

Housing Price Forecasts, 2021

Illinois and Chicago MSA

Presented To

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Regional Economics Applications Laboratory,
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Housing Price Forecasts, 2021

Introduction: The State of the Economy

In October 2020, according to the Bureau of Labor Statistics (BLS) Employment Situation report, the national unemployment rate declined to 6.9% and nonfarm payroll jobs experienced a gain of 638,000 jobs. Statewide, according to the Illinois Department of Employment Security (IDES), by October 2020 the Illinois unemployment fell to 6.8%. Non-farm payroll jobs lost by 1,100 over the month. The industry sectors that reported the largest payroll declines were: Government (-13,500), Educational and Health Services (-6,500) and Information (-1,500).

In October 2020, the Conference Board Consumer Confidence Index declined to 100.9 from 101.3 a year ago and the University of Michigan Consumer Sentiment Index increased to 81.8 from 80.4. The Conference Board Consumer Confidence Index survey revealed that consumers' assessment of current conditions improved while expectations declined, driven primarily by a softening in the short-term outlook for jobs. The University of Michigan Consumer Sentiment Index survey noted that while partisan divisions are still deep, optimism among Democrats surged over the past three months, boosting their expectations to the highest in more than a year. The more housing market specific index, Fannie Mae Home Purchase Sentiment Index (HPSI)¹, increased to 81.7 from 81.0 last October. The survey revealed that though there were improvements in the HPSI's buying, selling, and mortgage interest rate outlook components, there were similar declines in the job security and household income change components.

¹ This index uses information from their National Housing Survey collecting consumers' feeling and opinions on home purchasing, directions and conditions of the housing market, finance conditions and the job market.

Housing Price Forecasts, 2021

The Housing Market Conditions and Forecasts

Current Conditions

Before the COVID-19 pandemic, actual median sales prices and forecasted prices in Illinois and the Chicago PMSA followed a similar pattern, maintaining positive annual growth in each month. Actual sales and forecasted sales in Illinois and the Chicago PMSA also followed a very similar pattern while sales experienced a more mixed trend.² However, the COVID-19 pandemic significantly affected the housing market during the spring months. Both Illinois and the Chicago PMSA experienced a noticeable drop in prices and sales throughout April and May. However, the coronavirus turmoil in the spring did not lead to large declines. Both the median prices and sales began to increase in the late spring, approaching pre-pandemic levels by the summer.

Median prices in 2020 showed moderate growth in both Illinois and the Chicago PMSA despite the pandemic. In Illinois, annual growth rates for each month varied between -2.2% and 17.5%. The comparative range for the Chicago PMSA was between 0.2% and 14.6% (See Figures: Illinois Median Home Sales Price Annual Percentage Change & Chicago Median Home Sales Price Annual Percentage Change).

Sales in 2020 in both Illinois and the Chicago PMSA experienced periods of irregular growth, alternating between positive and negative annual growth rates. The growth rates of sales were between -32.8% and 37.0% for Illinois and between -4.4% and 32.5% for the Chicago PMSA. During the last few months, both regions experienced positive annual growth rates in sales (See Figures: Illinois Total Price Annual Percentage Change & Chicago PMSA Total Sales Annual Percentage Change).

The change of sales in the Chicago PMSA was characterized by overall positive growth in regular sales and negative growth in foreclosed sales. For the regular sales, the annual growth rates were between -37.4% and 45.2%. For foreclosed sales, the comparative figures were between -29.2% and 3.4%. Moreover, the percentage of foreclosed sales out of total sales continued decreasing to a monthly average of 4.5% in 2020, about one third lower than the monthly average of 13.2%

² This is to compare the real growth rates in 2020 with the forecasted growth rates in 2019 for 2020, using ANOVA analysis. The significance level of 5% is used. See figures: 2020 Real vs Forecast Annual Sales/Median Prices Change Rates

Housing Price Forecasts, 2021

between 2010 and 2019 (See Figures: Chicago PMSA Annual Change Rates for Sales Foreclosed vs. Regular sales & Ratio of Foreclosed Sales over Total Sales).

Forecasts and Future Condition

Median prices are forecast to continuously grow in 2021 within a higher and broader range compared with 2020. On a year-over-year basis, these gains will range from 8.3% to 19.6% for Illinois and 6.9% to 16.0% for the Chicago PMSA (See Figures: Illinois Median Home Sales Price Annual Percentage Change & Chicago Median Home Sales Price Annual Percentage Change). By December 2021, the median price of homes is forecast to be \$251,410 in Illinois and \$289,755 in Chicago PMSA, respectively 8.3% and 6.9% higher on an annual basis (See Table: Annual Median Prices Forecast [Nov 2020 to Dec 2021]). As a complement to the median housing price index (HPI), the REAL HPI³ forecasts indicate a positive growth trend for both Illinois and the Chicago PMSA in the months ahead (see Figures: Illinois Housing Price Index & Chicago PMSA Housing Price Index). The REAL HPI (Jan 2008=1) is forecast to experience a growth rate between 2.4% and 10.1% for Illinois and 4.3% to 9.7% for the Chicago PMSA. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month.

As for sales, they are forecast to experience overall positive gains in 2021 for Illinois and positive gains for the Chicago area. The annual growth in monthly sales is forecast to be in the range from -3.7% to 37.4% for Illinois, with positive gains for most months. The comparative range for the Chicago PMSA is from -7.4% to 62.3%, with positive gains for most months. If we exclude foreclosed sales from all sales, we obtain the forecasts for the regular sales which indicate a growth range of -2.9 ~ 48.9% for the Chicago PMSA.

According to Freddie Mac’s latest set of predictions for 2021, home prices are forecast to go up in 2021, but at a slower pace than in 2020. They forecast home sales will also remain steady going into next year. The research team from Freddie Mac wrote that housing demand among home buyers in the U.S. has been surprisingly strong since May of this year. The real estate scene slowed to a crawl during April, as the coronavirus got a firm foothold in the United States. But since then, sales activity has increased steadily and significantly in most cities. In 2021, they expect home sales to continue at a strong pace, especially when the weather starts to warm up in the spring. The

³ REAL HPI was developed by Esteban Lopez and Minshu Du. Contact us for further details.

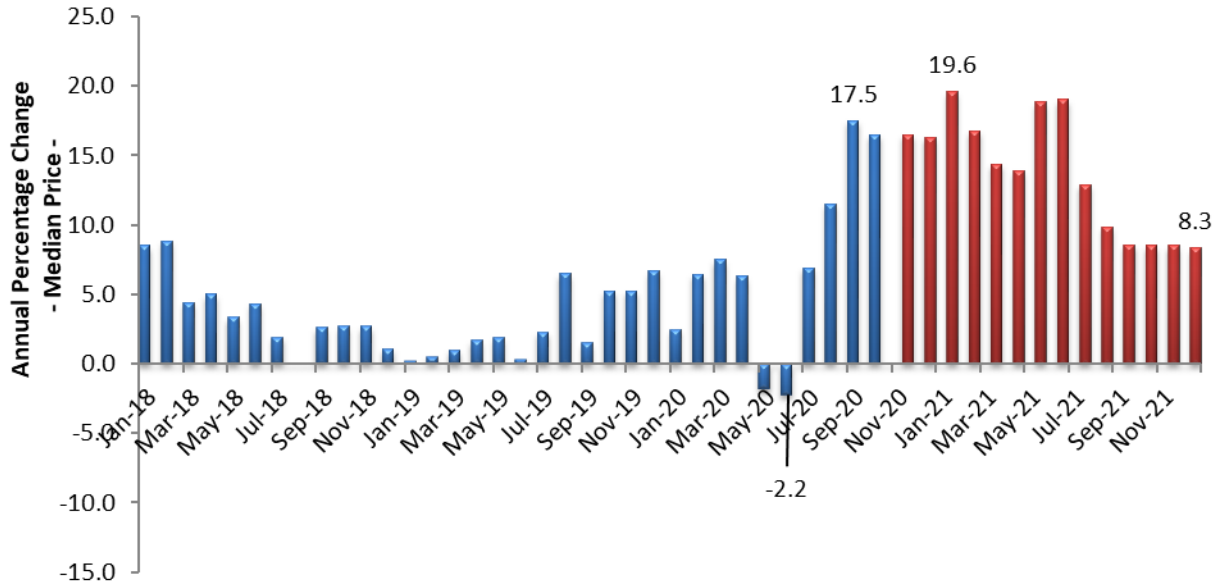
Housing Price Forecasts, 2021

research team also forecast mortgage rates to remain unchanged at 3% next year, given weakness in the broader economy, the Federal Reserve's signal that its policy rate will remain low until inflation picks up, and no signs of inflation.

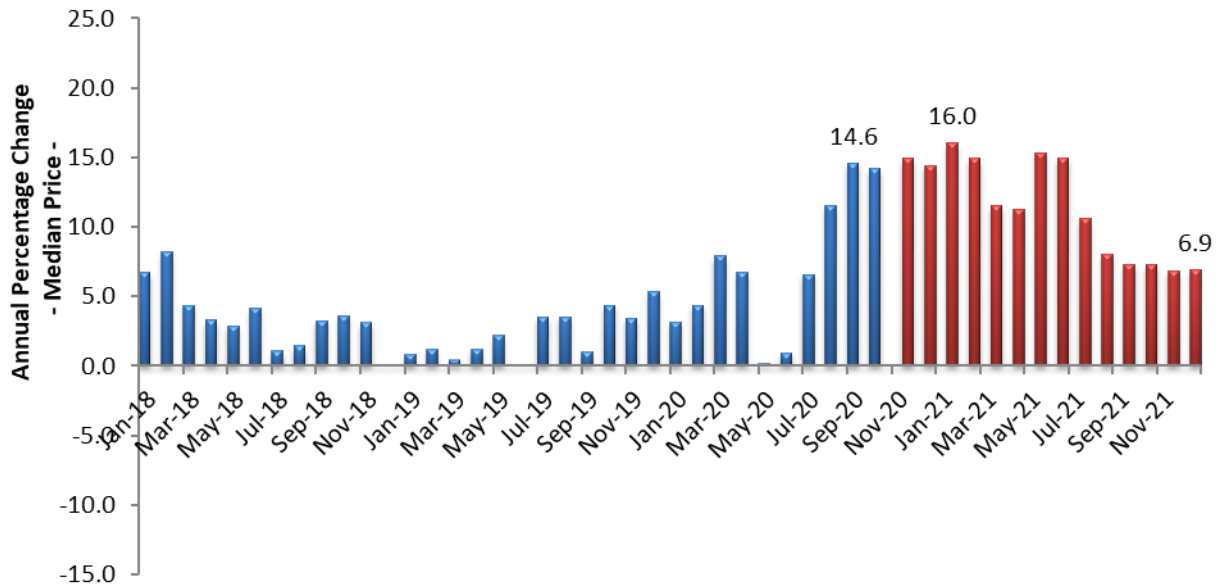
“The uneven impact of the COVID-19 pandemic on employment by sector and income level is likely to be reflected in the housing market in 2021” noted Geoffrey J.D. Hewings, Director of the Regional Economics Applications Laboratory of the University of Illinois. “With increasing opportunities to work-from-home for higher income employees, analysts suggest an increased demand for larger homes perhaps in suburban and ex-urban locations while this flexibility is not available for lower-income employees especially those in the retail, leisure and hospitality sectors where layoffs and furloughs have been more severe, dampening both demand and supply of homes in the bottom 25% of the price distribution.”

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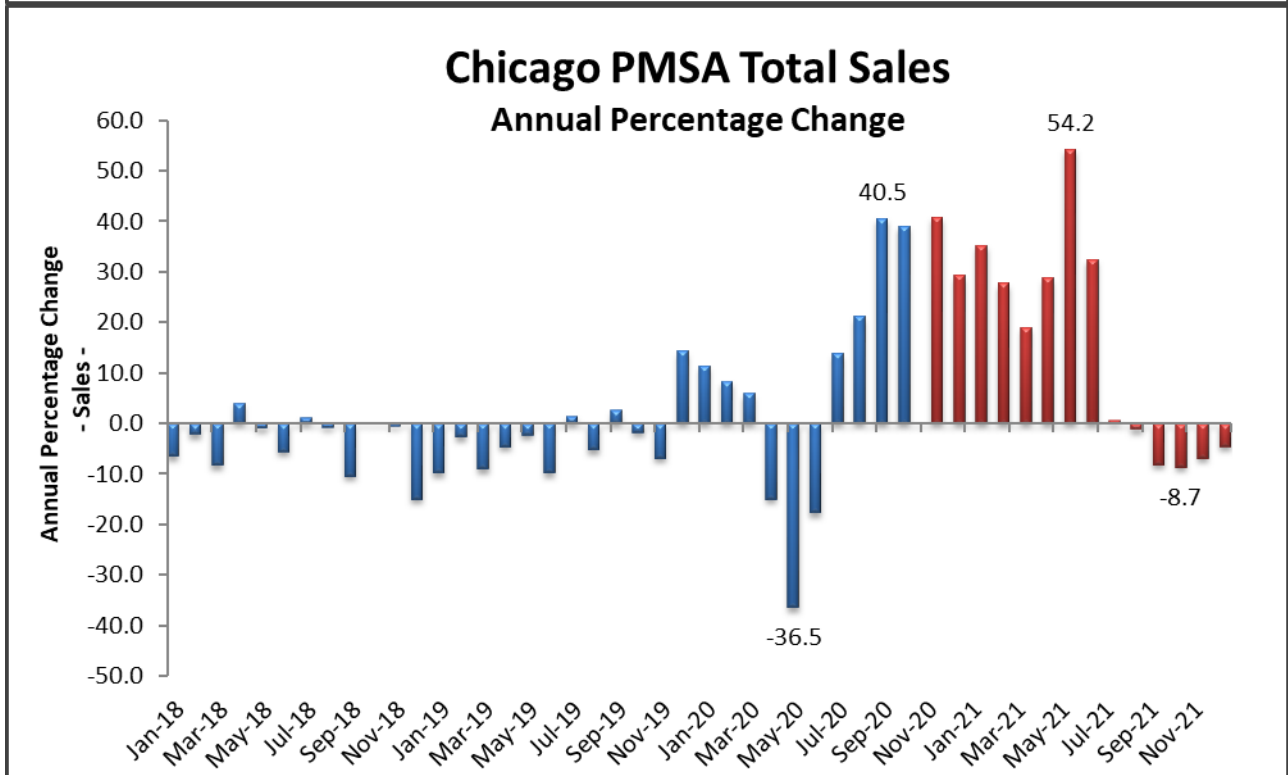
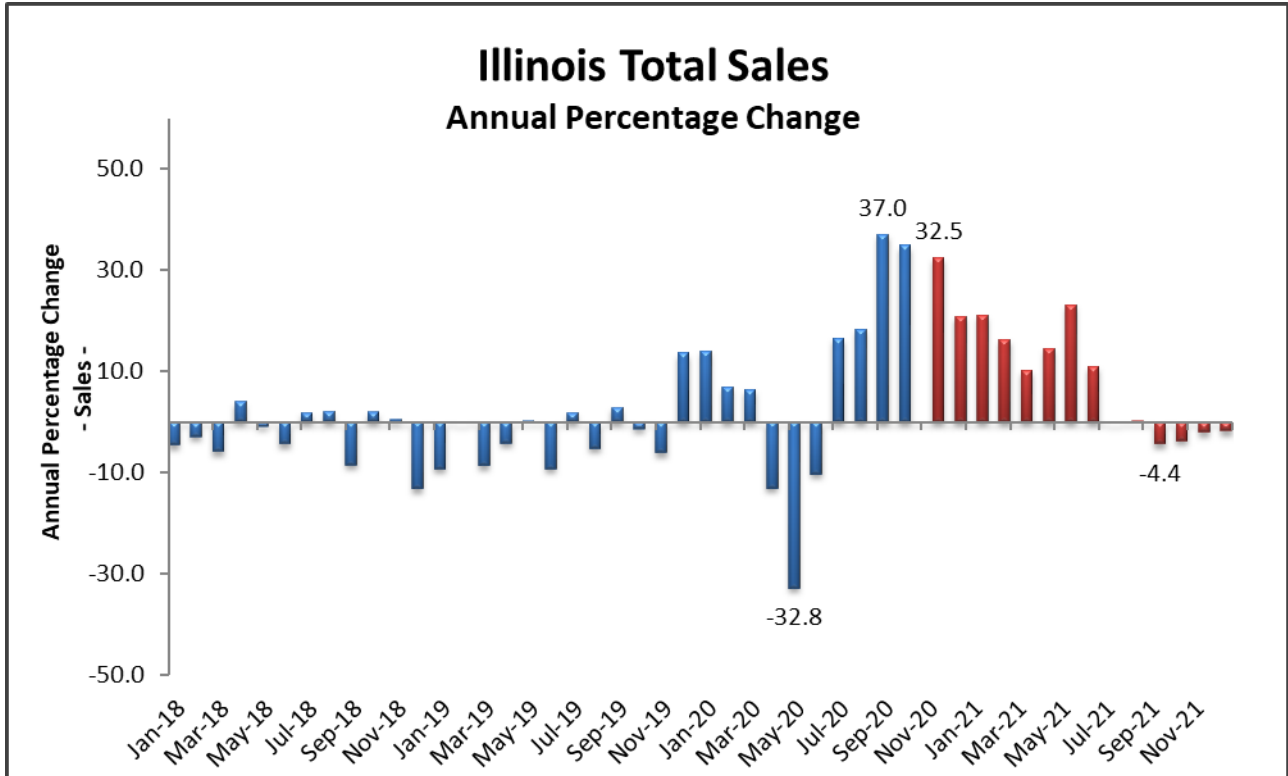
Illinois Median Home Sales Price Annual Percentage Change



Chicago Median Home Sales Price Annual Percentage Change



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Annual Sales Forecast (Nov 2020 to Dec 2021)

Percentage Change Forecasts for the Total Number of Sales								
(Illinois and Chicago PMSA: Forecast range)								
	Monthly				Annually			
	Illinois		Chicago		Illinois		Chicago	
Nov-20	-14.14%	-19.13%	-12.15%	-16.43%	27.63%	37.38%	34.66%	46.89%
Dec-20	-4.78%	-6.47%	-3.42%	-4.63%	17.69%	23.93%	24.86%	33.63%
Jan-21	-21.60%	-29.22%	-19.35%	-26.18%	17.99%	24.34%	29.87%	40.42%
Feb-21	-0.49%	-0.66%	-1.18%	-1.59%	13.89%	18.79%	23.51%	31.81%
Mar-21	27.31%	36.95%	27.07%	36.62%	8.67%	11.73%	16.08%	21.76%
Apr-21	2.61%	3.53%	6.88%	9.30%	12.32%	16.67%	24.43%	33.05%
May-21	1.53%	2.07%	6.42%	8.69%	19.70%	26.66%	46.07%	62.33%
Jun-21	14.99%	20.28%	9.21%	12.46%	9.30%	12.58%	27.59%	37.32%
Jul-21	12.33%	16.69%	1.46%	1.97%	-0.24%	-0.32%	0.59%	0.80%
Aug-21	-1.78%	-2.41%	-1.22%	-1.65%	0.04%	0.06%	-0.99%	-1.34%
Sep-21	-7.98%	-10.79%	-11.42%	-15.44%	-3.71%	-5.02%	-6.98%	-9.44%
Oct-21	-0.31%	-0.42%	-1.02%	-1.38%	-3.13%	-4.23%	-7.43%	-10.05%
Nov-21	-12.94%	-17.51%	-10.68%	-14.45%	-1.74%	-2.36%	-5.87%	-7.94%
Dec-21	-4.55%	-6.16%	-1.39%	-1.88%	-1.50%	-2.03%	-3.89%	-5.26%

Negative variations are in red.

Annual Median Prices Forecast (Nov 2020 to Dec 2021)

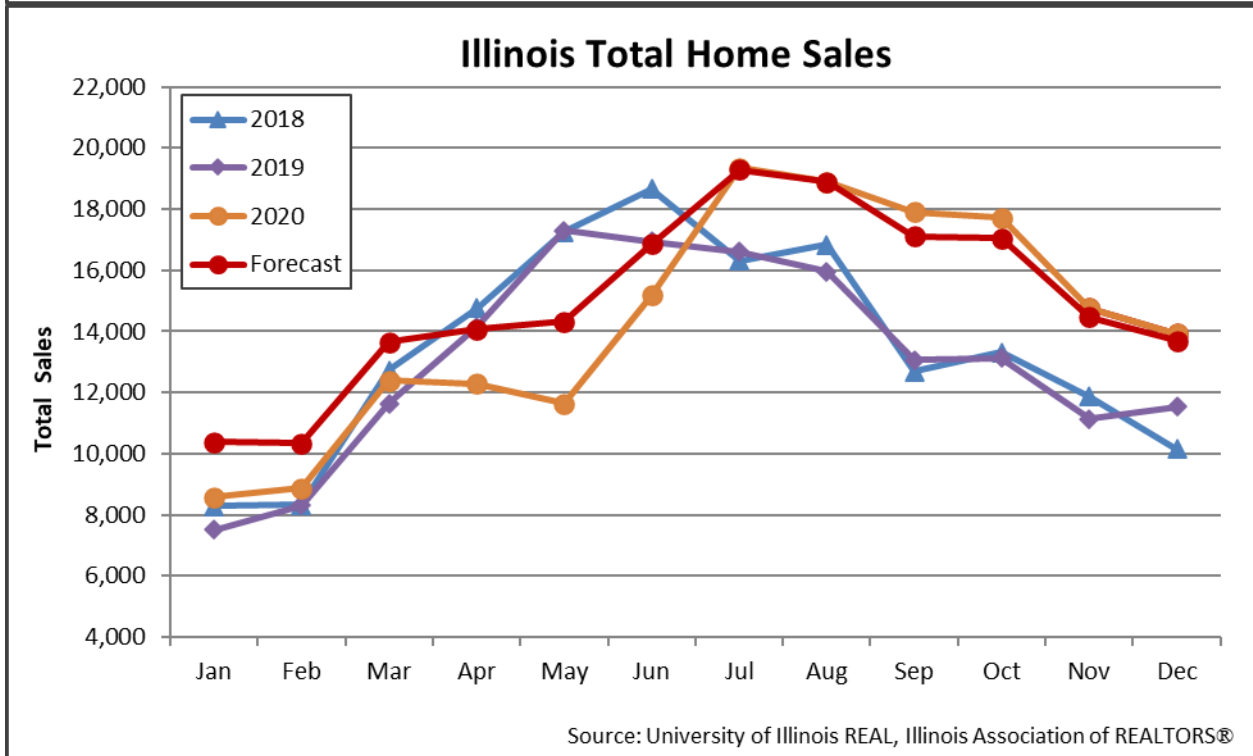
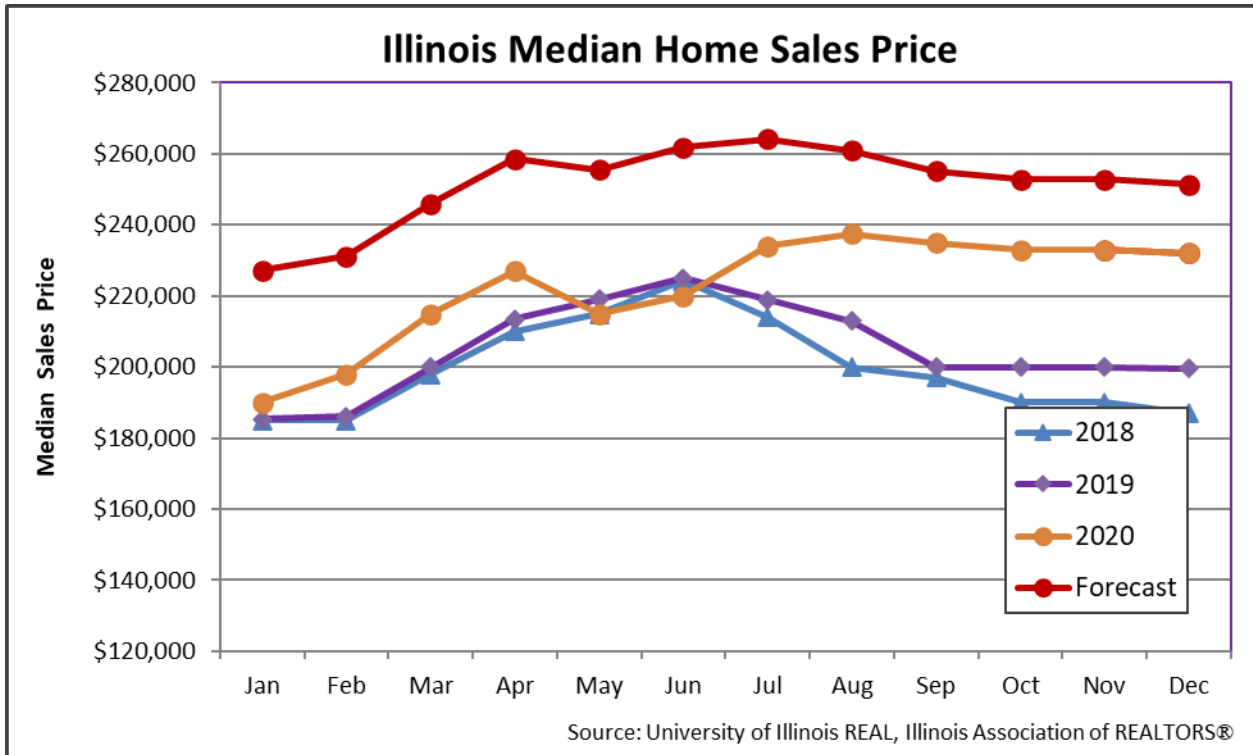
Summary of the Forecast for the Median Price					
(Illinois and Chicago PMSA)					
	Illinois	Chicago		Illinois	Chicago
Nov-20	\$232,998	\$275,749	Nov-18	\$200,000	\$240,000
Dec-20	\$232,046	\$271,126	Dec-18	\$199,500	\$237,000
Jan-21	\$227,216	\$269,160	Jan-19	\$190,000	\$232,000
Feb-21	\$231,202	\$275,828	Feb-19	\$198,000	\$240,000
Mar-21	\$245,903	\$290,024	Mar-19	\$215,000	\$260,000
Apr-21	\$258,614	\$300,409	Apr-19	\$227,000	\$270,000
May-21	\$255,486	\$299,849	May-19	\$215,000	\$260,000
Jun-21	\$261,822	\$304,658	Jun-19	\$220,000	\$265,000
Jul-21	\$264,138	\$305,305	Jul-19	\$234,000	\$276,000
Aug-21	\$260,931	\$302,517	Aug-19	\$237,500	\$280,000
Sep-21	\$255,113	\$295,129	Sep-19	\$235,000	\$275,000
Oct-21	\$252,865	\$293,914	Oct-19	\$233,000	\$274,000
Nov-21	\$252,865	\$294,642			
Dec-21	\$251,410	\$289,755			

Housing Price Forecasts, 2021

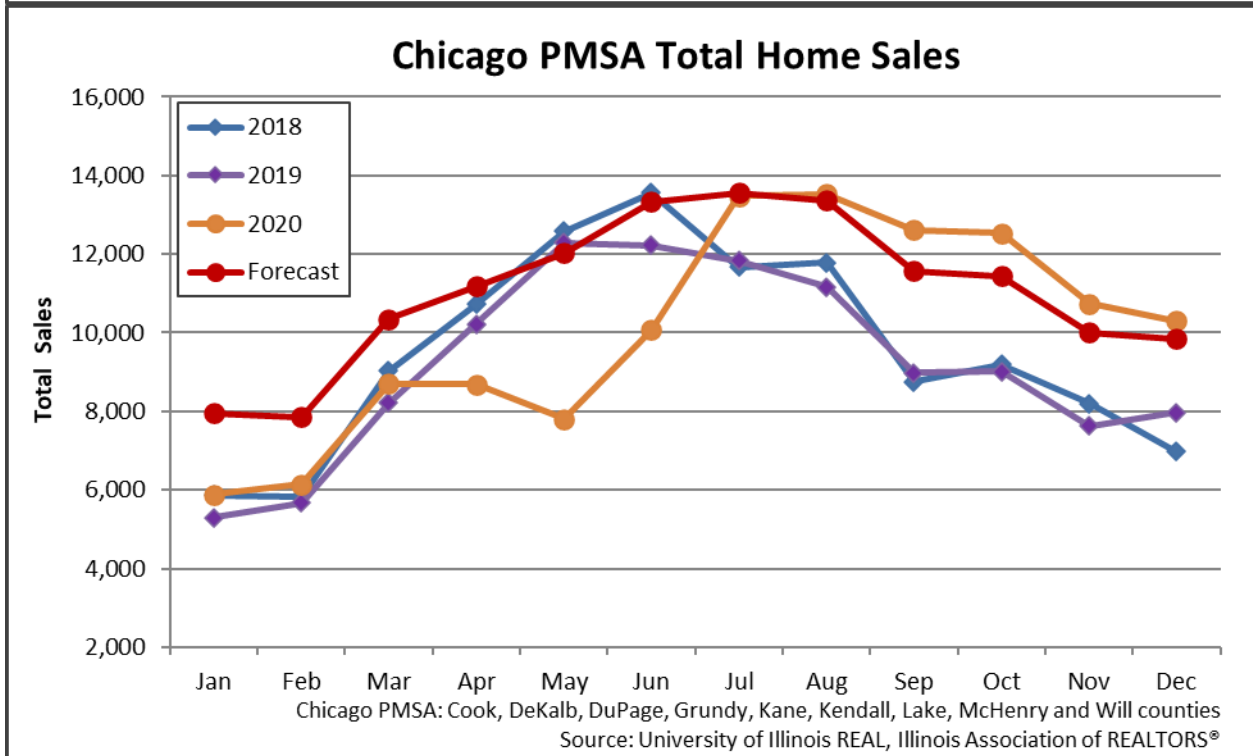
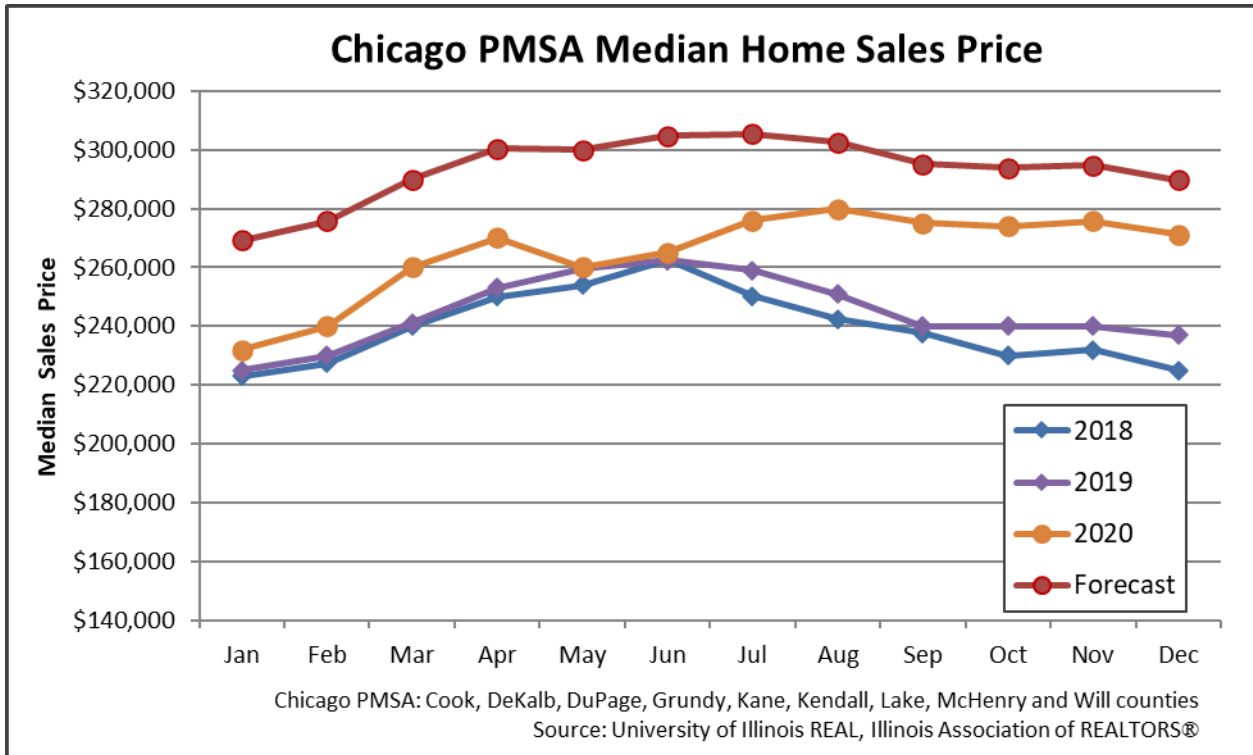
Annual Forecasts for Regular Property Sales in Chicago PMSA (Nov 2020 to Dec 2021)

Summary of the Forecasts for <i>Regular Property Sales</i>					
(Chicago PMSA)					
	Sales			Median Prices	
	Forecasted Sales	Annually		Forecasted Price	Annually
Nov-20	9,952	36.15%	48.91%	\$276,989	11.37%
Dec-20	9,201	22.86%	30.93%	\$274,039	12.08%
Jan-21	6,873	26.51%	35.86%	\$270,976	12.91%
Feb-21	6,773	20.33%	27.50%	\$277,118	11.62%
Mar-21	9,012	10.94%	14.81%	\$294,117	9.34%
Apr-21	9,386	14.10%	19.08%	\$302,780	9.90%
May-21	9,100	23.38%	31.63%	\$300,299	12.05%
Jun-21	10,582	11.97%	16.20%	\$305,187	12.20%
Jul-21	12,895	1.89%	2.55%	\$308,919	8.96%
Aug-21	12,747	-0.04%	-0.05%	\$306,407	7.36%
Sep-21	11,614	-2.63%	-3.56%	\$298,562	7.01%
Oct-21	11,490	-2.90%	-3.93%	\$294,971	6.87%
Nov-21	9,690	-2.23%	-3.02%	\$296,039	6.88%
Dec-21	9,229	0.26%	0.35%	\$293,356	7.05%

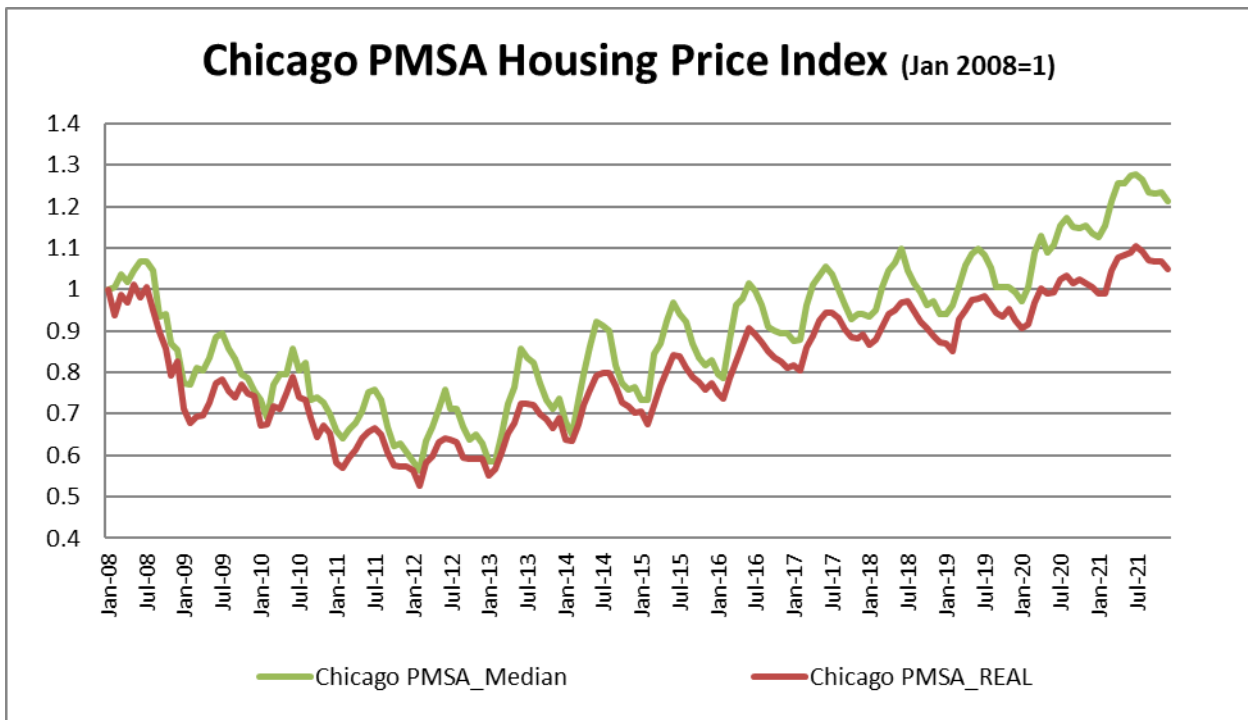
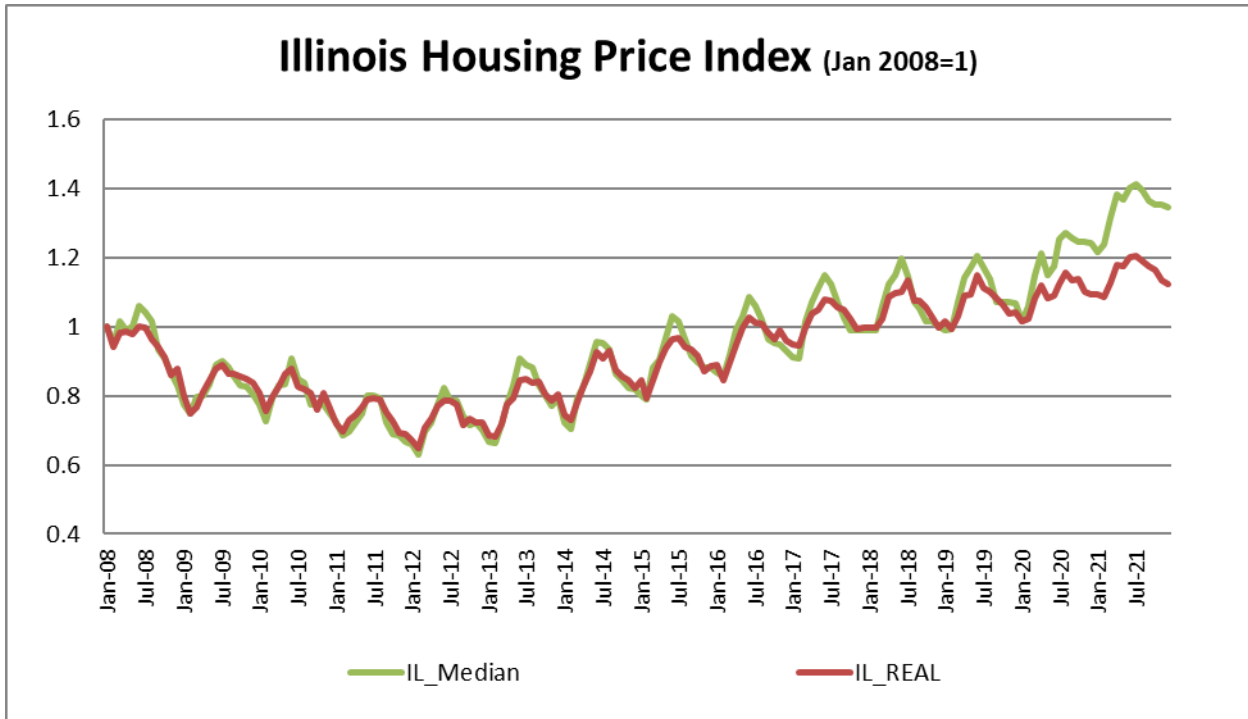
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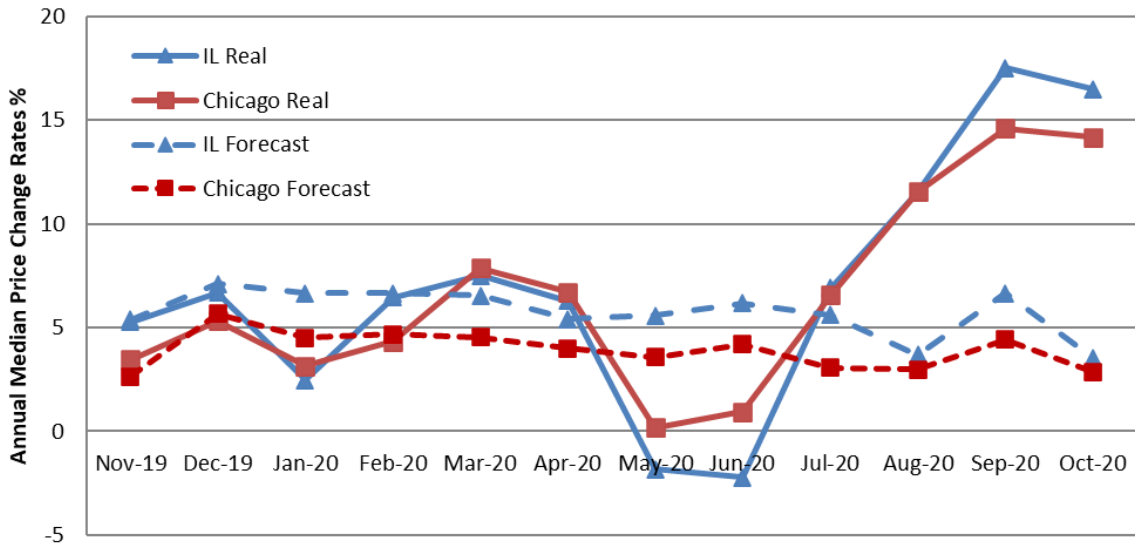


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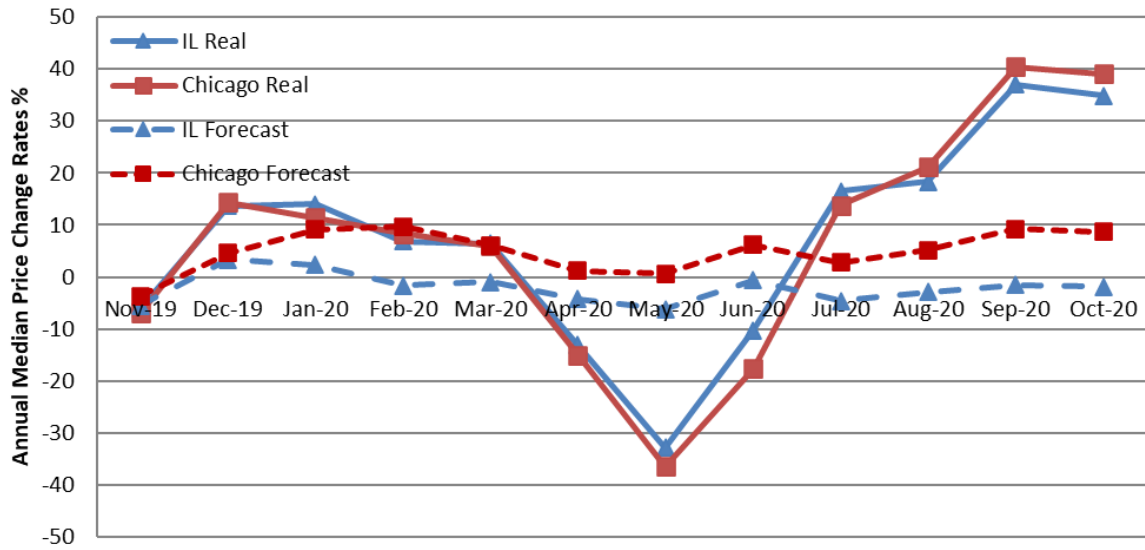


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2020 Real vs Forecast Annual Median Price Change Rates



2020 Real vs Forecast Annual Sales Change Rates



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