

# Housing Price Forecasts

## Illinois and Chicago PMSA, September 2021

Presented To

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## **Housing Price Forecast: Illinois and Chicago PMSA, September 2021**

### **The Housing Market**

In August, median prices experienced a positive annual change while sales experienced a negative annual change in both Illinois and the Chicago PMSA. 18,492 houses were sold in Illinois, changing by -4.7% from a month ago and -2.4% from a year ago. In the Chicago PMSA, 13,204 houses were sold, changing by -5.3% from a month ago and -2.5% from a year ago. The median price was \$257,000 in Illinois, up 8.4% from August last year; the comparable figure for the Chicago PMSA was \$300,000, up 7.1% from August last year.

In August, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 2.6%. 12,771 regular sales were made, 0.1% less than last year. 335 foreclosed properties were sold, 48.5% less than last year. The median price was \$305,000 for regular property sales, up 7.0% from last year; the comparable figure for the foreclosed properties was \$225,000, up 12.8% from this time last year.

Illinois and the Chicago PMSA both have already recovered to their pre-bubble levels on average. The median sale price in August 2008 has been adjusted to 2021 values to enable calculation of the housing price recovery considering the effects of inflation. In Illinois, the August 2008 median sale price was \$165,200 (in \$2008) and \$206,235 (in \$2021); the current price level was 125% of the 2008 level after adjusting (156% before adjusting). In the Chicago PMSA, the August 2008 median sale price was \$205,000 (in \$2008) and \$255,921 (in \$2021); the comparable figure for price recovery in August 2021 is 117% after adjustment (146% before adjusting).

The sales forecast for September, October and November 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 -5.4% to -7.3%; the comparable figures for the Chicago PMSA are a decrease in the range -6.3% to -8.6%. On a monthly basis, the three-month average sales are forecast to decrease in the range -7.2% to -9.8% for Illinois and decrease in the range -8.4% to -11.3% for the Chicago PMSA.

The pending home sales index<sup>1</sup> is a leading indicator based on contract signings. This August, 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 205.8 (2008=100) in Illinois, down 1.7% from a year ago. In the Chicago PMSA, the comparable figure is 231.1, down 2.4% from a year ago. At the latest average annual pending sales rate, Illinois had enough housing inventory for 1.9 months (down from 3.2 last year). In the Chicago PMSA, the comparable figure was 1.7 months (down from 2.8 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 September, October, and November in both Illinois and the Chicago PMSA. In Illinois, the median price is forecast to change by 6.3% in September, 6.2% in October and 7.2% in November. For the Chicago PMSA, the comparable figures are 6.4% in September, 6.0% in October and 7.7% in November. 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 11.8% in September, 9.8% in October and 8.1% in November. The comparable figures for the Chicago PMSA are 12.4% in September 11.0% in October and 10.6% in November.

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

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 decreased. The Conference Board Consumer Confidence Index survey noted that concerns about the Delta variant—and, to a lesser degree, rising gas and food prices—resulted in a less favorable view of current economic conditions and short-term growth prospects. The University of Michigan Consumer Sentiment Index decreased to 70.2 from 81.2 last month. The survey noted that consumers have correctly reasoned that the economy’s performance will be diminished over the next several months, but the extraordinary surge in negative economic assessments also reflects an emotional response, mainly from dashed hopes that the pandemic would soon end. The more housing specific sentiment index, the Fannie Mae Home Purchase Sentiment Index (HPSI) decreased 0.1 points to 75.7. The survey noted that the HPSI remained relatively flat this month, suggesting to us that the continued strength of demand for housing and favorable home-selling conditions may be offsetting broader concerns about the Delta variant and inflation that have negatively impacted other consumer confidence indices.

### **The Housing Market – Current Condition**

- In August, median prices experienced a positive annual change while sales experienced a negative annual change in both Illinois and Chicago PMSA. 18,492 houses were sold in Illinois, changing by -4.7% from a month ago and -2.4% from a year ago. In the Chicago PMSA, 13,204 houses were sold, changing by -5.3% from a month ago and -2.5% from a year ago. The median price was \$257,000 in Illinois, up 8.4% from August last year; the comparable figure for the Chicago PMSA was \$300,000, up 7.1% from August last year. (Reference: Illinois and Chicago PMSA Total Home Sales and Median Home Sales Price figures; Forecast for September 2021 report table)
- In August, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 2.6%. 12,771 regular sales were made, 0.1% less than last year. 335 foreclosed properties were sold, 48.5% less than last year. The median price was \$305,000 for regular property sales, up 7.0% from last year; the comparable figure for the foreclosed properties was \$225,000, up 12.8% 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 1.9 months (down from 3.2 last year). In the Chicago PMSA, the comparable figure was 1.7 months (down from 2.8 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 (<\$200K) experienced the largest change compared to a year ago. In Illinois, the market share for homes at \$100-200K decreased to 24.8% from 27.9% a year ago; the comparative figure for the Chicago PMSA showed a decrease to 18.8% from 22.9% 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 September, October, and November in both Illinois and the Chicago PMSA. In Illinois, the median price is forecast to

change by 6.3% in September, 6.2% in October and 7.2 % in November. For the Chicago PMSA, the comparable figures are 6.4% in September, 6.0% in October and 7.7% in November. (Reference: Forecast for September 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 11.8% in September, 9.8% in October and 8.1% in November. The comparable figures for the Chicago PMSA are 12.4% in September 11.0% in October and 10.6% 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 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 -5.4% to -7.3%; the comparative figures for the Chicago PMSA are a decrease in the range -6.3% to -8.6%. On a monthly basis, the three-month average sales are forecast to decrease in the range -7.2% to -9.8% for Illinois and decrease in the range -8.4% to -11.3% for the Chicago PMSA. (Reference: Forecast for September 2021 report table)
- The pending home sales index<sup>2</sup> is a leading indicator based on contract signings. This August, 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 205.8 (2008=100) in Illinois, down 1.7% from a year ago. In the Chicago PMSA, the comparable figure is 231.1, down 2.4% from a year ago. (Reference: Illinois and Chicago PMSA Pending Home Sales Index figure)
- In August 2021, 466 houses were newly filed for foreclosure in the Chicago PMSA (up 127.3% and up 81.3% respectively from a year and a month ago). 316 foreclosures were completed<sup>3</sup> (up 117.9% and up 84.8% respectively from a year and a month ago). As of August 2021, there are 12,659 homes at some stage of foreclosure — the foreclosure inventory. The monthly average net flows of foreclosures (foreclosure inflows - outflows) were 136 in the past 6 months, 109 in the last 12 months and 225 in the last 24 months. (Reference: Chicago PMSA Foreclosure Inflows and Outflows, and Inventory figures).

## The Economy

- In August 2021, according to the Bureau of Labor Statistics (BLS) Employment Situation report, the national unemployment rate declined by 0.2%pt to 5.2% and nonfarm payroll jobs experienced a gain of 235,000 jobs. Notable job gains occurred over the month in professional and business services (+74,000), transportation and warehousing (+53,000), private education (+40,000), manufacturing (+37,000), and other services (+37,000).
- In August 2021, according to the Illinois Department of Employment Security (IDES) news release, the Illinois unemployment fell 0.1%pt to 7.0%. Non-farm payroll jobs rose by 2,500 over the month. The industry sectors that reported the largest payroll gains were: Leisure and Hospitality (+5,800), Manufacturing (+3,900), and Government (+1,900).
- 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 and health, trade, transportation and utilities, and professional and business services.

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

<sup>3</sup> Including cancelled foreclosures and auctions

- According to the Mortgage Lender Sentiment Survey by Fannie Mae, mortgage lenders continue to expect less returns in the short term, with 46% indicating that they believe profits margins will decrease in the next three months. “On net, mortgage lenders’ profitability outlook improved slightly from last quarter, although more lenders than not continue to expect profit margins to decline in the months ahead,” said Mark Palim, Fannie Mae vice president and deputy chief economist. “The primary-secondary spread, an indicator of potential profitability, remains wider than the previous decade’s average – a positive sign for lenders – though in August, it was at its narrowest since February, and 53 basis points below the peak seen in August 2020.”

### **Longer-term Outlook**

- In August, both the Conference Board Consumer Confidence Index and the University of Michigan Consumer Sentiment Index decreased. The Conference Board Consumer Confidence Index stands at 113.8, down from 125.1 last month. The survey noted that concerns about the Delta variant—and, to a lesser degree, rising gas and food prices—resulted in a less favorable view of current economic conditions and short-term growth prospects. The University of Michigan Consumer Sentiment Index decreased to 70.2 from 81.2 last month. The survey noted that consumers have correctly reasoned that the economy’s performance will be diminished over the next several months, but the extraordinary surge in negative economic assessments also reflects an emotional response, mainly from dashed hopes that the pandemic would soon end.
- In August, Fannie Mae Home Purchase Sentiment Index (HPSI) decreased 0.1 points to 75.7. The survey noted that the HPSI remained relatively flat this month, suggesting to us that the continued strength of demand for housing and favorable home-selling conditions may be offsetting broader concerns about the Delta variant and inflation that have negatively impacted other consumer confidence indices.
- The Chicago Business Activity Index (CBAI) increased to 171.3 in June from 165.9 in May. The increase is mainly attributed to strong construction and retail job growth.

“The market continues to exhibit positive growth in prices, but the number of sales has declined” said Dr. Daniel McMillen, head of the Stuart Handler Department of Real Estate at the University of Illinois at Chicago College of Business Administration. “The Delta variant is causing concerns for consumers that have reduced their confidence in the economy, and these concerns are likely stronger in areas of the state that have had large increases in hospitalizations recently. But so far, these concerns have been offset by the continued strength of demand for housing and favorable home-selling conditions.”

### Forecast for September 2021 report

PERCENTAGE CHANGE FOR THE TOTAL NUMBER OF SALES						
	Annual			Monthly		
	Illinois	Chicago PMSA		Illinois	Chicago PMSA	
Jun-21	41.4%	55.9%		19.6%	20.9%	
Jul-21	0.1%	3.4%		-9.9%	-11.3%	
Aug-21	-2.4%	-2.5%		-4.7%	-5.3%	
3 Month Avg.	11.0%	15.5%		0.8%	0.5%	
SUMMARY OF THE FORECAST INTERVALS FOR THE TOTAL NUMBER OF SALES						
	Annual				Monthly	
	Illinois		Chicago PMSA		Illinois	Chicago PMSA
Sep-21	-7.0%	-9.5%	-5.2%	-7.0%	-9.1%	-12.3%
Oct-21	-5.8%	-7.8%	-8.7%	-11.7%	0.8%	1.1%
Nov-21	-2.9%	-3.9%	-4.9%	-6.6%	-13.2%	-17.8%
3 Month Avg.	-5.4%	-7.3%	-6.3%	-8.6%	-7.2%	-9.8%
SUMMARY OF THE FORECAST FOR THE MEDIAN PRICE						
	Illinois	Chicago PMSA		Illinois	Chicago PMSA	
Jun-21	\$270,000	\$318,000	Jun-20	\$220,000	\$265,000	
Jul-21	\$262,500	\$310,000	Jul-20	\$233,500	\$276,000	
Aug-21	\$257,000	\$300,000	Aug-20	\$237,000	\$280,000	
Sep-21	\$249,886	\$292,582	Sep-20	\$235,000	\$275,000	
Oct-21	\$246,917	\$290,477	Oct-20	\$232,500	\$274,000	
Nov-21	\$245,705	\$289,706	Nov-20	\$229,250	\$269,000	
ANNUAL PERCENTAGE CHANGE OF THE MEDIAN PRICE						
	Illinois	Chicago PMSA		Illinois	Chicago PMSA	
Jun-21	22.7%	20.0%	Jun-20	-2.2%	0.8%	
Jul-21	12.4%	12.3%	Jul-20	6.6%	6.6%	
Aug-21	8.4%	7.1%	Aug-20	11.0%	11.6%	
Sep-21	6.3%	6.4%	Sep-20	17.5%	14.6%	
Oct-21	6.2%	6.0%	Oct-20	16.3%	14.2%	
Nov-21	7.2%	7.7%	Nov-20	14.6%	11.6%	

**Median Prices and Recovery**

	Illinois		Chicago PMSA	
	[\$2008]	[\$2021]	[\$2008]	[\$2021]
<b>August 2008 Median Price</b>	\$165,200	\$206,235	\$205,000	\$255,921
<b>August 2021 Median Price</b>	\$205,864	\$257,000	\$240,308	\$300,000
Price Ratio (August 21/ August 08)	Adjusted	1.25	Adjusted	1.17
	Unadjusted	1.56	Unadjusted	1.46

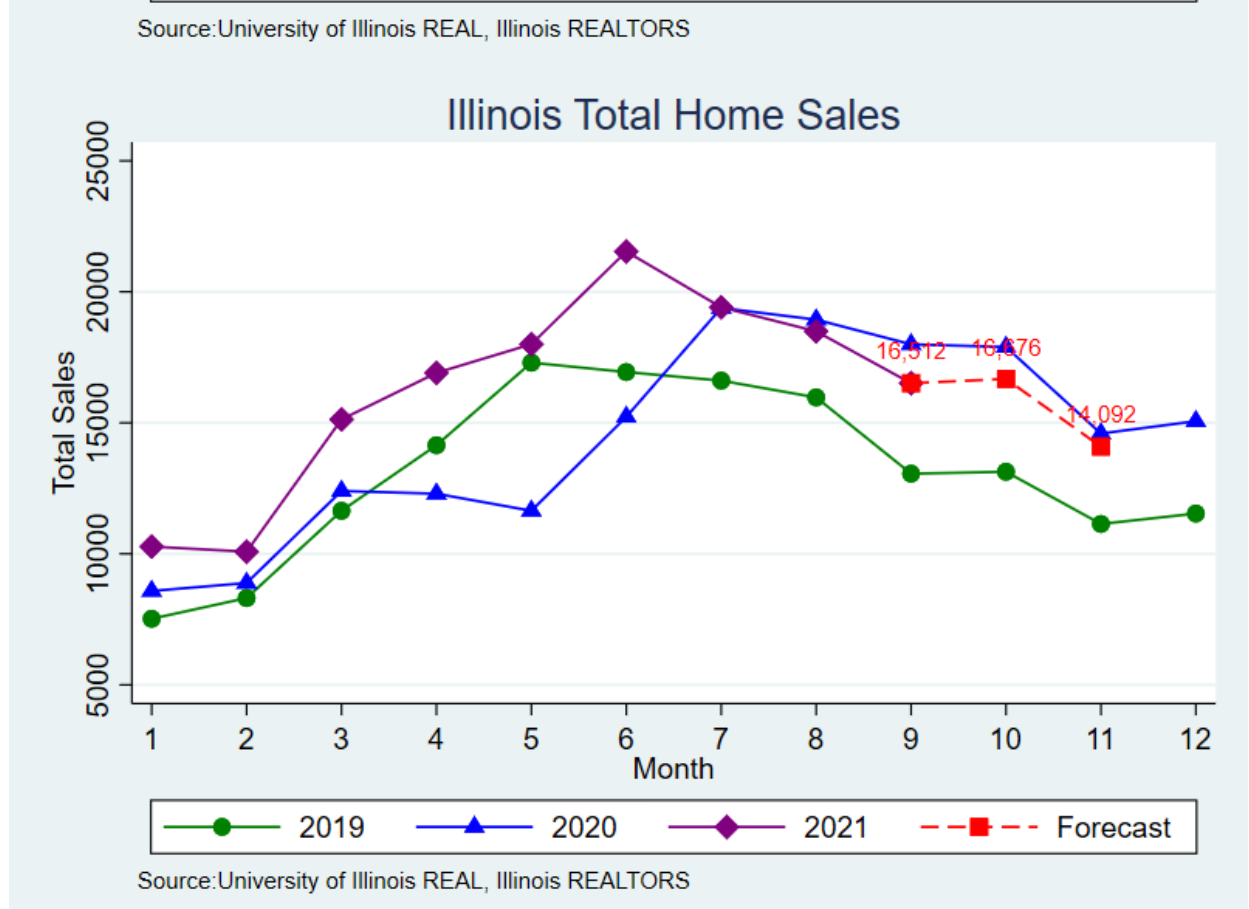
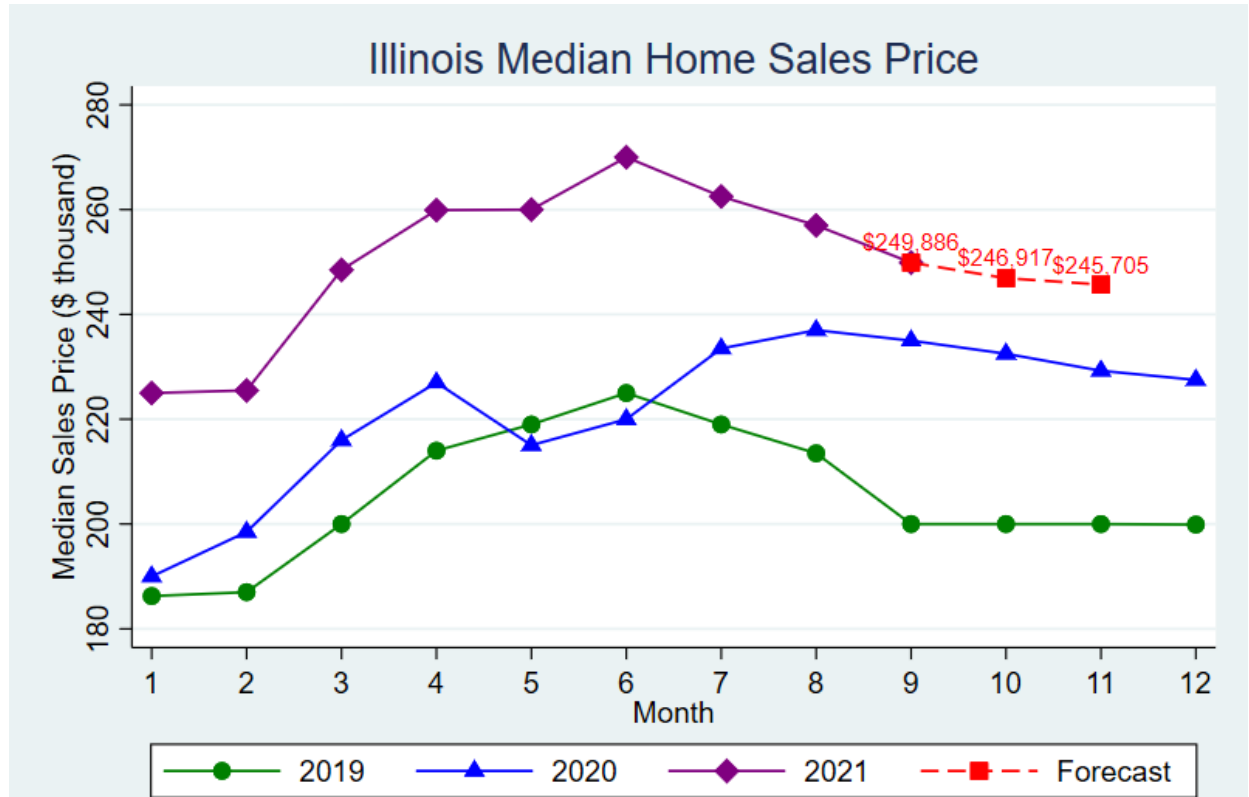
**Recovery Forecasts using *Annually Growth Rates***

	Illinois	Chicago PMSA		
	Annual Recovery Rate*	Years to Recover**	Recovery Rate	Years to Recover
Current Month	3.1%	-7.1	1.9%	-8.4
Past 3 months	8.8%	-2.6	7.5%	-2.2
Past 6 months	10.6%	-2.2	9.5%	-1.8
Past 9 months	11.6%	-2.0	10.3%	-1.6
Past 12 months	12.4%	-1.9	10.8%	-1.6

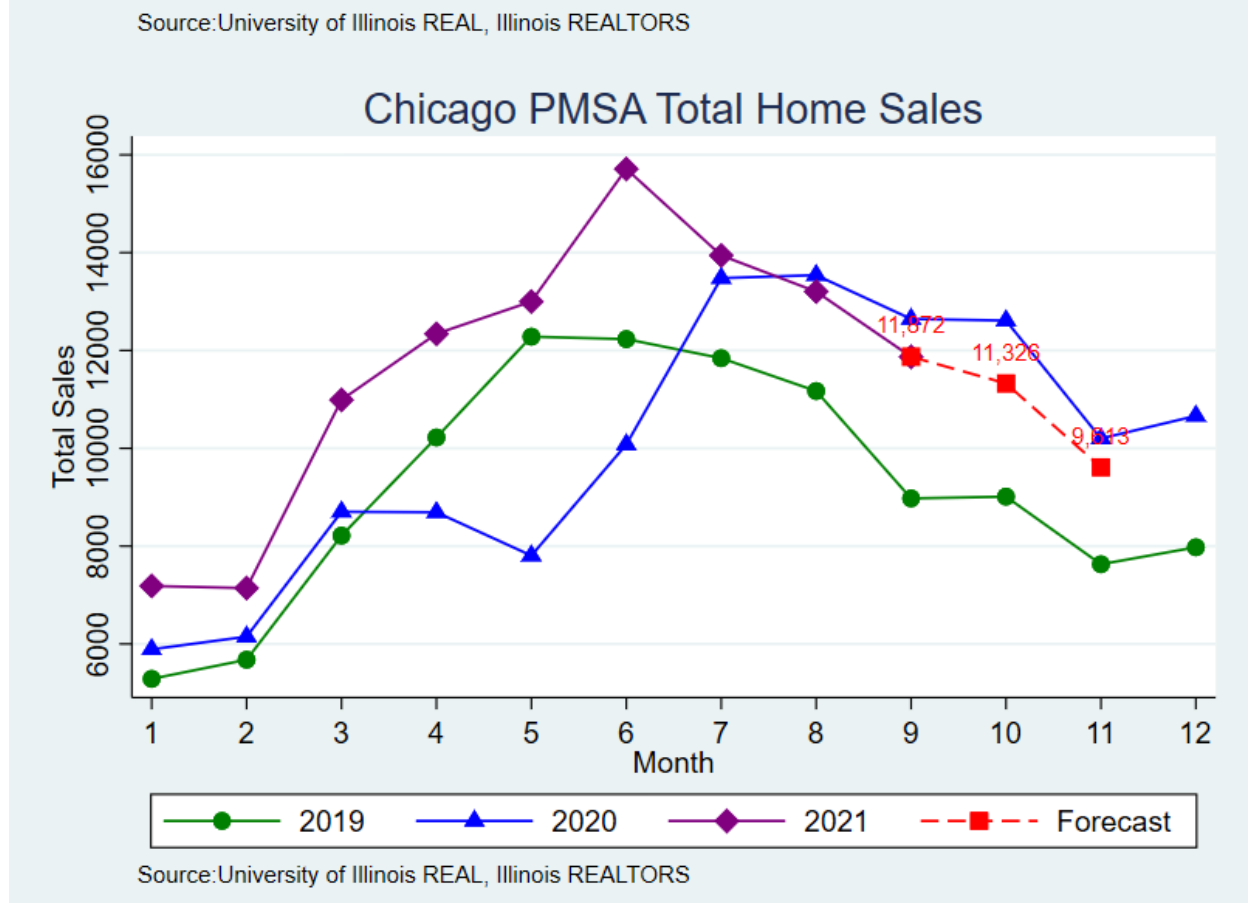
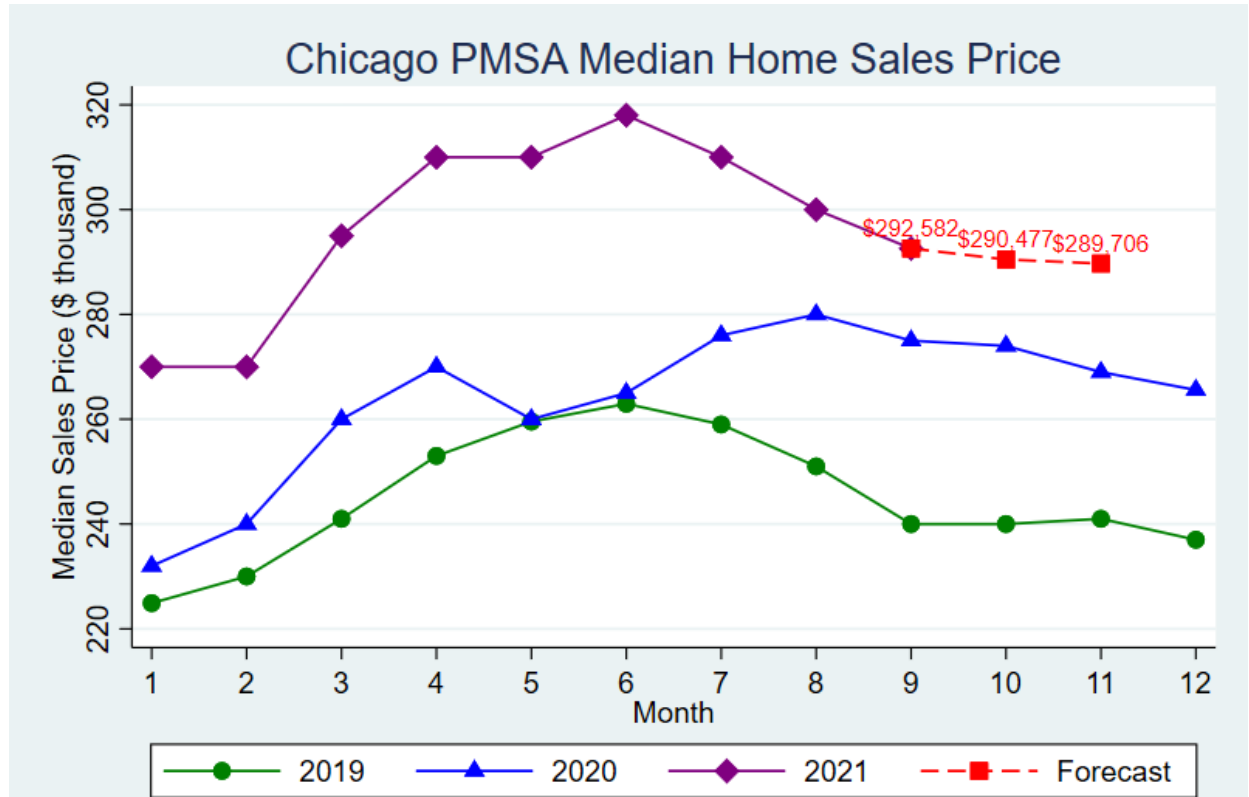
\*Annual recovery rate is the average of *annual* change rates in past months

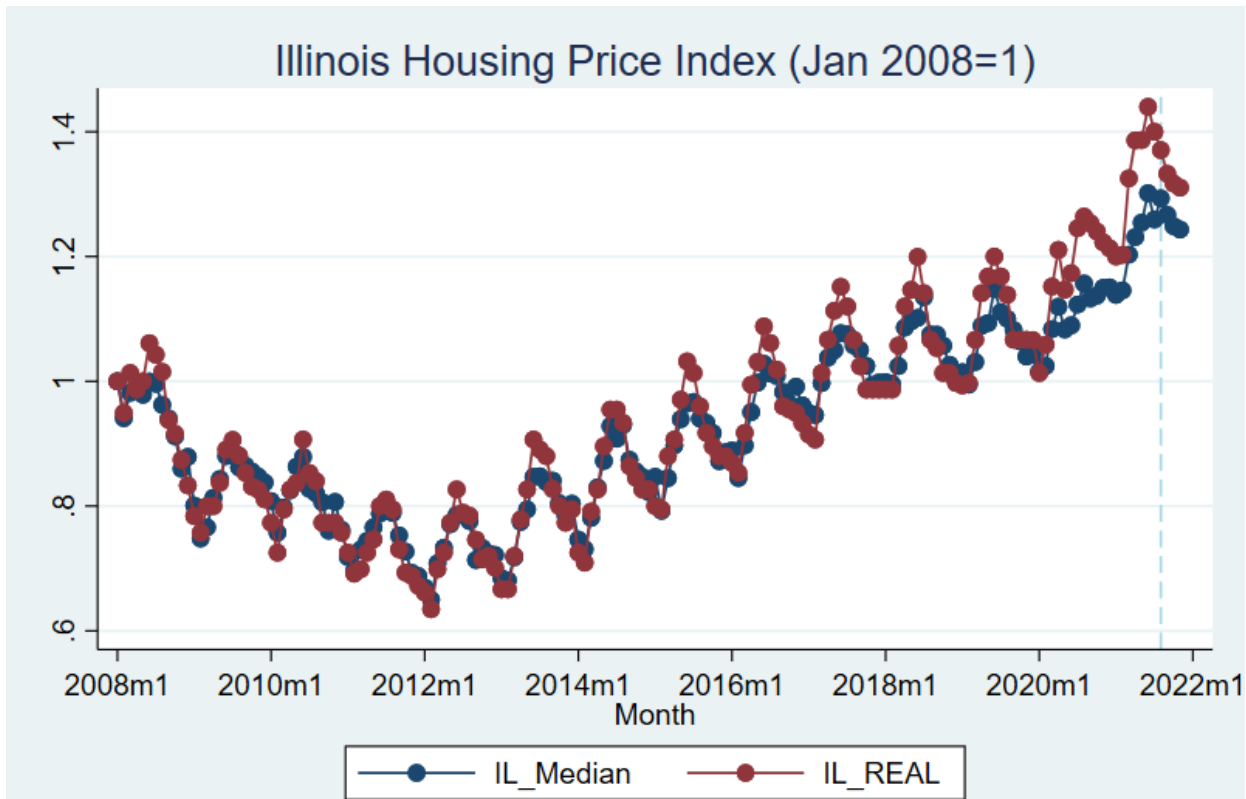
\*\* Years to recover is calculated using the following formula:

$Price_{August2021} * (1 + \text{recovery rate})^{\text{years}} = Price_{August2008}$ . 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.

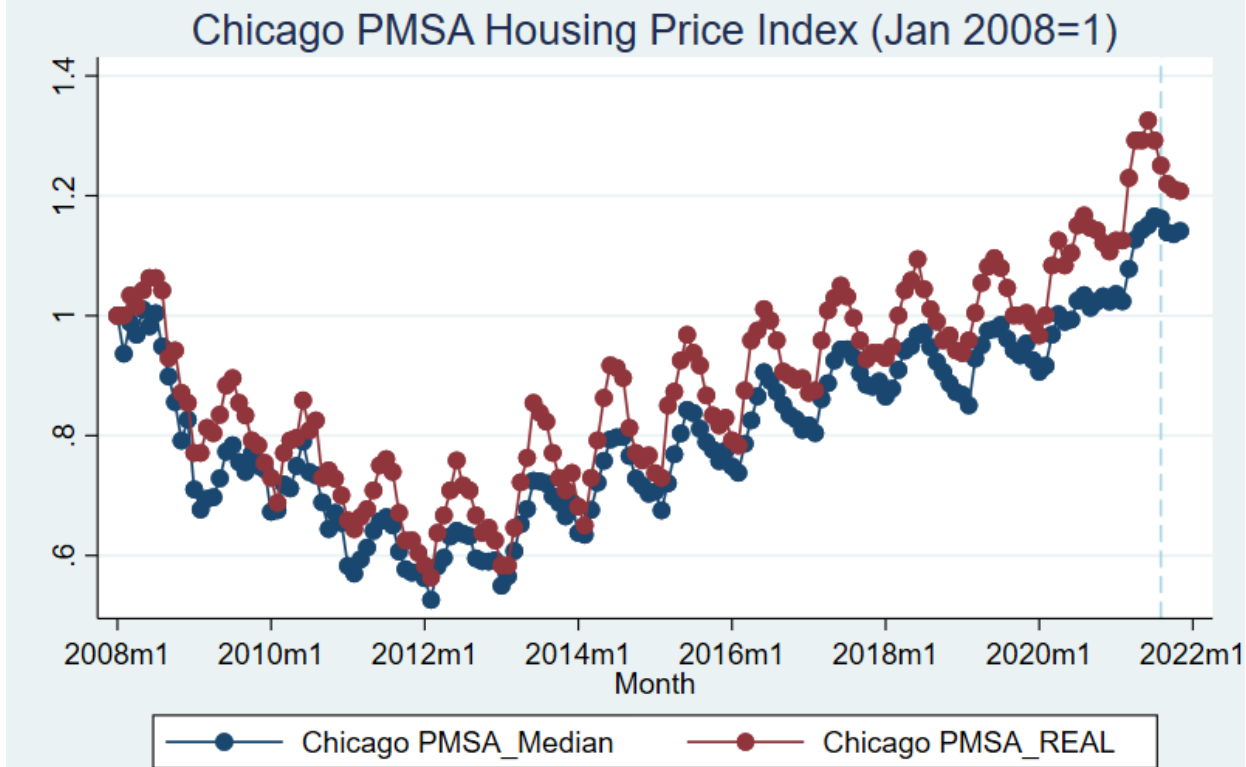




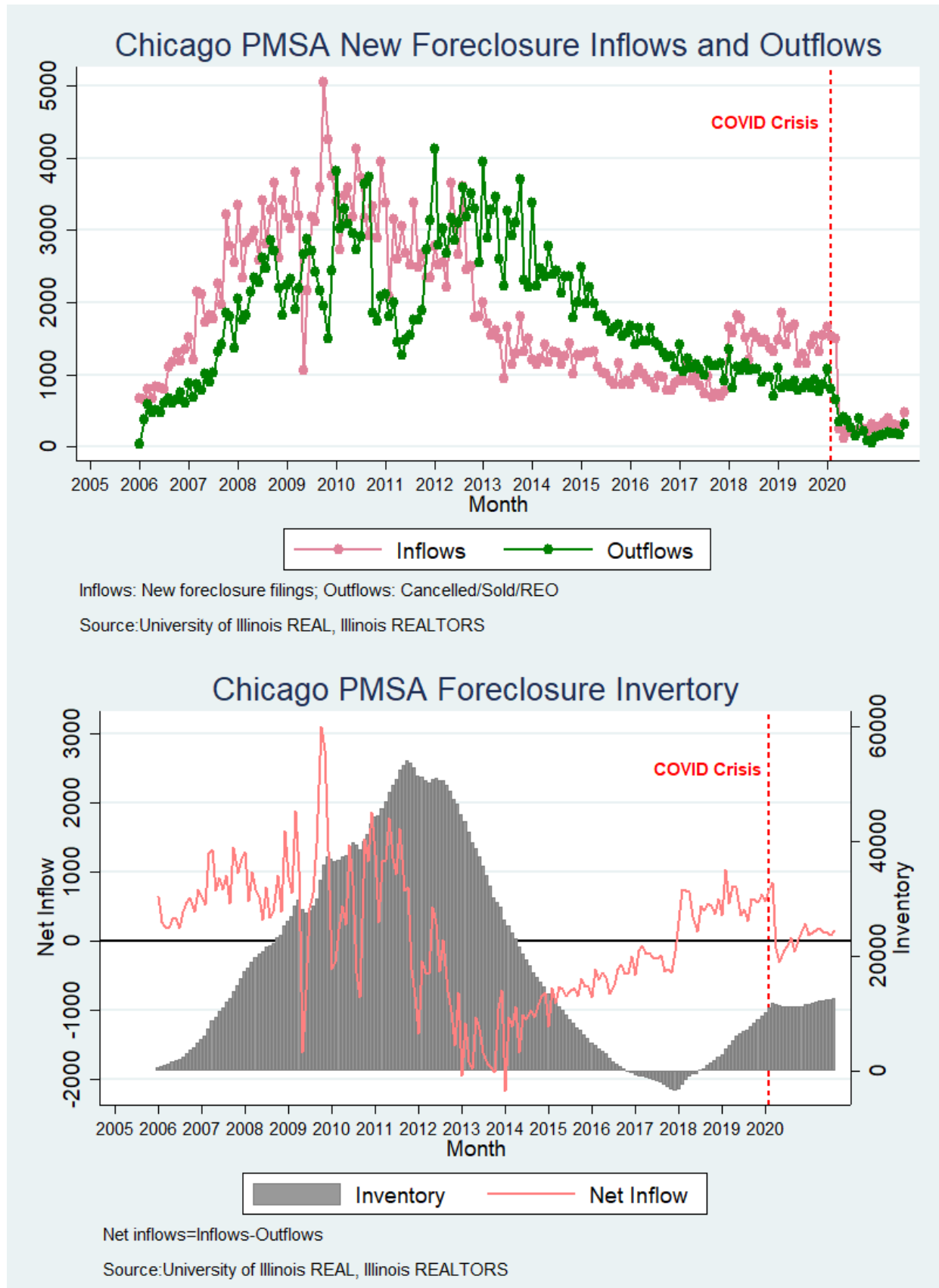


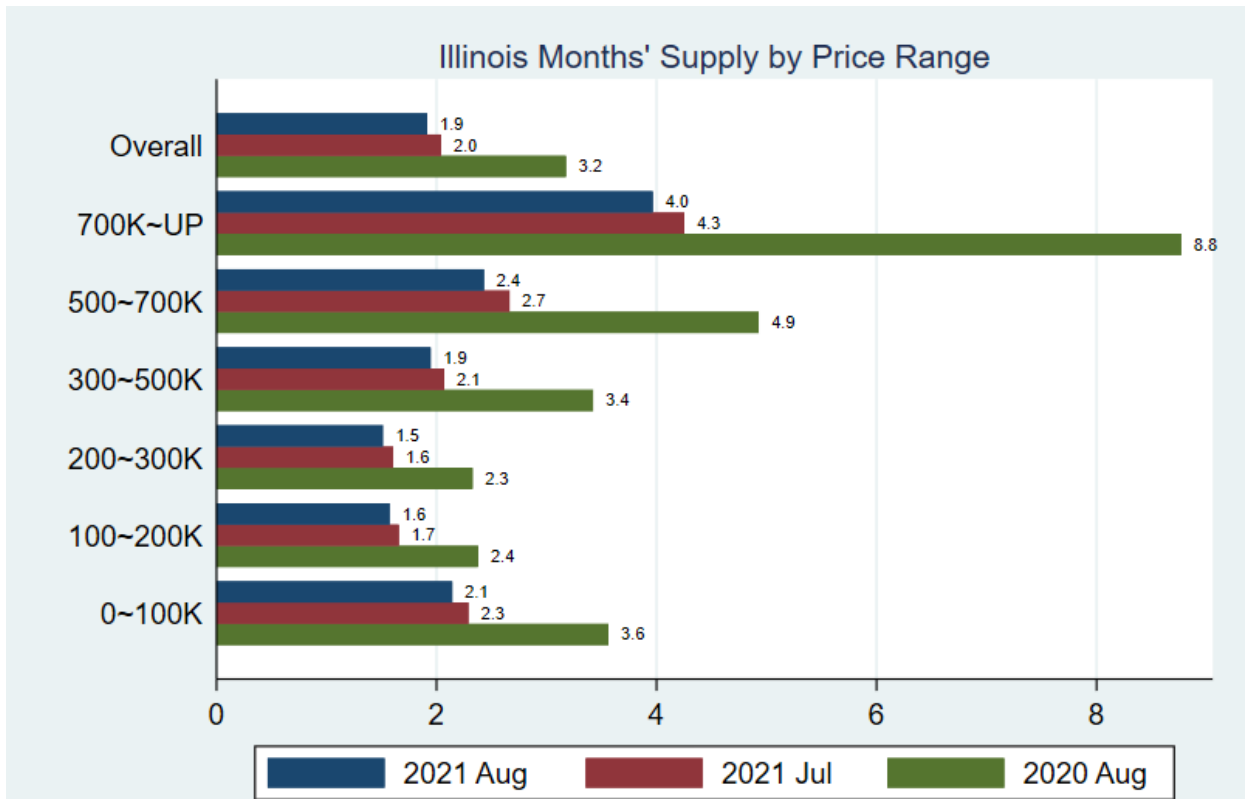


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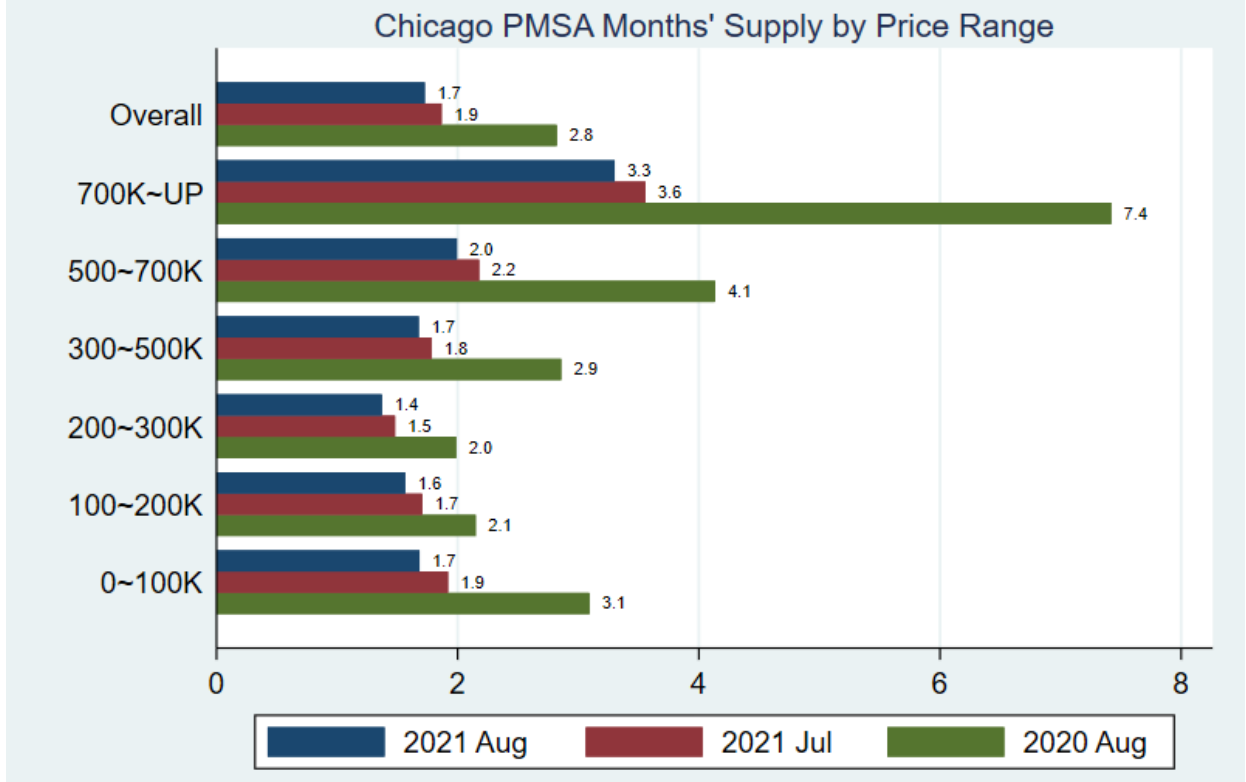


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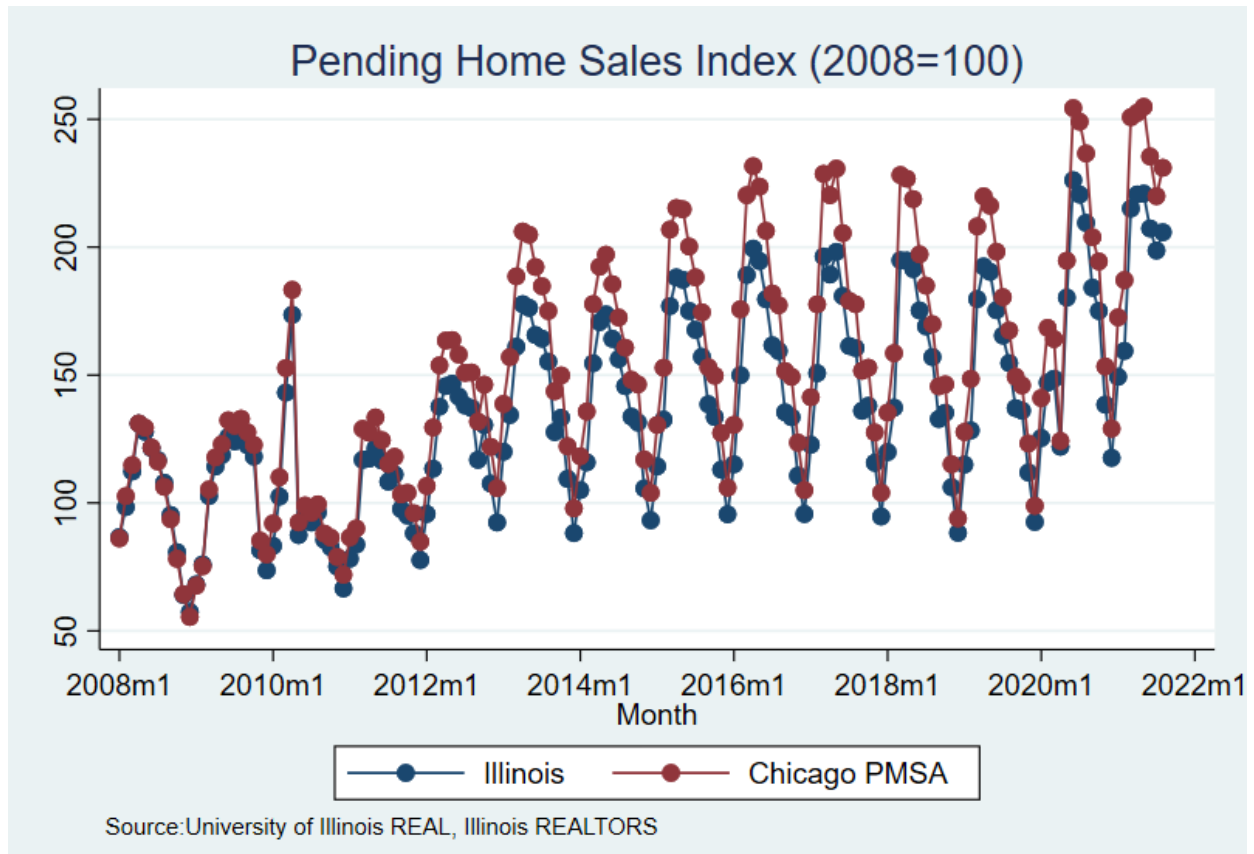


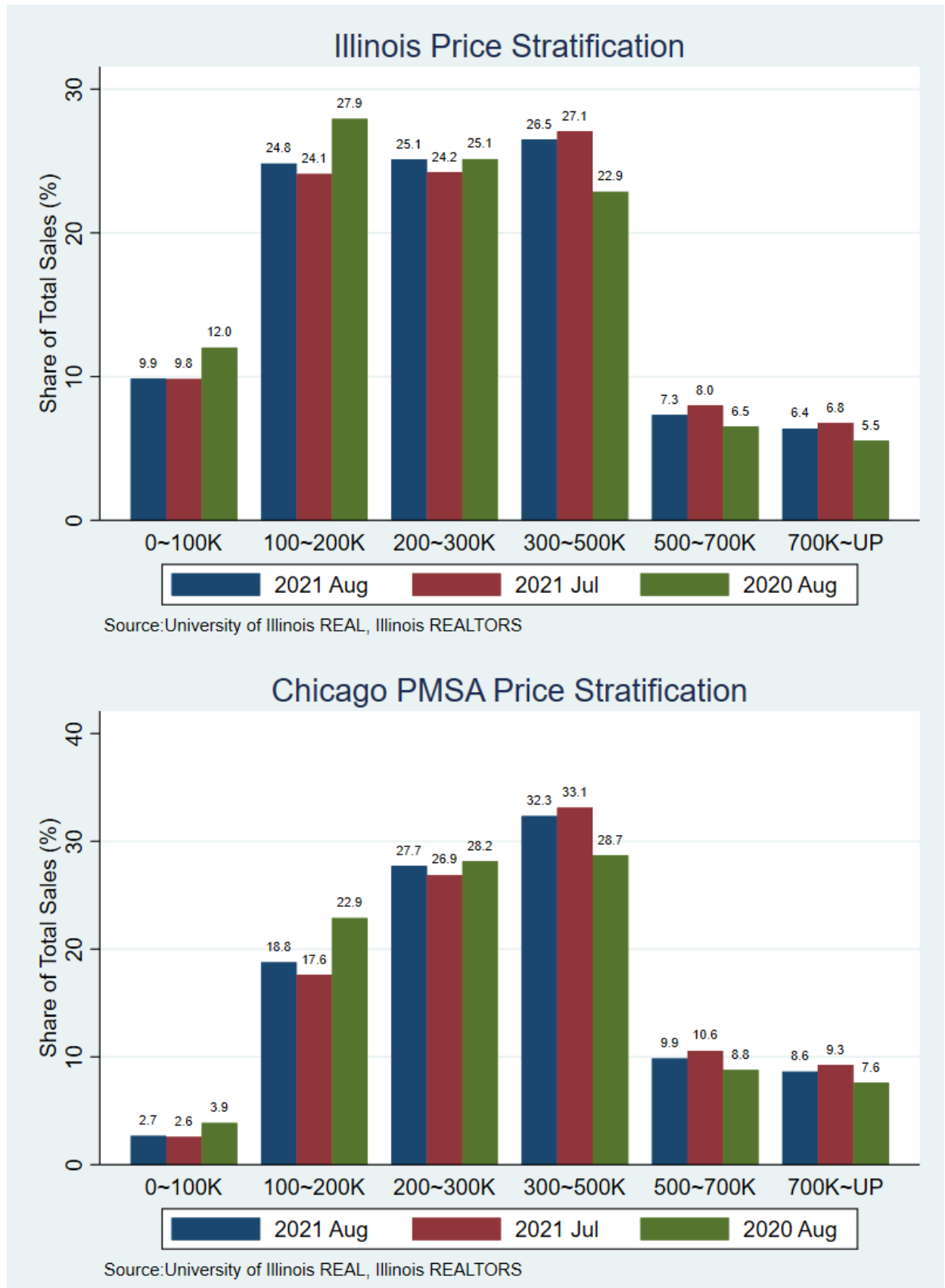


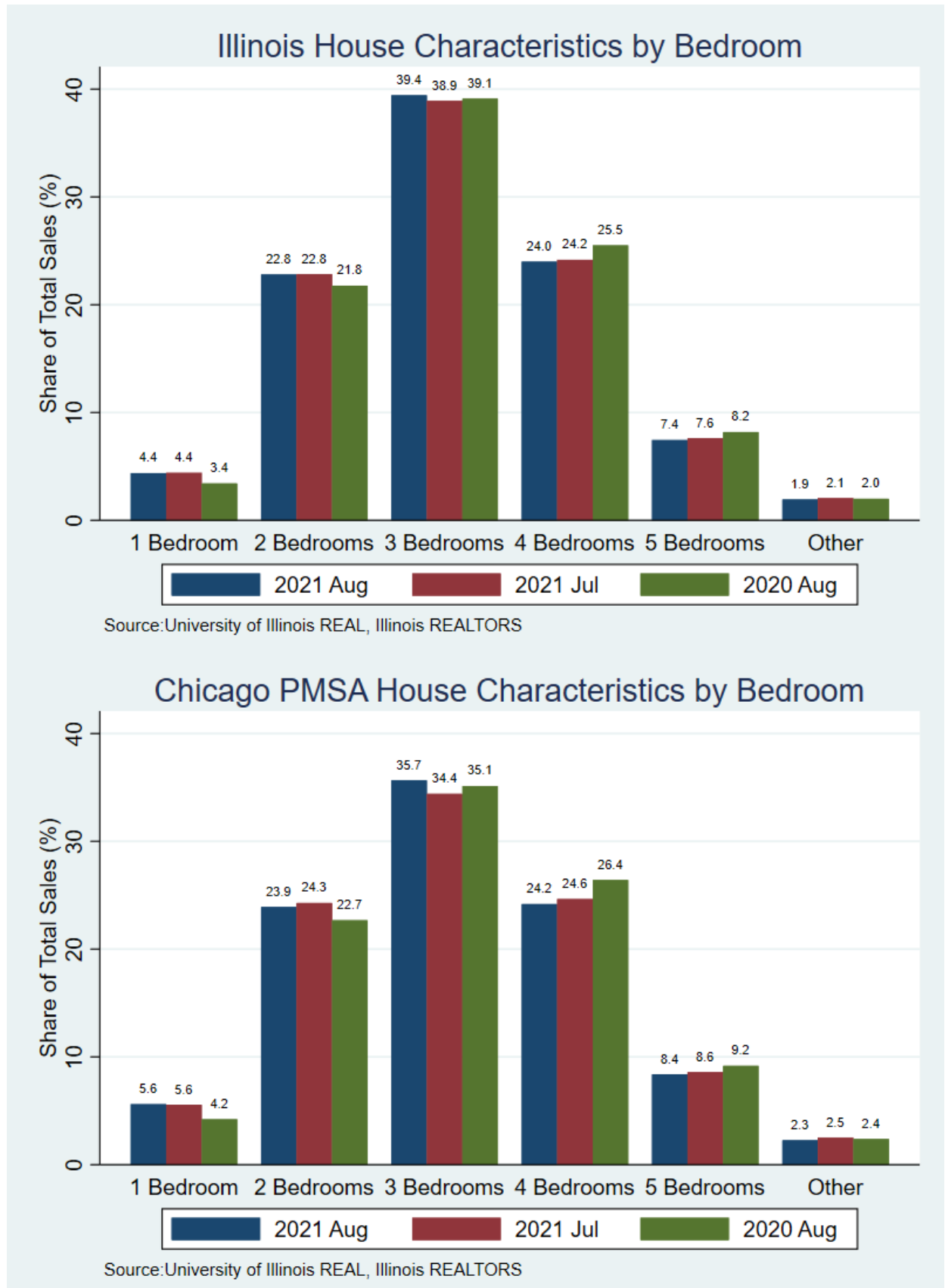
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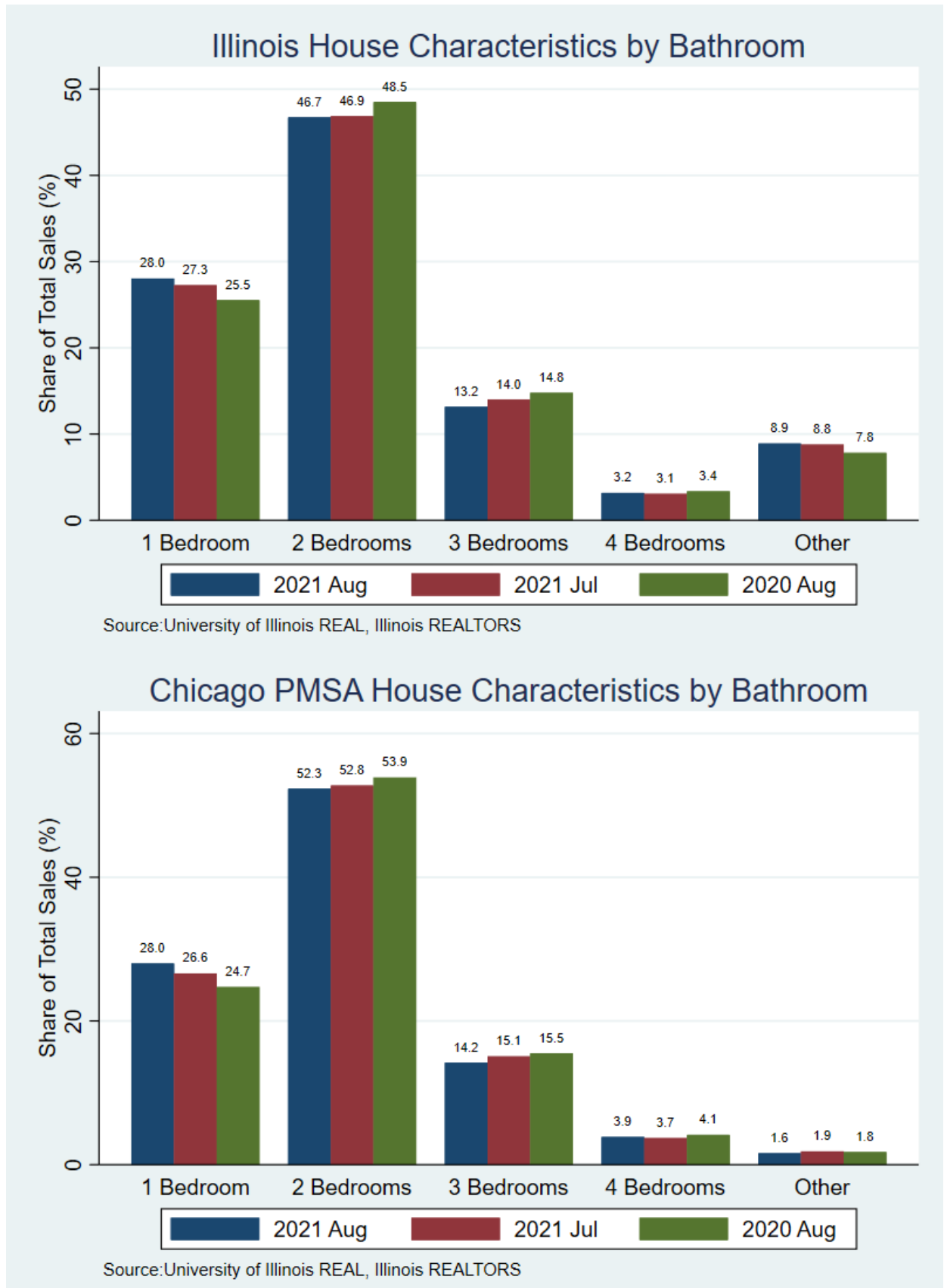


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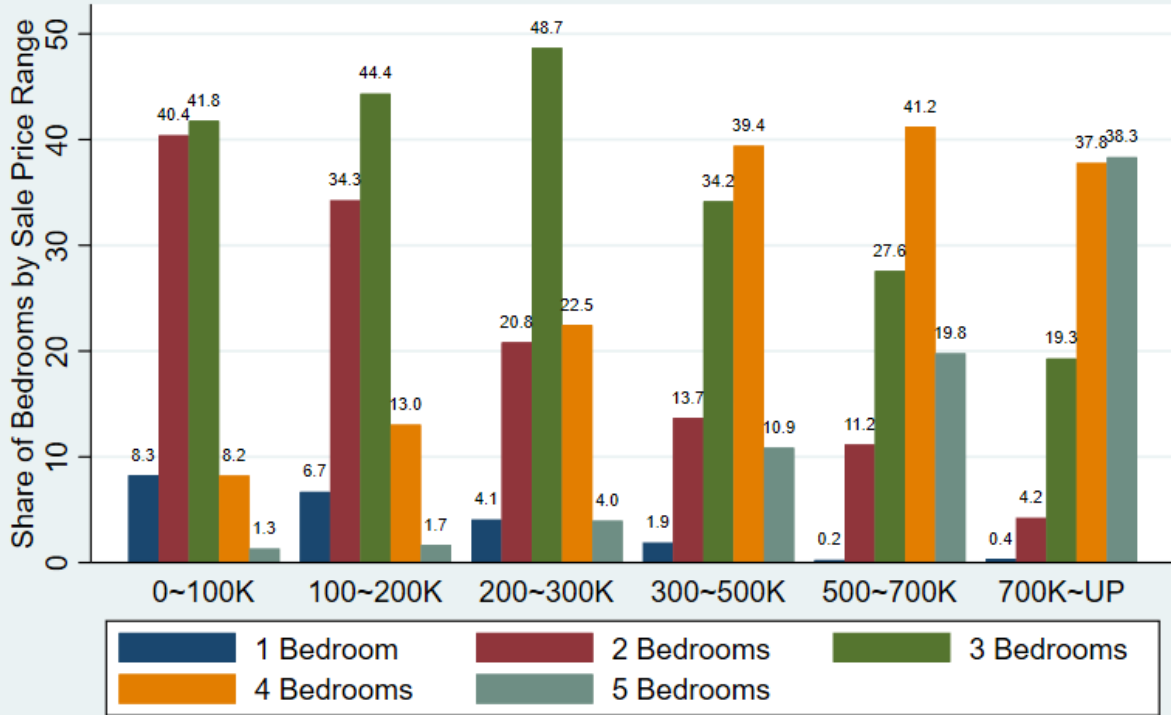






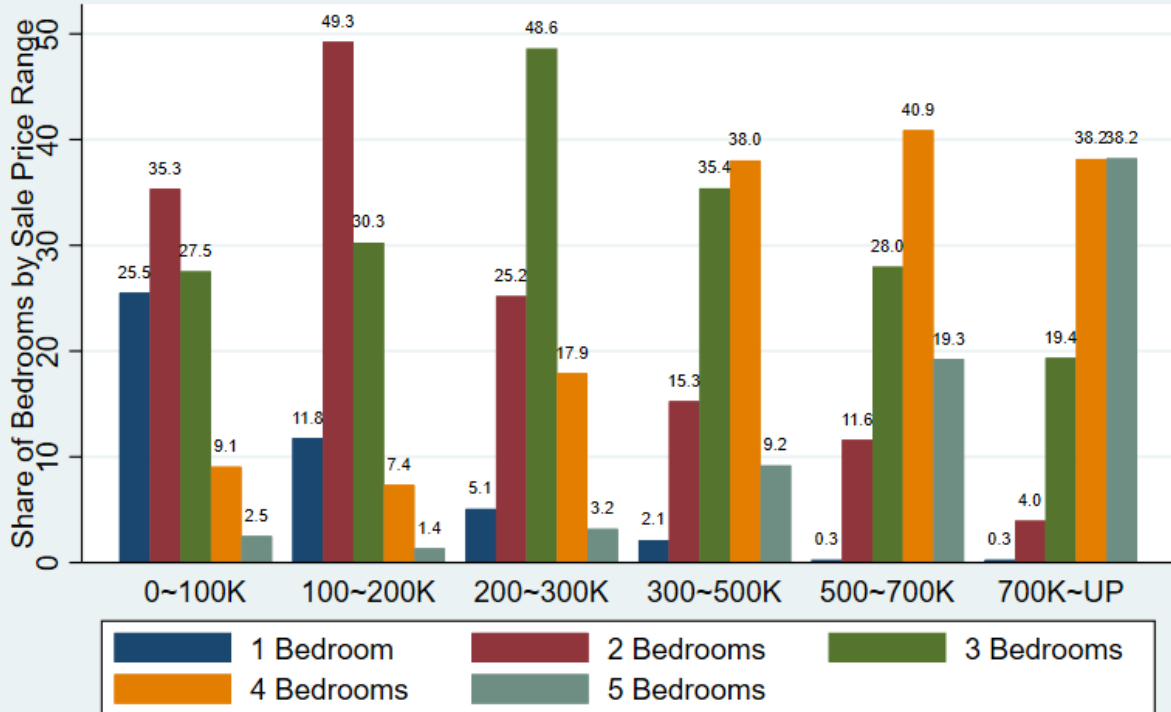


### Illinois Bedroom Shares by Sale Price Stratification

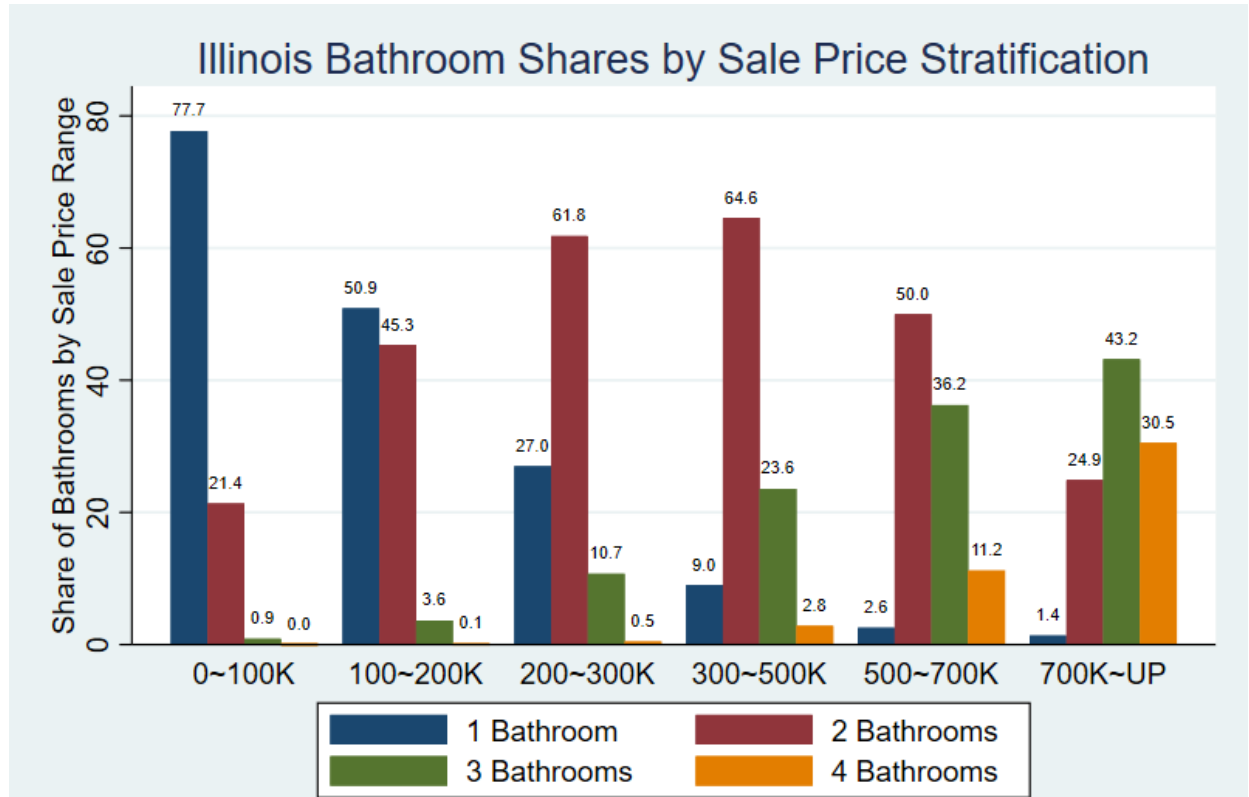


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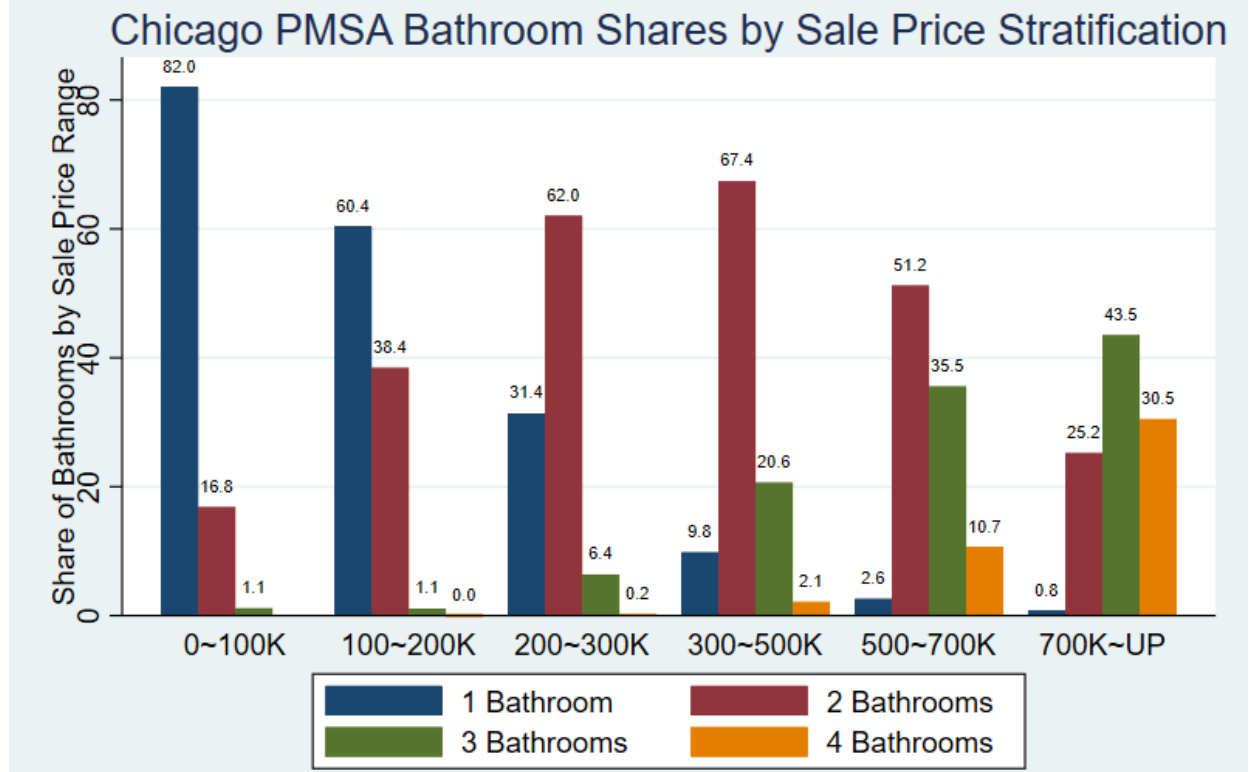
### Chicago PMSA Bedroom Shares by Sale Price Stratification



Source: University of Illinois REAL, Illinois REALTORS

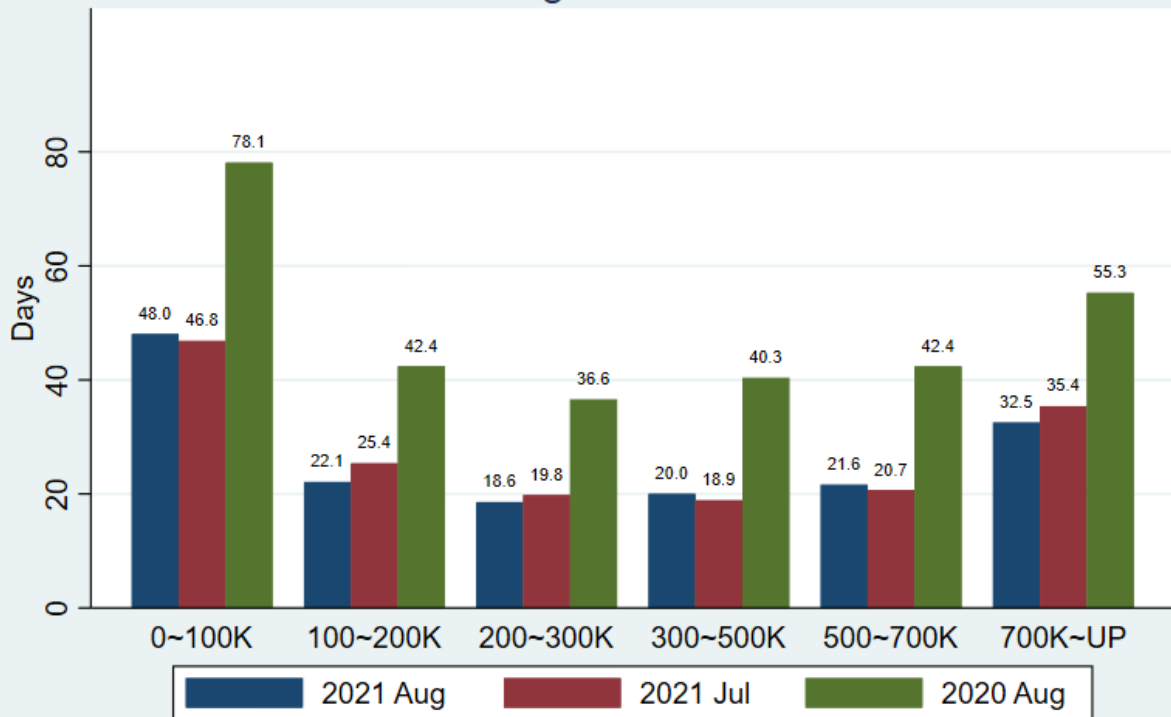


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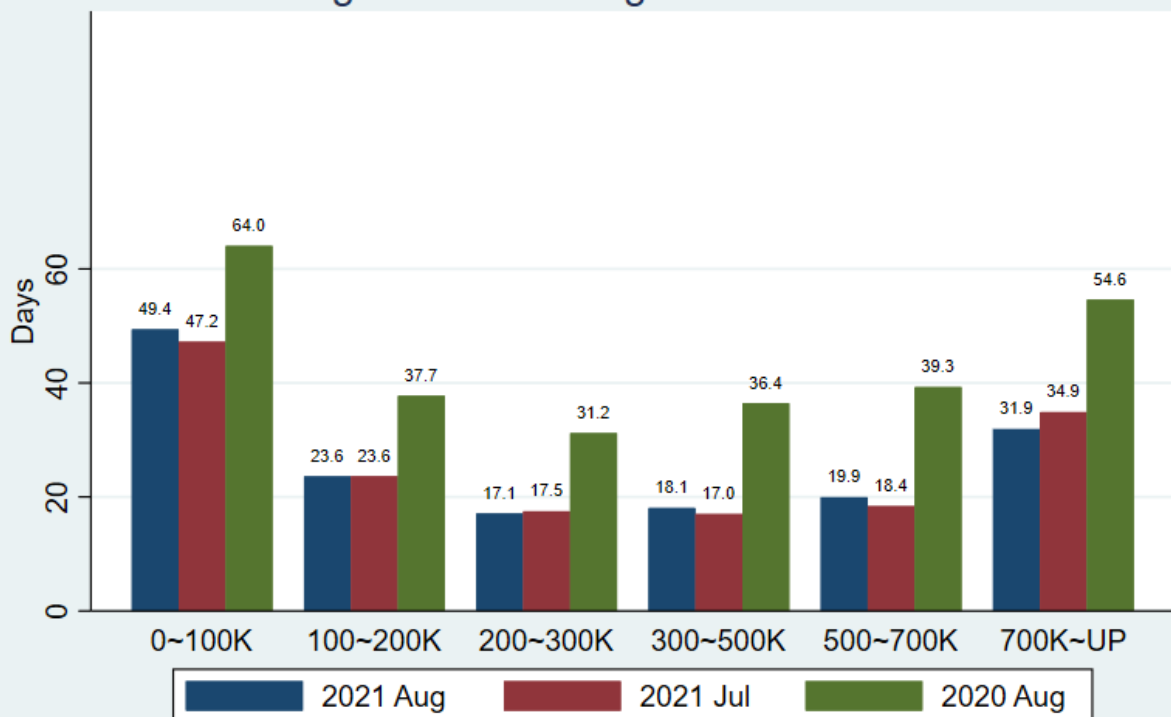
Source: University of Illinois REAL, Illinois REALTORS

### 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

