

Housing Price Forecasts

Illinois and Chicago PMSA, September 2019

Presented To
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Housing Price Forecast: Illinois and Chicago PMSA, September 2019

The Housing Market

In August, median prices experienced positive growth while sales experienced a negative annual change in both Illinois and the Chicago PMSA. 15,716 houses were sold in Illinois, changing by -5.0% from a month ago and -6.7% from a year ago. In the Chicago PMSA, 11,008 houses were sold, changing by -6.8% from a month ago and -6.6% from a year ago. The median price was \$214,000 in Illinois, up 7.0% from August last year; the comparable figure for the Chicago PMSA was \$252,000, up 3.9% from August last year.

In August, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 6.2%. 10,203 regular sales were made, 5.6% less than last year. 711 foreclosed properties were sold, 19.6% less than last year. The median price was \$258,000 for regular property sales, up 3.2% from last year; the comparable figure for the foreclosed properties was \$180,000, up 12.5% 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 August 2008 has been adjusted to 2019 values to enable calculation of the housing price recovery considering the effects of inflation. In Illinois, the August 2008 median sales price was \$165,000 (in \$2008) and \$196,289 (in \$2019); the current price level was 109% of the 2008 level after adjusting (130% before adjusting). In the Chicago PMSA, the August 2008 median sales price was \$205,000 (in \$2008) and \$243,874 (in \$2019); the comparable figure for price recovery in August 2019 is 103% after adjustment (123% before adjusting).

The sales forecast for September, October and November suggests an increase on a yearly basis and a decrease 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 2.0% to 2.7%; the comparative figures for the Chicago PMSA are an increase in the range 1.1% to 1.5%. On a monthly basis, the three-month average sales are forecast to decrease in the range -7.3% to -9.9% for Illinois and decrease in the range -8.4% to -11.3% 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 more than last year in both Illinois and the Chicago PMSA. The pending home sales index is 166.3 (2008=100) in Illinois, up 5.9% from a year ago. In the Chicago PMSA, the comparable figure is 185.8, up 9.3% from a year ago. At the latest average annual pending sales rate, Illinois had enough housing inventory for 4.6 months² (down from 4.7 last year). In the Chicago PMSA, the comparable figure was 3.8 months (up from 3.7 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 September, October, and November in both Illinois and the Chicago PMSA. In Illinois, the median price is forecast to change by 5.0% in September, 6.2% in October and 6.0% in November. For the Chicago PMSA, the comparable figures are 2.8% in September, 3.8% in October and 2.9% in November. As a complement to the median housing price index (HPI), the REAL HPI³ forecasts a mild positive

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.

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 September 0.6% in October and 1.6% in November. The comparable figures for the Chicago PMSA are 0.9% in September 0.5% in October and 1.0% in November. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month.

In August, 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 Expectations Index – based on consumers’ short-term outlook for income, business and labor market conditions – declined, but overall remain strong. The University of Michigan Consumer Sentiment Index survey reported that the decline is due to negative references to tariffs, which were spontaneously mentioned by one-in-three consumers, and compared with those who did not reference tariffs, consumers who made spontaneous negative references to tariffs also voiced higher year-ahead inflation expectations, more frequently expected rising unemployment, and expected smaller annual gains in household incomes. The more housing specific sentiment index, the Fannie Mae Home Purchase Sentiment Index (HPSI) slightly increased. The survey reported that the increase was driven by an 11-percentage-point spike in the share of consumers who believe mortgage interest rates will fall further.

The Housing Market – Current Condition

- In August, median prices experienced positive growth while sales experienced a negative annual change in both Illinois and the Chicago PMSA. 15,716 houses were sold in Illinois, changing by -5.0% from a month ago and -6.7% from a year ago. In the Chicago PMSA, 11,008 houses were sold, changing by -6.8% from a month ago and -6.6% from a year ago. The median price was \$214,000 in Illinois, up 7.0% from August last year; the comparable figure for the Chicago PMSA was \$252,000, up 3.9% from August last year. (Reference: Illinois and Chicago PMSA Total Home Sales and Median Home Sales Price figures; Forecast for September 2019 report table)
- In August, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 6.2%. 10,203 regular sales were made, 5.6% less than last year. 711 foreclosed properties were sold, 19.6% less than last year. The median price was \$258,000 for regular property sales, up 3.2% from last year; the comparable figure for the foreclosed properties was \$180,000, up 12.5% 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 4.6 months⁴ (down from 4.7 last year). In the Chicago PMSA, the comparable figure was 3.8 months (up from 3.7 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 August, the market shares of homes in the lowest price ranges (<\$100K) experienced the largest change compared to a year ago. In Illinois, the market share for homes less than \$100K decreased to 14.9% from 16.9% a year ago; the comparative figure for the Chicago PMSA

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.

showed a decrease to 5.5% from 7.3% 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 September, October, and November in both Illinois and the Chicago PMSA. In Illinois, the median price is forecast to change by 5.0% in September, 6.2% in October and 6.0% in November. For the Chicago PMSA, the comparable figures are 2.8% in September, 3.8% in October and 2.9% in November. (Reference: Forecast for September 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 September 0.6% in October and 1.6% in November. The comparable figures for the Chicago PMSA are 0.9% in September 0.5% in October and 1.0% 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 an increase on a yearly basis and a decrease 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 2.0% to 2.7%; the comparative figures for the Chicago PMSA are an increase in the range 1.1% to 1.5%. On a monthly basis, the three-month average sales are forecast to decrease in the range -7.3% to -9.9% for Illinois and decrease in the range -8.4% to -11.3% for the Chicago PMSA. (Reference: Forecast for September 2019 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 more than last year in both Illinois and the Chicago PMSA. The pending home sales index is 166.3 (2008=100) in Illinois, up 5.9% from a year ago. In the Chicago PMSA, the comparable figure is 185.8, up 9.3% from a year ago. (Reference: Illinois and Chicago PMSA Pending Home Sales Index figure)
- In August 2019, 1,162 houses were newly filed for foreclosure in the Chicago PMSA (down 23.0% and down 9.9% respectively from a year and a month ago). 1028 foreclosures were completed⁷ (down 6.0% and up 7.9% respectively from a year and a month ago). As of August 2019, there are 26,971 homes at some stage of foreclosure — the foreclosure inventory. The monthly average net flows of foreclosures (foreclosure inflows - outflows) were 443 in the past 6 months, 493 in the last 12 months and 478 in the last 24 months. (Reference: Chicago PMSA Foreclosure Inflows and Outflows, and Inventory figures).

The Economy

- In August 2019, 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 130,000 jobs. Employment increased in health care (+24,000), financial activities (+15,000), and social assistance (+13,000).

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 August 2019, according to the Illinois Department of Employment Security (IDES) news release, the Illinois unemployment was 4.2%, down 0.1% from the previous month. Non-farm payroll jobs decreased by -400 over the month. The industry sectors with the largest payroll loss were: professional and business services (-3,600), other services (-1,700), and construction (-1,100). (not updated)
- In June 2019, the one-year-ahead forecast for Illinois indicates that the non-farm employment will change at a rate between 0.75% and 0.92%, corresponding to job gains between 46,200 and 57,200. The largest contributors to the forecast increase are education and health, leisure and hospitality, and professional and business services.
- In August 2019, according to Black Knight's latest Mortgage Monitor report, the “refinanceable” population — the number of borrowers who could likely qualify for a refinance and save at least 75 basis points off their current loan by doing so — is the largest it has ever been. Black Knight noted that with rates continuing to propagate that population, easy access to refinance candidates has helped servicer retention rates — the share of borrowers retained by mortgage-servicing companies through a refinance transaction — grow significantly in second-quarter 2019.
- In August 2019, the Mortgage Bankers Association (MBA) anticipates a record haul for commercial and multifamily mortgage bankers, projecting the closing of \$652 billion of loans backed by income-producing properties in 2019. The optimistic forecast is driven by favorable market conditions, including historically low interest rates, according to the MBA.

Longer-term Outlook

- In August, both the Conference Board Consumer Confidence Index and the University of Michigan Consumer Sentiment Index declined. The Conference Board Consumer Confidence Index stands at 135.1, down from 135.8 last month. The survey revealed that the Expectations Index – based on consumers’ short-term outlook for income, business and labor market conditions – declined, but overall remain strong. While other parts of the economy may show some weakening, consumers have remained confident and willing to spend. The University of Michigan Consumer Sentiment Index edged up to 89.8 from 98.4 last month. The survey reported that the decline is due to negative references to tariffs, which were spontaneously mentioned by one-in-three consumers, and compared with those who did not reference tariffs, consumers who made spontaneous negative references to tariffs also voiced higher year-ahead inflation expectations, more frequently expected rising unemployment, and expected smaller annual gains in household incomes.
- In August, Fannie Mae Home Purchase Sentiment Index (HPSI) increased to 93.8 from 93.7 last month, another new survey high. The survey reported that the increase was driven by an 11-percentage-point spike in the share of consumers who believe mortgage interest rates will fall further. Fannie Mae Senior Vice President and Chief Economist Doug Duncan said that unfortunately, much of the lower interest-rate environment can be attributed to global economic uncertainties, which appear to have dampened consumer sentiment regarding the direction of the economy. We do expect the housing market to remain relatively stable, and the favorable rate environment should continue to support increased refinance activity.
- The Chicago Business Activity Index (CBAI) increased to 96.6 in July from 91.9 in June. The increase is mainly attributed to positive manufacturing, construction job growth, and an improvement in expected retail sales.

“While long-term consumer sentiment remains positive, the short-term outlook is cloudy” noted Geoffrey J.D. Hewings, Director of the Regional Economics Applications Laboratory. “However, the Fannie Mae housing purchasing index remains strong in large part from expectations of declines in interest rates. Thus far, the impact on the Chicago and Illinois housing markets has been muted with modest price increases expected to continue.”

Forecast for September 2019 report

PERCENTAGE CHANGE FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Jun-19	-9.6%	-9.9%		-2.2%	-0.5%			
Jul-19	1.4%	1.2%		-2.1%	-3.4%			
Aug-19	-6.7%	-6.6%		-5.0%	-6.8%			
3 Month Avg.	-5.2%	-5.4%		-3.1%	-3.5%			
SUMMARY OF THE FORECAST INTERVALS FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Sep-19	3.4%	4.6%	1.3%	1.8%	-13.6%	-18.4%	-16.4%	-22.1%
Oct-19	1.1%	1.5%	2.7%	3.6%	1.8%	2.5%	5.6%	7.6%
Nov-19	1.5%	2.0%	-0.9%	-1.2%	-8.9%	-12.0%	-12.2%	-16.5%
3 Month Avg.	2.0%	2.7%	1.1%	1.5%	-7.3%	-9.9%	-8.4%	-11.3%
SUMMARY OF THE FORECAST FOR THE MEDIAN PRICE								
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Jun-19	\$225,000	\$262,900	Jun-18	\$224,000	\$262,500			
Jul-19	\$219,000	\$259,000	Jul-18	\$213,950	\$250,250			
Aug-19	\$214,000	\$252,000	Aug-18	\$200,000	\$242,500			
Sep-19	\$206,784	\$244,218	Sep-18	\$197,000	\$237,500			
Oct-19	\$201,754	\$238,807	Oct-18	\$190,000	\$230,000			
Nov-19	\$201,383	\$238,825	Nov-18	\$190,000	\$232,000			
ANNUAL PERCENTAGE CHANGE OF THE MEDIAN PRICE								
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
Jun-19	0.4%	0.2%	Jun-18	4.2%	4.2%			
Jul-19	2.4%	3.5%	Jul-18	1.9%	1.1%			
Aug-19	7.0%	3.9%	Aug-18	0.0%	1.5%			
Sep-19	5.0%	2.8%	Sep-18	2.6%	3.3%			
Oct-19	6.2%	3.8%	Oct-18	2.7%	3.6%			
Nov-19	6.0%	2.9%	Nov-18	2.7%	3.1%			

Median Prices and Recovery

	Illinois		Chicago PMSA	
	[\$2008]	[\$2019]	[\$2008]	[\$2019]
August 2008 Median Price	\$165,000	\$196,289	\$205,000	\$243,874
August 2019 Median Price	\$179,888	\$214,000	\$211,830	\$252,000
Price Ratio (August 19/ August 08)	Adjusted	1.09	Adjusted	1.03
	Unadjusted	1.30	Unadjusted	1.23

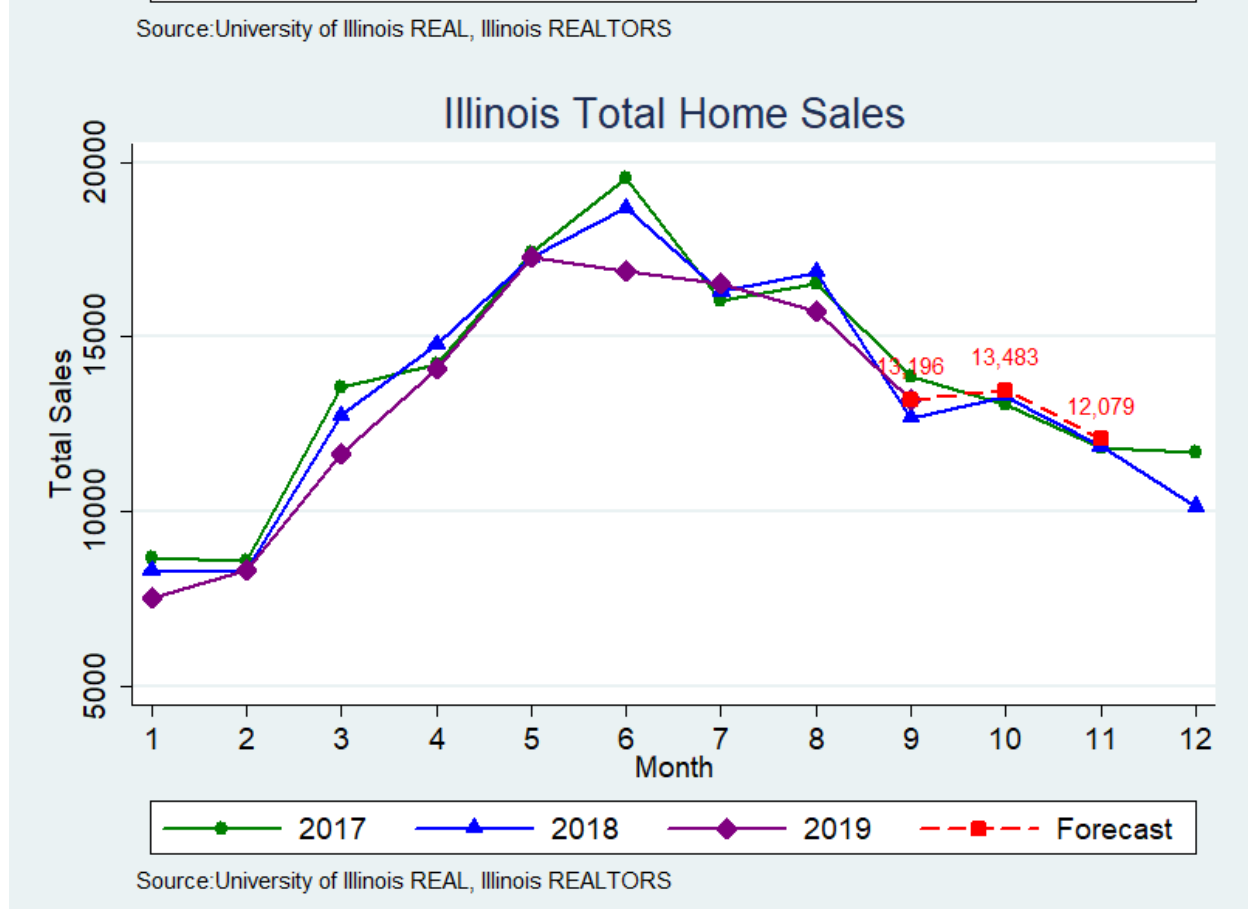
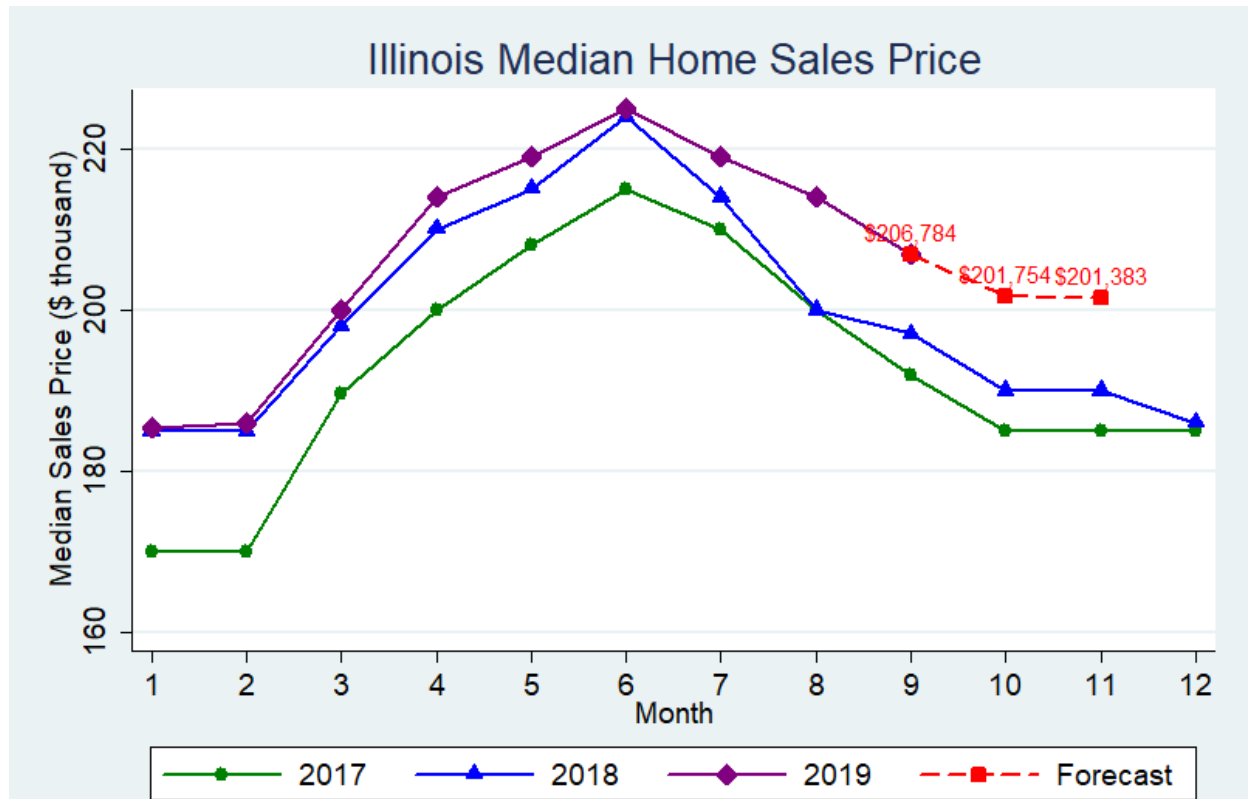
Recovery Forecasts using *Annually Growth Rates*

	Illinois	Chicago PMSA		
	Annual Recovery Rate*	Years to Recover**	Recovery Rate	Years to Recover
Current Month	5.1%	-1.7	2.1%	-1.6
Past 3 months	1.4%	-6.1	0.7%	-4.8
Past 6 months	0.6%	-15.6	0.0%	-157.1
Past 9 months	0.0%	1302.0	-0.3%	11.1
Past 12 months	0.1%	-100.9	0.0%	-123.6

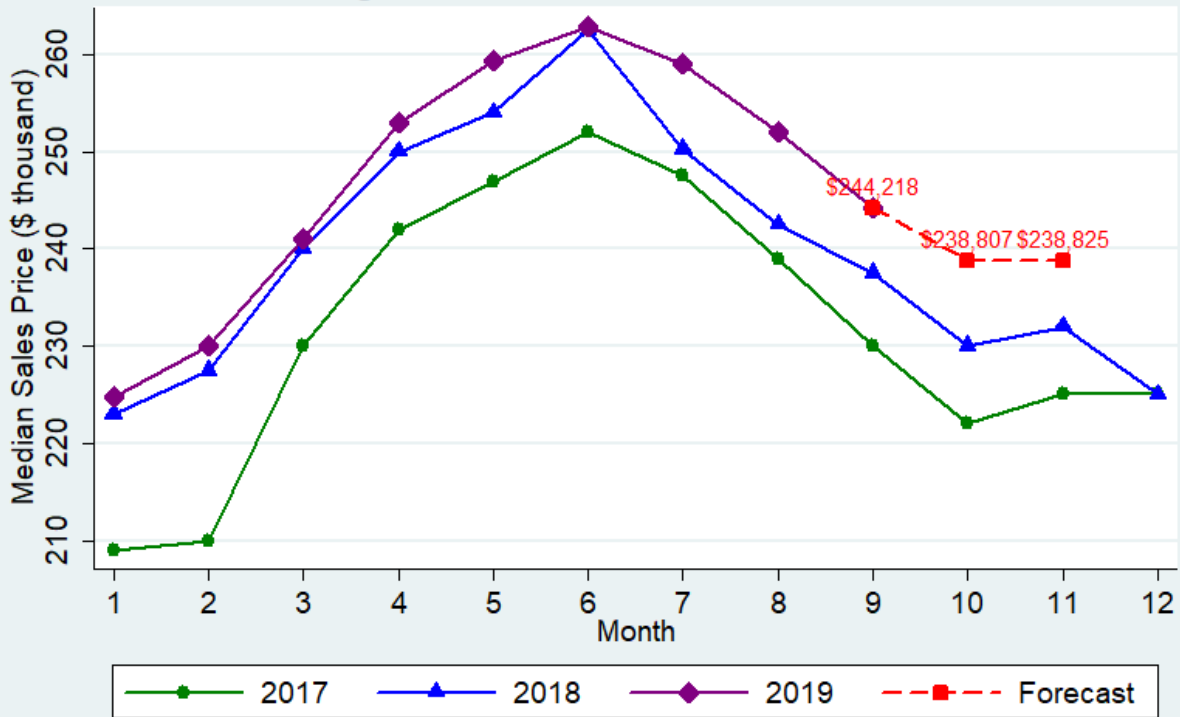
*Annual recovery rate is the average of *annual* change rates in past months

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

$Price_{August2019} * (1 + \text{recovery rate})^{\text{years}} = Price_{August2008}$. 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.

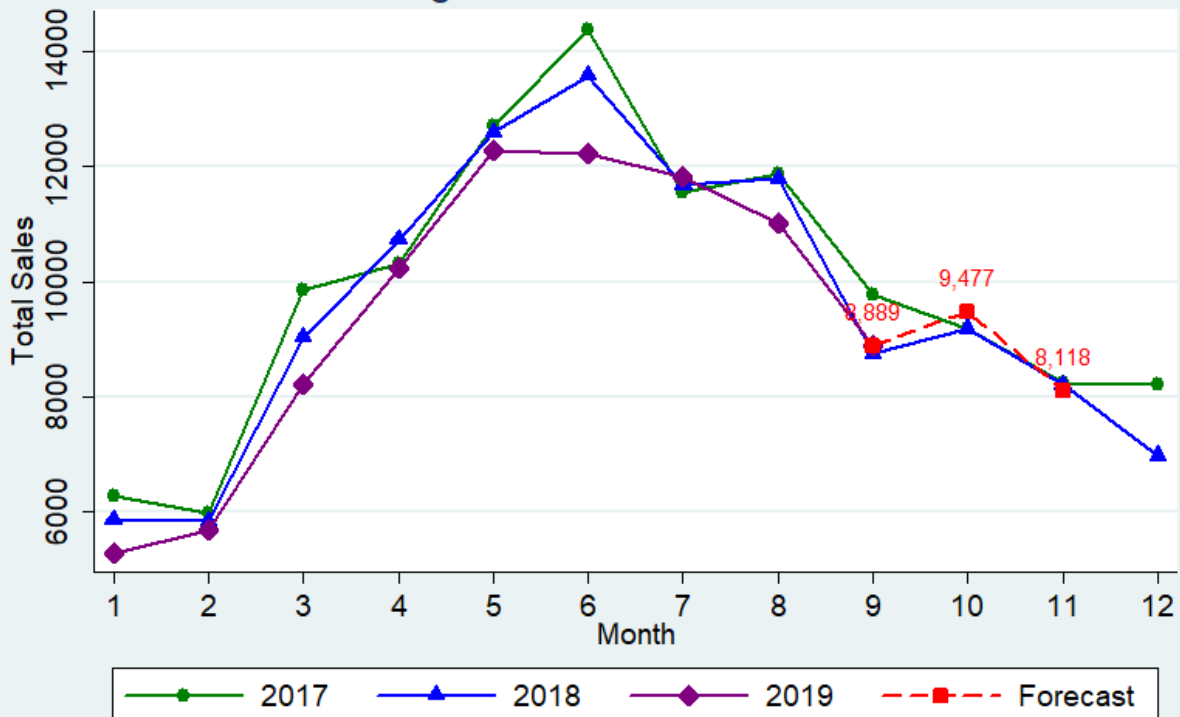


Chicago PMSA Median Home Sales Price

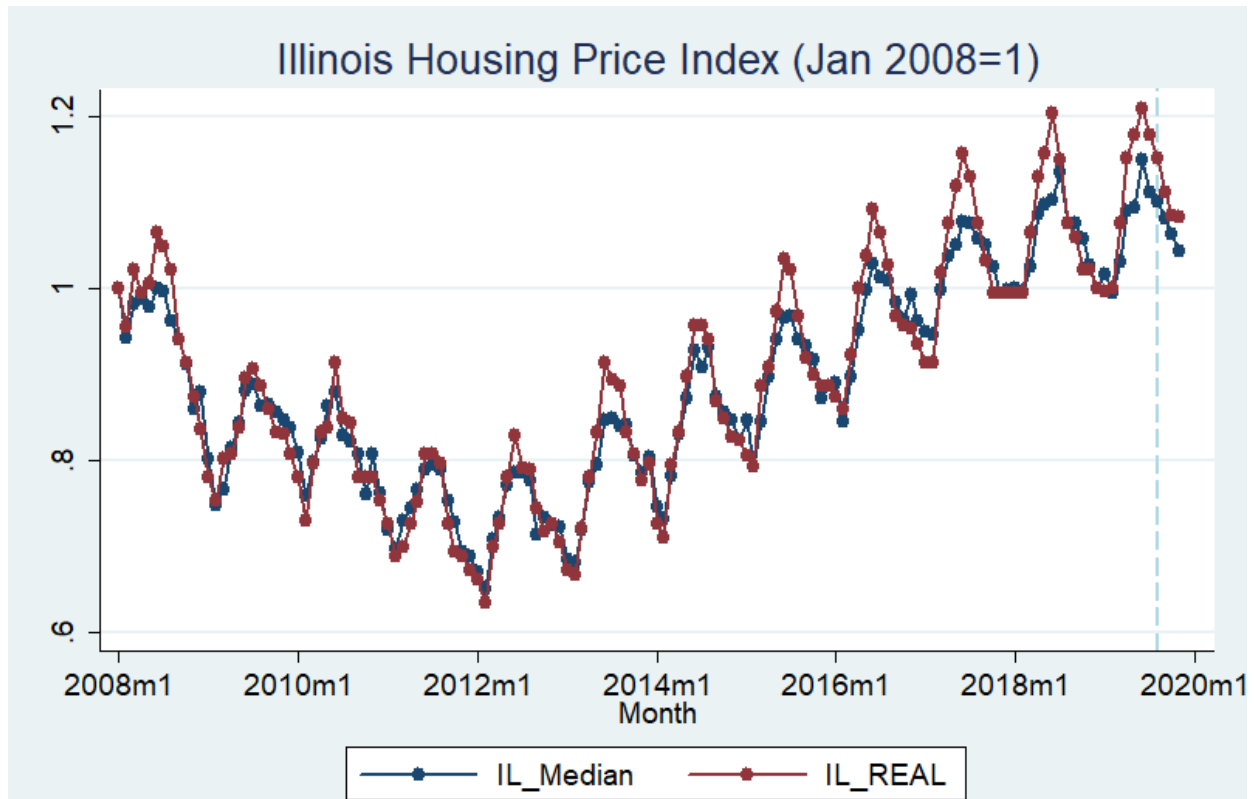


Source: University of Illinois REAL, Illinois REALTORS

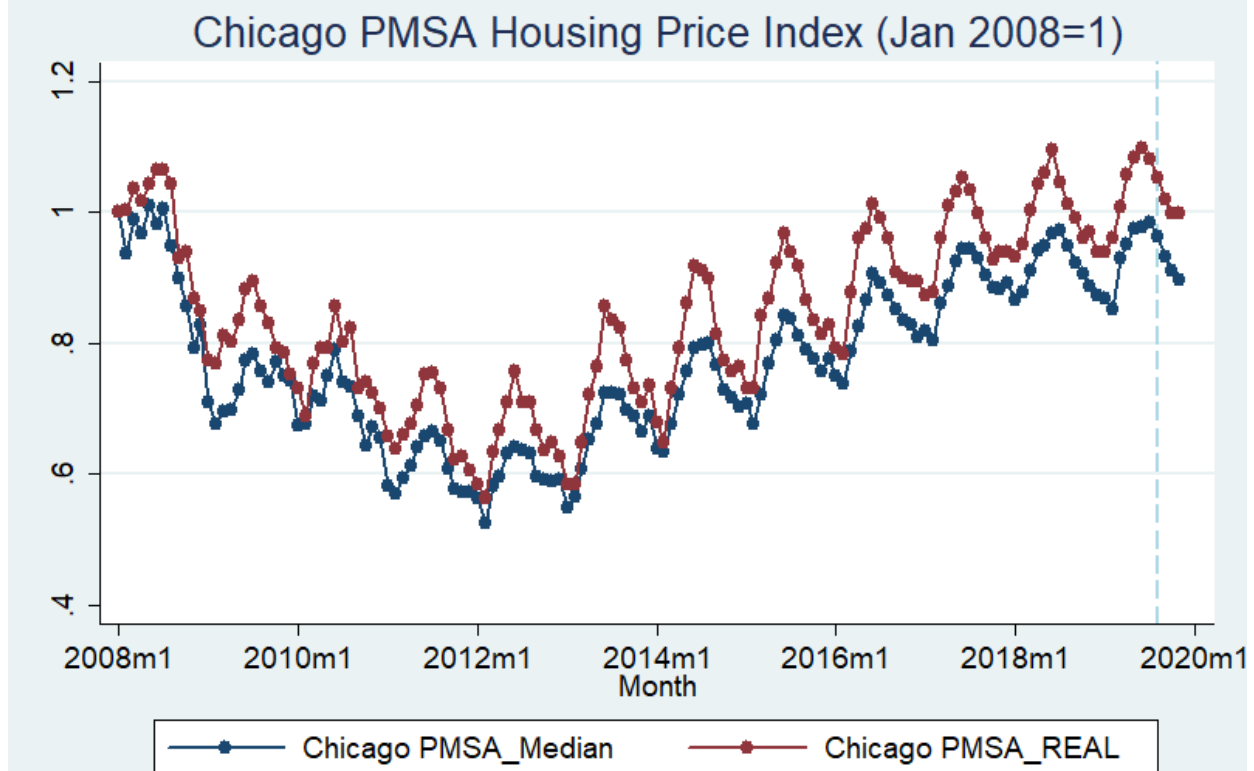
Chicago PMSA Total Home Sales



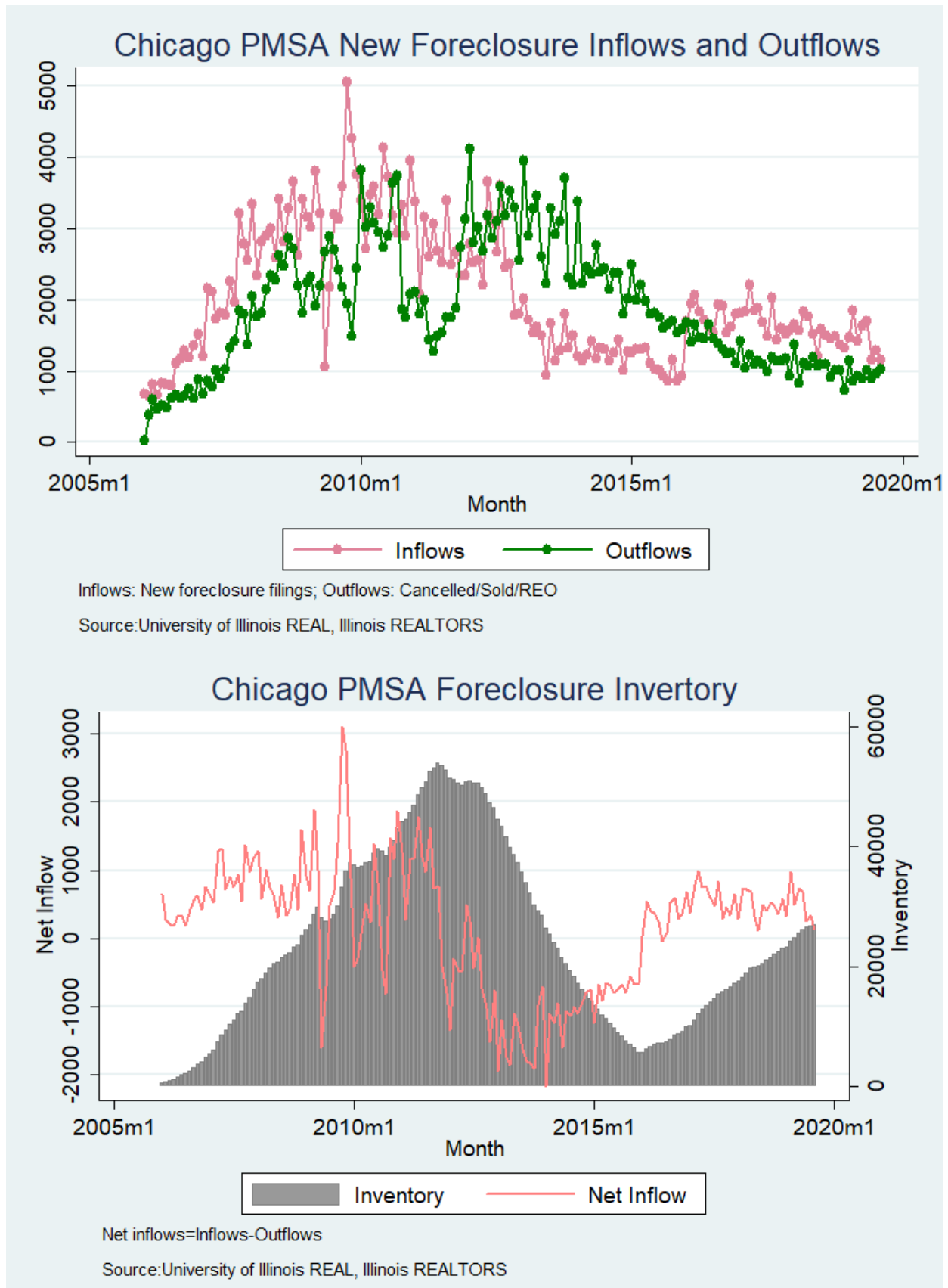
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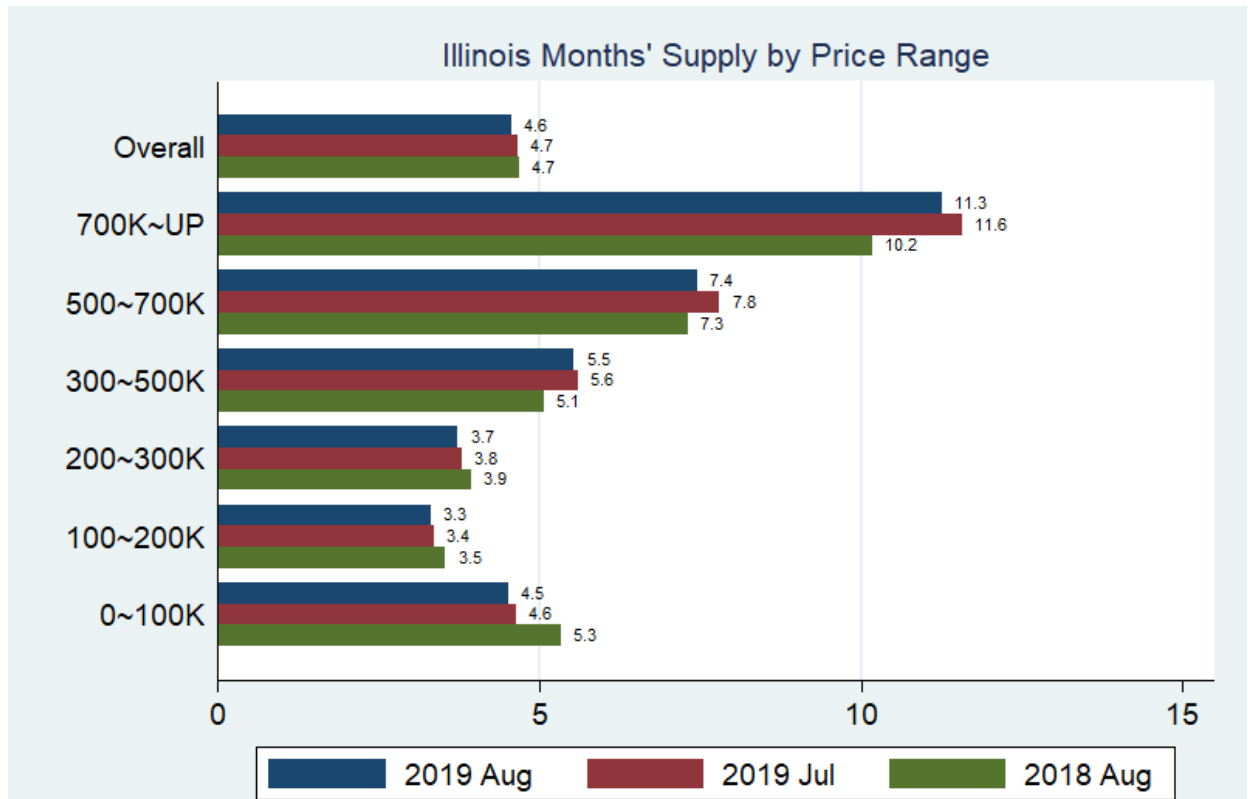


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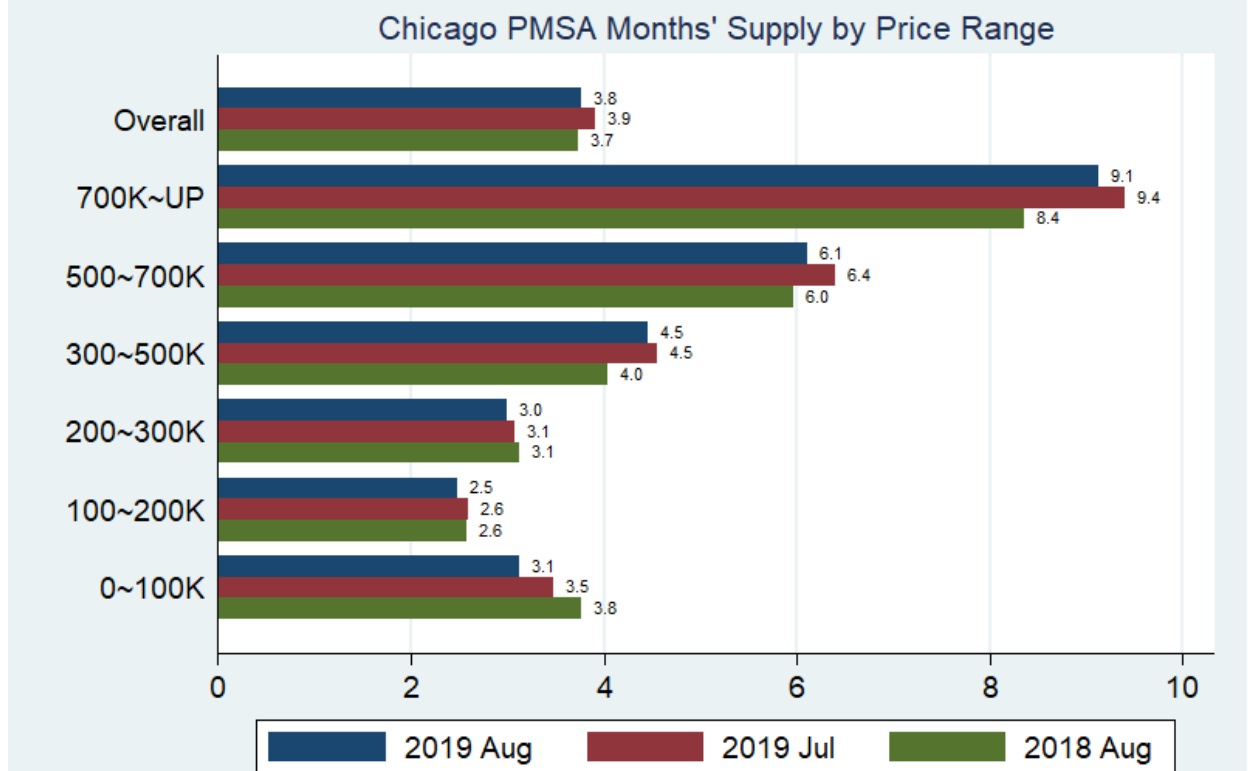


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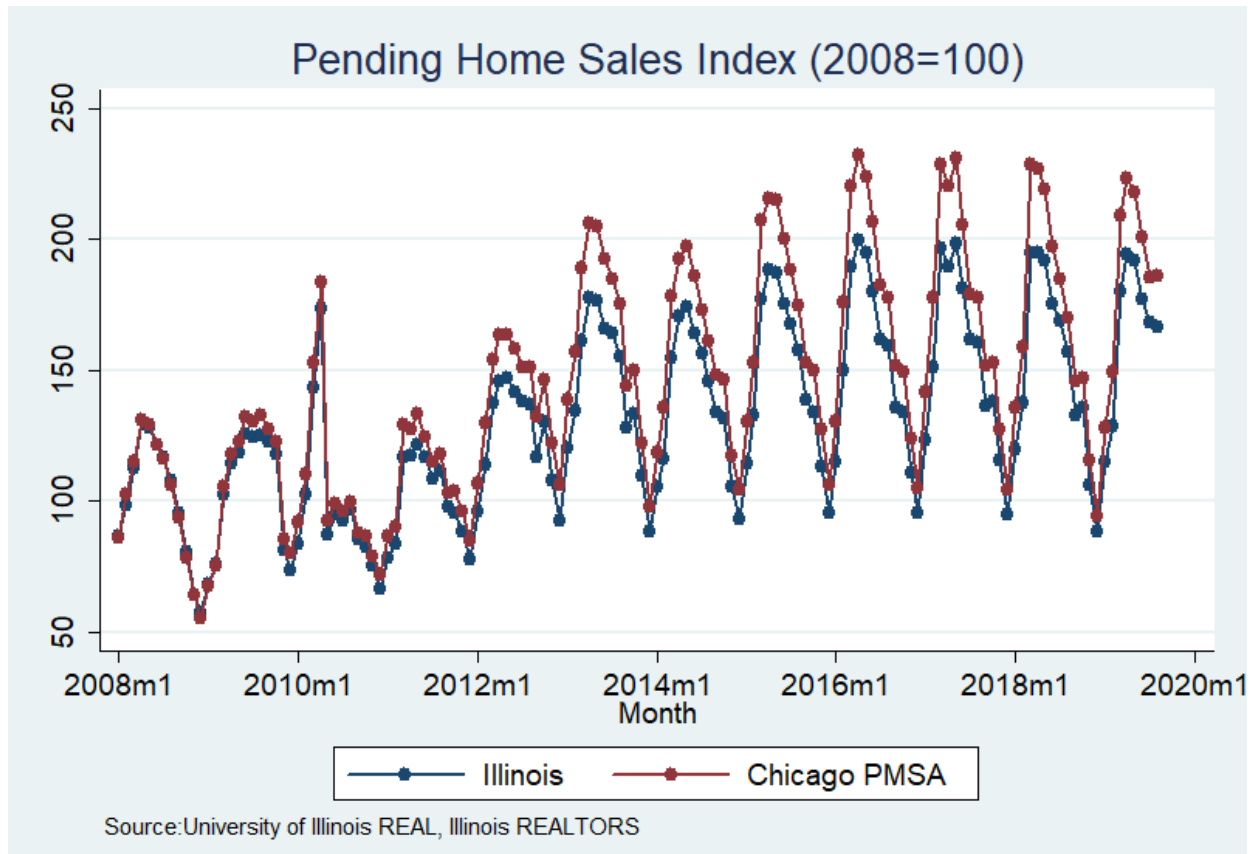


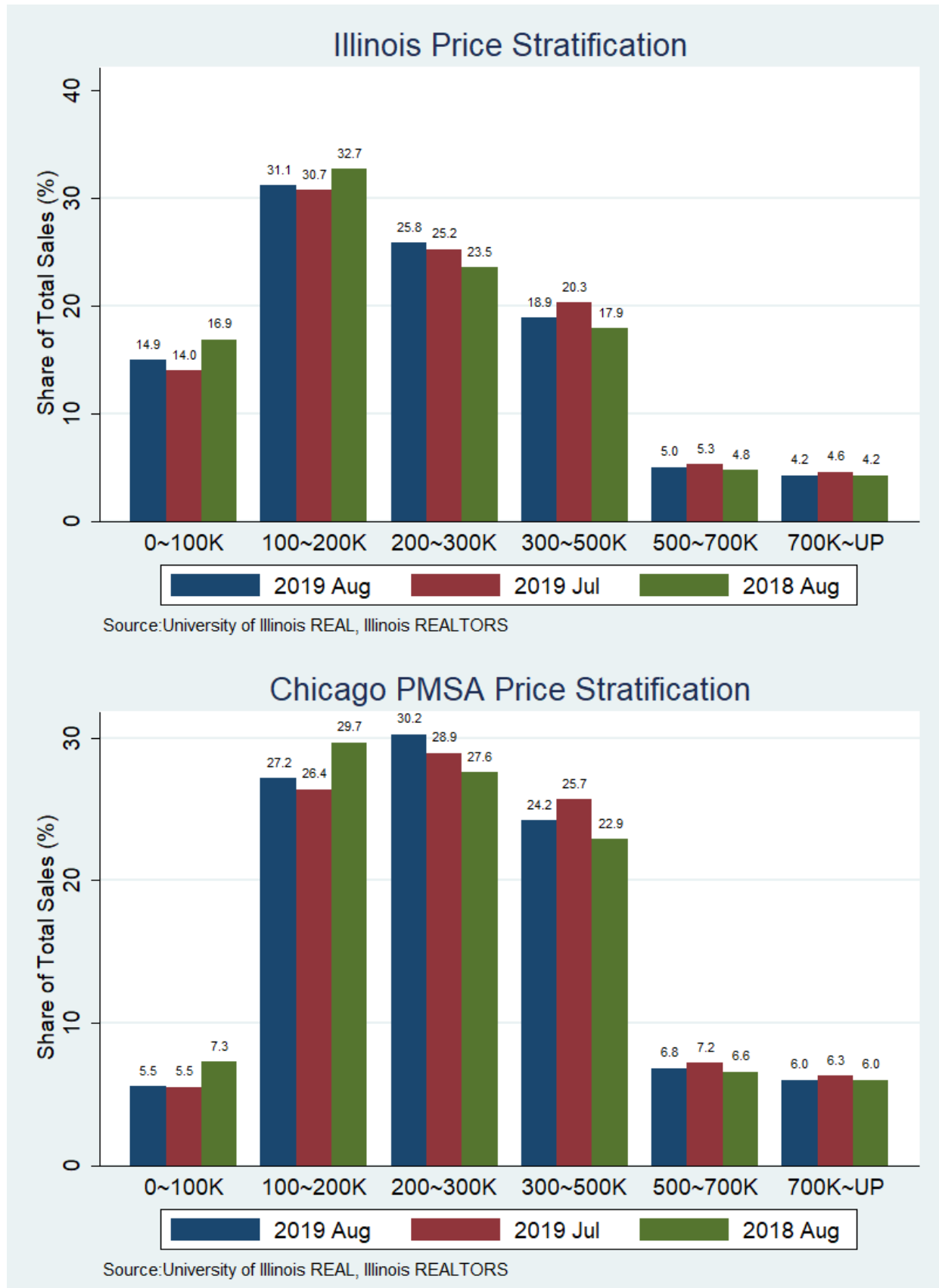


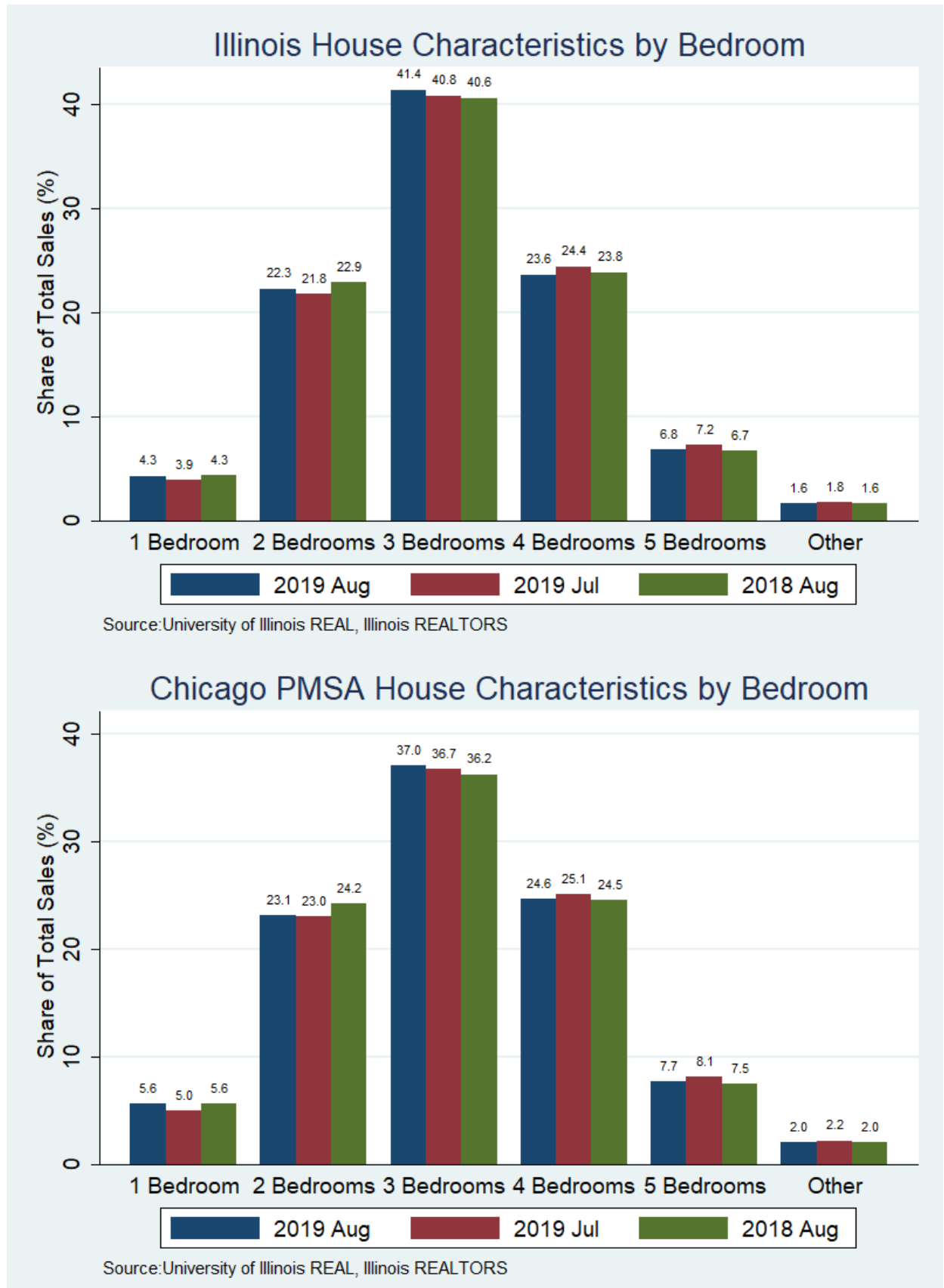
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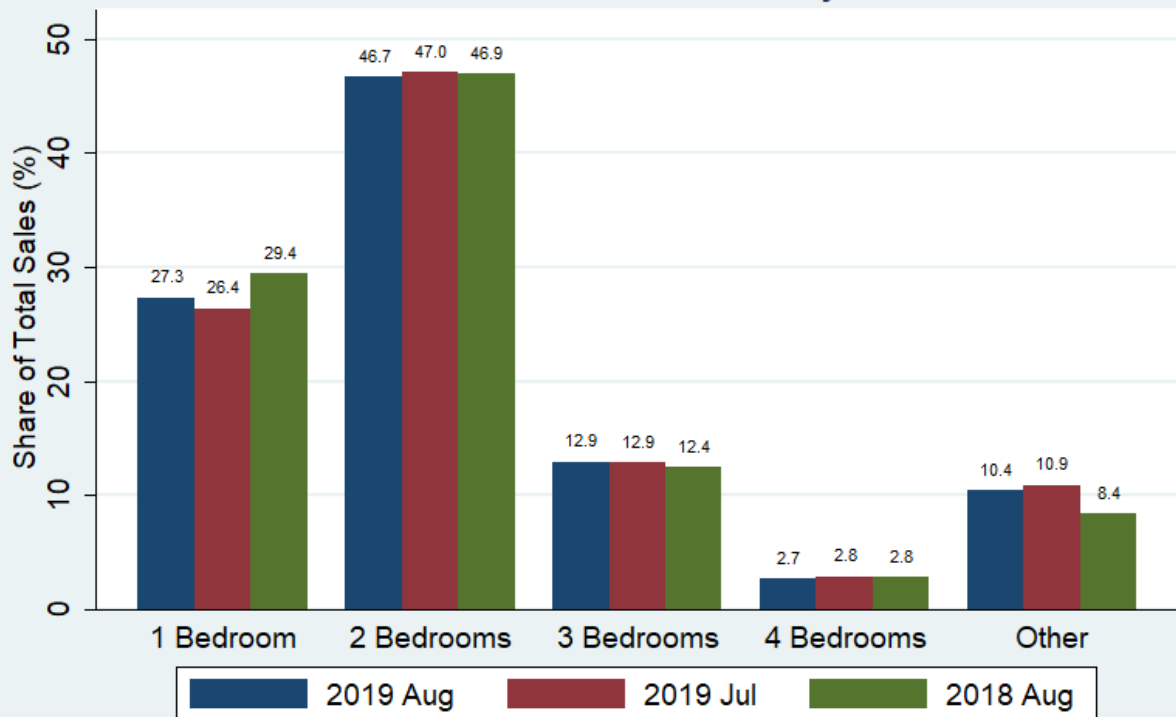
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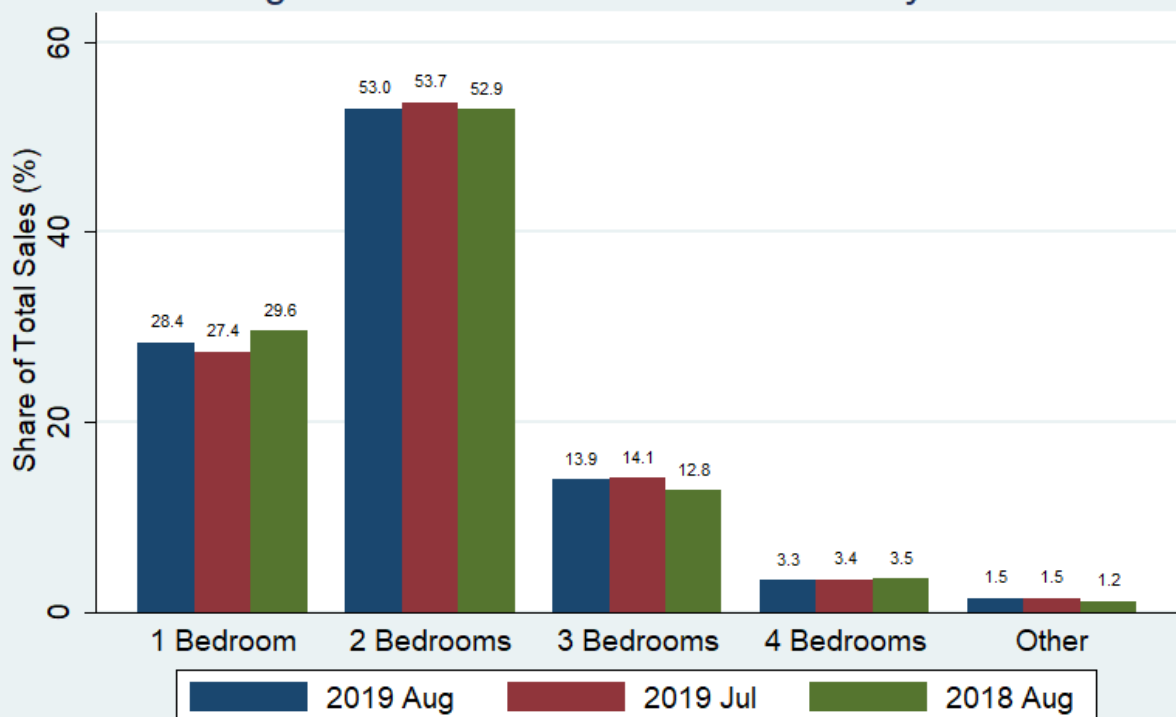


Illinois House Characteristics by Bathroom



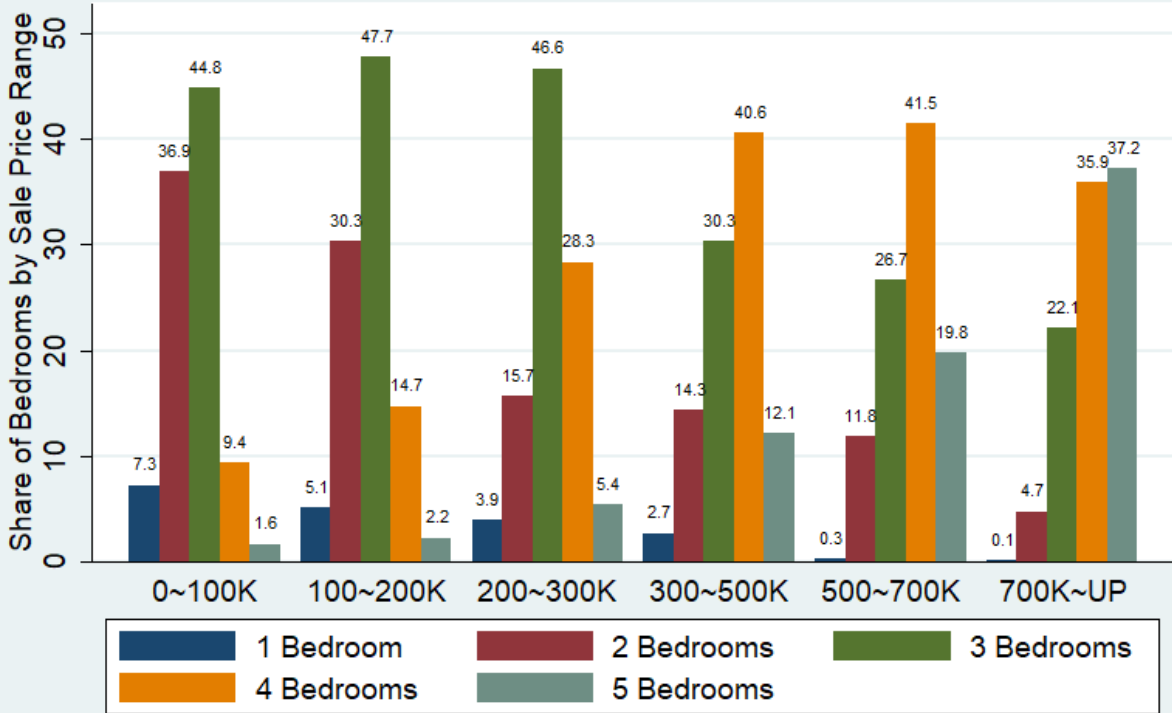
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Chicago PMSA House Characteristics by Bathroom



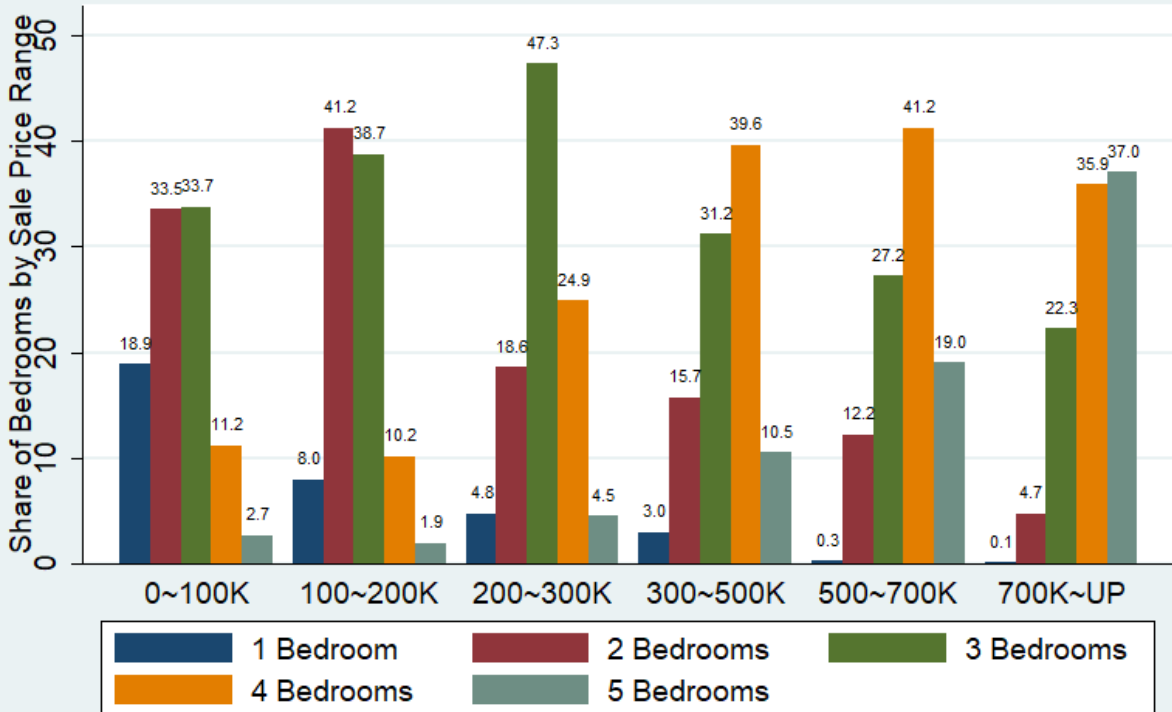
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Illinois Bedroom Shares by Sale Price Stratification



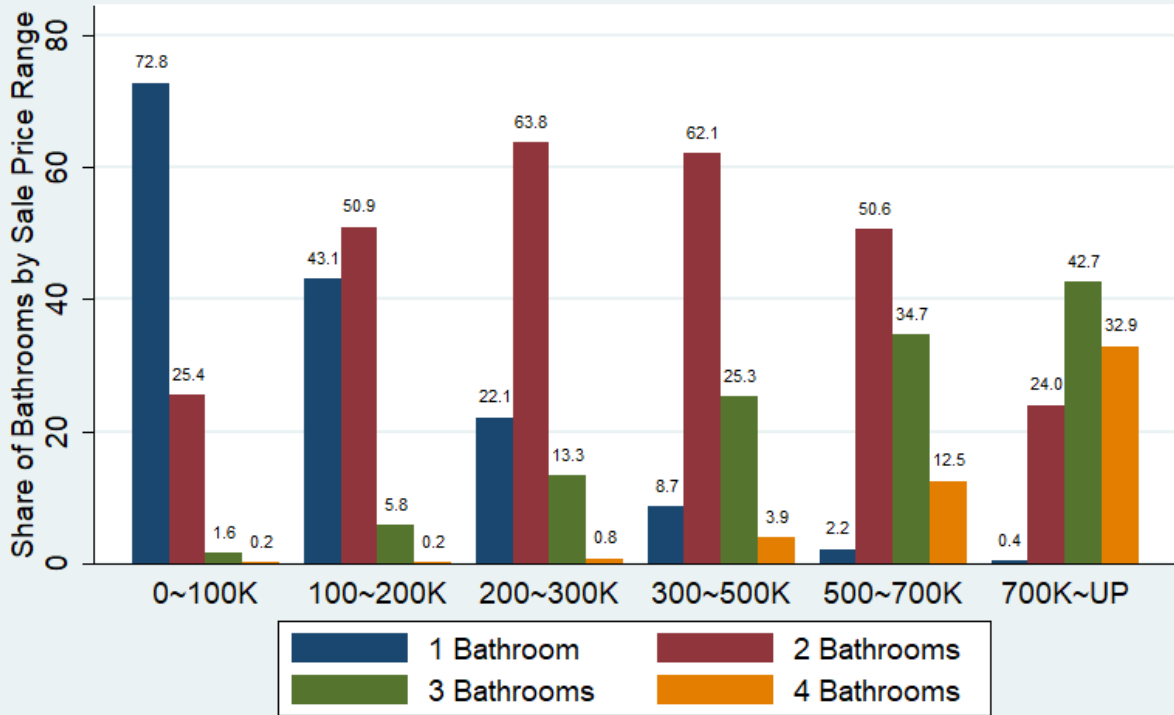
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Chicago PMSA Bedroom Shares by Sale Price Stratification



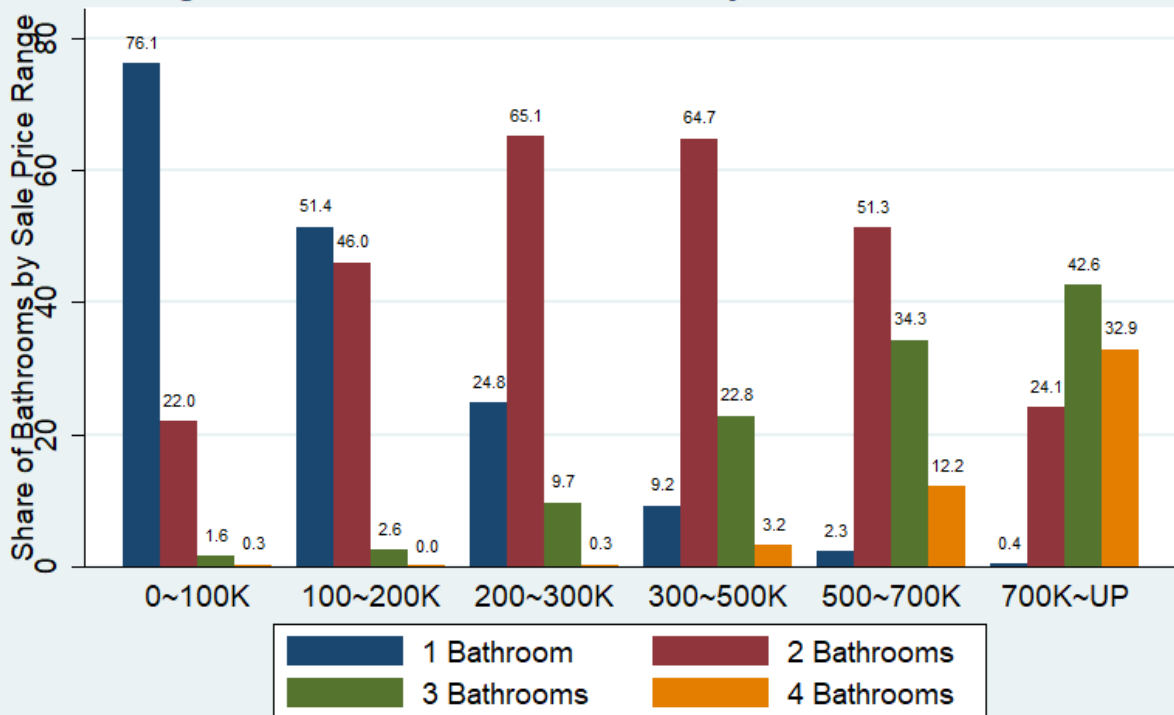
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Illinois Bathroom Shares by Sale Price Stratification



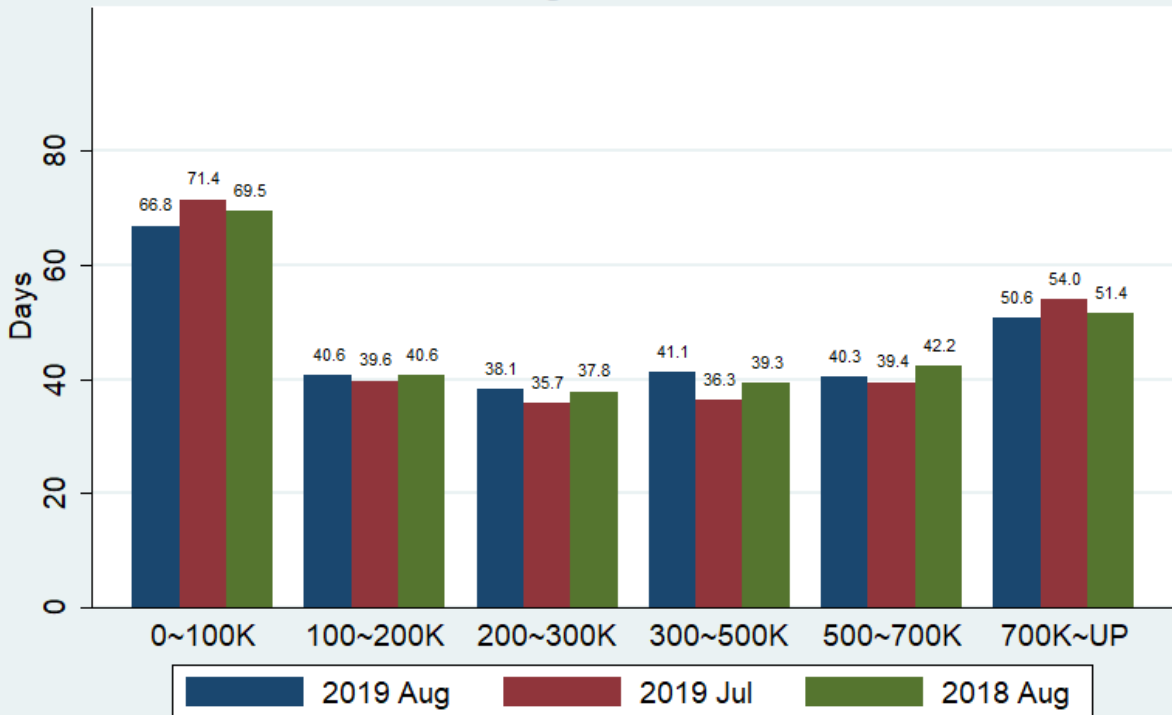
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Chicago PMSA Bathroom Shares by Sale Price Stratification



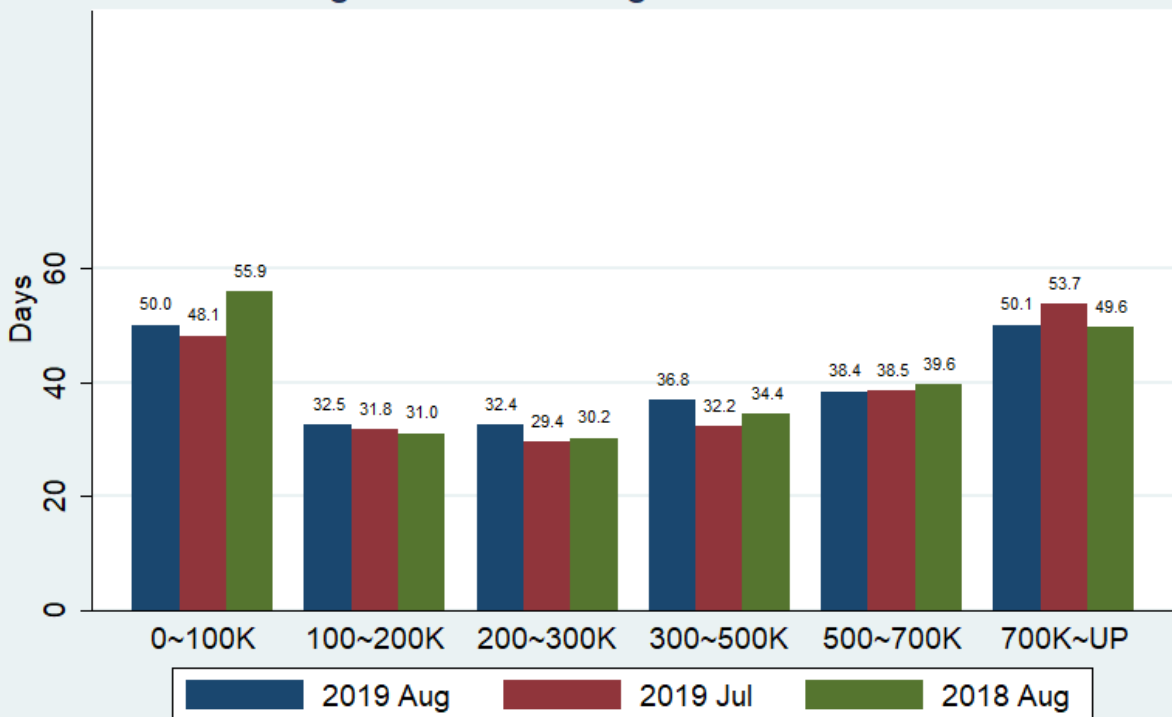
Source: University of Illinois REAL, Illinois REALTORS

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

