

Housing Price Forecasts

Illinois and Chicago PMSA, August 2021

Presented To

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Institute of Government and Public Affairs
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Housing Price Forecast: Illinois and Chicago PMSA, August 2021

The Housing Market

In July, median prices experienced a positive annual change in both Illinois and Chicago PMSA while sales experienced a negative annual change in Illinois but a positive annual change in Chicago PMSA. 19,196 houses were sold in Illinois, changing by -10.7% from a month ago and -1.0% from a year ago. In the Chicago PMSA, 13,781 houses were sold, changing by -12.1% from a month ago and 2.2% from a year ago. The median price was \$263,000 in Illinois, up 12.6% from July last year; the comparable figure for the Chicago PMSA was \$310,000, up 12.3% from July last year.

In July, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 2.6%. 13,321 regular sales were made, 5.4% more than last year. 351 foreclosed properties were sold, 52.7% less than last year. The median price was \$312,000 for regular property sales, up 10.2% from last year; the comparable figure for the foreclosed properties was \$253,000, up 29.7% 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 July 2008 has been adjusted to 2021 values to enable calculation of the housing price recovery considering the effects of inflation. In Illinois, the July 2008 median sales price was \$169,900 (in \$2008) and \$211,208 (in \$2021); the current price level was 125% of the 2008 level after adjusting (155% before adjusting). In the Chicago PMSA, the July 2008 median sales price was \$214,900 (in \$2008) and \$267,148 (in \$2021); the comparable figure for price recovery in July 2021 is 116% after adjustment (144% before adjusting).

The sales forecast for August, September and October suggests a decrease on both 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 -2.7% to -3.6%; the comparative figures for the Chicago PMSA are a decrease in the range -4.5% to -6.0%. On a monthly basis, the three-month average sales are forecast to decrease in the range -3.5% to -4.7% for Illinois and decrease in the range -4.9% to -6.7% for the Chicago PMSA.

The pending home sales index¹ is a leading indicator based on contract signings. This July, the number of homes put under contract was less than last year in both Illinois and the Chicago PMSA. The pending home sales index is 207.9 (2008=100) in Illinois, down 5.8% from a year ago. In the Chicago PMSA, the comparable figure is 232.0, down 6.9% from a year ago. At the latest average annual pending sales rate, Illinois had enough housing inventory for 1.9 months (down from 3.4 last year). In the Chicago PMSA, the comparable figure was 1.8 months (down from 3.0 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 positive annual growth for August, September, and October in both Illinois and the Chicago PMSA. In Illinois, the median price is forecast to change by 8.9% in August, 6.9% in September and 6.8% in October. For the Chicago PMSA, the comparable figures are 9.3% in August, 8.6% in September and 8.3% in October. As a complement to the median housing price index (HPI), the REAL HPI 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 8.8% in August, 9.5% in September and 8.1% in October. The comparable figures for the Chicago

¹ The base level (100) of pending home sales is the average pending home sales of year 2008.

PMSA are 11.5% in August 11.8% in September and 10.2% in October. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month.

In July, the Conference Board Consumer Confidence Index was relatively unchanged while the University of Michigan Consumer Sentiment Index decreased. The Conference Board Consumer Confidence Index survey revealed that consumers’ optimism about the short-term outlook didn’t waver, and they continued to expect that business conditions, jobs, and personal financial prospects will improve. The University of Michigan Consumer Sentiment Index survey stated that the decline was caused by a misjudgment by consumers in the pace that the economy would recover as the pandemic eased, and this involved both underestimating the economy’s ability to reactivate supply lines and restore jobs, and the resulting impact on inflation. The more housing specific sentiment index, the Fannie Mae Home Purchase Sentiment Index (HPSI) decreased 3.9 points to 75.8. The survey revealed that consumers continue to report concerns related to high home prices and a lack of homes for sale.

The Housing Market – Current Condition

- In July, median prices experienced a positive annual change in both Illinois and Chicago PMSA while sales experienced a negative annual change in Illinois but a positive annual change in Chicago PMSA. 19,196 houses were sold in Illinois, changing by -10.7% from a month ago and -1.0% from a year ago. In the Chicago PMSA, 13,781 houses were sold, changing by -12.1% from a month ago and 2.2% from a year ago. The median price was \$263,000 in Illinois, up 12.6% from July last year; the comparable figure for the Chicago PMSA was \$310,000, up 12.3% from July last year. (Reference: Illinois and Chicago PMSA Total Home Sales and Median Home Sales Price figures; Forecast for August 2021 report table)
- In July, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 2.6%. 13,321 regular sales were made, 5.4% more than last year. 351 foreclosed properties were sold, 52.7% less than last year. The median price was \$312,000 for regular property sales, up 10.2% from last year; the comparable figure for the foreclosed properties was \$253,000, up 29.7% from this time last year. (Reference: Ratio of Foreclosed Sales over Total Sales, Sales & Median Prices: Foreclosed vs. Regular figures)
- In July, at the latest average annual pending sales rate, Illinois had enough housing inventory for 1.9 months (down from 3.4 last year). In the Chicago PMSA, the comparable figure was 1.8 months (down from 3.0 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 July, the market shares of homes in the lowest price ranges (<\$200K) experienced the largest change compared to a year ago. In Illinois, the market share for homes at \$100-200K decreased to 24.1% from 27.9% a year ago; the comparative figure for the Chicago PMSA showed a decrease to 17.6% from 22.3% a year ago. (Reference: Illinois and Chicago PMSA Price Stratification figures)

The Housing Market – Forecast and Future Condition

- The median price forecast indicates positive annual growth for August, September, and October in both Illinois and the Chicago PMSA. In Illinois, the median price is forecast to change by 8.9% in August, 6.9% in September and 6.8% in October. For the Chicago PMSA,

the comparable figures are 9.3% in August, 8.6% in September and 8.3% in October. (Reference: Forecast for August 2021 report table)

- As a complement to the median housing price index (HPI), the REAL HPI 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 8.8% in August, 9.5% in September and 8.1% in October. The comparable figures for the Chicago PMSA are 11.5% in August 11.8% in September and 10.2% in October. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month. (Reference: Housing Price Index)
- The sales forecast for August, September and October suggests a decrease on both 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 -2.7% to -3.6%; the comparative figures for the Chicago PMSA are a decrease in the range -4.5% to -6.0%. On a monthly basis, the three-month average sales are forecast to decrease in the range -3.5% to -4.7% for Illinois and decrease in the range -4.9% to -6.7% for the Chicago PMSA. (Reference: Forecast for August 2021 report table)
- The pending home sales index² is a leading indicator based on contract signings. This July, the number of homes put under contract was less than last year in both Illinois and the Chicago PMSA. The pending home sales index is 207.9 (2008=100) in Illinois, down 5.8% from a year ago. In the Chicago PMSA, the comparable figure is 232.0, down 6.9% from a year ago. (Reference: Illinois and Chicago PMSA Pending Home Sales Index figure)
- In July 2021, 257 houses were newly filed for foreclosure in the Chicago PMSA (up 26.0% and down 12.0% respectively from a year and a month ago). 176 foreclosures were completed³ (down 39.7% and down 7.4% respectively from a year and a month ago). As of July 2021, there are 12,321 homes at some stage of foreclosure — the foreclosure inventory. The monthly average net flows of foreclosures (foreclosure inflows - outflows) were 127 in the past 6 months, 97 in the last 12 months and 223 in the last 24 months. (Reference: Chicago PMSA Foreclosure Inflows and Outflows, and Inventory figures).

The Economy

- In July 2021, according to the Bureau of Labor Statistics (BLS) Employment Situation report, the national unemployment rate declined by 0.5%pt to 5.4% and nonfarm payroll jobs experienced a gain of 943,000 jobs. Notable job gains occurred over the month in leisure and hospitality (+380,000), local government education (+221,000), and professional and business services (+60,000).
- In July 2021, according to the Illinois Department of Employment Security (IDES) news release, the Illinois unemployment fell 0.1%pt to 7.1%. Non-farm payroll jobs rose by 35,400 over the month. The industry sectors that reported the largest payroll gains were: leisure and hospitality (+14,200), educational and health Services (+7,100), and professional and business services (+4,200).
- In March 2021, the one-year-ahead forecast for Illinois indicates that the non-farm employment will change at a rate between 5.71% and 6.08%, corresponding to job gain between 326,900 and 343,000. The largest contributors to the forecast increase are education

² The base level (100) of pending home sales is the average pending home sales of year 2008.

³ Including cancelled foreclosures and auctions

and health, trade, transportation and utilities, and professional and business services. (not updated)

- According to Redfin, the real estate brokerage's latest data show that 60.1% of offers written by Redfin agents, down from a June rate of 66.5% and a pandemic peak of 74.1% in April. Year over year, the bidding war rate was up from 57.9%, but that's somewhat expected given the lockdown-era recovery mode the housing market was going through in July of last year. "Competition has started to slow in the last three weeks. We're now seeing five to eight offers on homes instead of 25, and they're coming in \$5,000 to \$10,000 above the listing price instead of \$50,000 to \$60,000," said Scott Mercer, a Redfin real estate agent in Sacramento. "Buyers are pushing back. They've even started including appraisal contingencies again and making requests for repairs—things that were pretty much unheard of last year."

Longer-term Outlook

- In July, the Conference Board Consumer Confidence Index was relatively unchanged while the University of Michigan Consumer Sentiment Index decreased. The Conference Board Consumer Confidence Index stands at 129.1, up from 128.9 last month. The survey noted that consumers' optimism about the short-term outlook didn't waver, and they continued to expect that business conditions, jobs, and personal financial prospects will improve. The University of Michigan Consumer Sentiment Index decreased to 80.8 from 85.5 last month. The survey noted that the decline was caused by a misjudgment by consumers in the pace that the economy would recover as the pandemic eased, and this involved both underestimating the economy's ability to reactivate supply lines and restore jobs, and the resulting impact on inflation.
- In July, Fannie Mae Home Purchase Sentiment Index (HPSI) decreased 3.9 points to 75.8. The survey noted that consumers continue to report concerns related to high home prices and a lack of homes for sale.
- The Chicago Business Activity Index (CBAI) slightly decreased to 103.4 in April from 103.9 in March. The decrease is mainly attributed to decline in expected retail sales. (not updated)

"While prices continue to grow in both Illinois and Chicago, sales are forecast to decline over the next few months, a usual pattern for August, September and October," noted Geoffrey J.D. Hewings, emeritus director of the Regional Economics Applications Laboratory. "Sales levels will be below those recorded in 2020, but above those for 2019."

Forecast for August 2021 report

PERCENTAGE CHANGE FOR THE TOTAL NUMBER OF SALES								
		Annual				Monthly		
		Illinois		Chicago PMSA		Illinois		Chicago PMSA
May-21		54.4%		66.3%		6.4%		5.2%
Jun-21		41.2%		55.7%		19.6%		20.8%
Jul-21		-1.0%		2.2%		-10.7%		-12.1%
3 Month Avg.		26.8%		35.3%		4.1%		3.5%
SUMMARY OF THE FORECAST INTERVALS FOR THE TOTAL NUMBER OF SALES								
		Annual				Monthly		
		Illinois		Chicago PMSA		Illinois		Chicago PMSA
Aug-21		0.1%	0.2%	-0.1%	-0.1%	-1.0%	-1.4%	-1.6% -2.1%
Sep-21		-3.6%	-4.9%	-6.3%	-8.5%	-7.7%	-10.5%	-11.4% -15.4%
Oct-21		-4.7%	-6.3%	-7.4%	-10.0%	-1.6%	-2.2%	-1.4% -1.9%
3 Month Avg.		-2.7%	-3.6%	-4.5%	-6.0%	-3.5%	-4.7%	-4.9% -6.7%
SUMMARY OF THE FORECAST FOR THE MEDIAN PRICE								
	Illinois		Chicago PMSA			Illinois		Chicago PMSA
May-21	\$260,618		\$310,000		May-20	\$215,000		\$260,000
Jun-21	\$270,500		\$318,500		Jun-20	\$220,289		\$265,000
Jul-21	\$263,000		\$310,000		Jul-20	\$233,500		\$276,000
Aug-21	\$258,193		\$306,104		Aug-20	\$237,000		\$280,000
Sep-21	\$251,227		\$298,726		Sep-20	\$235,000		\$275,000
Oct-21	\$248,279		\$296,669		Oct-20	\$232,500		\$274,000
ANNUAL PERCENTAGE CHANGE OF THE MEDIAN PRICE								
	Illinois		Chicago PMSA			Illinois		Chicago PMSA
May-21	21.2%		19.2%		May-20	-1.8%		0.0%
Jun-21	22.8%		20.2%		Jun-20	-2.1%		0.8%
Jul-21	12.6%		12.3%		Jul-20	6.6%		6.6%
Aug-21	8.9%		9.3%		Aug-20	11.3%		11.6%
Sep-21	6.9%		8.6%		Sep-20	17.5%		14.6%
Oct-21	6.8%		8.3%		Oct-20	16.3%		14.2%

Median Prices and Recovery

	Illinois		Chicago PMSA	
	[\$2008]	[\$2021]	[\$2008]	[\$2021]
July 2008 Median Price	\$169,900	\$211,208	\$214,900	\$267,148
July 2021 Median Price	\$211,563	\$263,000	\$249,371	\$310,000
Price Ratio (July 21/ July 08)	Adjusted	1.25	Adjusted	1.16
	Unadjusted	1.55	Unadjusted	1.44

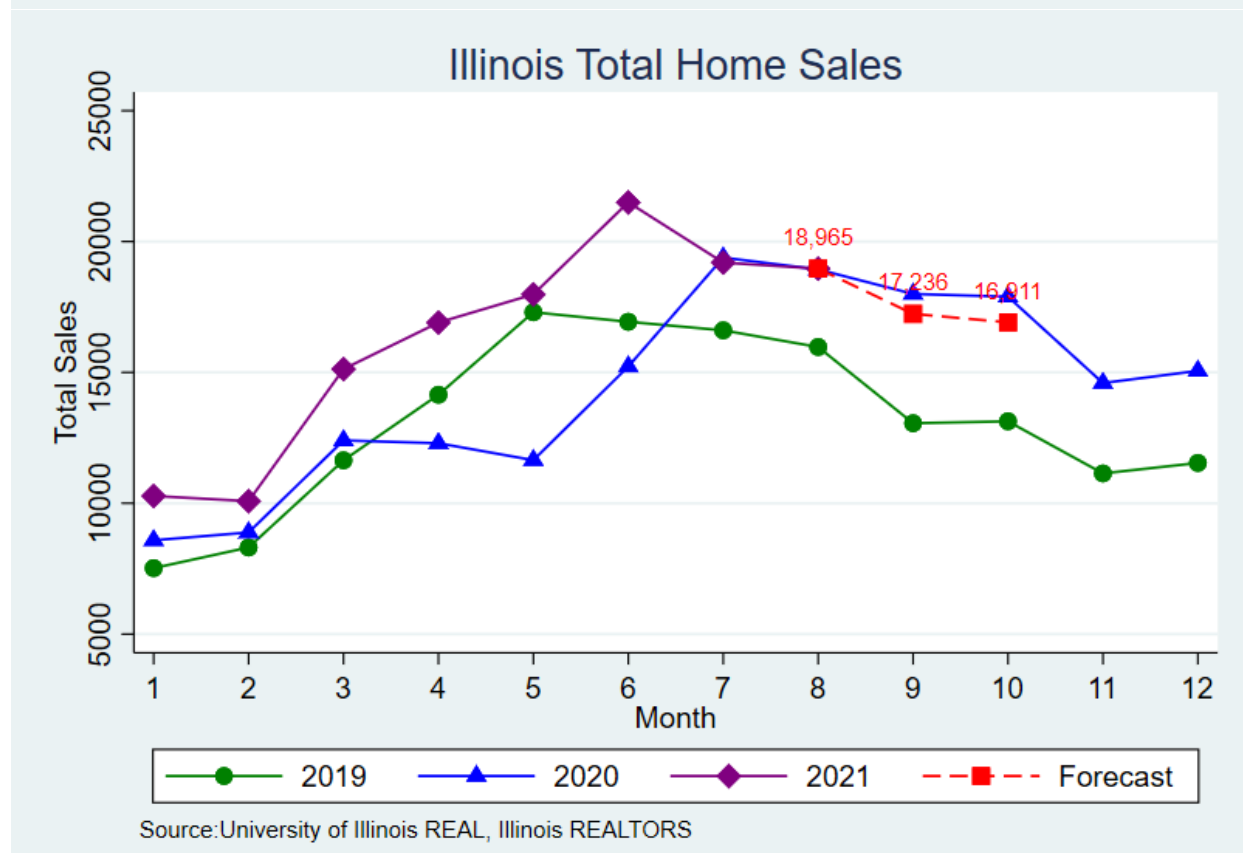
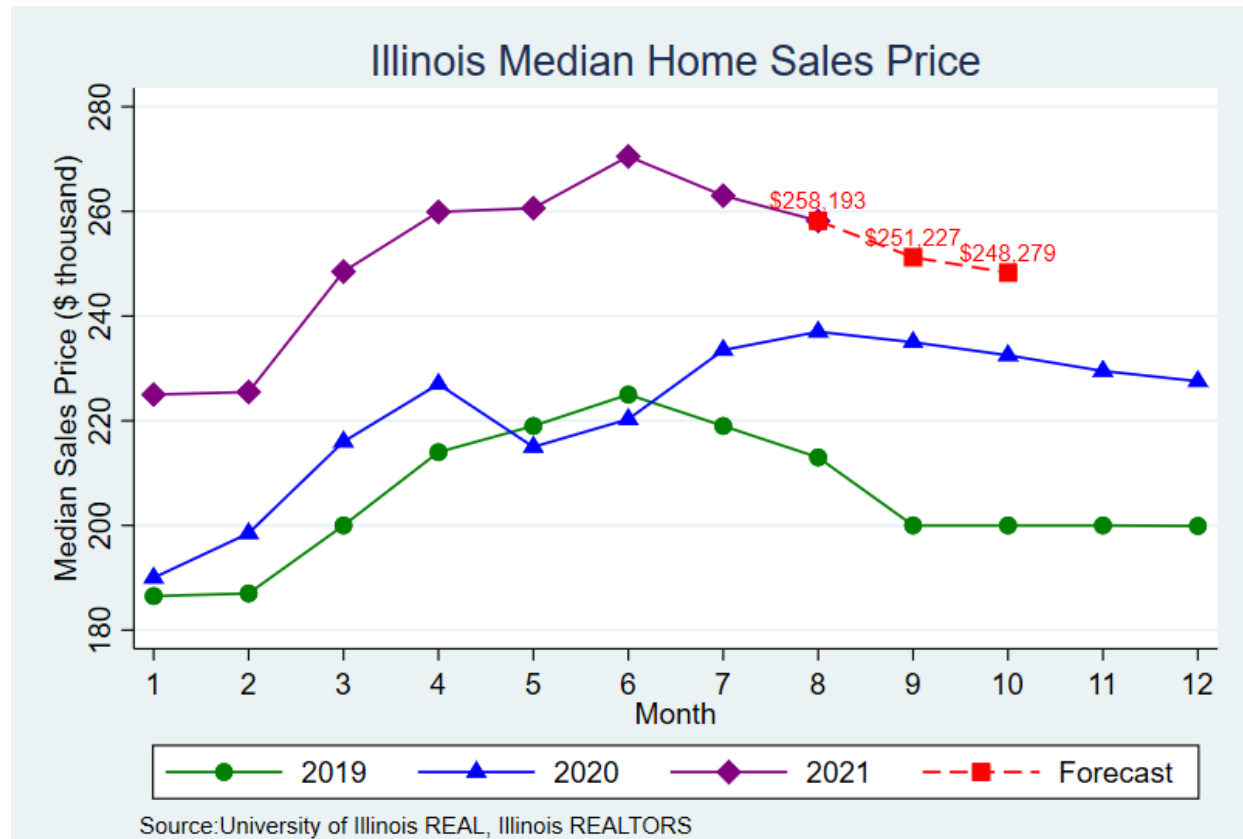
Recovery Forecasts using *Annually Growth Rates*

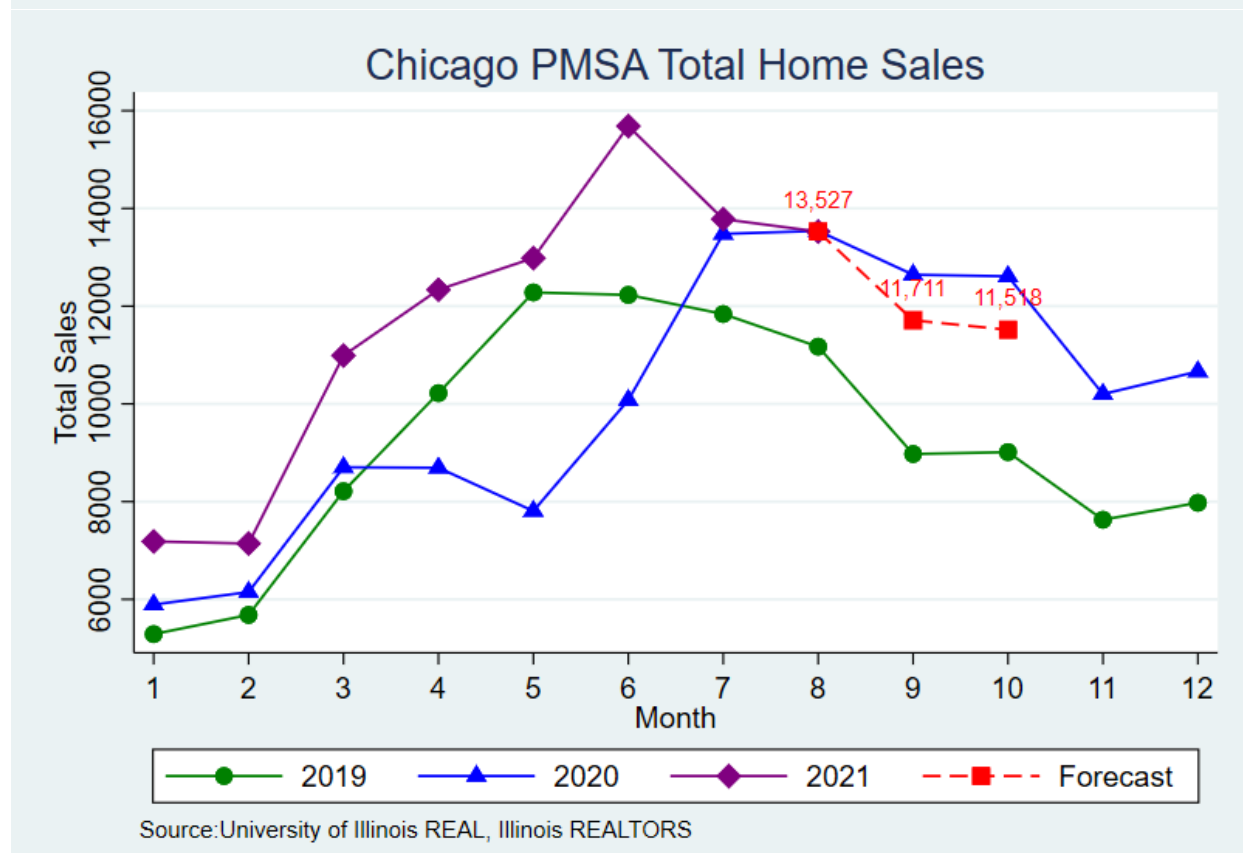
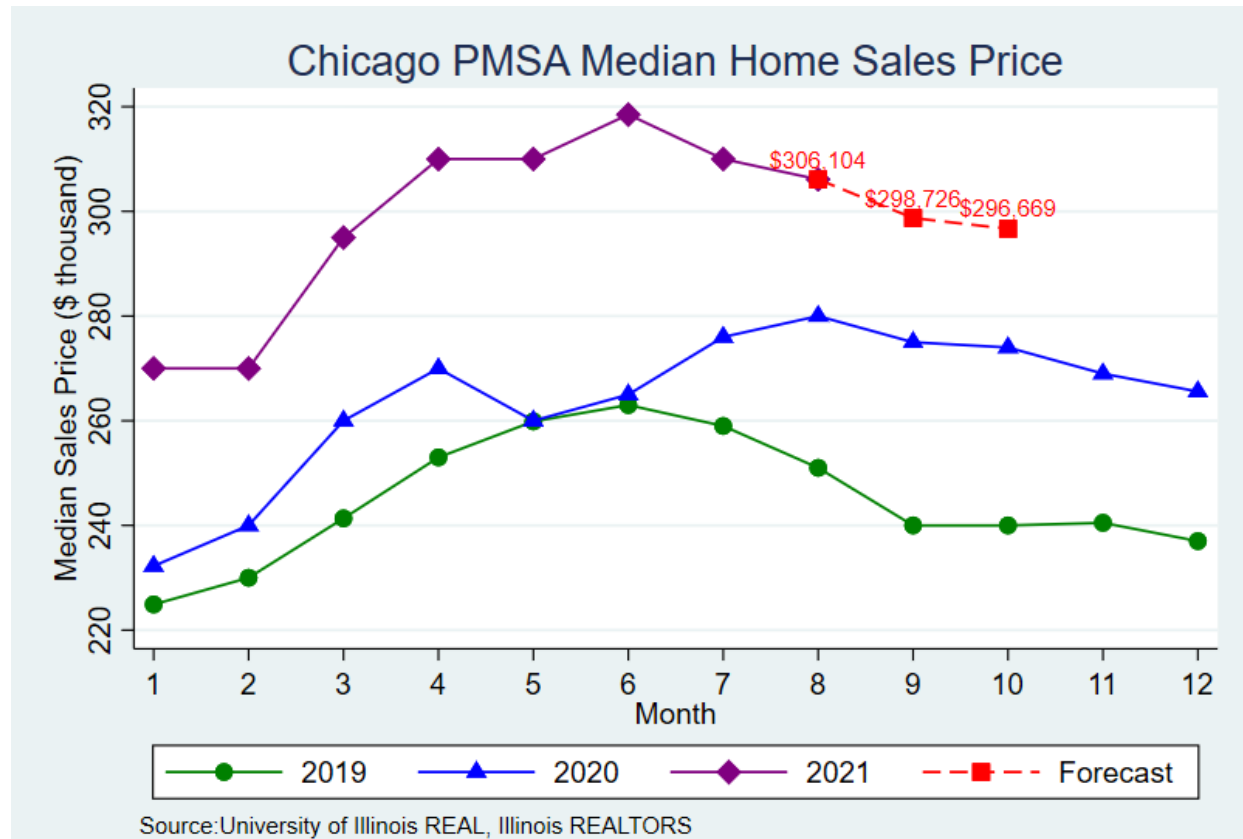
	Illinois	Chicago PMSA		
	Annual Recovery Rate*	Years to Recover**	Recovery Rate	Years to Recover
Current Month	7.0%	-3.2	6.7%	-2.3
Past 3 months	13.0%	-1.8	11.5%	-1.4
Past 6 months	12.1%	-1.9	11.0%	-1.4
Past 9 months	12.8%	-1.8	11.3%	-1.4
Past 12 months	13.0%	-1.8	11.5%	-1.4

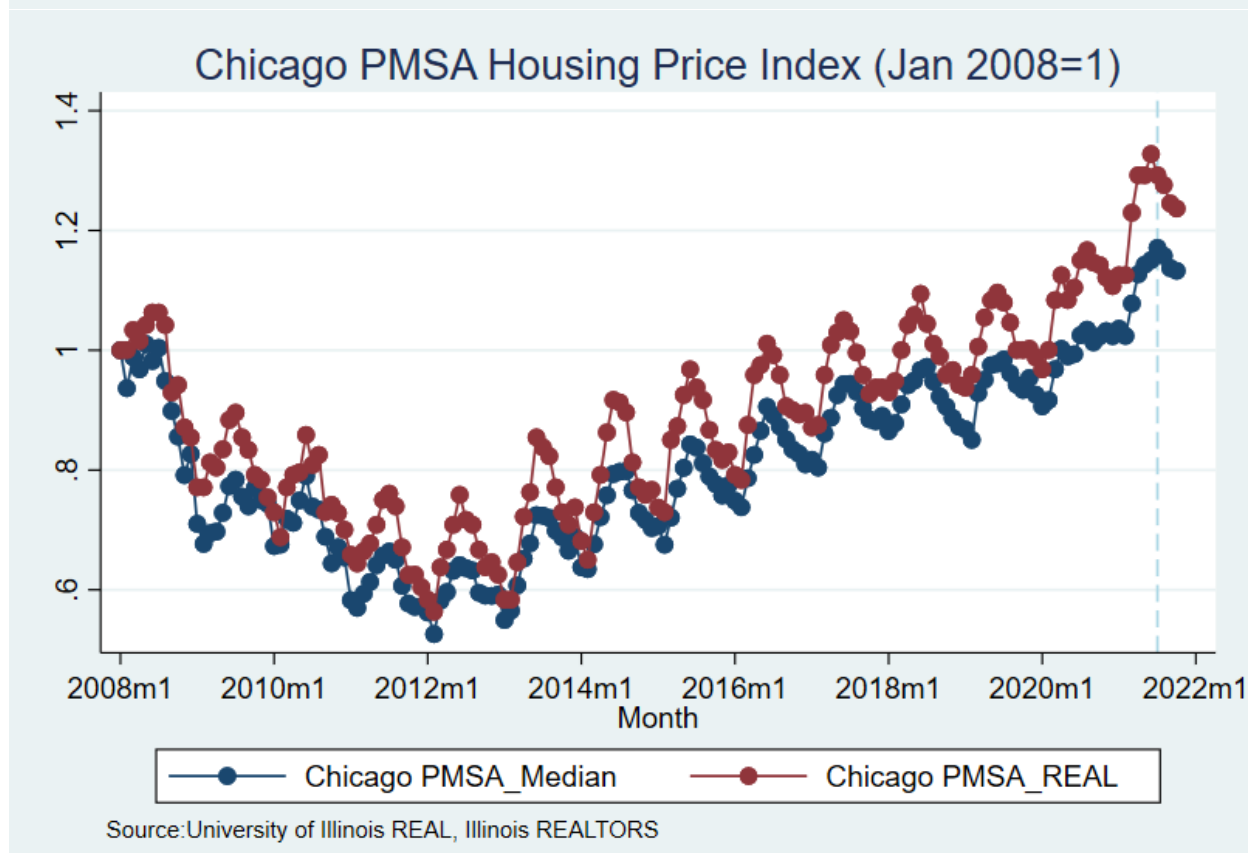
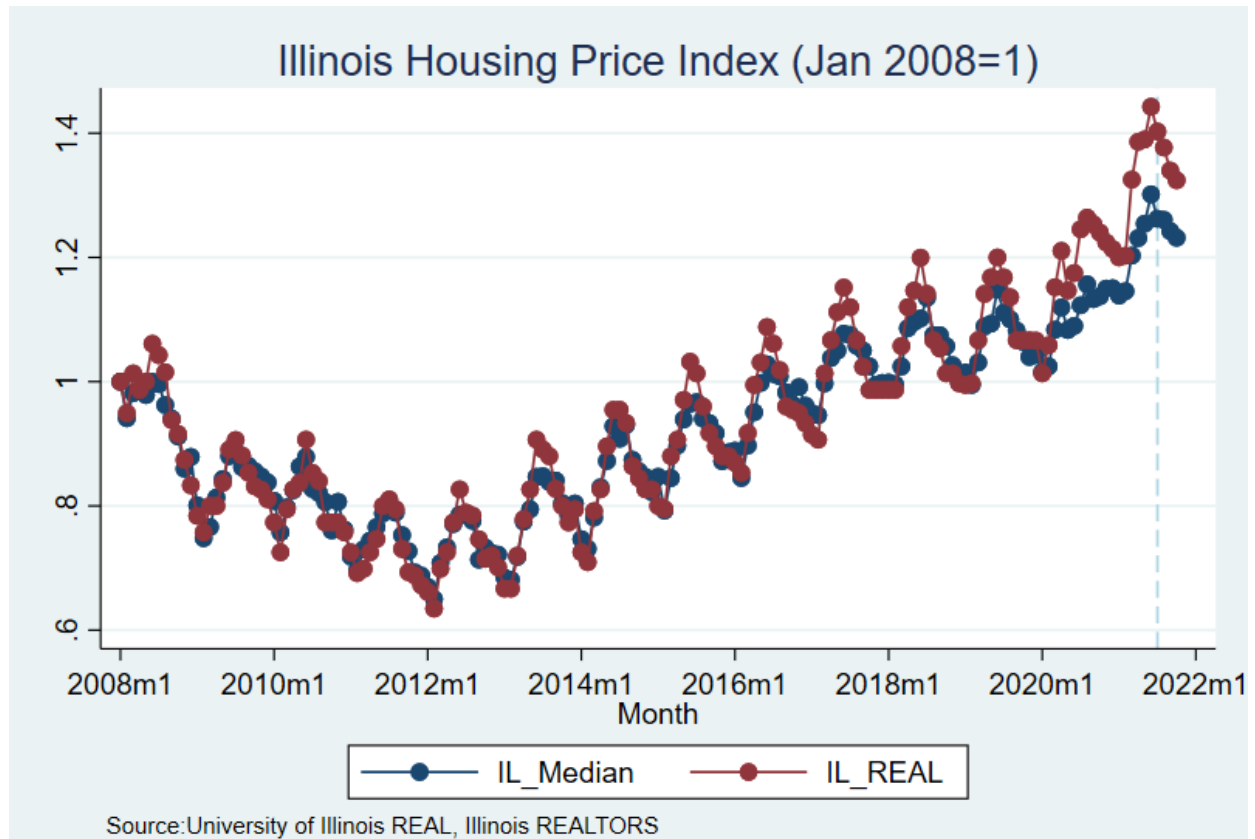
*Annual recovery rate is the average of *annual* change rates in past months

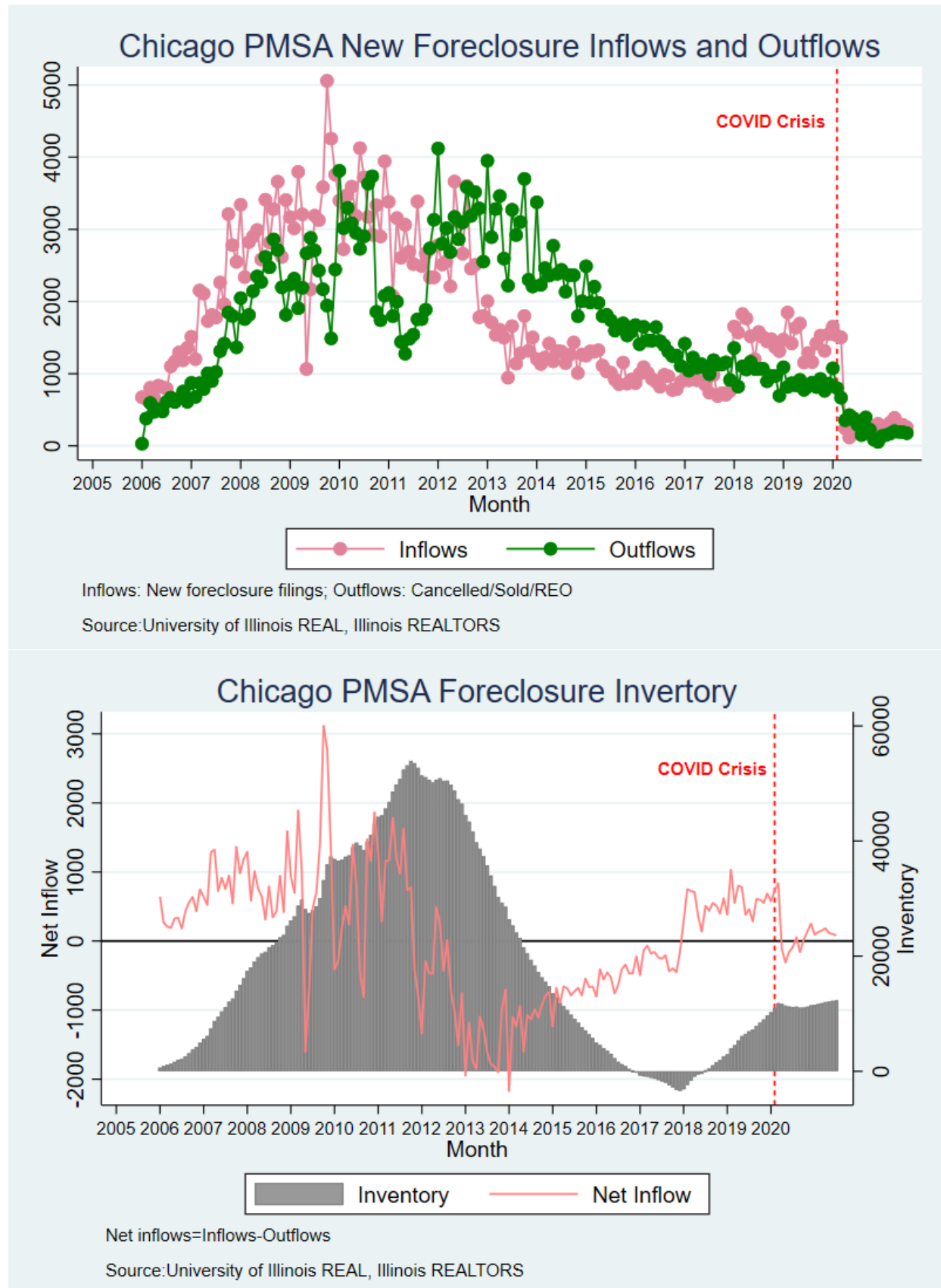
** Years to recover is calculated using the following formula:

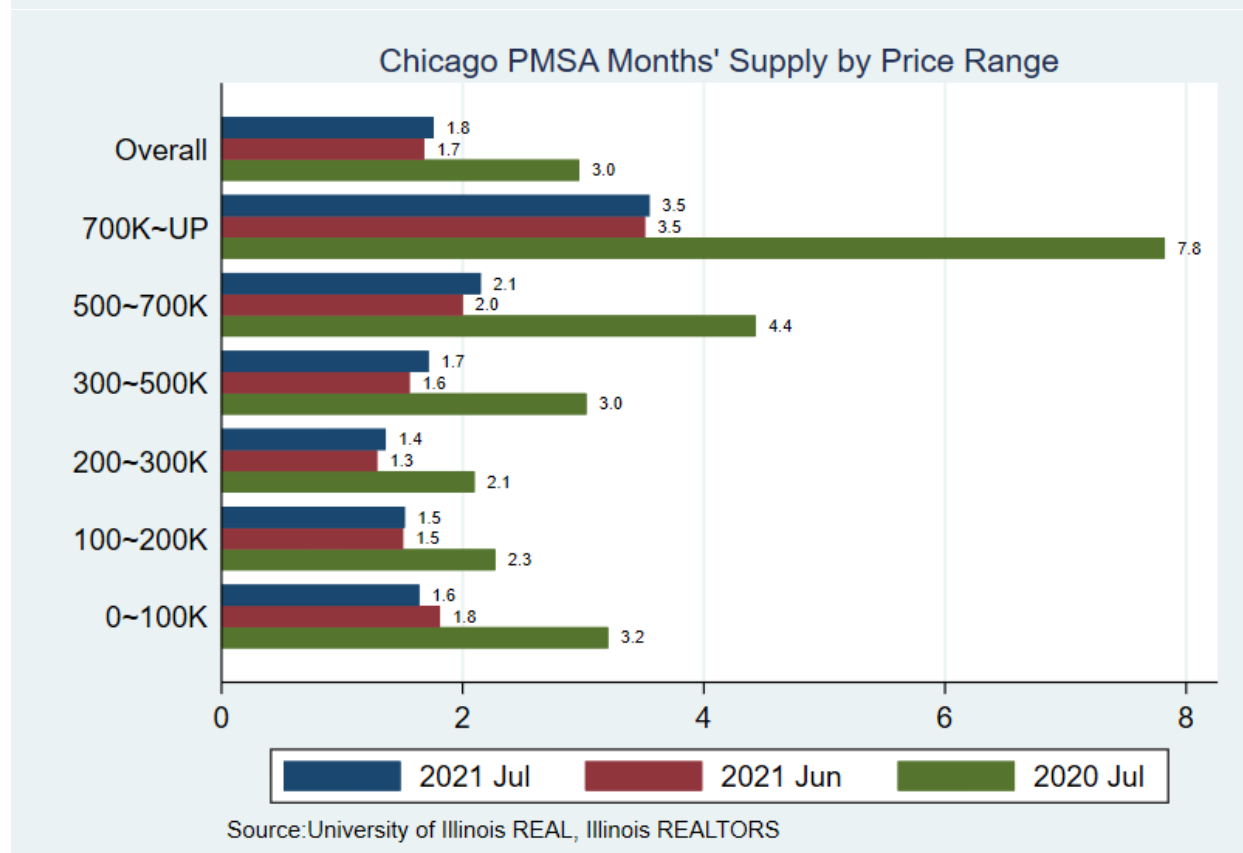
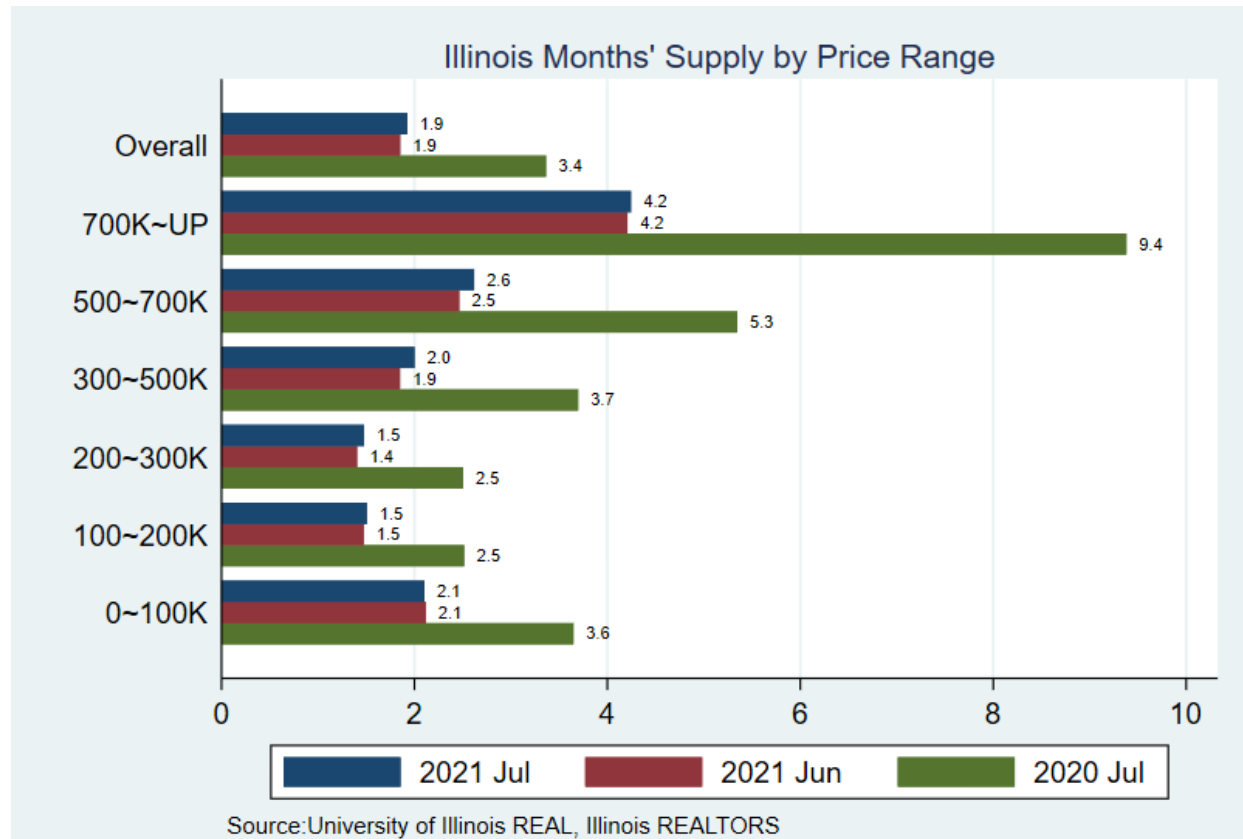
$\text{Price}_{\text{July2021}} * (1 + \text{recovery rate})^{\text{years}} = \text{Price}_{\text{July2008}}$. Prices used in the formula are inflation adjusted. The recovery rate is applied as a constant annual change rate to recoup the differences between the current month and its corresponding month in 2008.

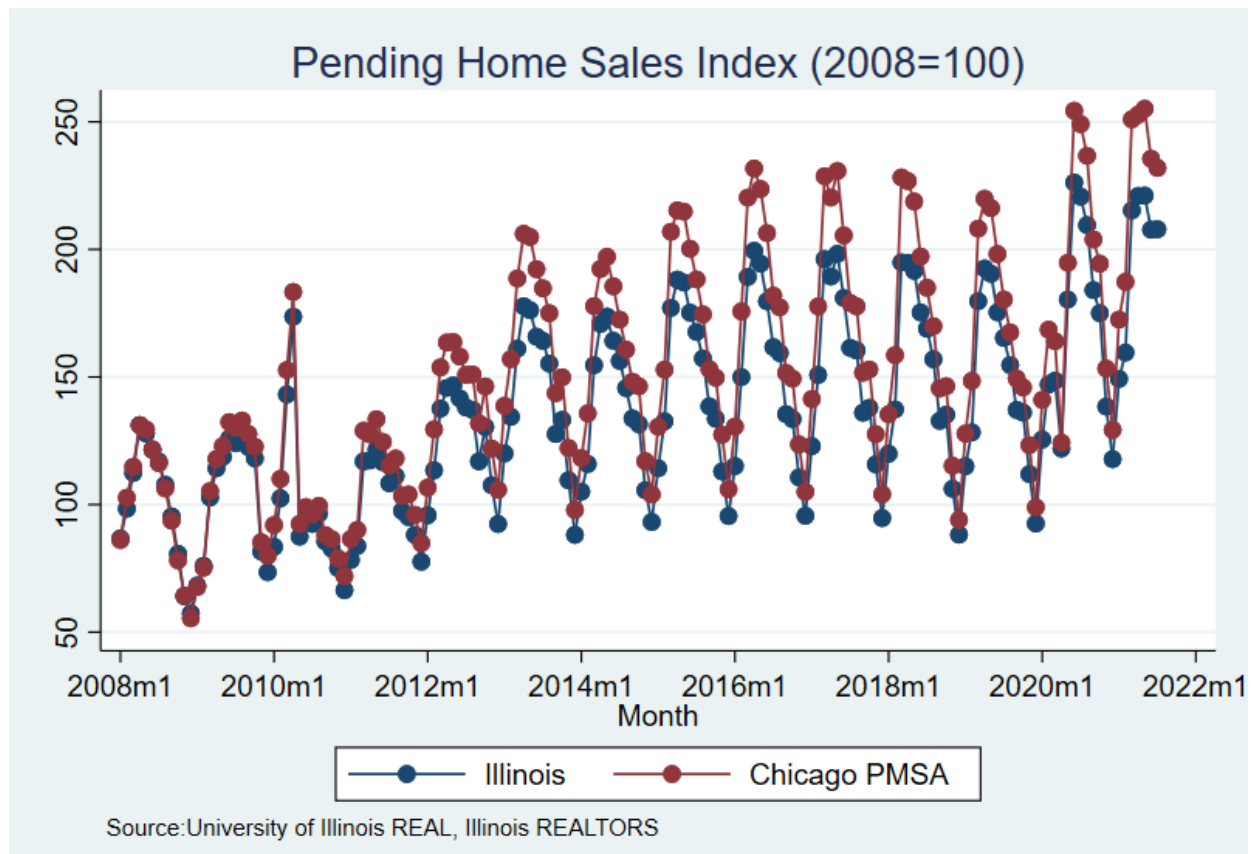




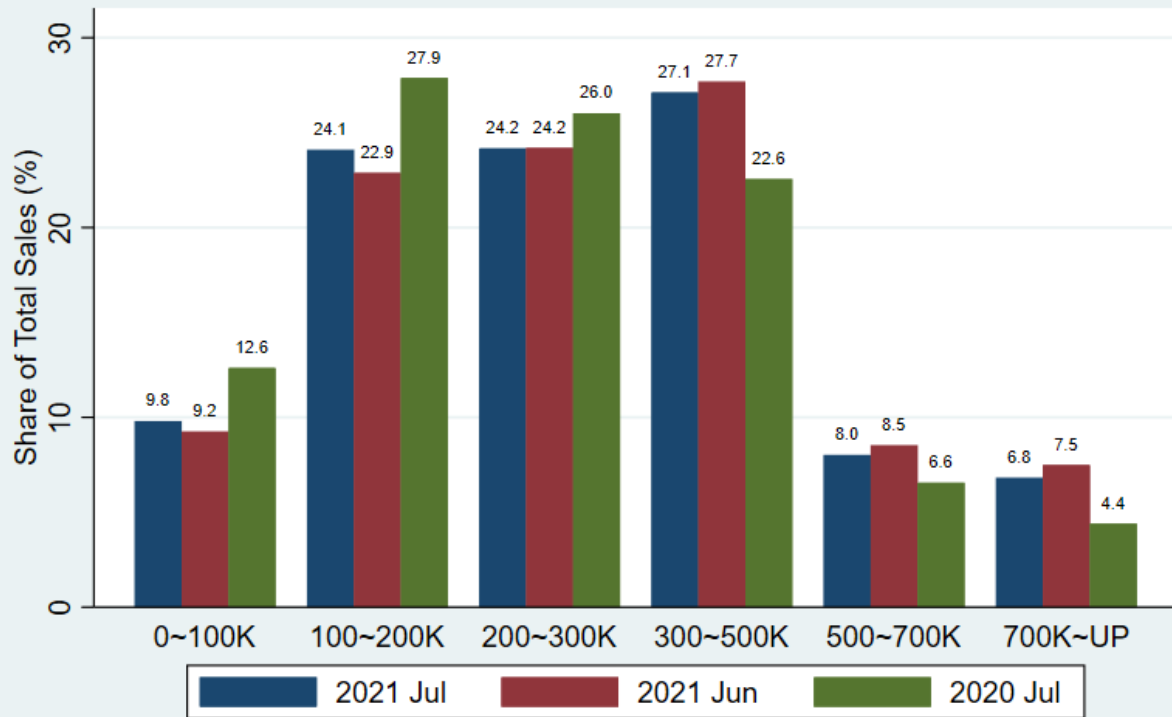






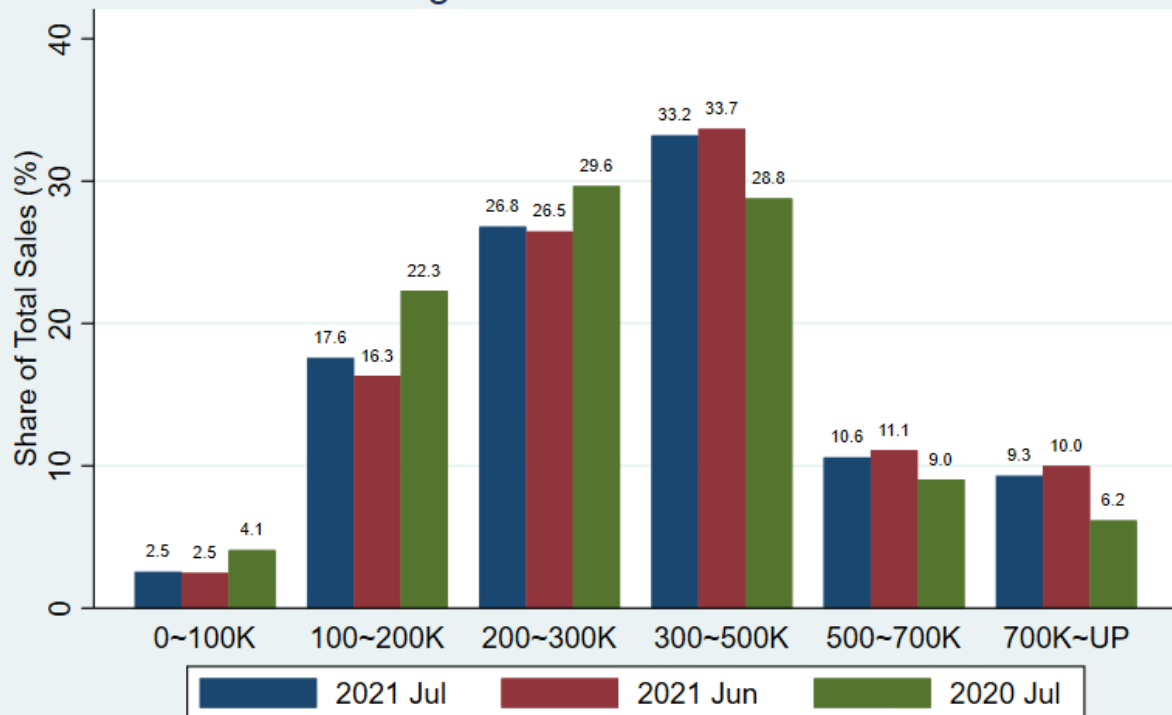


Illinois Price Stratification



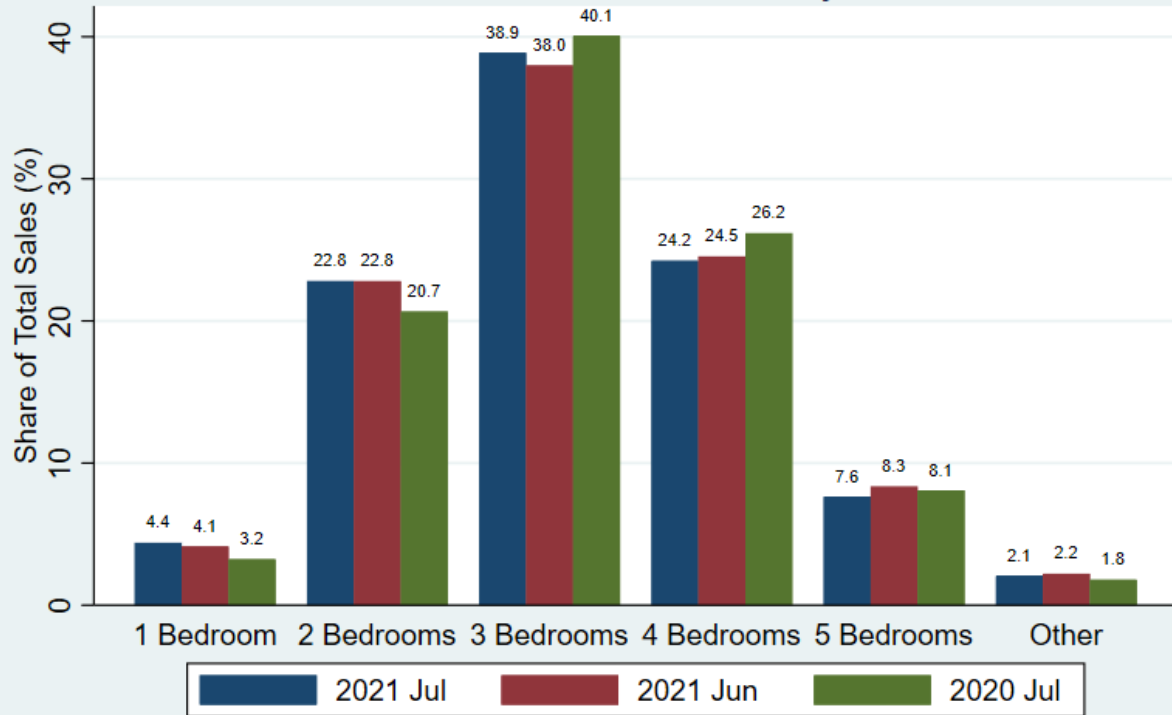
Source: University of Illinois REAL, Illinois REALTORS

Chicago PMSA Price Stratification



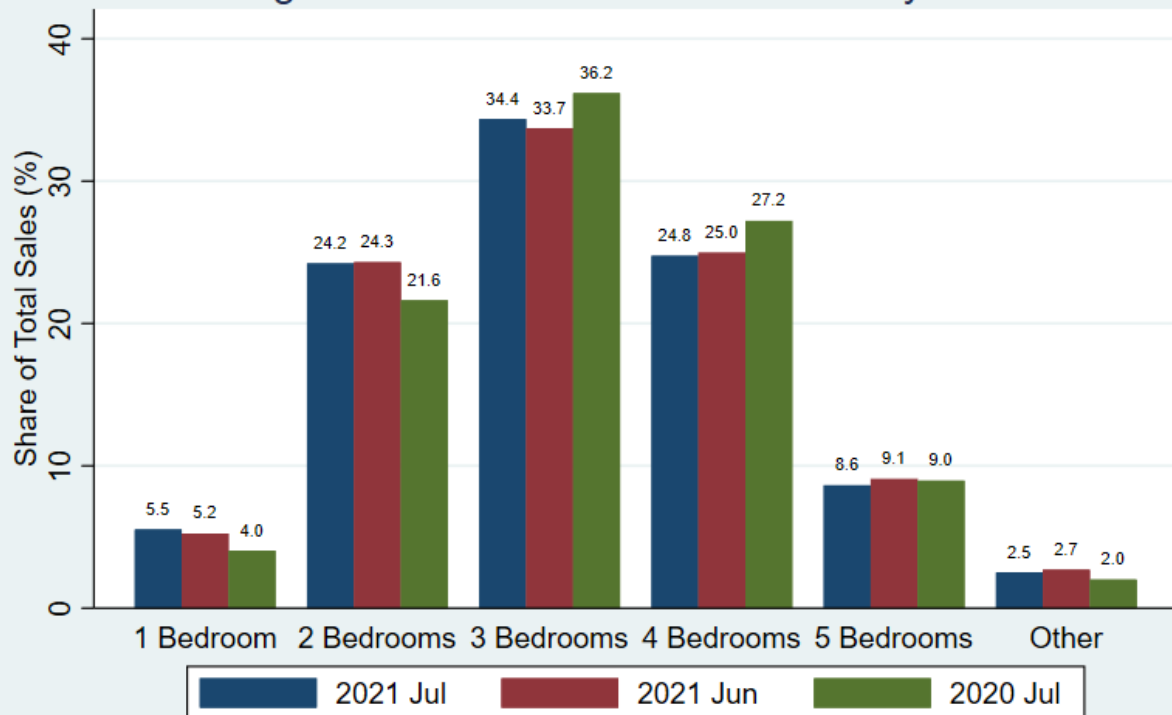
Source: University of Illinois REAL, Illinois REALTORS

Illinois House Characteristics by Bedroom



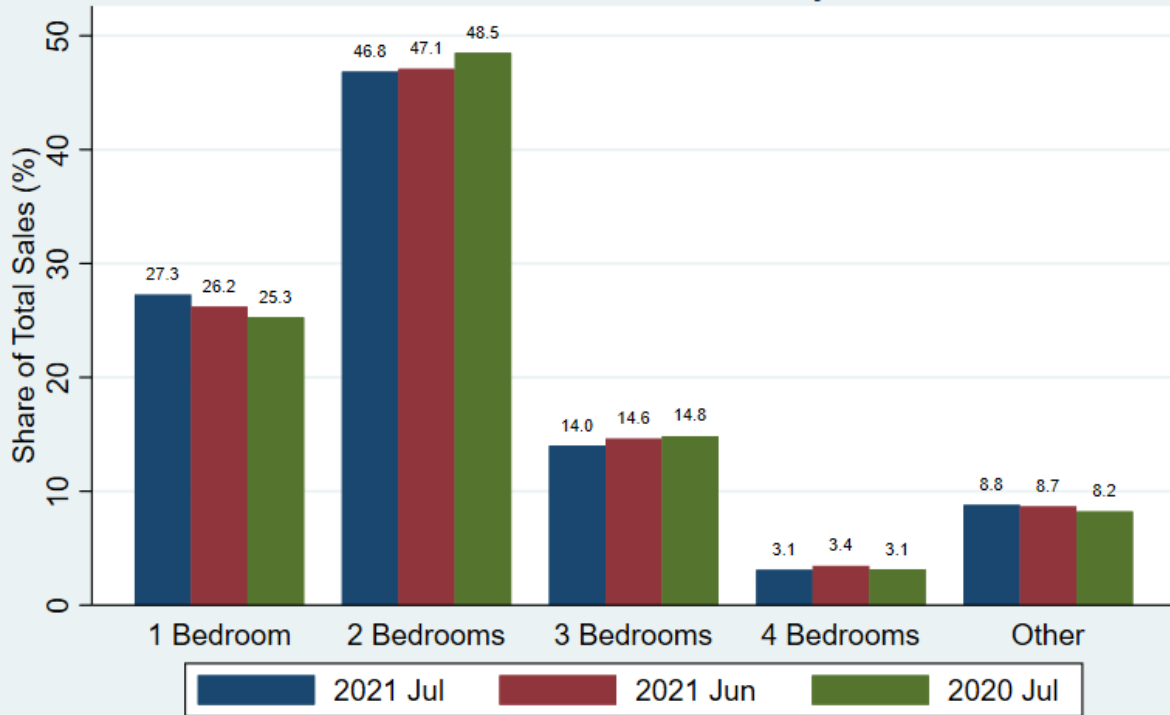
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Chicago PMSA House Characteristics by Bedroom



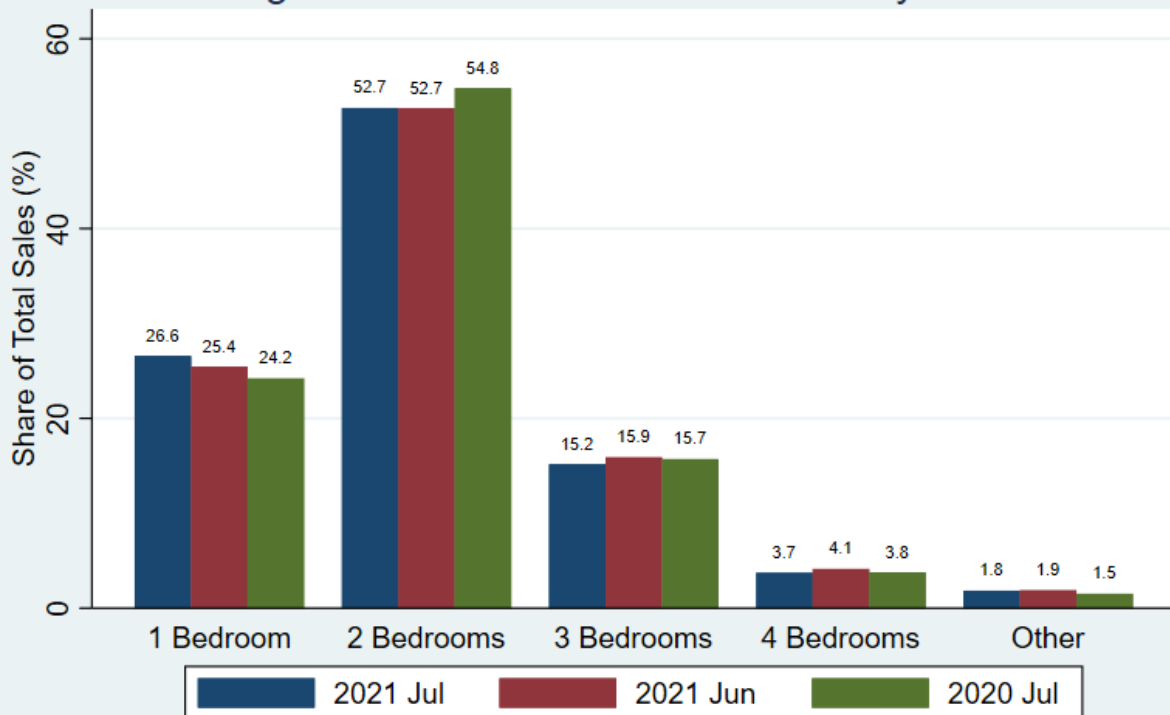
Source: University of Illinois REAL, Illinois REALTORS

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

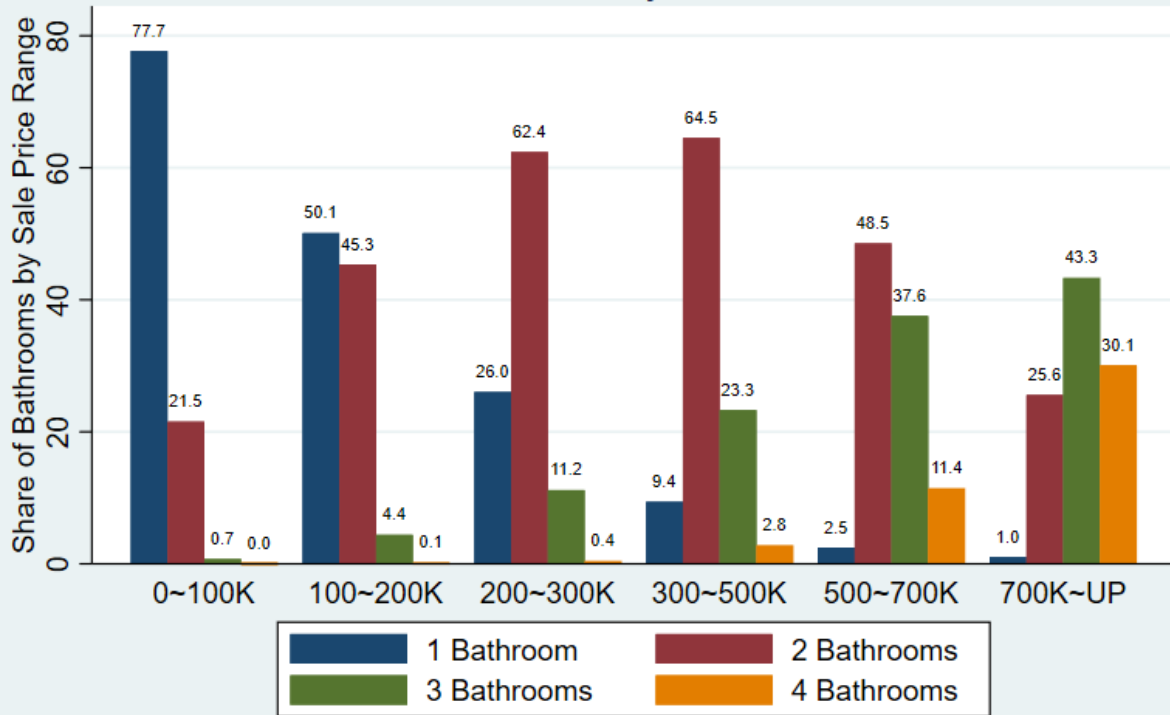
Illinois Bedroom Shares by Sale Price Stratification



Chicago PMSA Bedroom Shares by Sale Price Stratification

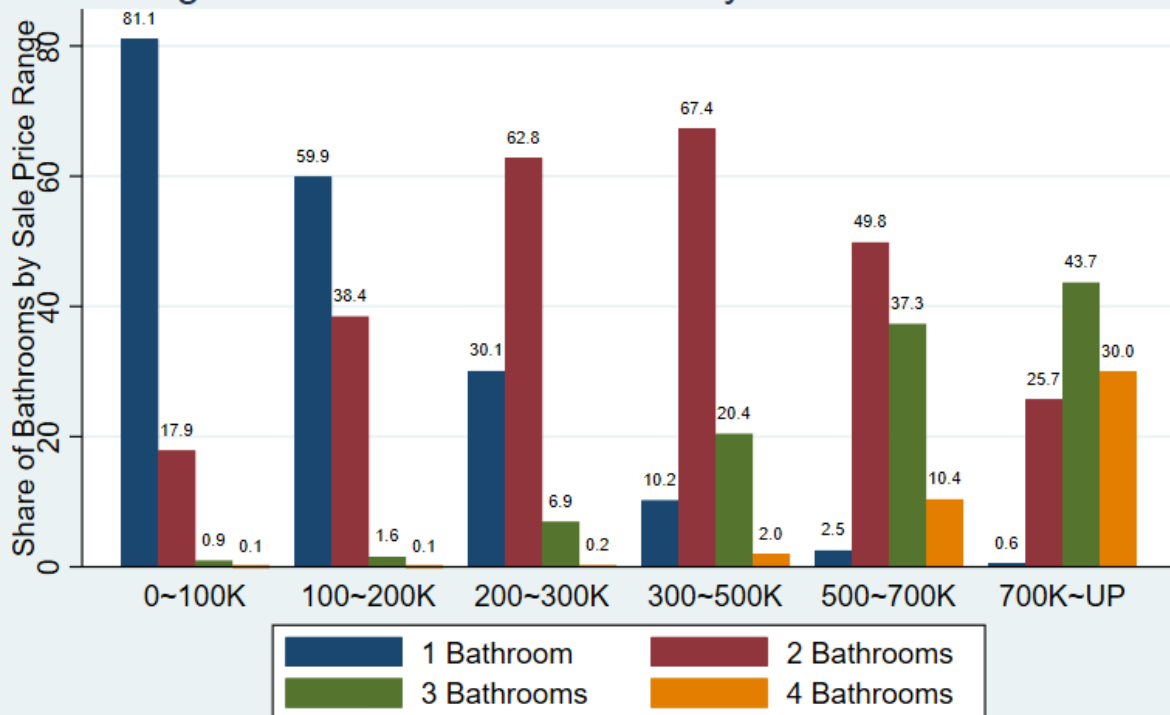


Illinois Bathroom Shares by Sale Price Stratification



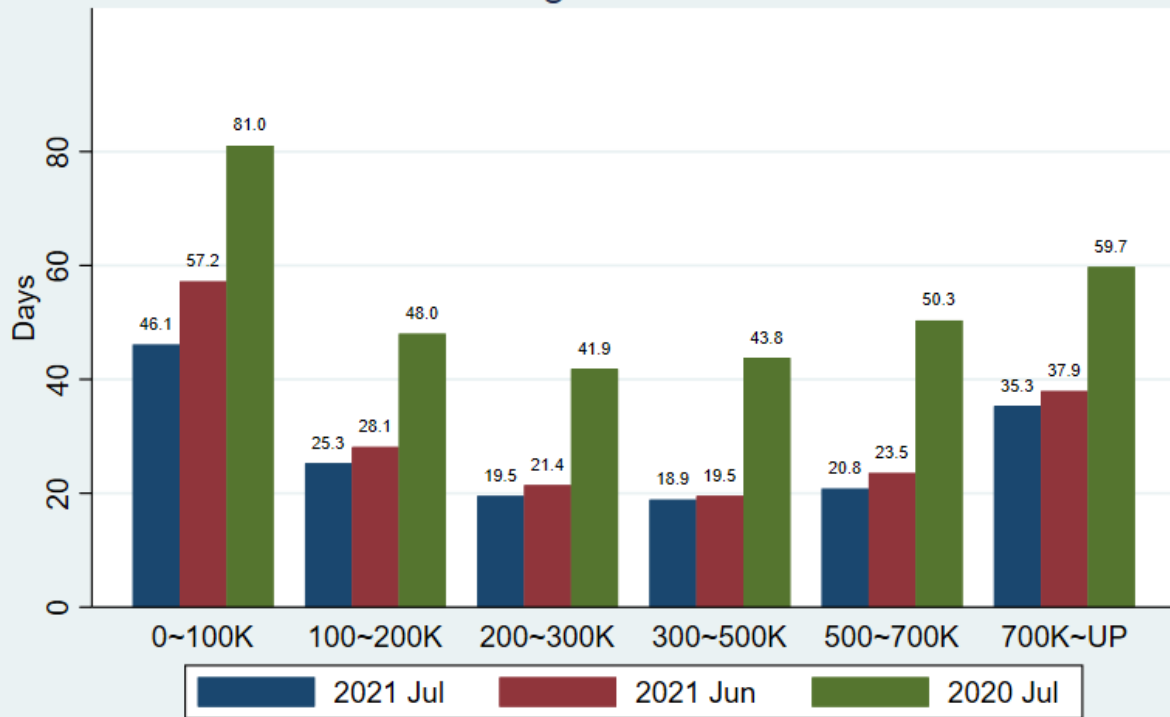
Source: University of Illinois REAL, Illinois REALTORS

Chicago PMSA Bathroom Shares by Sale Price Stratification



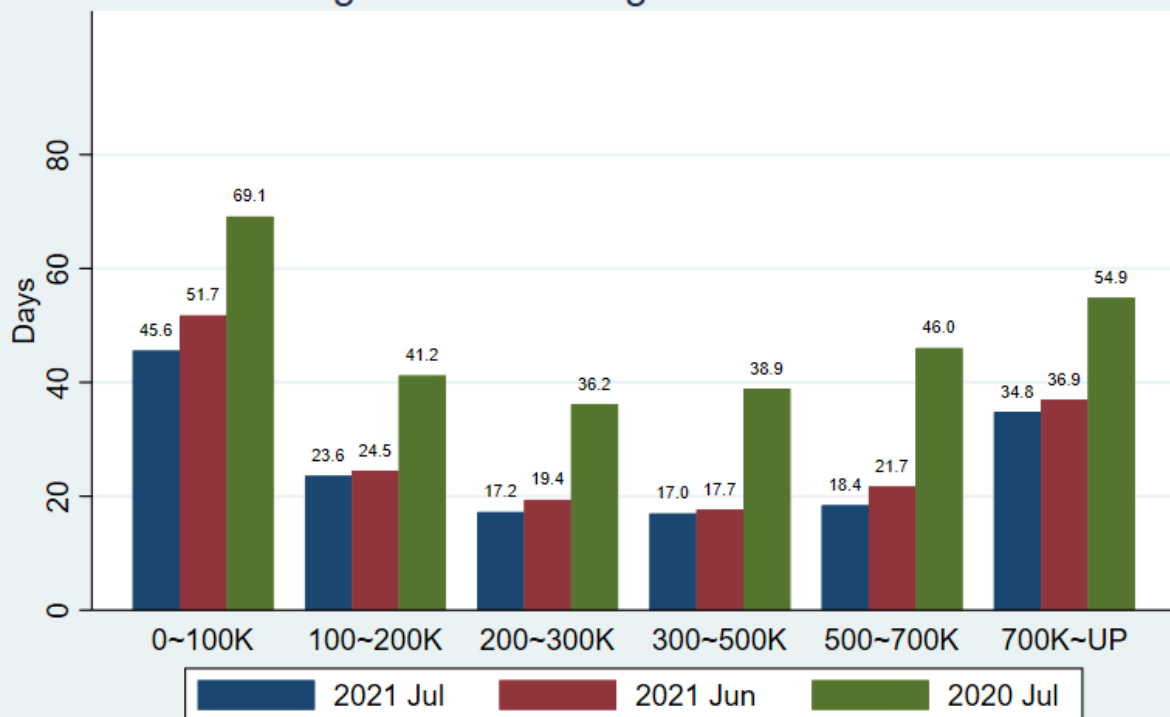
Source: University of Illinois REAL, Illinois REALTORS

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

