

# **Housing Price Forecasts**

## **Illinois and Chicago PMSA, September 2015**

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From

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## **Housing Price Forecast: Illinois and Chicago PMSA, September 2015**

### **The Housing Market**

In August, sales and median prices both grew at modest annual rates. 15,088 houses were sold in Illinois, down 12.3% from a month ago but up by 0.9% from than a year ago. In the Chicago PMSA, 10,854 houses were sold, down 13.9% from a month ago but up 2.8% from a year ago. The median price was \$180,900 in Illinois, an increase of 3.4% from August last year; the comparable figure for the Chicago PMSA was \$220,900, up 2.8% from this time last year.

The positive median price change in the Chicago PMSA was contributed by the increased prices for foreclosure sales, since the median price remained unchanged for regular sales. The median price was \$237,500 for regular property sales, little changed from last year; the comparable figure for the foreclosed properties was \$130,000, up 4.0% from this time last year. In terms of sales volume, it increased for regular homes but decreased for foreclosed property sales at moderate rates. In August, for the Chicago PMSA, 9,315 regular sales were made, 5.3% more than last year. 1,471 foreclosed properties were sold, 10.1% less than last year.

The sales forecast for September, October and November 2015 suggests negative and positive growth respectively on the monthly and yearly basis. This is not unusual as sales volumes tend to peak in mid year (June and July) and then gradually decline on a month-to-month basis. Annually for Illinois, the three-month average forecasts point to a change between 3.1% and 3.7%; for the Chicago PMSA, the change will range from 4.8% to 5.8%. On a monthly basis, the three-month average sales are forecast to decrease by 9.3%-11.2% for Illinois and 9.2%-11.0% for the Chicago PMSA.

The median price forecasts indicate moderate annual growth in both Illinois and the Chicago PMSA for September, October and November. In Illinois, the median price is forecast to rise by 5.7% in September, 5.6% in October and 5.1% in November. For the Chicago PMSA, the comparable figures are 4.7% in September, 4.9% in October and 4.3% in November.

Sale prices in August 2008 have been adjusted to 2015 values to enable calculation of the housing price recovery taking into account the effects of inflation. In Illinois, the August 2008 median sale price was \$190,000 (in \$2008) and \$206,717 (in \$2015); the current price level was 95% of the 2008 level before adjusting (87% after adjusting for inflation). In the Chicago PMSA, the August 2008 median sale price is \$250,000 (in \$2008) and \$271,996 (in \$2015); and the comparable figure for price recovery in August 2015 is 88% before adjustment (81% before adjusting). According to average annual growth rates of prices in the past months, it could take between 1.8~4.7 years (21~57 months) for Illinois and 1.9~5.7 years (23~69 months) for the Chicago PMSA to recover to the 2008 levels.

As housing prices have gradually risen and the job market slowly improved in the past few years, foreclosure conditions in general improved when looking at the nation as whole. According to CoreLogic's July report, homes in some stages of foreclosure accounted for about 1.2% of homes with a mortgage; this was the lowest reading since December 2007. In addition to the decreasing foreclosure rate, the market share of distressed properties also experienced large decreases. According to NAR, distressed properties sales out of total home sales dropped to 7% nationwide while this reading was 33% five years ago.

However, moving from the national to local housing markets, differing foreclosure conditions appear. According to RealtyTrac, two markets in Illinois, Rockford and Chicago, are in the top 10 markets list for having the highest market shares of distressed properties. From our data, the percentage of distressed sales among the total sales for the Chicago PMSA was 13.5% in August. However, the good news is that it was the lowest August reading since 2009 and much lower than its peak (23.7%) in 2010.

Furthermore, GSEs are extending the foreclosure timelines for 33 states effective on August 1, 2015. This indicates a rise in the maximum days that are allowed for foreclosure proceedings between the due date of the last paid installment and the completion of the foreclosure sale. Subject to this change, the foreclosure timeline in Illinois will be extended from 630 to 690 days. While the timeframe generally reflects the “routine” time for an uncontested foreclosure process, not much justification has been made for this change. The initial impression is that it would allow more foreclosure cases to remain in the pipeline and in some cases could benefit attorneys of the larger servicers, rather than bring any additional protection for the borrowers.

Finally, while two consumers’ sentiment indices, the University of Michigan Consumer Sentiment Index and the Conference Board Consumer Confidence index, pointed in different directions, Fannie Mae released their Home Purchase Sentiment Index (HPSI) for the first time. The index aims to focus on revealing consumers attitudes on the housing market. The latest reading of August is 80.8, 0.5 lower than last month but 5.3 higher than a year ago. 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.

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

- In August, sales and median prices both grew at mild annual rates. 15,088 houses were sold in Illinois, down 12.3% from a month ago and edged up by 0.9% from than a year ago. In the Chicago PMSA, 10,854 houses were sold, down 13.9% from a month ago and up 2.8% from a year ago. The median price was \$180,900 in Illinois, up 3.4% from August last year; the comparable figure for the Chicago PMSA was \$220,900, up 2.8% from this time last year. (Reference: Illinois and Chicago PMSA Total Home Sales and Median Home Sales Price figures; Forecast for September 2015 report table)
- In August, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 13.5%, the lowest August reading since 2009. 9,315 regular sales were made, 5.3% more than last year. 1,471 foreclosed properties were sold, 10.1% less than last year. The median price was \$237,500 for regular property sales, unchanged from last year; the comparable figure for the foreclosed properties was \$130,000, up 4.0% from this time last year.

- In August, at the latest average annual pending sales rate, Illinois had enough housing inventory for 5.4 months<sup>1</sup> (down from 6.4 months a year ago). In the Chicago PMSA, the comparable figure was 4.0 months (down from 5.0 months a year ago). Months of supply are increasing for homes in all price ranges above \$500K and decreasing for homes below \$500K in both Illinois and the Chicago PMSA. (Reference: Illinois and Chicago PMSA Annual Months' Supply by Price Range figures)
- In August, the market shares of homes priced below \$100K experienced the largest drop compared to a year ago. In Illinois, the market share for homes in this price range decreased to 21.1% from 23.9% a year ago; the comparative figure for the Chicago PMSA decreased to 13.4% from 15.9% a year ago. (Reference: Illinois and Chicago PMSA Price Stratification figures)

### **The Housing Market – Forecast and Future Condition**

- The median price forecast indicates moderate annual growth in both Illinois and the Chicago PMSA for September, October and November. In Illinois, the median price is forecast to rise by 5.7% in September, 5.6% in October and 5.1% in November. For the Chicago PMSA, the comparable figures are 4.7% in September, 4.9% in October and 4.3% in November. (Reference: Forecast for September 2015 report table)
- The sales forecast for September, October and November 2015 suggests negative and positive growth respectively on the monthly and yearly basis. Annually for Illinois, the three-month average forecasts point to a change between 3.1% and 3.7%; for the Chicago PMSA, the change will range from 4.8% to 5.8%. On a monthly basis, the three-month average sales are forecast to decrease by 9.3%-11.2% for Illinois and 9.2%-11.0% for the Chicago PMSA. (Reference: Forecast for September 2015 report table)
- The pending home sales index<sup>2</sup> is a leading indicator based on contract signings. This August, homes put under contract were more than last year but less than last month. The pending home sales index is 152.6 (2008=100) in Illinois, down 7.4% from last month and up 4.5% from a year ago. In the Chicago PMSA, the comparable figure is 179.7, down 5.3% from a month ago and 11.6% from a year ago. (Reference: Illinois and Chicago PMSA Pending Home Sales Index figure)
- In August 2015, 1,748 houses were newly filed for foreclosure in the Chicago PMSA (down 16.4% and 9.5% respectively from a year and a month ago). 1,393 foreclosures were completed<sup>3</sup> (down 51.8% and 9.5% respectively from a year and a month ago). As of August 2015, there are 35,056 homes at some stage of foreclosure — the foreclosure inventory. The average inventory change rates<sup>4</sup> were 1.6% in the past 6 months, 0.6% in the last 12 months and -2.6% in the last 24 months. Given the 24-month rate of change, the foreclosure inventory would return to the pre-bubble levels<sup>5</sup> by October 2018. According to the positive 6-month rate and almost unchanged 12-month rate, the inventory would increase (Reference: Chicago PMSA Foreclosure Activity and Inventory figures).

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<sup>1</sup> 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.

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

<sup>3</sup> Including estimated foreclosure completions that are missing in the data.

<sup>4</sup> The range of months used for calculating the average change rates are modified from the 6/12/24 months' scenarios to 3/6/9 months' scenarios since Aug 2014.

<sup>5</sup> Average foreclosure inventory from 1997-2005

## The Economy

- In August 2015, according to the Bureau of Labor Statistics (BLS) Employment Situation report, the national unemployment rate decreased to 5.1% and nonfarm payroll jobs experienced gains of 173,000 jobs. Among all industries, health care and social assistance added the most jobs (+56,000), followed by financial activities (+19,000) out of which 8,000 positions are created in real estate.
- In July 2015, according to the Illinois Department of Employment Security (IDES) news release, the Illinois unemployment rate edged down to 5.8%. A total of 1,900 non-farm payroll jobs were added. The job growth in this state is slower than the rest of the country, and it will not regain its pre-recession jobs until September 2016 at current rates of job growth. Government (+2,600), Leisure and Hospitality (+2,400) and Construction (+2,000) were sectors creating jobs in July in Illinois.
- In June 2015, the one-year-ahead forecast for Illinois indicates that the non-farm employment will increase at a rate between 0.41% and 0.76%, corresponding to job gains between 24,400 and 44,800. The total gains are forecast to be contributed by six out of ten sectors: construction (3.31%; 7,000), trade, transportation and utilities (0.70%; 8,300), financial activities (0.41%; 1,500), professional and business services (0.03%; 300), education and health (1.75%; 15,700), and leisure and hospitality (1.30%; 7,300).

## Longer-term Outlook

- In August, two consumer indices pointed at different directions. The University of Michigan Consumer Sentiment Index decreased slightly to 91.9 from 93.1 last month. According to timing of the index (end of August) the volatility in the stock market was identified as the major cause. However, the Conference Board Consumer Confidence index was reported rebounding to 101.5 from 91 last month.
- The Chicago Business Activity Index (CBAI) increased to 98.2 in July from 97.4 in June. The rise is attributed to the job growth in the nonmanufacturing sector and to improved retail activities in the Chicago area.

“Sales returned to a more modest long-term annual growth rate in August while prices continued to increase,” noted Geoffrey J.D. Hewings, Director of the Regional Economics Applications Laboratory. “Of interest in Chicago was the fact that the median price of non-foreclosed properties remained virtually unchanged while the median price for foreclosed properties increased, contributing to the modest overall price increase. From our data, the percentage of distressed sales among the total sales for the Chicago PMSA was 13.5% in August. However, the good news is that it was the lowest August reading since 2009 and much lower than the peak (23.7%) in 2010.”

## Forecast for September 2015 report

PERCENTAGE CHANGE FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois		Chicago PMSA	Illinois		Chicago PMSA		
Jun-15	14.2%		16.2%	20.1%		22.9%		
Jul-15	9.9%		11.5%	-5.9%		-5.4%		
Aug-15	0.9%		2.8%	-12.3%		-13.9%		
3 Month Avg.	8.5%		10.4%	-0.3%		0.0%		
SUMMARY OF THE FORECAST INTERVALS FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois		Chicago PMSA	Illinois		Chicago PMSA		
Sep-15	-0.5%	-0.6%	1.6%	1.9%	-13.3%	-16.0%	-12.7%	-15.3%
Oct-15	1.3%	1.6%	2.6%	3.2%	3.3%	3.9%	1.9%	2.3%
Nov-15	10.2%	12.2%	12.0%	14.3%	-17.0%	-20.4%	-16.0%	-19.2%
3 Month Avg.	3.1%	3.7%	4.8%	5.8%	-9.3%	-11.2%	-9.2%	-11.0%
SUMMARY OF THE FORECAST FOR THE MEDIAN PRICE								
	Illinois		Chicago PMSA		Illinois		Chicago PMSA	
Jun-15	\$193,000		\$232,000	May-14	\$167,125		\$206,750	
Jul-15	\$190,000		\$225,000	Jun-14	\$179,000		\$220,000	
Aug-15	\$180,900		\$220,900	Jul-14	\$179,000		\$218,000	
Sep-15	\$171,239		\$204,188	Aug-14	\$175,000		\$215,000	
Oct-15	\$166,907		\$193,994	Sep-14	\$162,000		\$195,000	
Nov-15	\$162,788		\$189,609	Oct-14	\$158,000		\$185,000	
ANNUAL PERCENTAGE CHANGE OF THE MEDIAN PRICE								
	Illinois		Chicago PMSA		Illinois		Chicago PMSA	
Jun-15	7.8%		5.5%	May-14	7.8%		13.0%	
Jul-15	6.1%		3.2%	Jun-14	5.3%		7.3%	
Aug-15	3.4%		2.8%	Jul-14	7.2%		9.0%	
Sep-15	5.7%		4.7%	Aug-14	6.1%		9.1%	
Oct-15	5.6%		4.9%	Sep-14	4.5%		5.4%	
Nov-15	5.1%		4.3%	Oct-14	5.3%		5.7%	

### Median Prices and Recovery

	Illinois		Chicago PMSA	
	[\$2008]	[\$2015]	[\$2008]	[\$2015]
<b>August 2008 Median Price</b>	\$190,000	\$206,717	\$250,000	\$271,996
<b>August 2015 Median Price</b>	\$165,903	\$180,900	\$202,806	\$220,900
Price Ratio (August 15/August 08)	Adjusted	0.87	Adjusted	0.81
	Unadjusted	0.95	Unadjusted	0.88

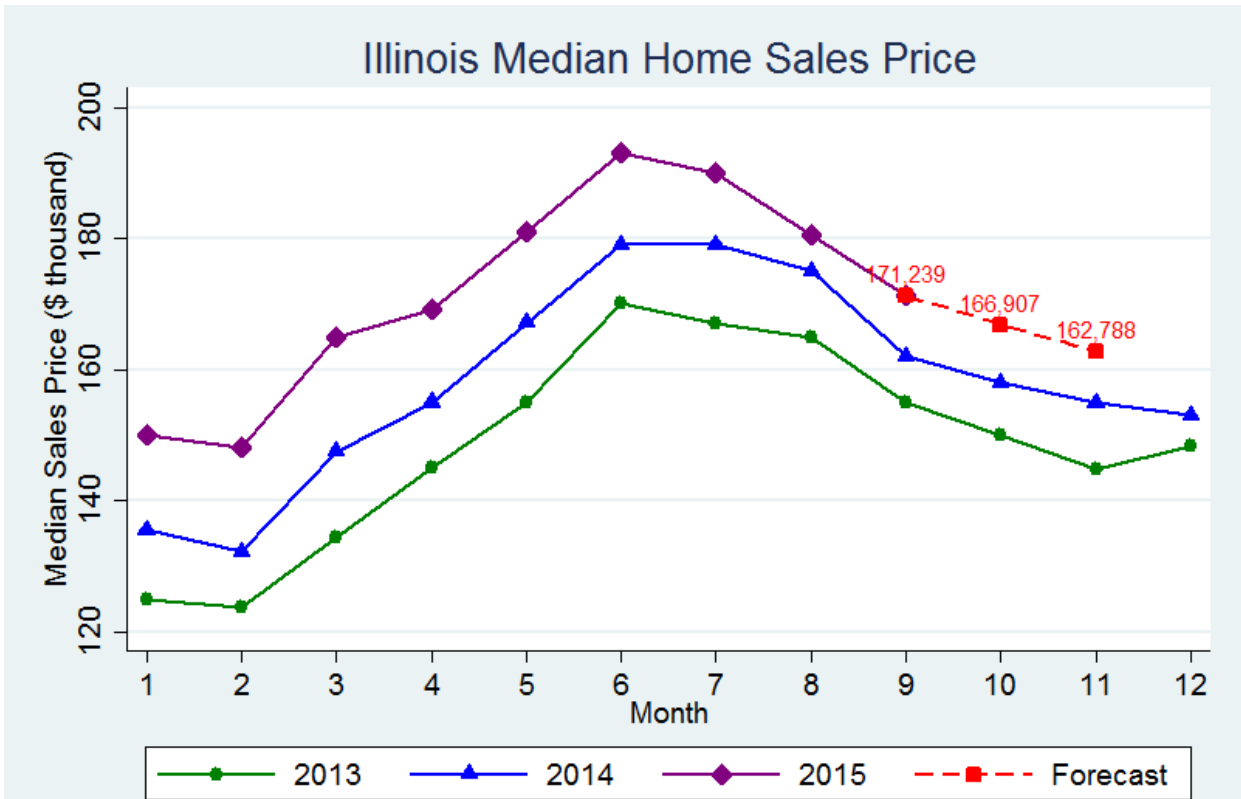
### Recovery Forecasts using *Annually Growth Rates*

	Illinois	Chicago PMSA		
	Annual Recovery Rate*	Years to Recover**	Recovery Rate	Years to Recover
Current Month	2.9%	4.7	2.4%	5.7
Past 3 months	5.5%	2.5	3.6%	3.9
Past 6 months	7.6%	1.8	7.1%	2.0
Past 9 months	7.9%	1.8	7.3%	1.9
Past 12 months	6.9%	2.0	6.6%	2.1

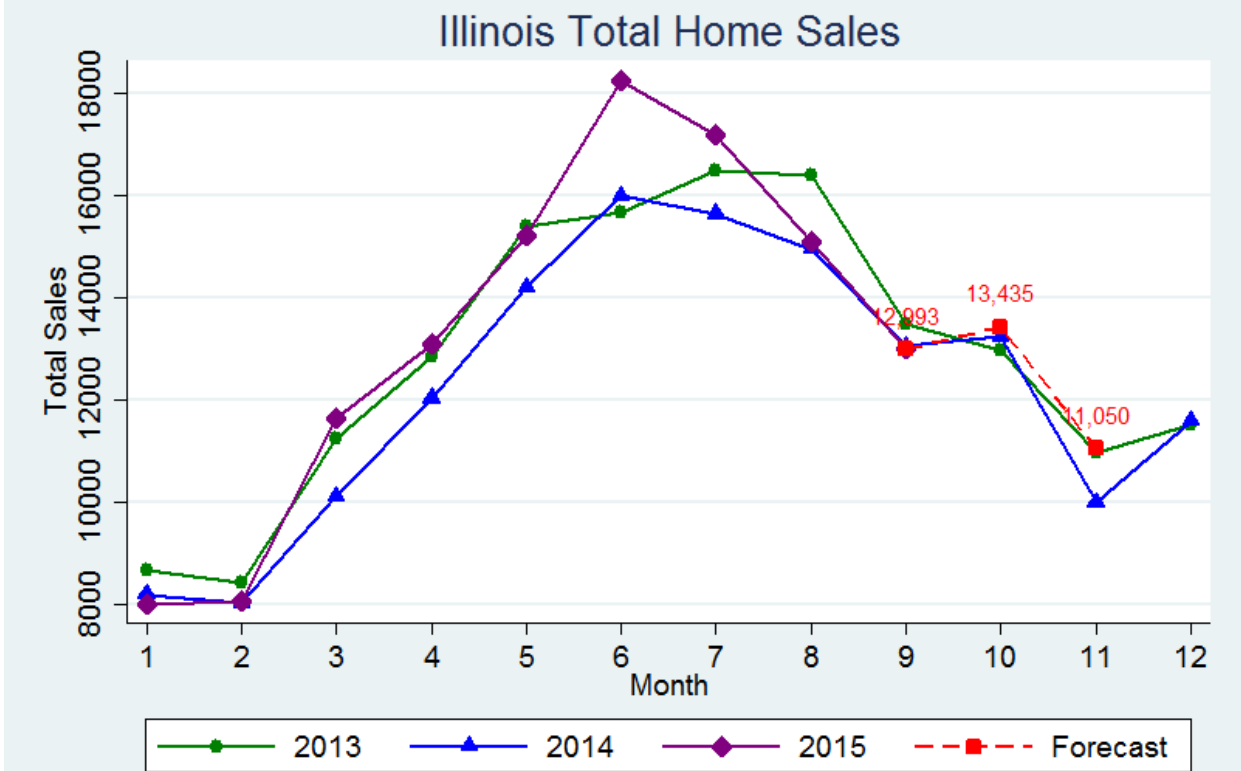
\*Annual recovery rate is the average of *annual* change rates in past months

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

$Price_{August2015} * (1 + \text{recovery rate})^{\text{years}} = Price_{August2008}$ . 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.

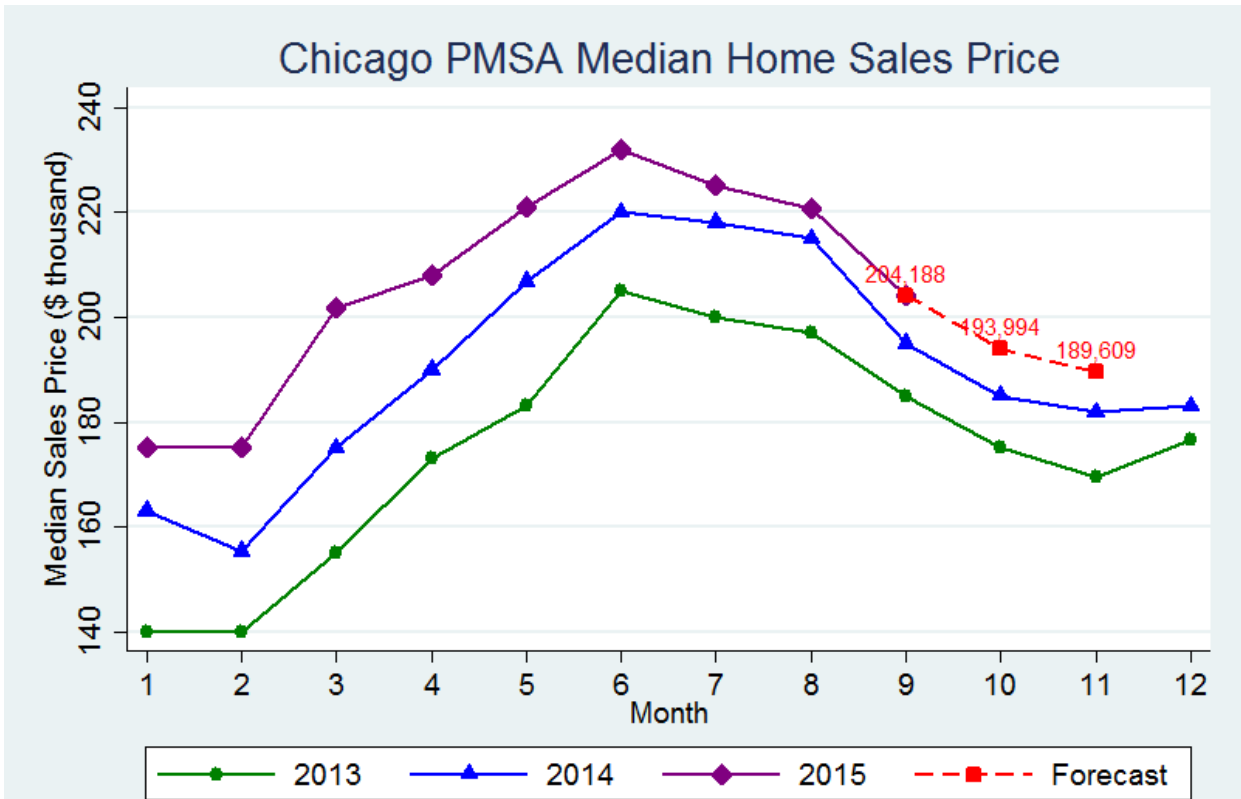


Source: University of Illinois REAL, Illinois Association REALTORS

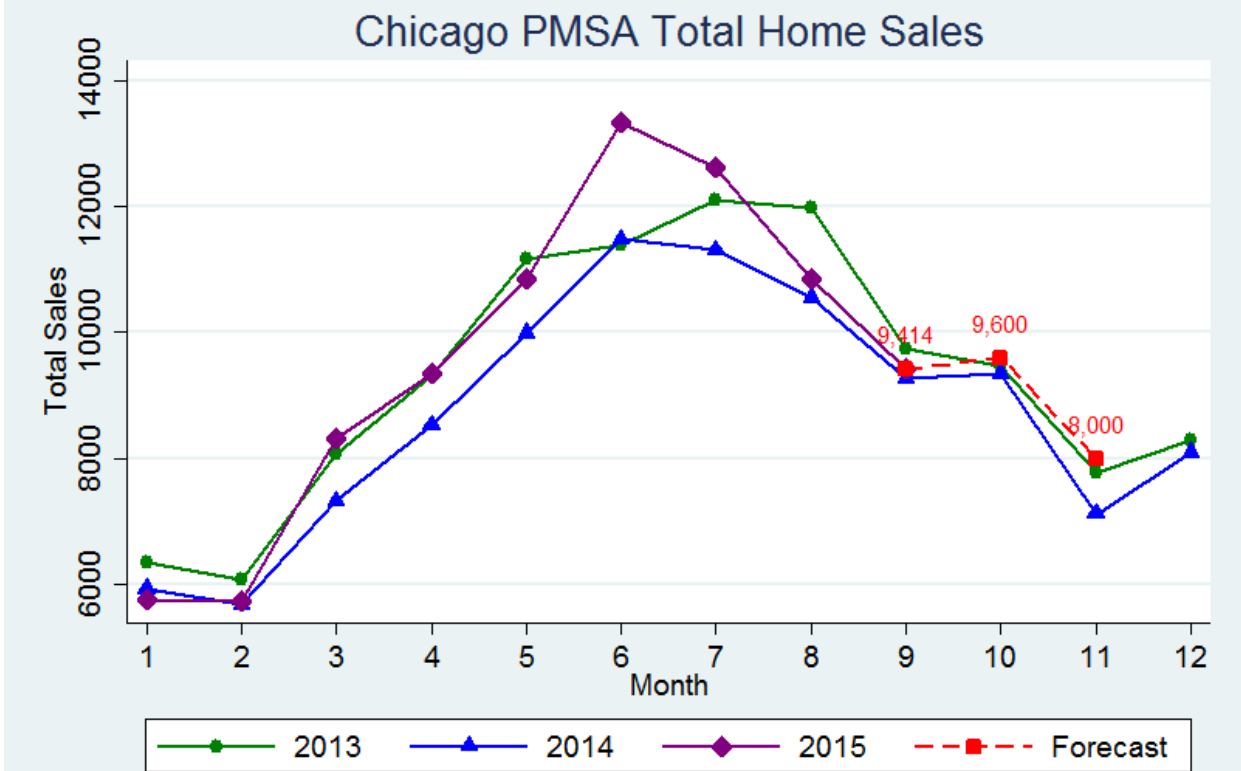


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