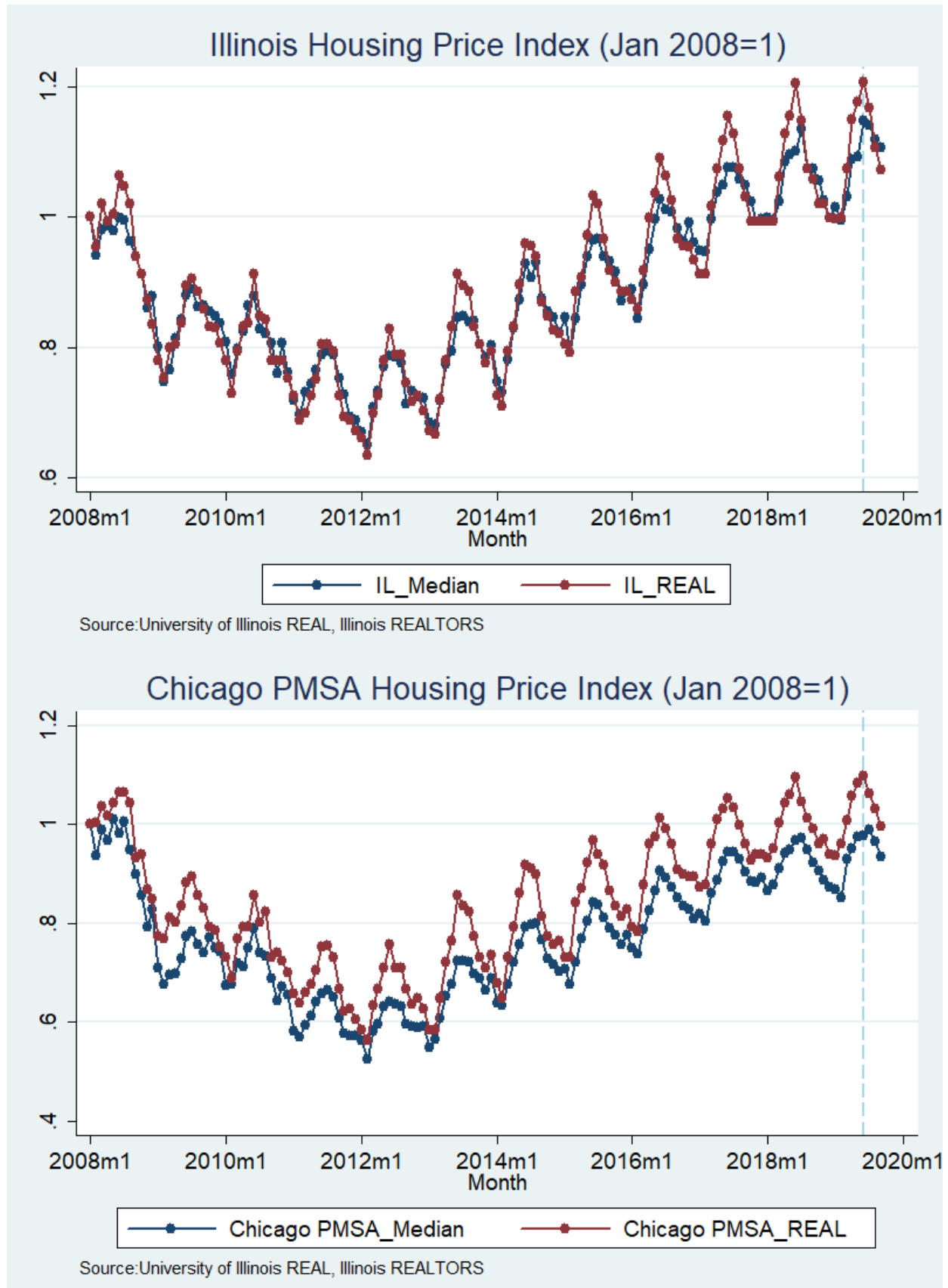


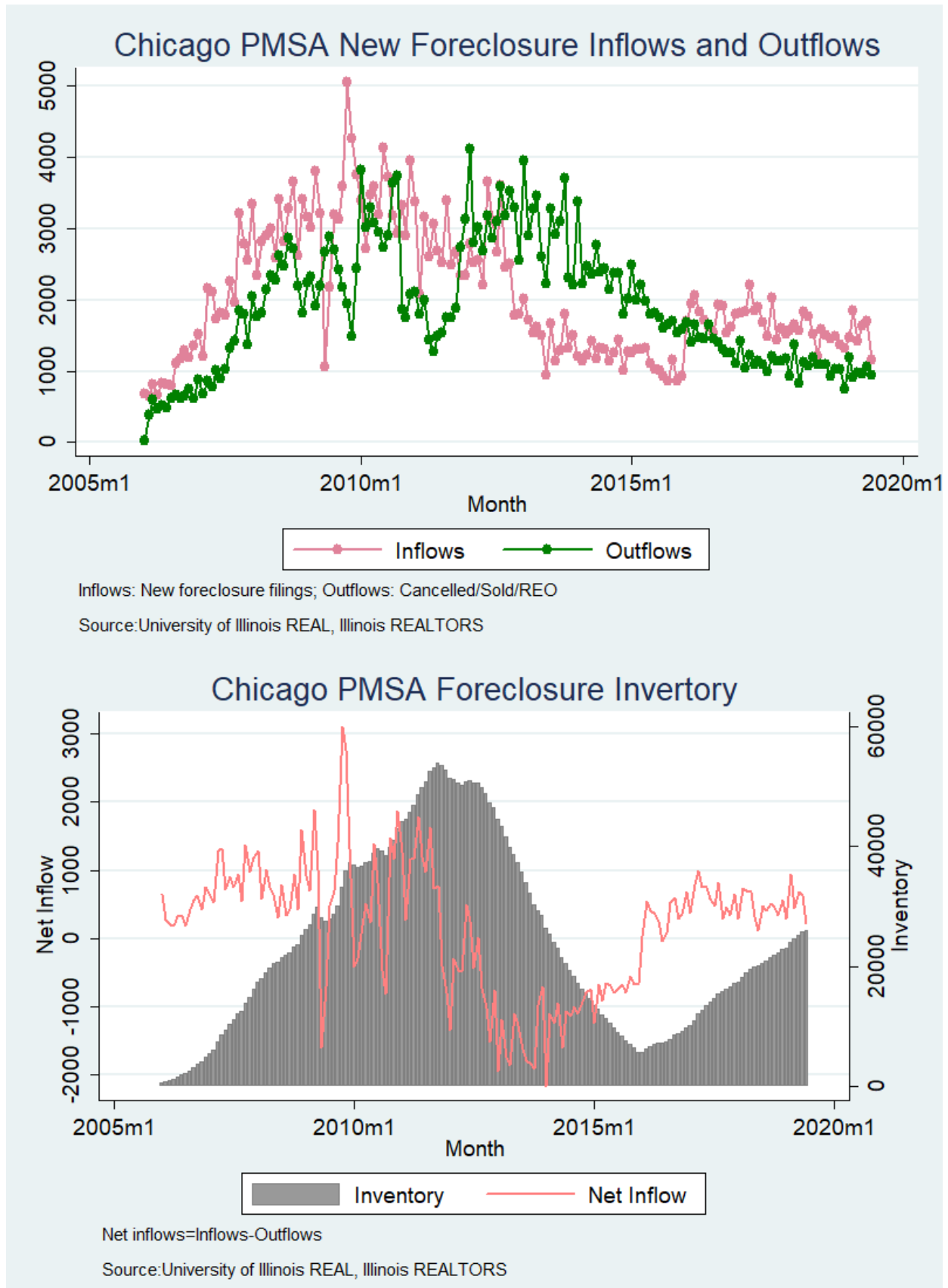
Source: University of Illinois REAL, Illinois REALTORS

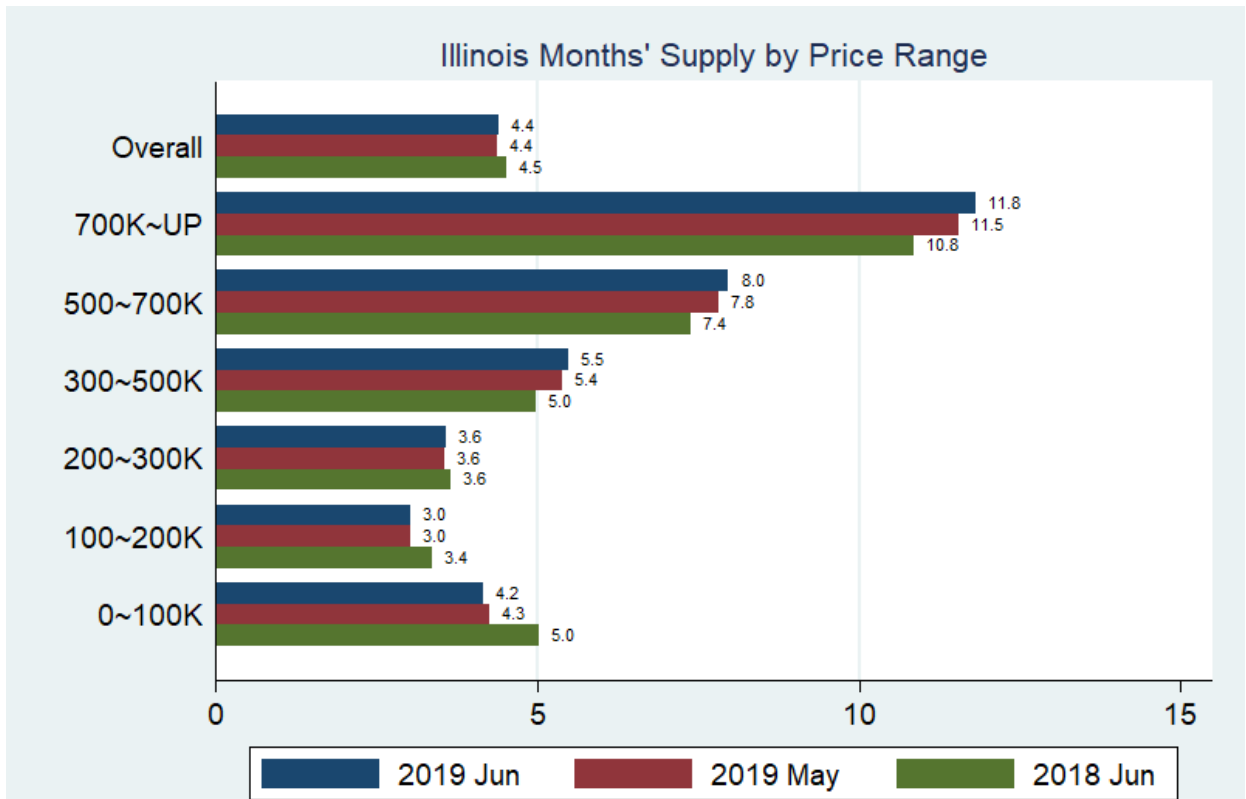
Chicago PMSA Total Home Sales



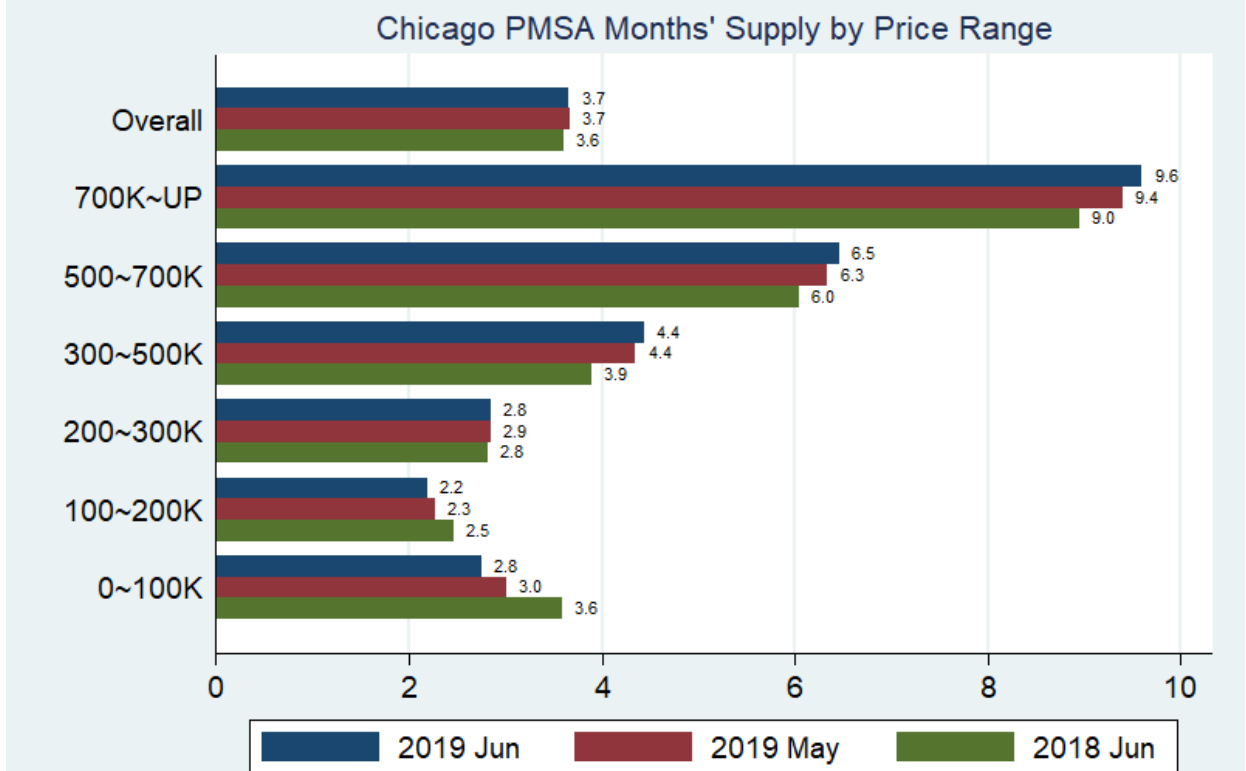
Source: University of Illinois REAL, Illinois REALTORS



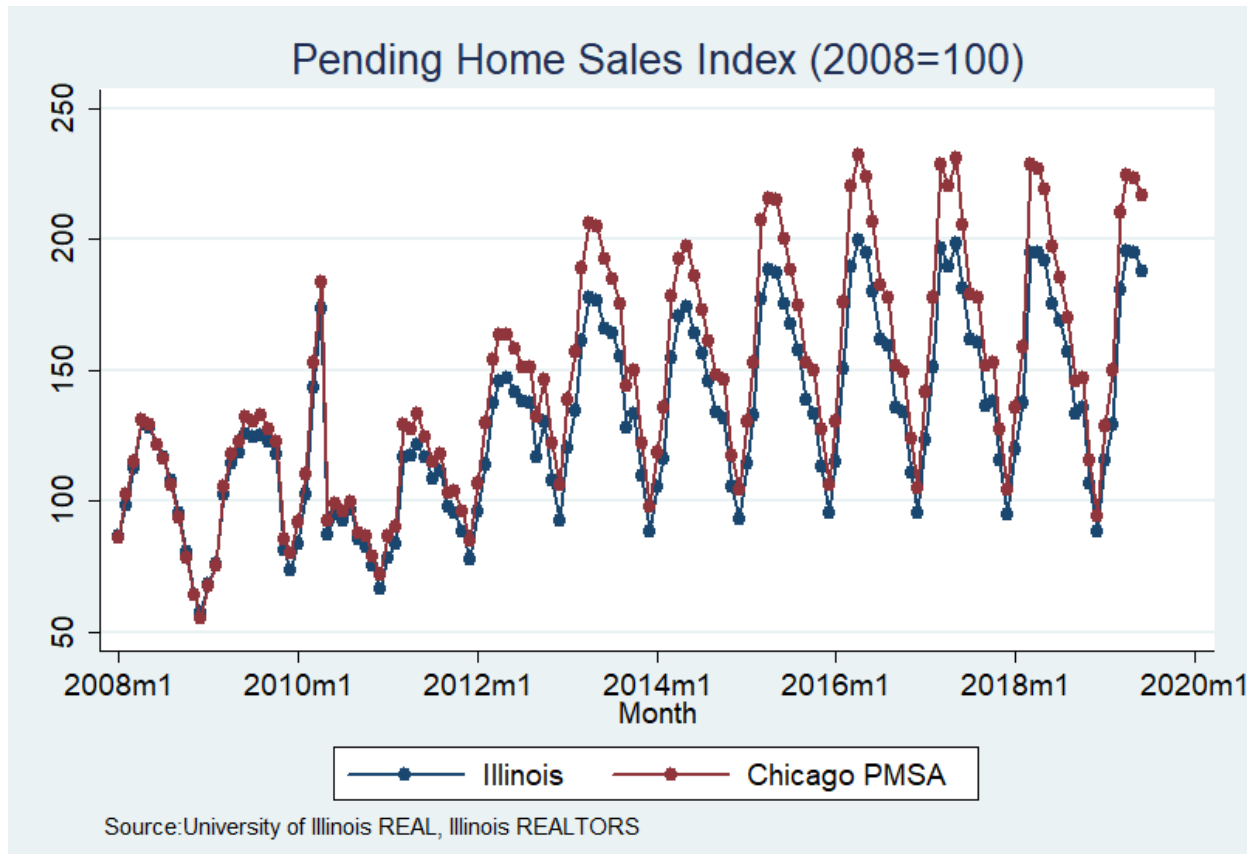


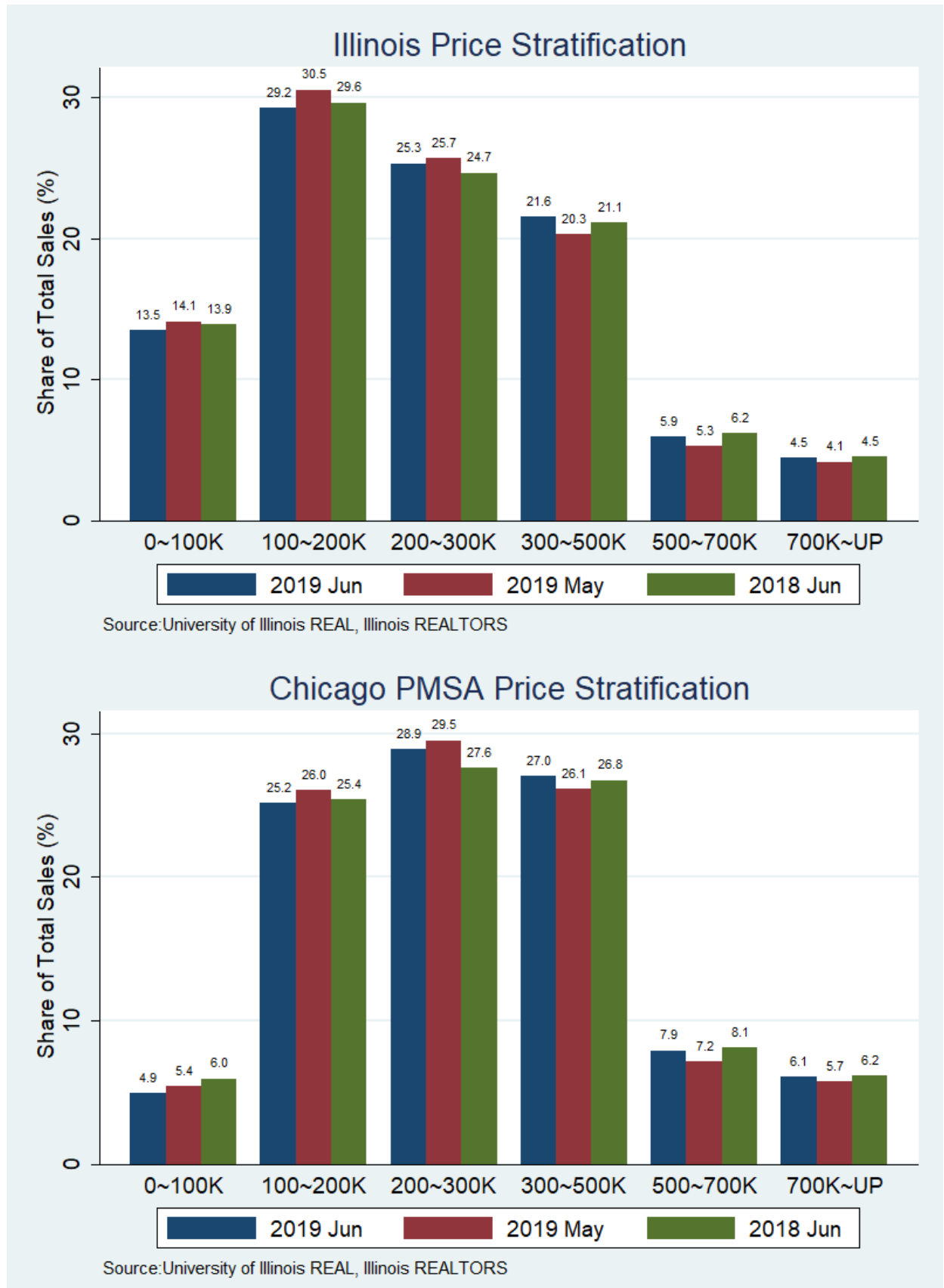


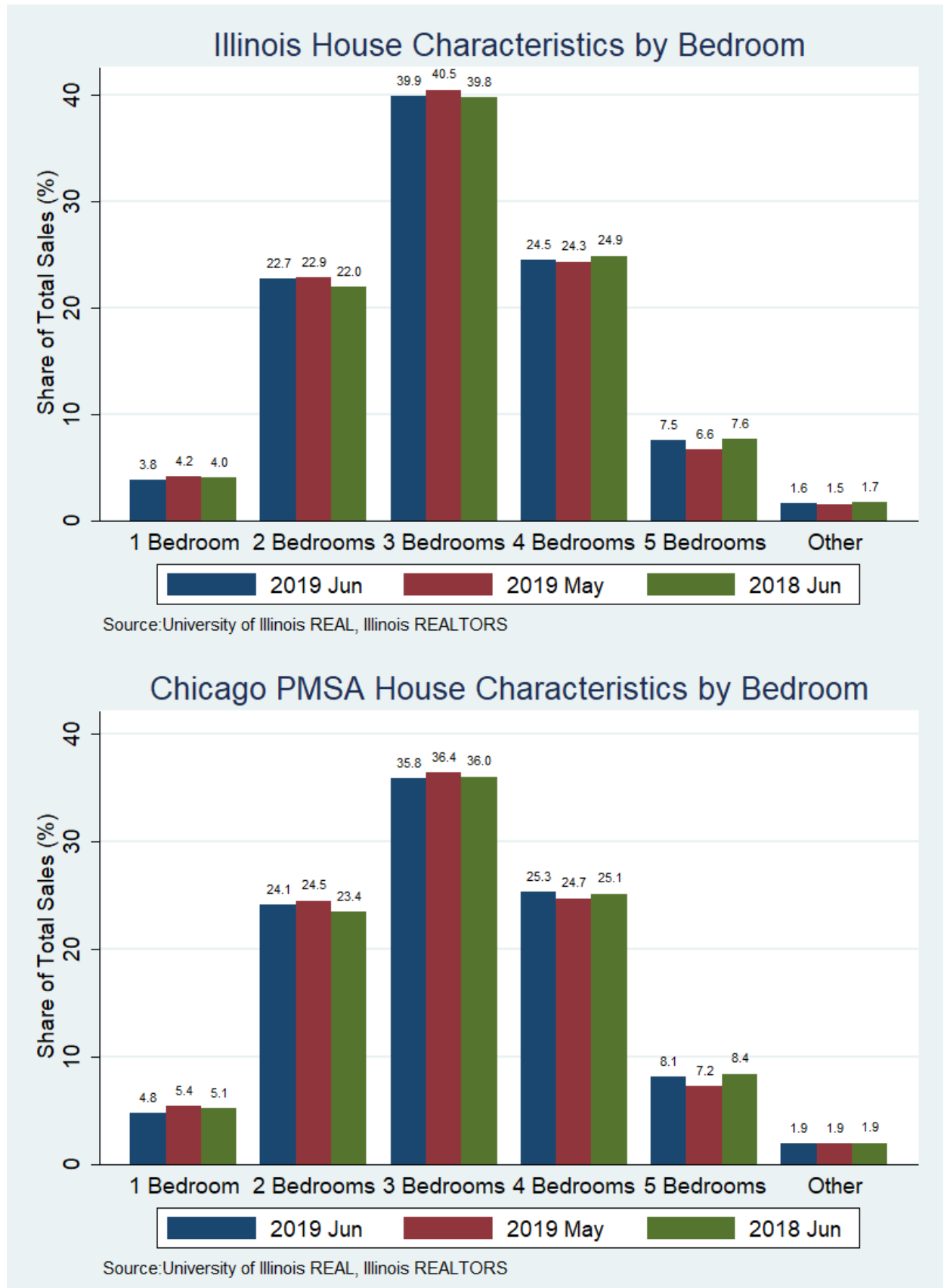
Source: University of Illinois REAL, Illinois REALTORS



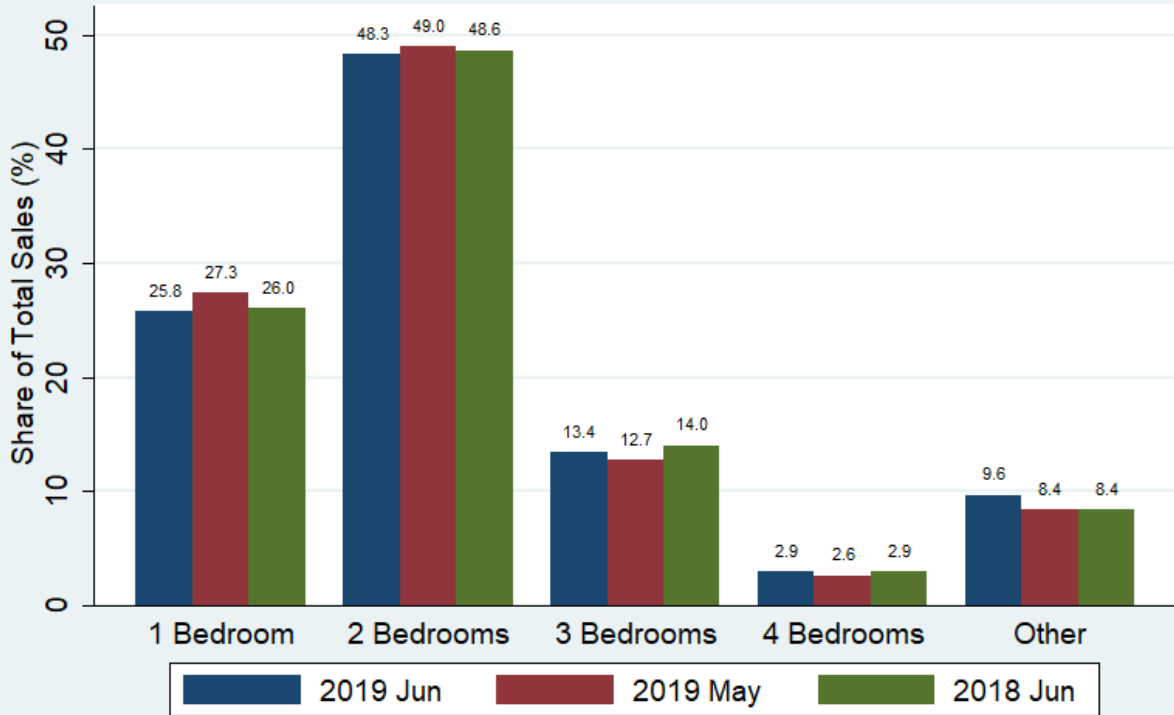
Source: University of Illinois REAL, Illinois REALTORS





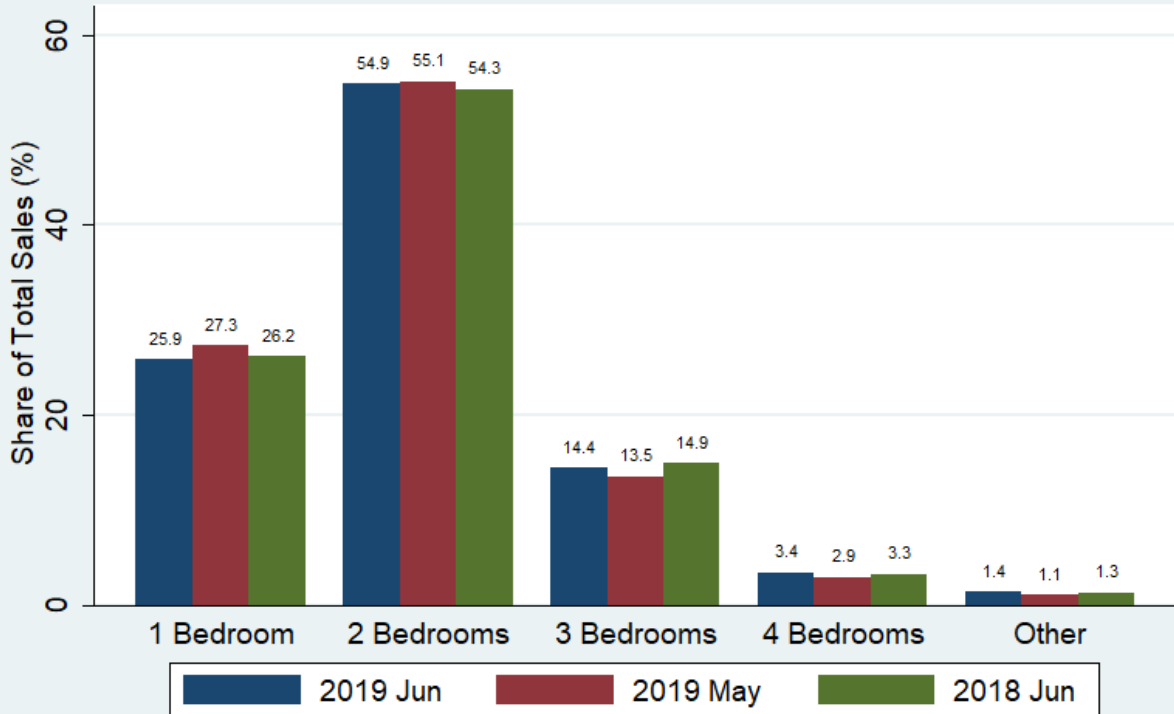


Illinois House Characteristics by Bathroom



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



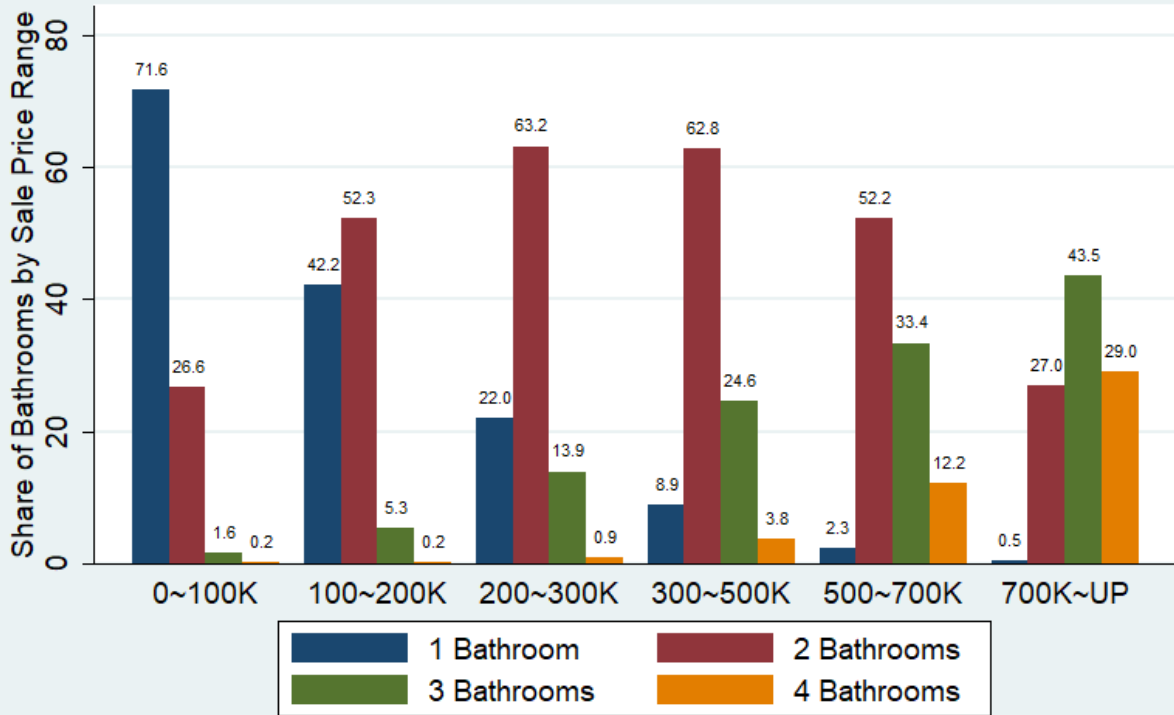
Source: University of Illinois REAL, Illinois REALTORS

Chicago PMSA Bedroom Shares by Sale Price Stratification



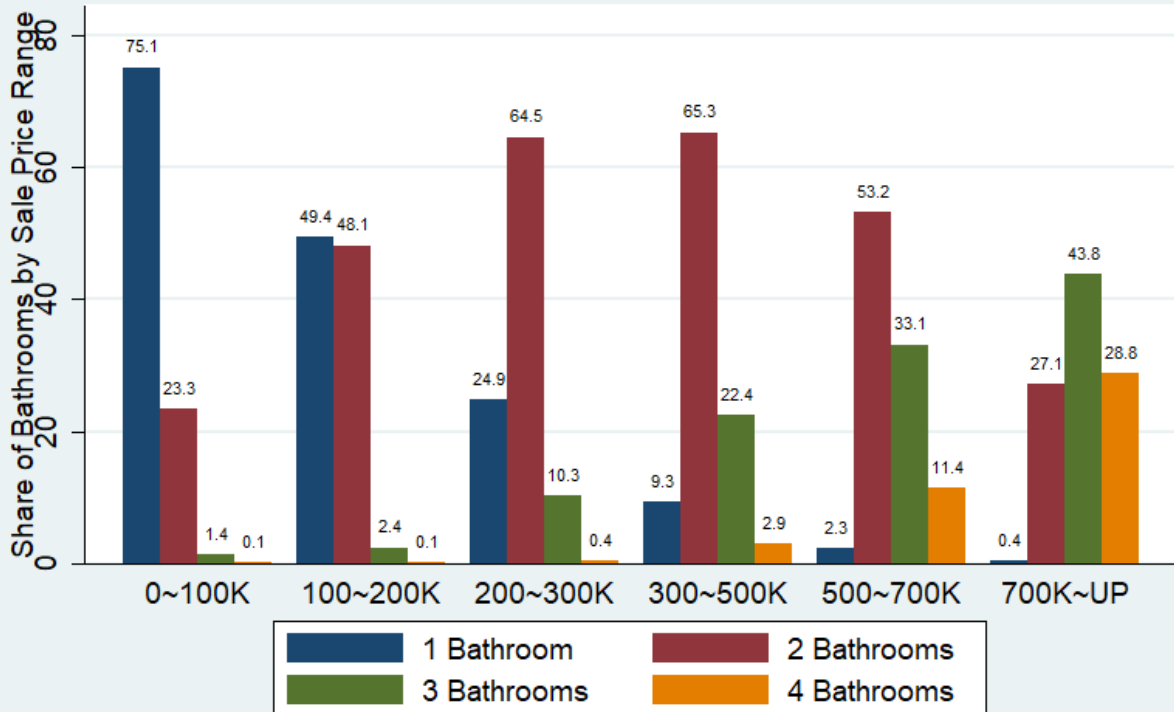
Source: University of Illinois REAL, Illinois REALTORS

Illinois Bathroom Shares by Sale Price Stratification



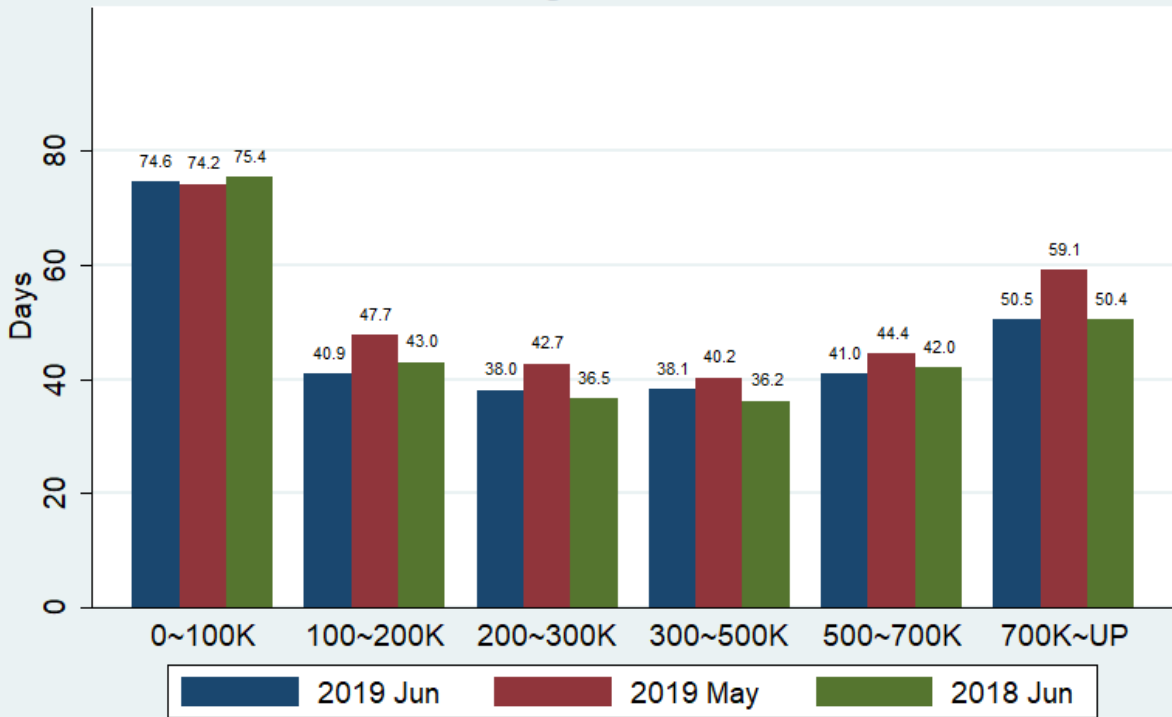
Source: University of Illinois REAL, Illinois REALTORS

Chicago PMSA Bathroom Shares by Sale Price Stratification



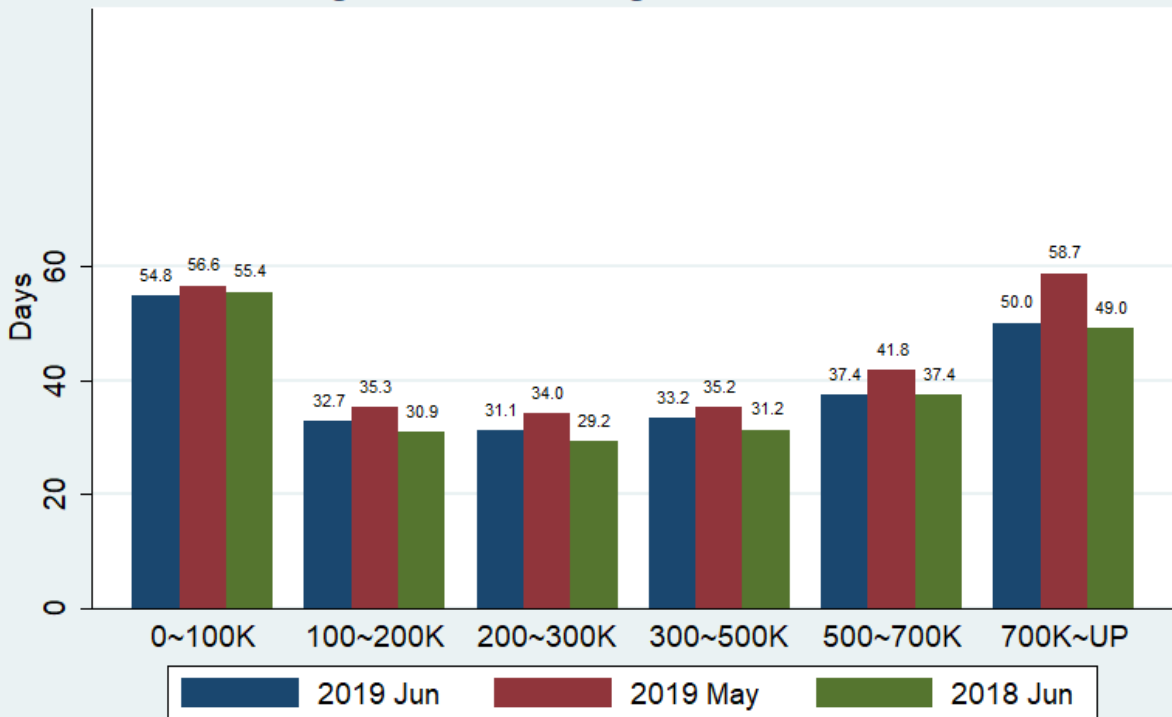
Source: University of Illinois REAL, Illinois REALTORS

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

