

Housing Price Forecasts

Illinois and Chicago PMSA, March 2016

Presented To

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From

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The Housing Market

In February, both sales and median prices experienced mild to moderate annual increases. 8,528 houses were sold in Illinois, up 2.0% from a month ago and up by 5.7% from a year ago. In the Chicago PMSA, 6,095 houses were sold, down 0.2% from a month ago and up 6.1% from a year ago. The median price was \$160,000 in Illinois, up 7.8% from February last year; the comparable figure for the Chicago PMSA was \$187,500, up 7.1% from this time last year. Furthermore, months of supply decreased for homes priced less than \$700K. The lower the price range, the lower the months of supply. The market shares of homes priced at the two ends (<\$100K and >\$500K) experienced drops compared to a year ago.

For the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 19.4%, the lowest February reading since 2008. 4,800 regular sales were made, 15.3% more than last year. 1,257 foreclosed properties were sold, 19.1% less than last year. The median price was \$212,000 for regular property sales, up 1.9% from last year; the comparable figure for the foreclosed properties was \$129,000, up 13.2% from this time last year.

Sale prices in February 2008 have been adjusted to 2016 values to enable calculation of the housing price recovery taking into account the effects of inflation. In Illinois, the February 2008 median sale price was \$177,500 (in \$2008) and \$198,715 (in \$2016); the current price level was 81% of the 2008 level after adjusting (90% before adjusting). In the Chicago PMSA, the February 2008 median sale price is \$240,000 (in \$2008) and \$268,684 (in \$2016); the comparable figure for price recovery in February 2016 is 70% after adjustment (78% before adjusting). According to average annual growth rates of prices in the past months, it could take between 3.2~3.7 years (39~44 months) for Illinois and 3.2~3.8 years (38~46 months) for the Chicago PMSA to recover to the 2008 levels.

The sales forecast for March, April and May 2016 suggests moderate growth on a yearly basis and large positive changes on a monthly basis. Annually for Illinois, the three-month average forecasts point to a change between 3.7%-4.9%; for the Chicago PMSA, the change will range from 5.9% to 7.7%. On a monthly basis, the three-month average sales are forecast to increase by 19.2%-25.1% for Illinois and increase by 21.2%-27.7% for the Chicago PMSA.

The median price forecast indicates moderate annual growth in both Illinois and the Chicago PMSA for March, April and May. In Illinois, the median price is forecast to rise by 6.9% in March, 7.6% in April and 7.3% in May. For the Chicago PMSA, the comparable figures are 4.5% in March, 6.6% in April and 7.1% in May. As a complement to the median housing price index (HPI), the REAL HPI¹ forecasts slightly different growth trend for Illinois and the Chicago PMSA. In Illinois, the REAL HPI (Jan 2008=1) is forecast to rise by 6.6% in March, 5.2% in April and 4.1% in May. The comparable figures for the Chicago PMSA are 8.4% in March, 6.0% in April and 5.8% in May. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month.

¹ REAL HPI was developed by Esteban Lopez and Minshu Du. Contact us for further details.

In January 2016, according to the Illinois Department of Employment Security (IDES) news release, the Illinois unemployment rate edged up to 6.3% and 1,500 non-farm payroll jobs were added. BLS's revised data shows that Illinois was 16,800 private nonfarm payroll jobs below the peak employment in January 2008. At current rates of job growth, Illinois will not regain its pre-recession level until May 2016 while the nation as whole is already 3.5% above the pre-recession level.

In February, the University of Michigan Consumer Sentiment Index decreased slightly, but the overall trend in the last few months was stable. The housing market specific sentimental index - Fannie Mae Home Purchase Sentiment Index (HPSI) increased to 82.7 from 81.5. Furthermore, inflation and the expectation of inflation is major factor for the central bank to make its decision on the interest rate.

The Housing Market – Current Condition

- In February, both sales and median prices experienced mild-moderate annual increases. 8,528 houses were sold in Illinois, up 2.0% from a month ago and up by 5.7% from a year ago. In the Chicago PMSA, 6,095 houses were sold, down 0.2% from a month ago and up 6.1% from a year ago. The median price was \$160,000 in Illinois, up 7.8% from February last year; the comparable figure for the Chicago PMSA was \$187,500, up 7.1% from this time last year. (Reference: Illinois and Chicago PMSA Total Home Sales and Median Home Sales Price figures; Forecast for March 2016 report table)
- In February, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 19.4%, the lowest February reading since 2008. 4,800 regular sales were made, 15.3% more than last year. 1,257 foreclosed properties were sold, 19.1% less than last year. The median price was \$212,000 for regular property sales, up 1.9% from last year; the comparable figure for the foreclosed properties was \$129,000, up 13.2% from this time last year.
- In February, at the latest average annual pending sales rate, Illinois had enough housing inventory for 4.2 months² (down from 5.1 months a year ago). In the Chicago PMSA, the comparable figure was 3.1 months (down from 4.0 months a year ago). However, months of supply decreased more for homes in the lower price ranges; furthermore, months of supply for homes priced above \$700K increased both in Illinois and the Chicago PMSA. (Reference: Illinois and Chicago PMSA Annual Months' Supply by Price Range figures)
- In February, the market shares of homes priced at the low end (<\$100K) and the high end (>\$500K) experienced declines compared to a year ago. The low-end share decreased by the greatest amount. In Illinois, the market share for homes less than \$100K decreased to 27.4% from 32.4% a year ago; the comparative figure for the Chicago PMSA showed a decrease to 18.4% from 25.0% 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 March, April and May. In Illinois, the median price is forecast to rise by 6.9% in

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.

March, 7.6% in April and 7.3% in May. For the Chicago PMSA, the comparable figures are 4.5% in March, 6.6% in April and 7.1% in May. (Reference: Forecast for March 2016 report table)

- As a complement to the median housing price index (HPI), the REAL HPI³ forecasts slightly different growth trend for Illinois and the Chicago PMSA. In Illinois, the REAL HPI (Jan 2008=1) is forecast to rise by 6.6% in March, 5.2% in April and 4.1% in May. The comparable figures for the Chicago PMSA are 8.4% in March, 6.0% in April and 5.8% in May. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month. (Reference: Housing Price Index)
- The sales forecast for March, April and May 2016 suggests moderate growth on a yearly basis and large positive change on a monthly basis. Annually for Illinois, the three-month average forecasts point to a change between 3.7% and 4.9%; for the Chicago PMSA, the change will range from 5.9% to 7.7%. On a monthly basis, the three-month average sales are forecast to increase by 19.2%-25.1% for Illinois and by 21.2%-27.7% for the Chicago PMSA. (Reference: Forecast for March 2016 report table)
- The pending home sales index⁴ is a leading indicator based on contract signings. This February, the number of homes put under contract was greater than last year and last month. The pending home sales index is 164.5 (2008=100) in Illinois, up 38.6% from last month and up 22.9% from a year ago. In the Chicago PMSA, the comparable figure is 201.2, up 45.8% from a month ago and up 31.4% from a year ago. (Reference: Illinois and Chicago PMSA Pending Home Sales Index figure)
- In February 2016, 2,049 houses were newly filed for foreclosure in the Chicago PMSA (down 18.1% and up 14.9% respectively from a year and a month ago). 1,215 foreclosures were completed⁵ (down 32.9% and 17.0% respectively from a year and a month ago). As of February 2016, there are 37,956 homes at some stage of foreclosure — the foreclosure inventory. The average inventory change rates⁶ were 1.3% in the past 6 months, 1.4% in the last 12 months and -0.8% in the last 24 months. Given the 24-month rate of change, the foreclosure inventory would return to the pre-bubble levels⁷ by Jan 2027. According to the positive 6-month rate and 12-month rate, the inventory would increase (Reference: Chicago PMSA Foreclosure Activity and Inventory figures).

The Economy

- In February 2016, according to the Bureau of Labor Statistics (BLS) Employment Situation report, the national unemployment rate was unchanged at 4.9% and nonfarm payroll jobs experienced gains of 242,000 jobs. The employment growth was led by retail trade (55,000). The growth was followed by food services and drinking (+40,000) and private educational services (+28,000).
- In January 2016, according to the Illinois Department of Employment Security (IDES) news release, the Illinois unemployment rate edged up to 6.3% and 1,500 non-farm payroll jobs

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

⁴ The base level (100) of pending home sales is the average pending home sales of year 2008.

⁵ Including estimated foreclosure completions that are missing in the data.

⁶ 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.

⁷ Average foreclosure inventory from 1997-2005

were added. BLS's revised data shows that Illinois is still 16,800 private nonfarm payroll jobs below the peak employment in January 2008. At current rates of job growth, the Illinois will not regain its pre-recession level until May 2016 while the nation as whole is already 3.5% above the pre-recession level.

- In January 2016, the one-year-ahead forecast for Illinois indicates that the non-farm employment will decrease at a rate between 0.09% and 0.65%, corresponding to job loss between 5,600 and 38,600. Only three out of ten sectors are forecast with positive job growth: construction (2.15%; 4,700), education and health (1.0%; 9,100) and leisure and hospitality (0.72%; 4,200).

Longer-term Outlook

- In February, two consumer indices both decreased. The Conference Board Consumer Confidence index decreased to 92.2 from 97.8 last month. Meanwhile, the University of Michigan Consumer Sentiment Index edged down slightly to 91.7 from 92.0 last month.
- In February, Fannie Mae Home Purchase Sentiment Index (HPSI) increased to 82.7 from 81.5. Compared to last month, *Good Time to Sell* decreased by 2 points and *Good Time to Buy* increased by 4 points. Furthermore, the component that indicates the expectation of higher home price decreased by 4 points. 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 Chicago Business Activity Index (CBAI) increased to 99.3 in January from 98.4 in December. The increase is attributed to the job growth in the manufacturing, nonmanufacturing and construction sectors and to the improved retail activities in the Chicago area.

“The housing market in Illinois continues to record comfortable increases in both sales and prices,” noted Geoffrey J.D. Hewings, Director of the Regional Economics Applications Laboratory. “Particularly important has been the consistent decrease in the percentage of sales accounted for by foreclosed properties in Chicago. The influence of foreclosed properties on aggregate prices seems to be diminishing while the foreclosure inventory remains at levels above those during the pre-recession period.”

Forecast for March 2016 report

PERCENTAGE CHANGE FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois		Chicago PMSA	Illinois		Chicago PMSA		
Dec-15	3.0%		4.0%	21.2%		20.7%		
Jan-16	4.4%		6.3%	-30.0%		-27.5%		
Feb-16	5.7%		6.1%	2.0%		-0.2%		
3 Month Avg.	4.2%		5.3%	-4.4%		-4.1%		
SUMMARY OF THE FORECAST INTERVALS FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois		Chicago PMSA	Illinois		Chicago PMSA		
Mar-16	0.1%	0.1%	1.1%	1.4%	32.3%	42.3%	33.5%	43.8%
Apr-16	6.1%	8.0%	6.2%	8.1%	17.6%	23.0%	16.5%	21.6%
May-16	4.5%	5.8%	9.3%	12.2%	12.6%	16.4%	17.6%	23.0%
3 Month Avg.	3.7%	4.9%	5.9%	7.7%	19.2%	25.1%	21.2%	27.7%
SUMMARY OF THE FORECAST FOR THE MEDIAN PRICE								
	Illinois		Chicago PMSA		Illinois		Chicago PMSA	
Dec-15	\$165,000		\$198,000	Dec-14	\$154,000		\$183,000	
Jan-16	\$163,000		\$190,000	Jan-15	\$150,000		\$175,000	
Feb-16	\$160,000		\$187,500	Feb-15	\$148,125		\$175,000	
Mar-16	\$176,444		\$211,046	Mar-15	\$165,000		\$202,000	
Apr-16	\$181,921		\$221,871	Apr-15	\$169,000		\$208,090	
May-16	\$194,166		\$236,585	May-15	\$181,000		\$221,000	
ANNUAL PERCENTAGE CHANGE OF THE MEDIAN PRICE								
	Illinois		Chicago PMSA		Illinois		Chicago PMSA	
Dec-15	7.1%		8.2%	Dec-14	3.7%		3.8%	
Jan-16	8.7%		8.6%	Jan-15	10.7%		7.4%	
Feb-16	7.8%		7.1%	Feb-15	12.2%		12.6%	
Mar-16	6.9%		4.5%	Mar-15	11.5%		15.4%	
Apr-16	7.6%		6.6%	Apr-15	9.0%		9.5%	
May-16	7.3%		7.1%	May-15	8.1%		7.0%	

Median Prices and Recovery

	Illinois		Chicago PMSA	
	[\$2008]	[\$2015]	[\$2008]	[\$2015]
February 2008 Median Price	\$177,500	\$198,715	\$240,000	\$268,684
February 2016 Median Price	\$142,919	\$160,000	\$167,483	\$187,500
Price Ratio (February 16/February 08)	Adjusted	0.81	Adjusted	0.70
	Unadjusted	0.90	Unadjusted	0.78

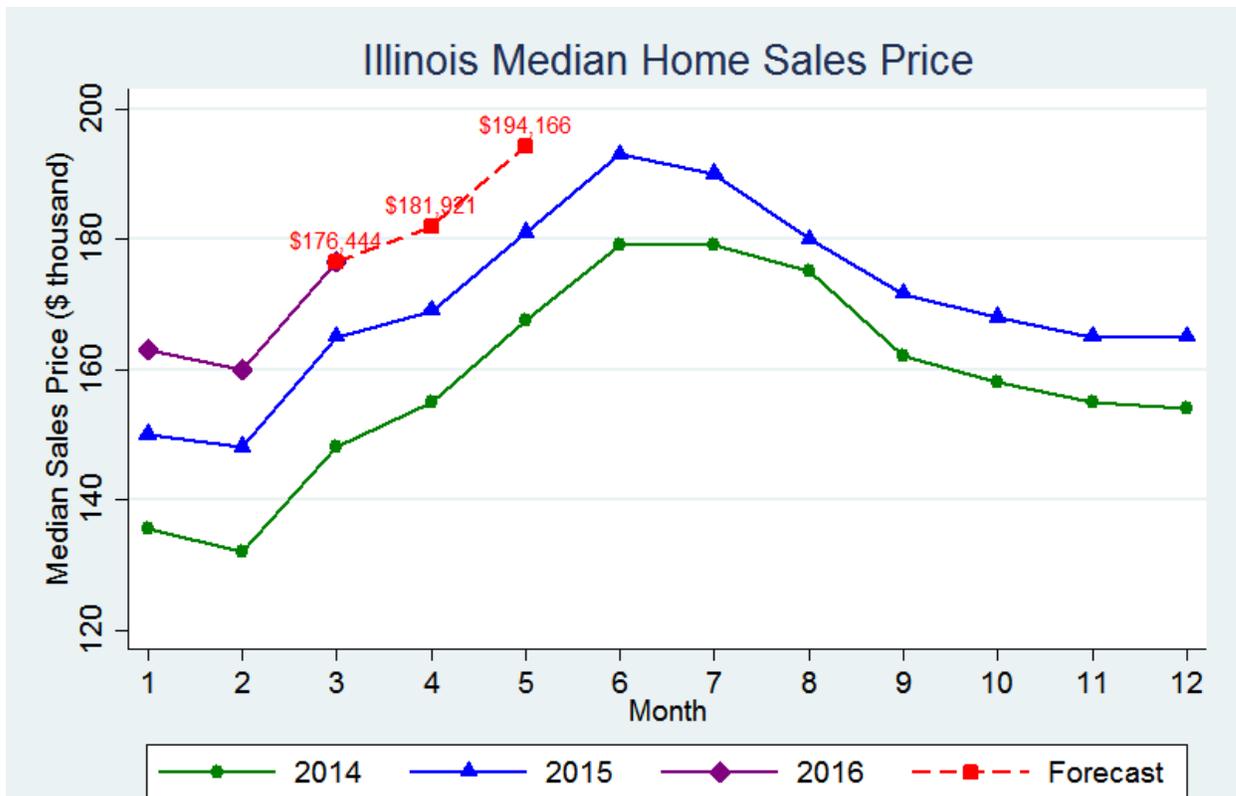
Recovery Forecasts using *Annually Growth Rates*

	Illinois	Chicago PMSA		
	Annual Recovery Rate*	Years to Recover**	Recovery Rate	Years to Recover
Current Month	6.8%	3.3	5.9%	3.8
Past 3 months	6.8%	3.3	6.8%	3.3
Past 6 months	6.4%	3.5	7.0%	3.2
Past 9 months	6.1%	3.7	5.8%	3.8
Past 12 months	7.0%	3.2	7.0%	3.2

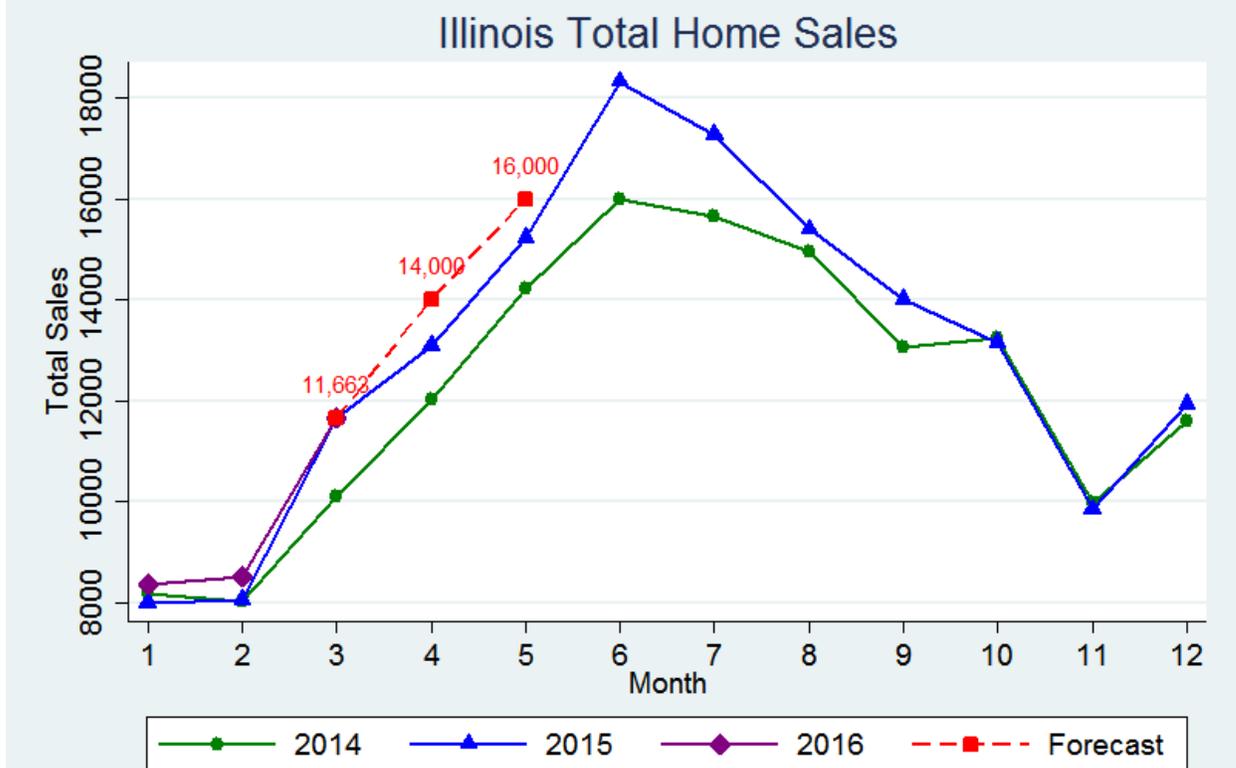
*Annual recovery rate is the average of *annual* change rates in past months

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

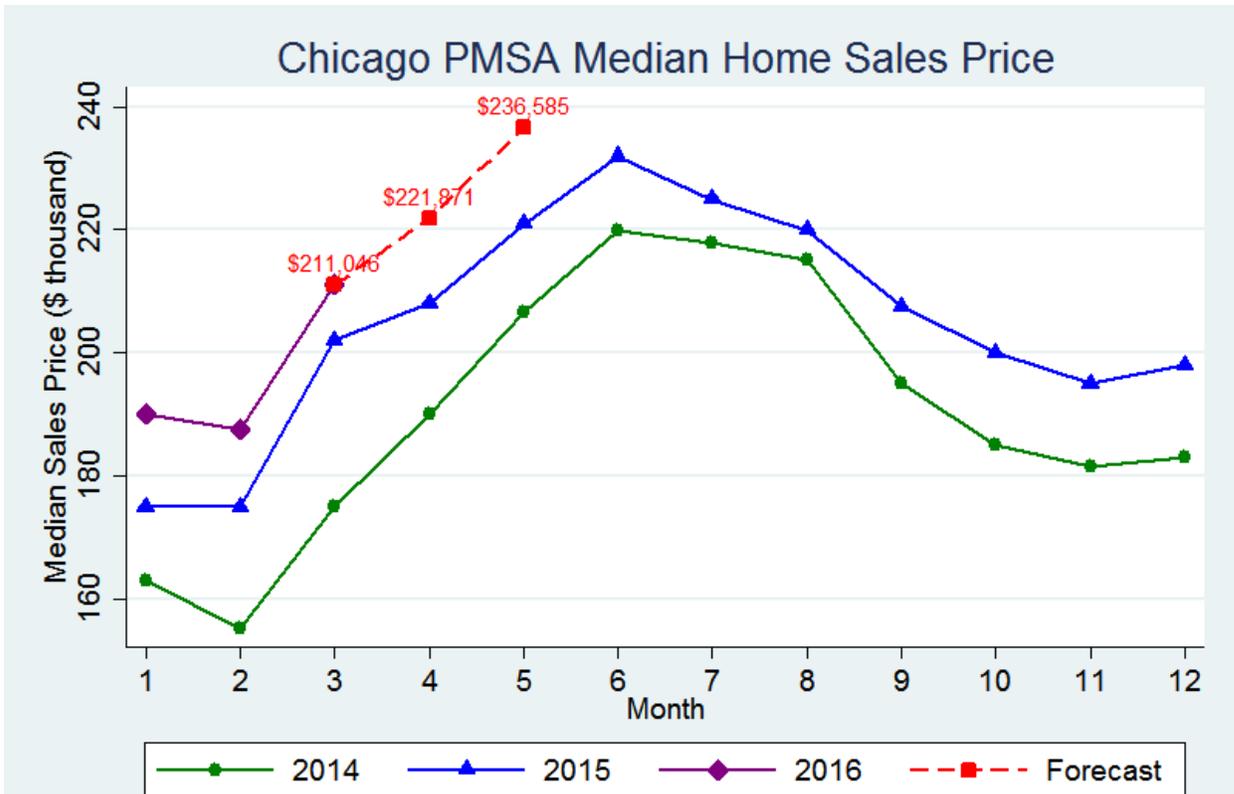
$Price_{\text{February 2016}} * (1 + \text{recovery rate})^{\text{years}} = Price_{\text{February 2008}}$. Prices used in the formula are inflation adjusted. The recovery rate is applied as a constant annual change rate to recoup the differences between the current month and its corresponding month in 2008.



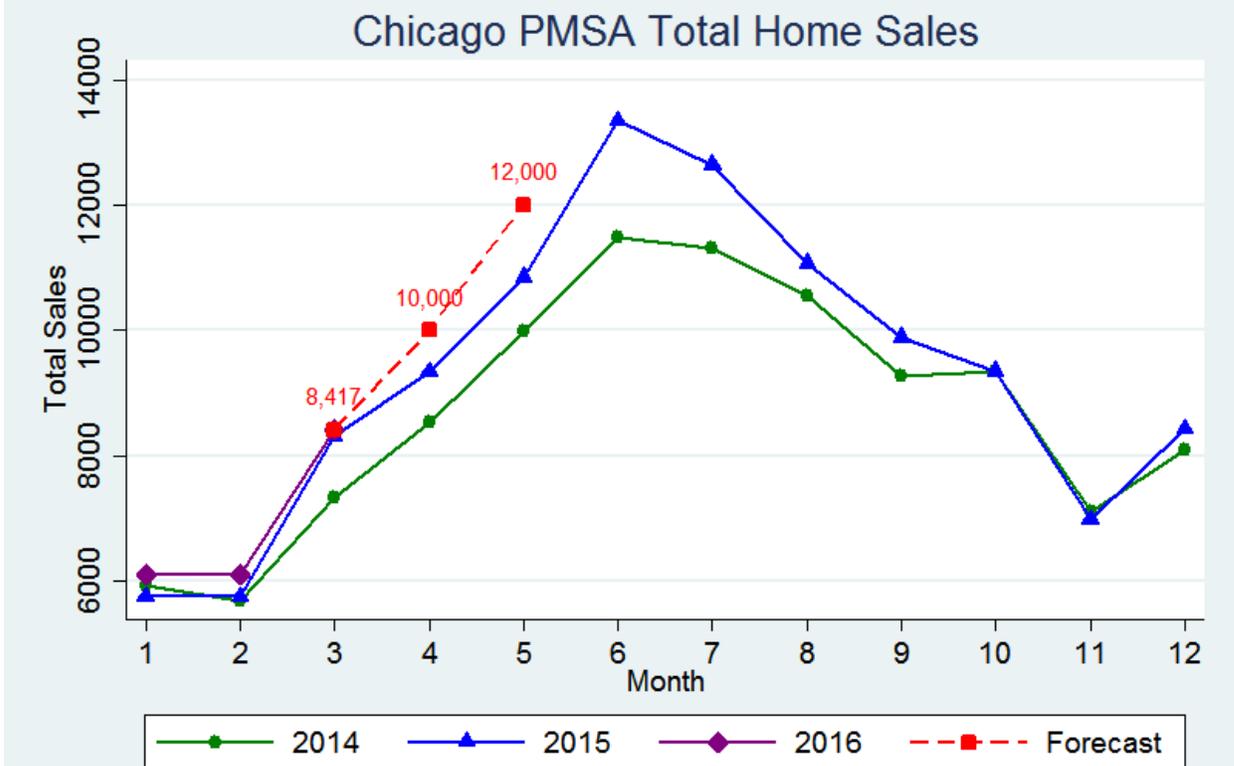
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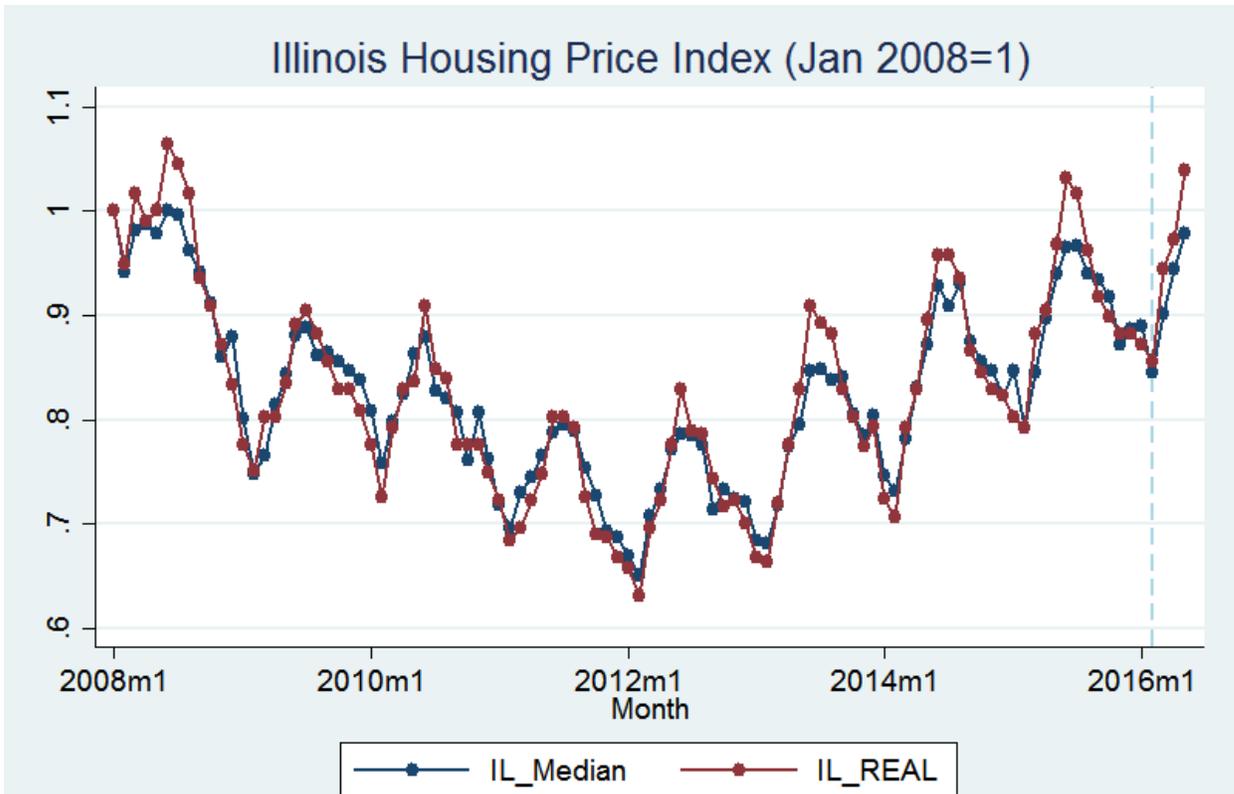
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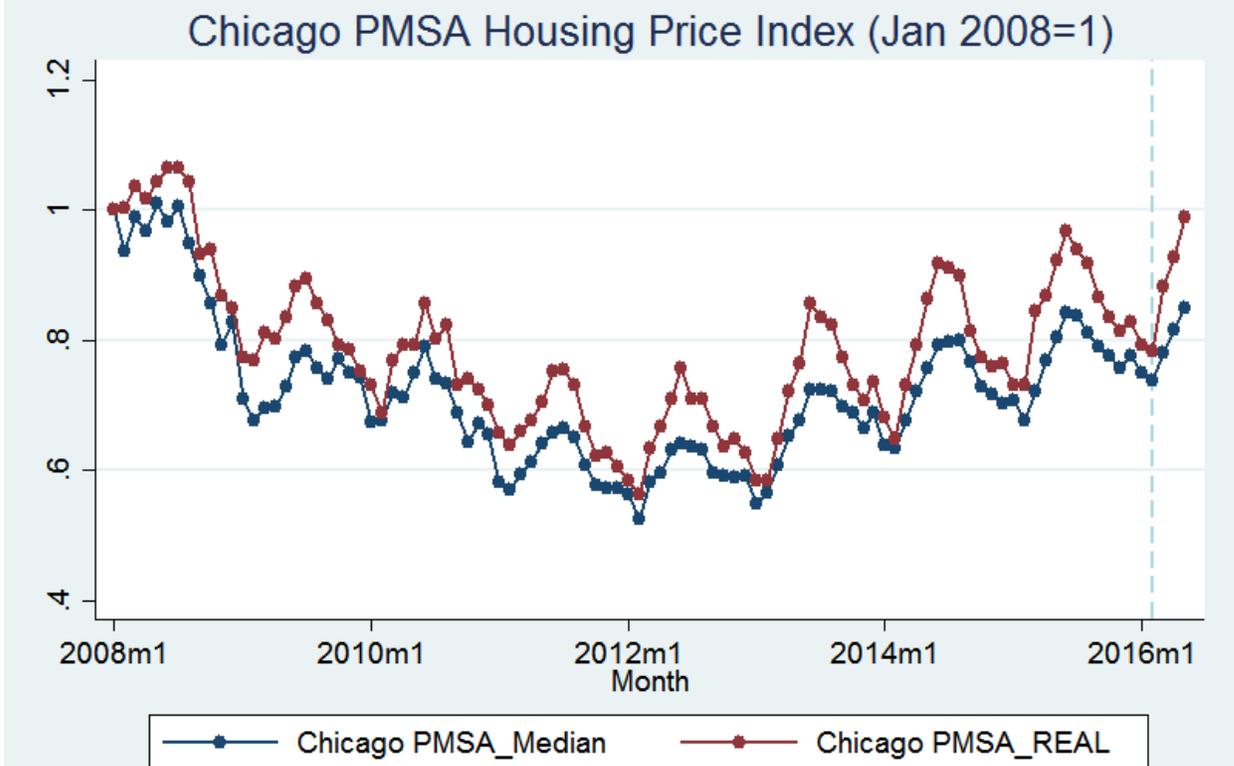
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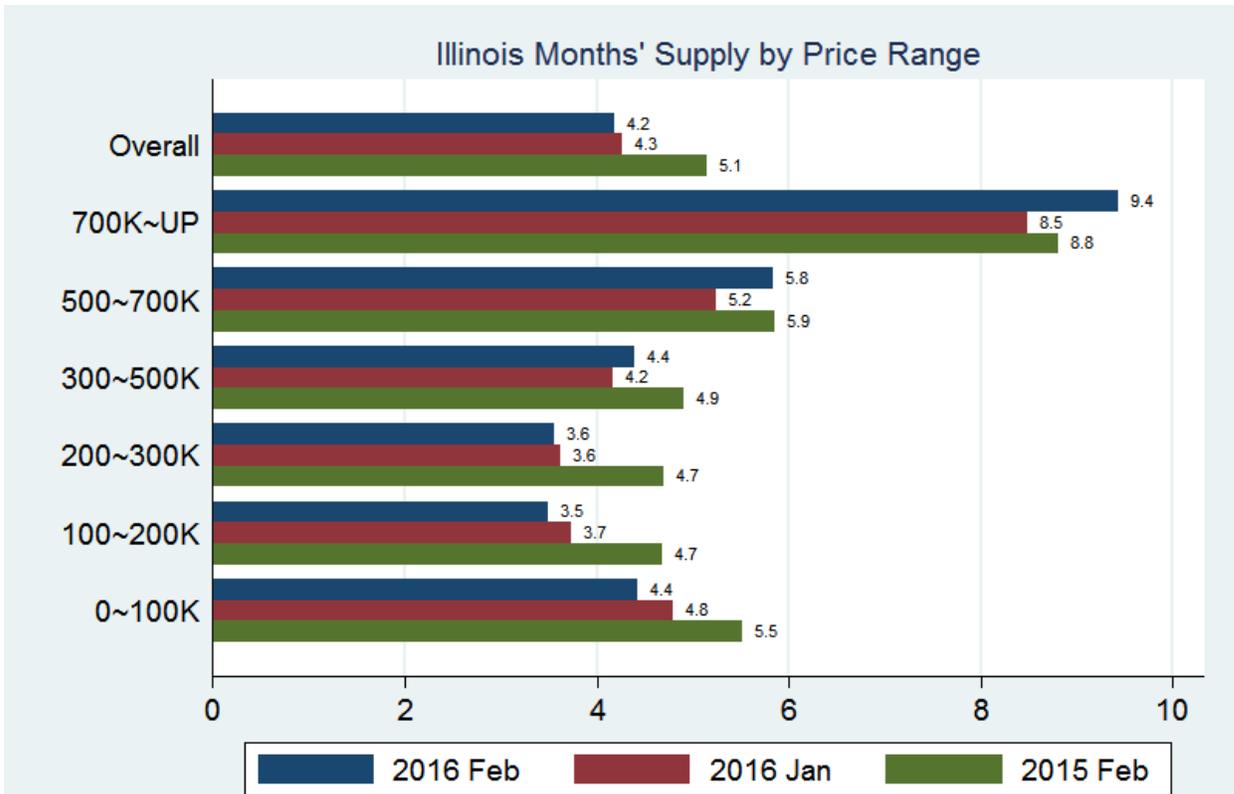
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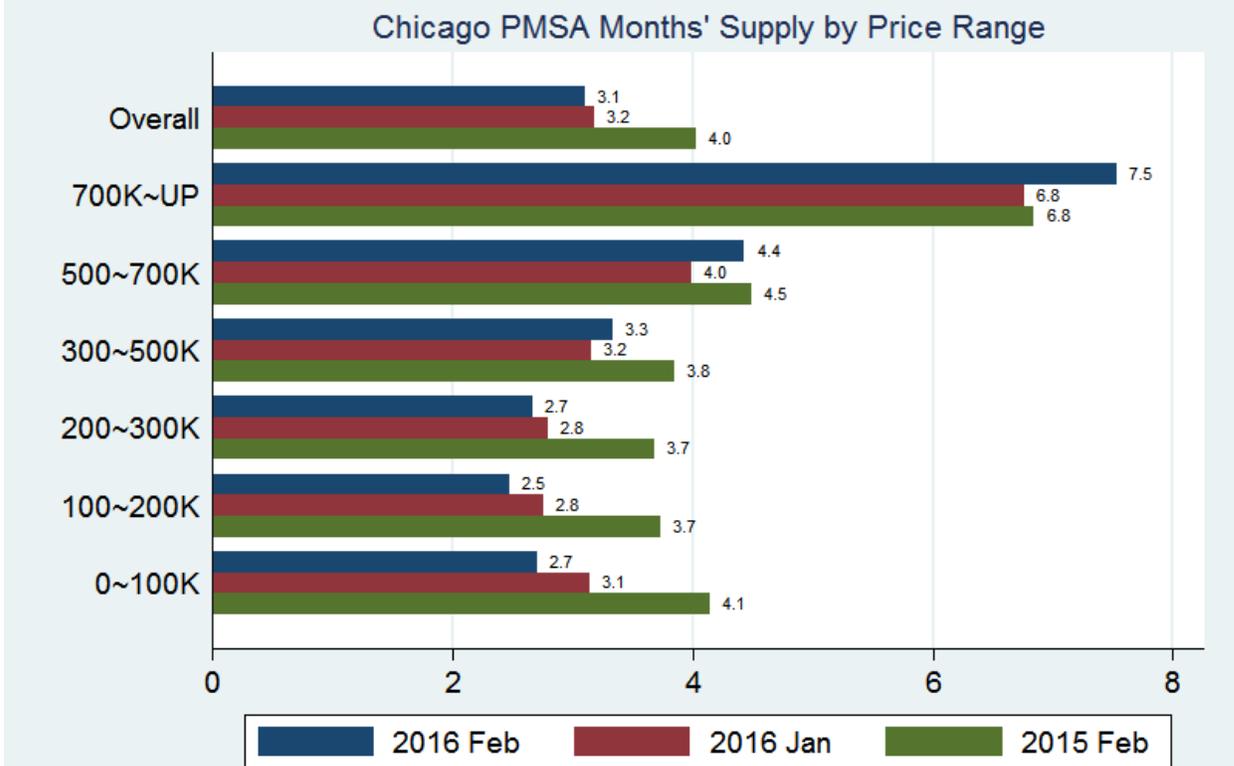
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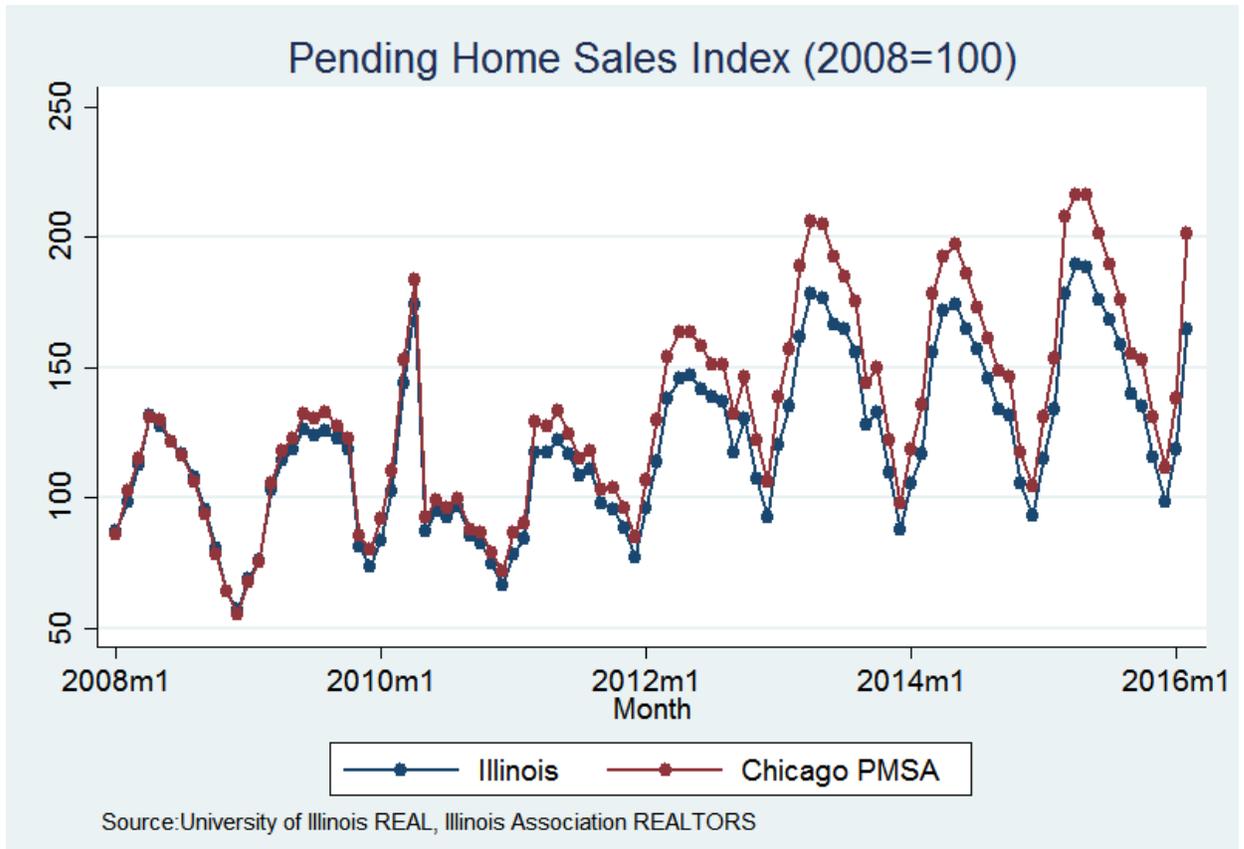
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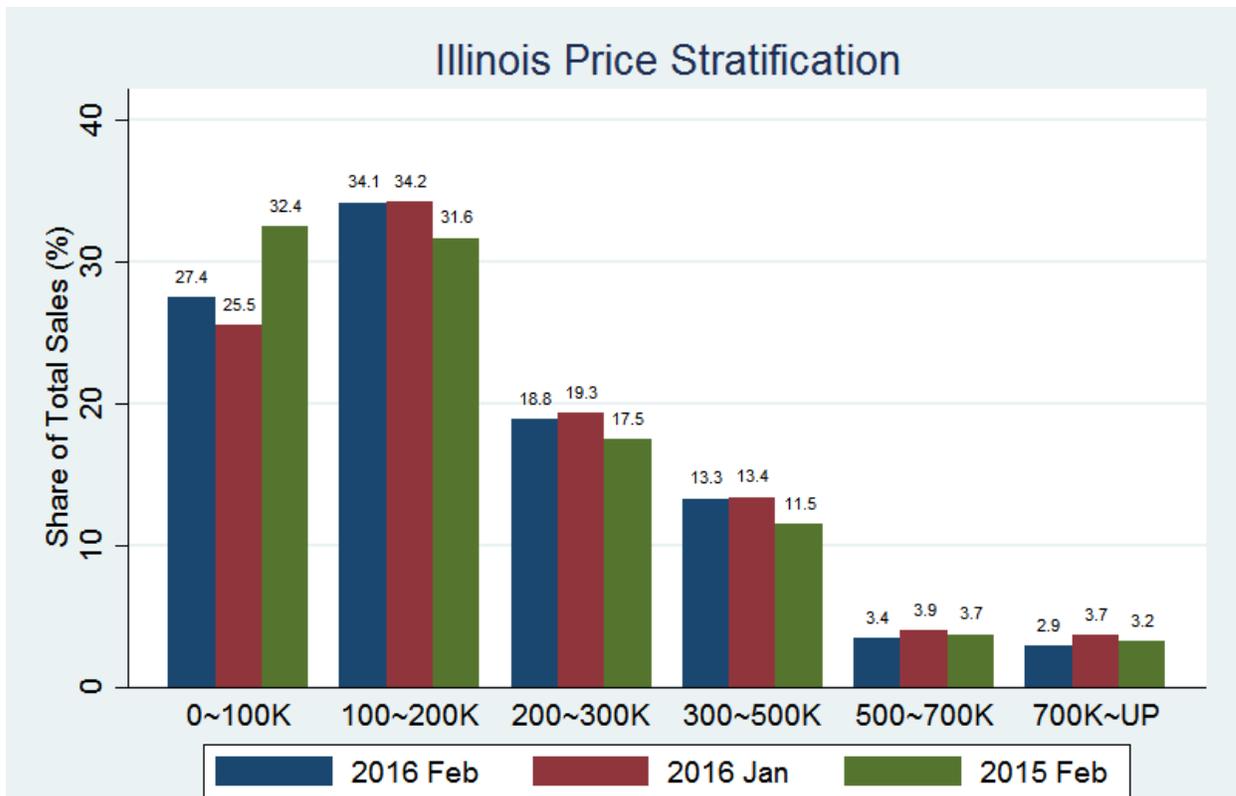


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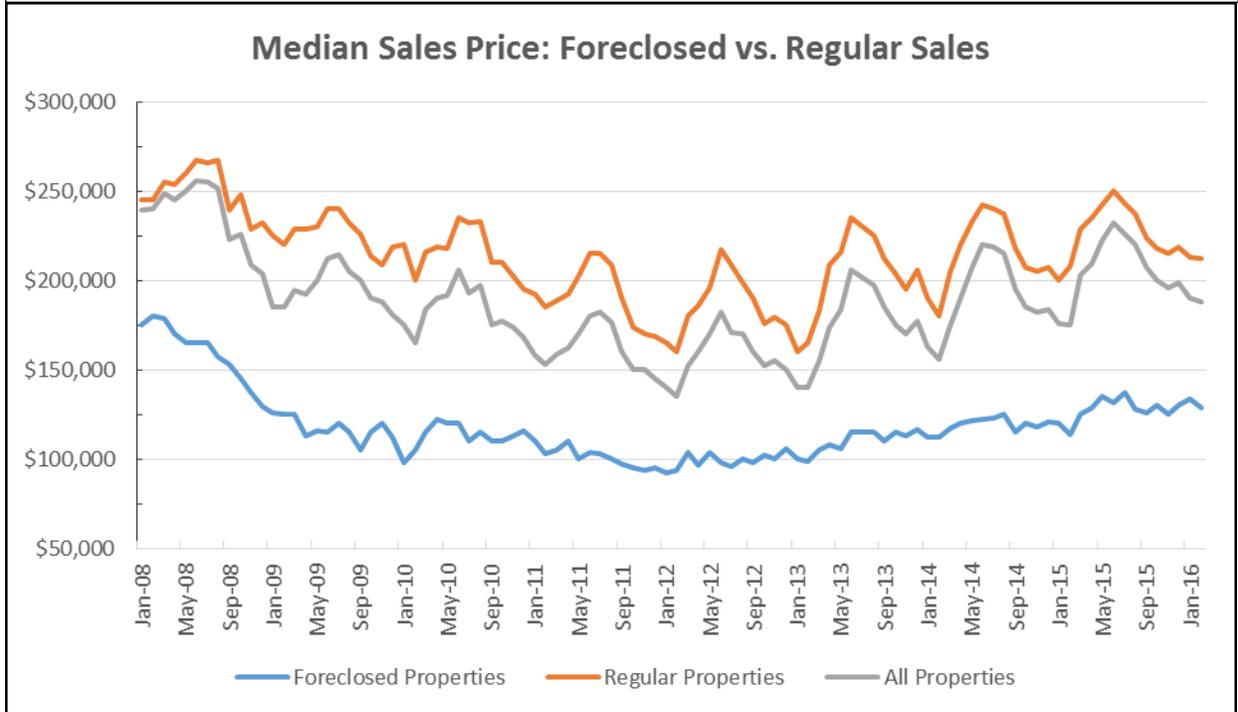
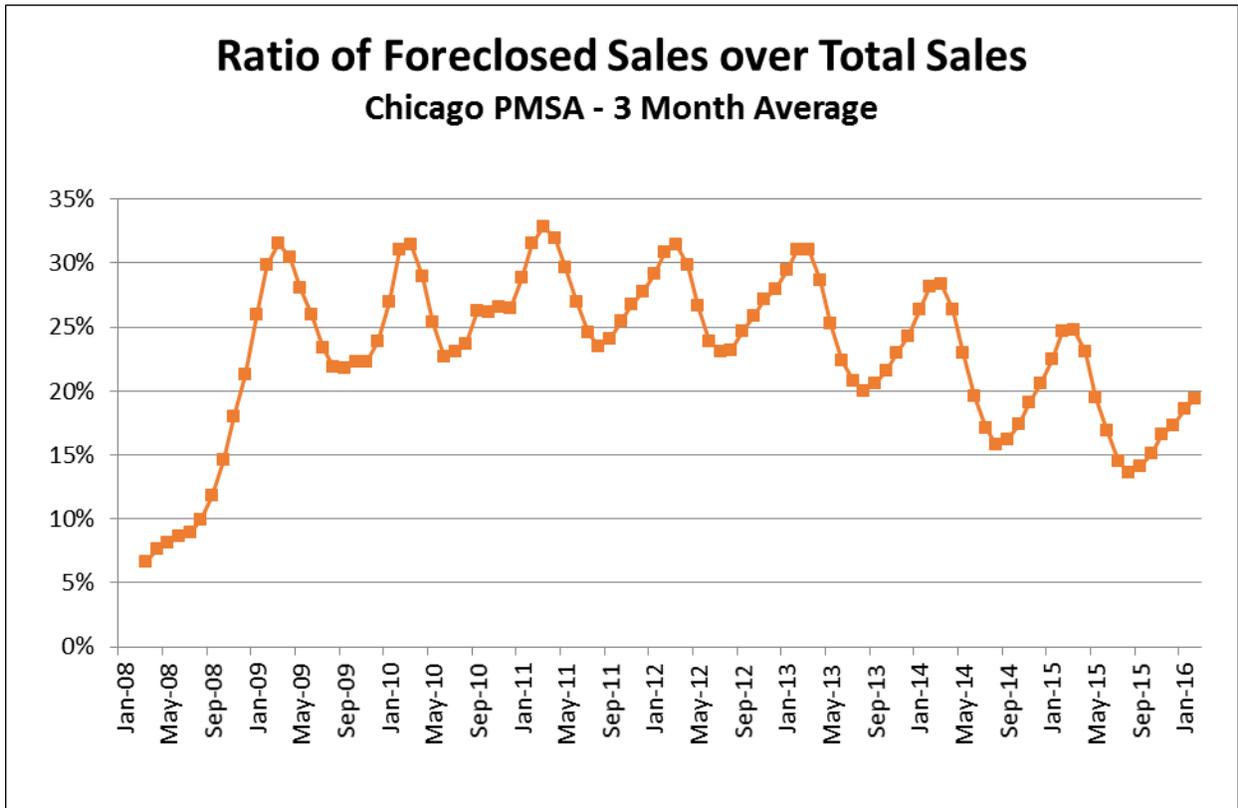


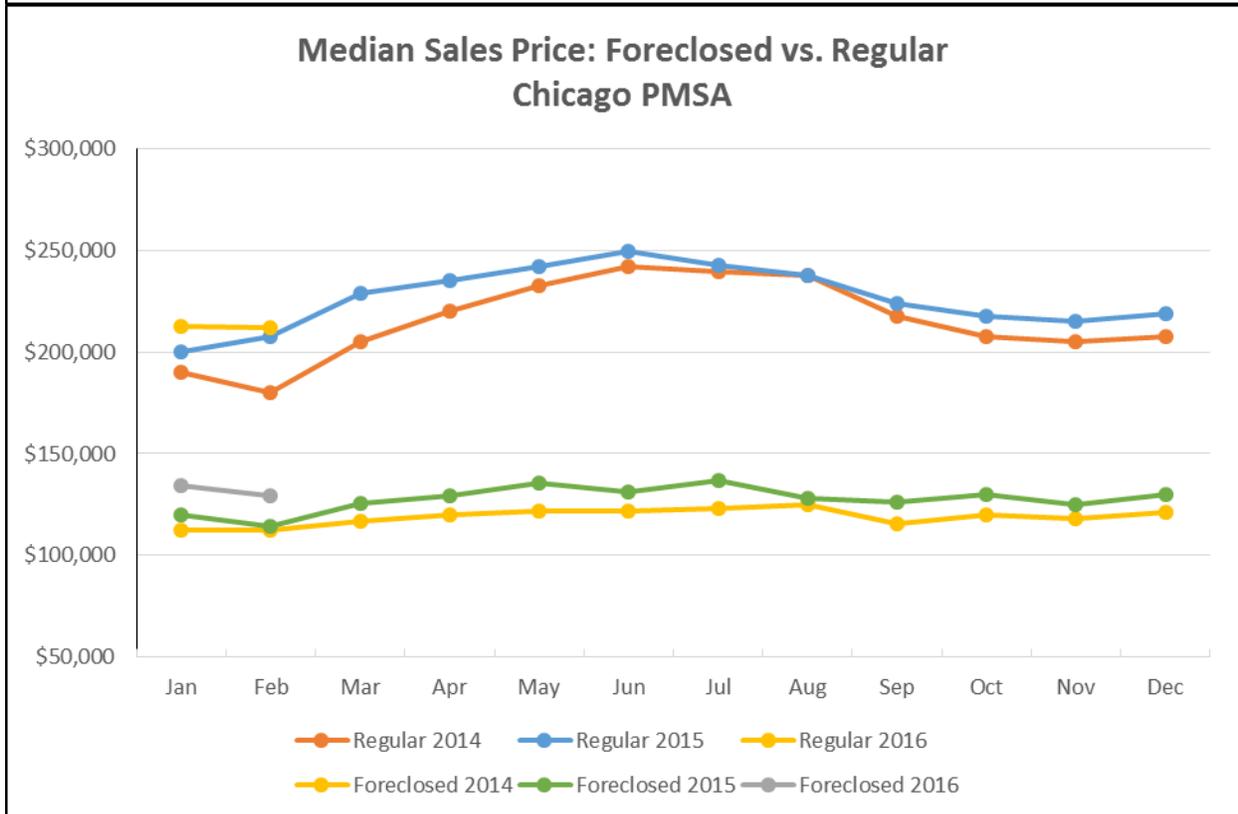
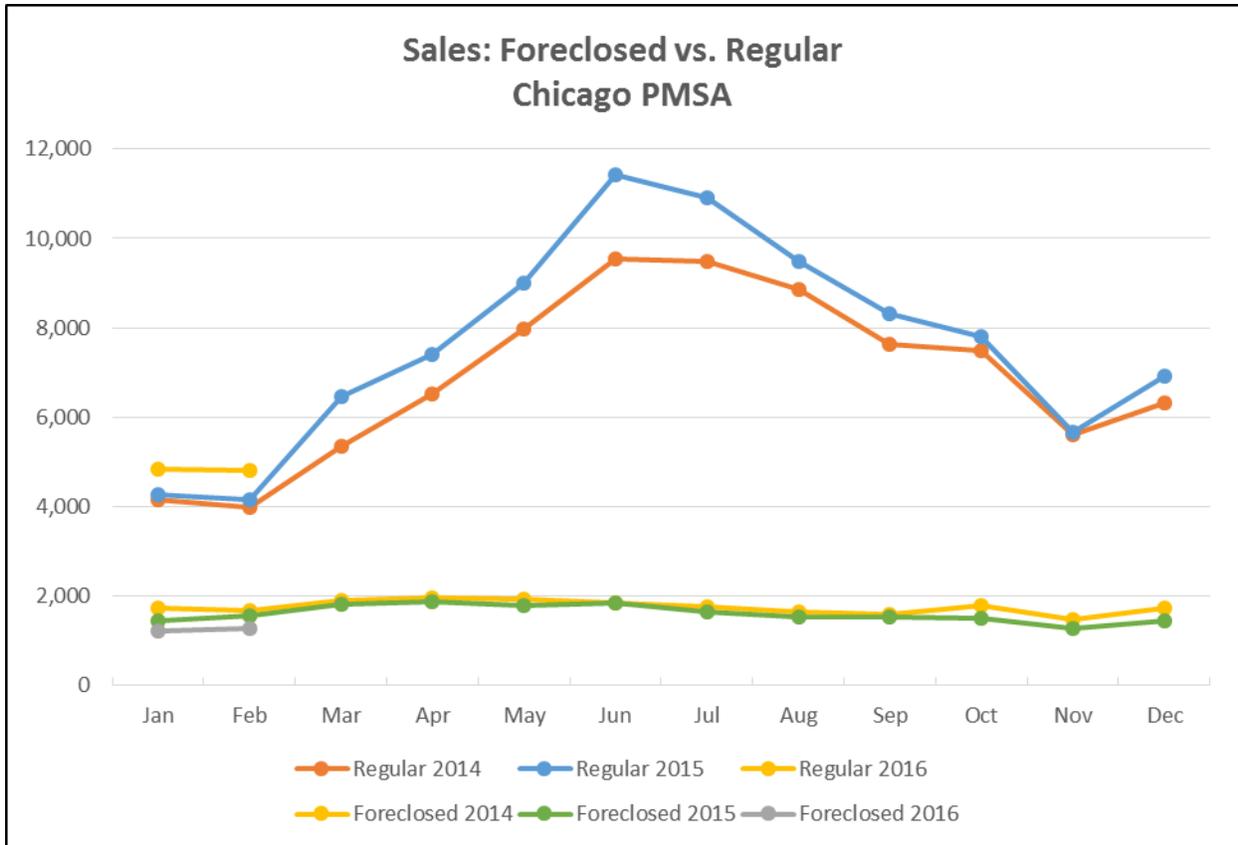


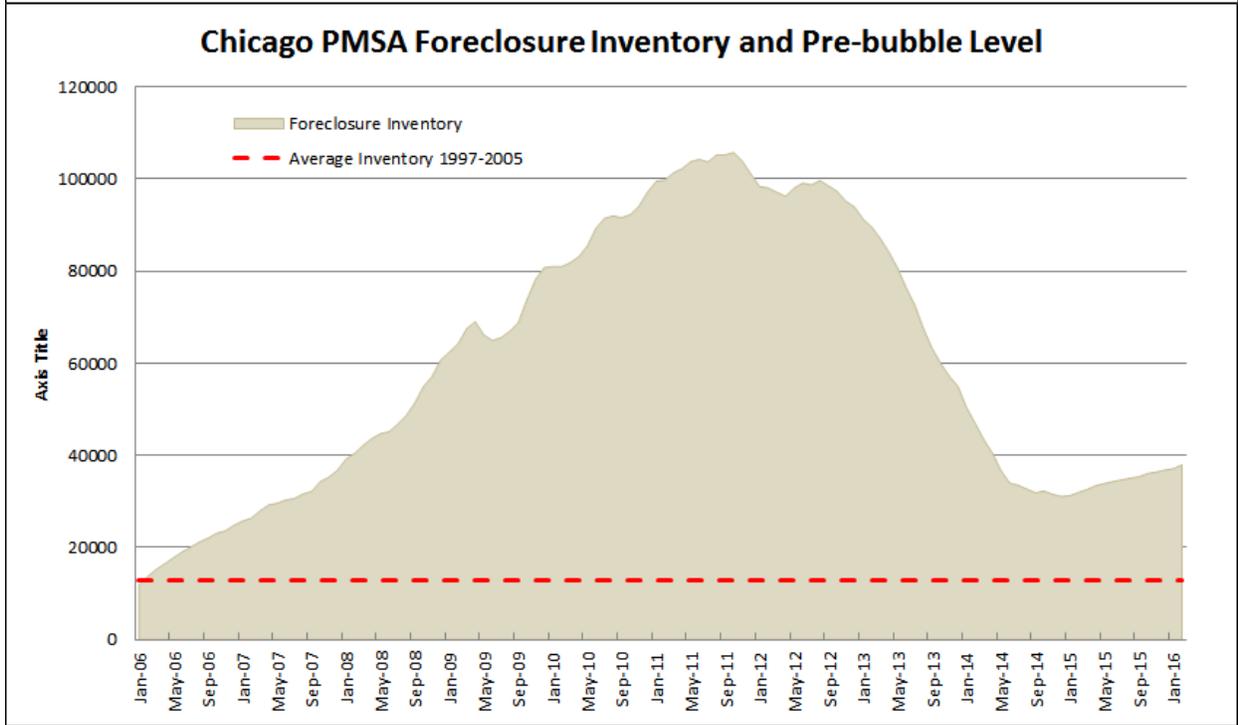
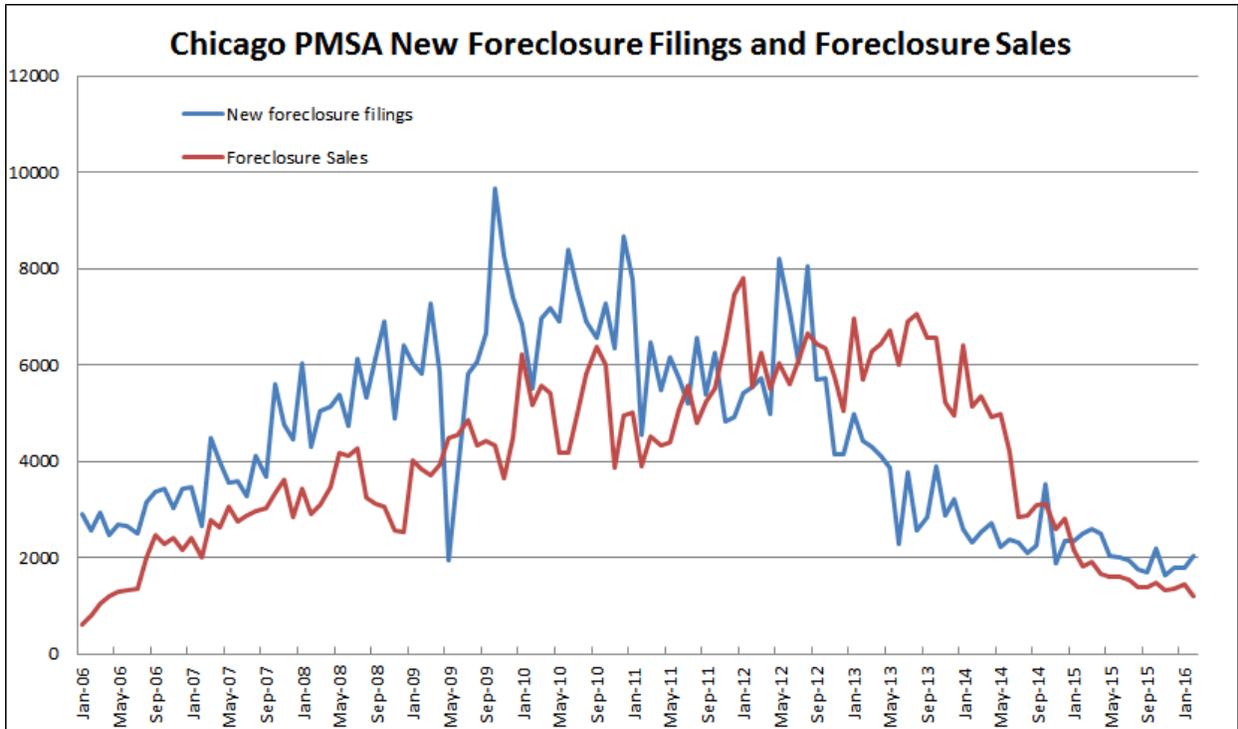
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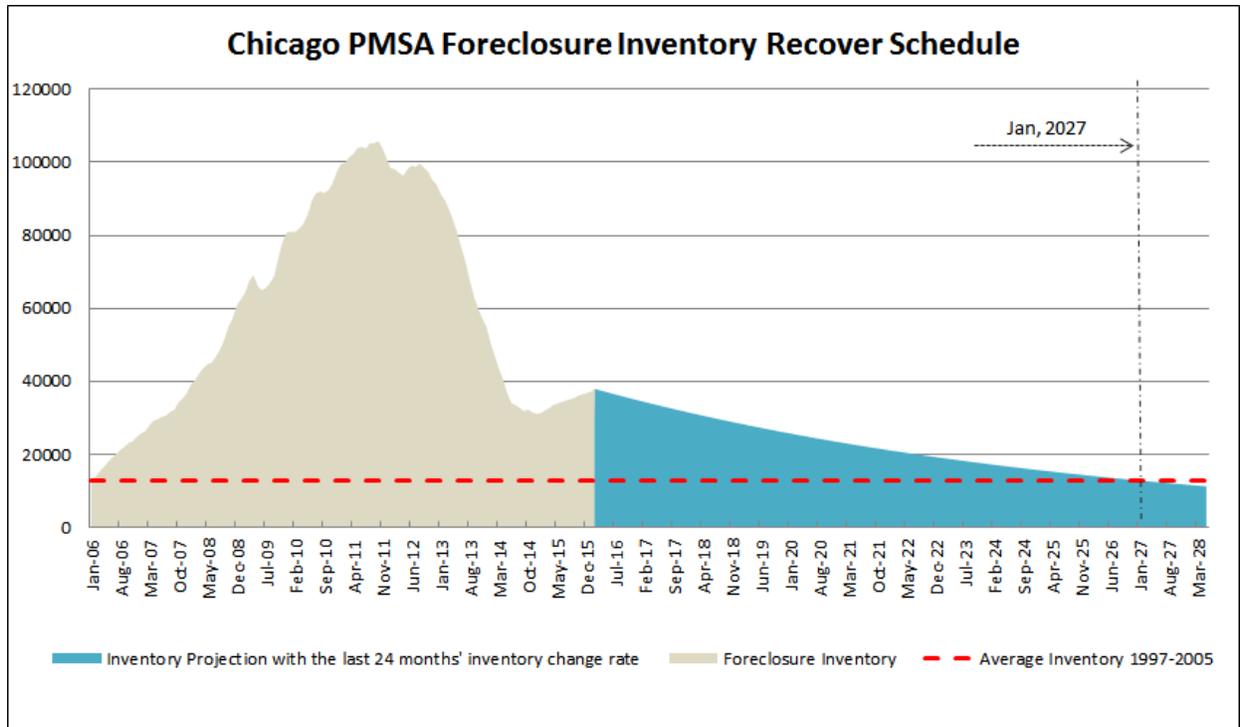


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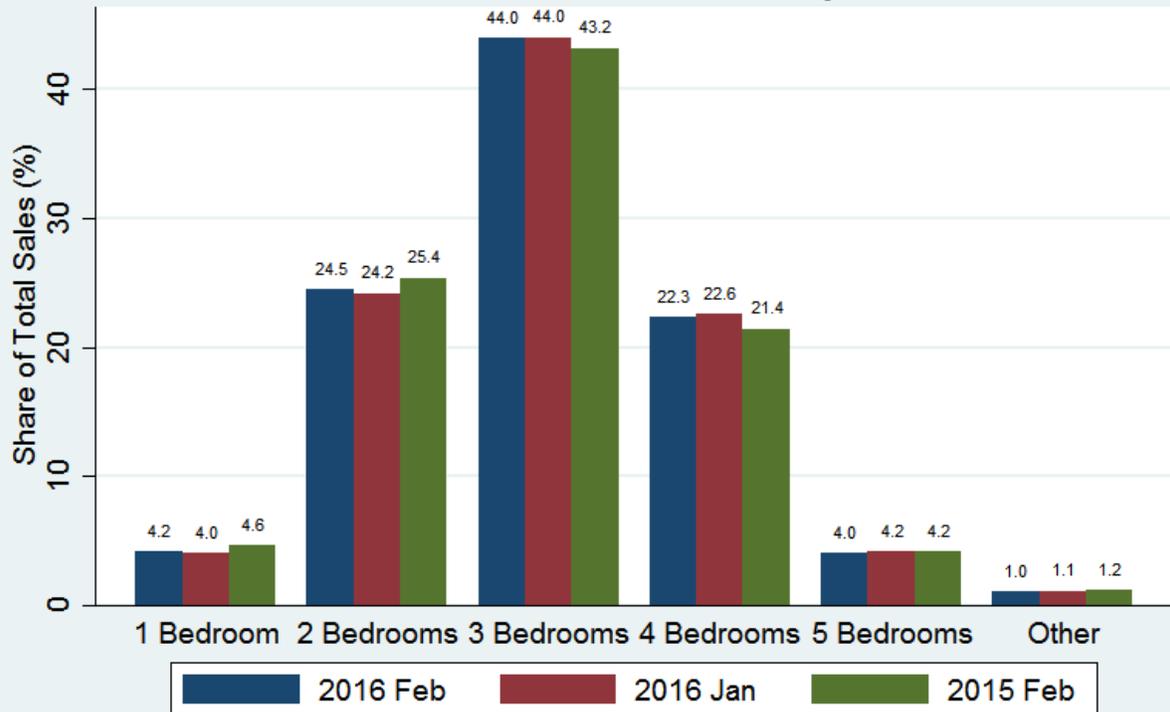






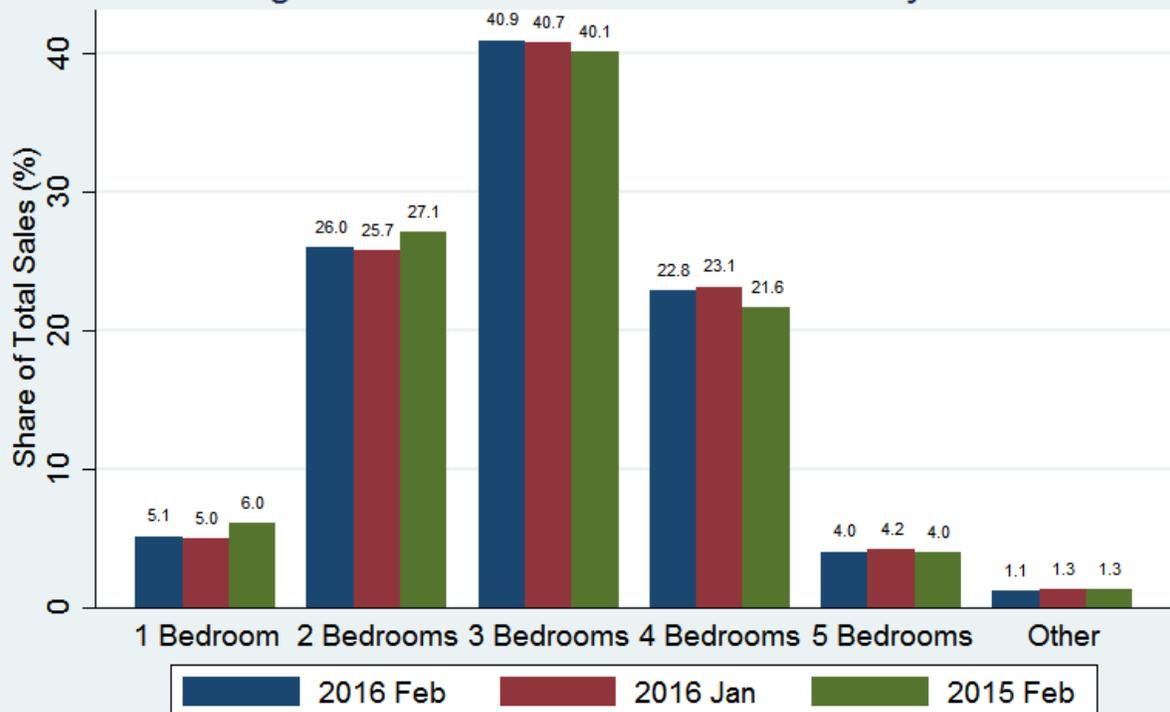


Illinois House Characteristics by Bedroom



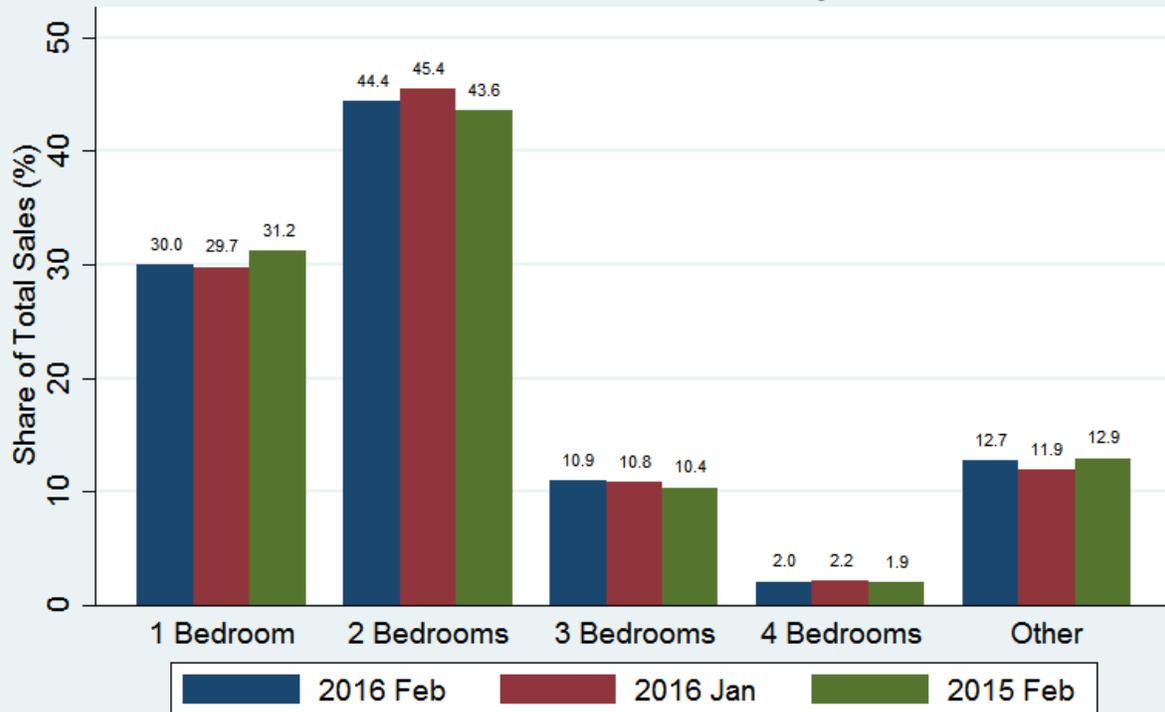
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Chicago PMSA House Characteristics by Bedroom



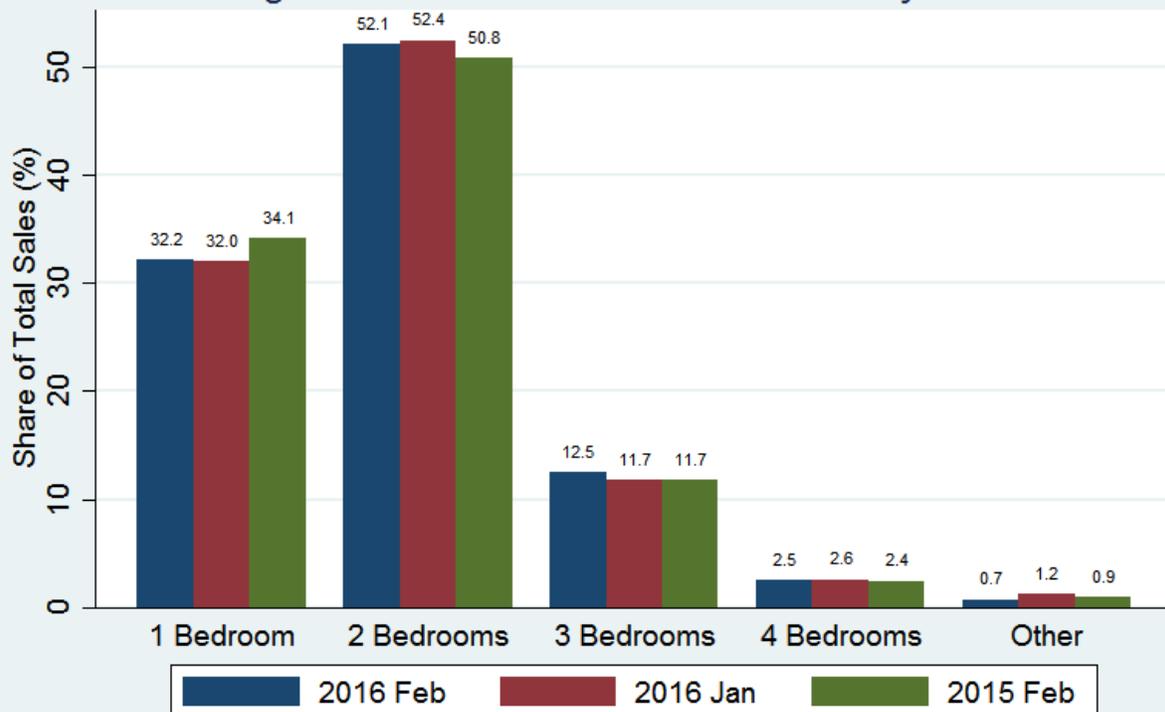
Source: University of Illinois REAL, Illinois Association REALTORS

Illinois House Characteristics by Bathroom



Source: University of Illinois REAL, Illinois Association REALTORS

Chicago PMSA House Characteristics by Bathroom



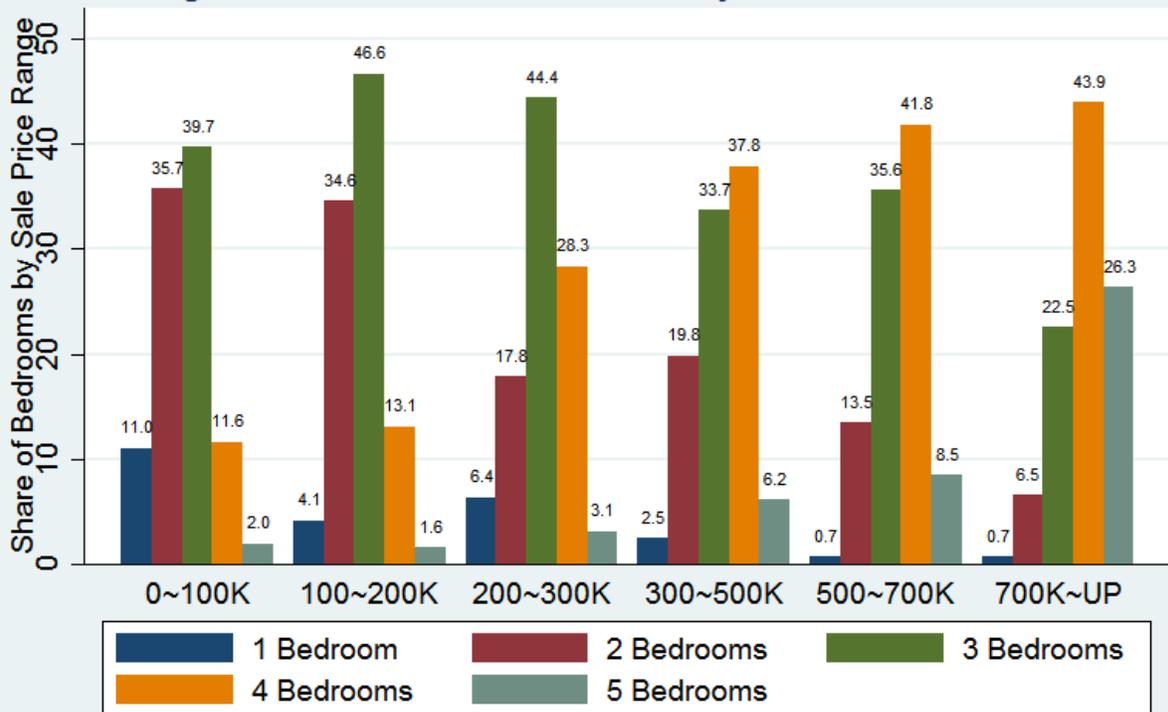
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Illinois Bedroom Shares by Sale Price Stratification



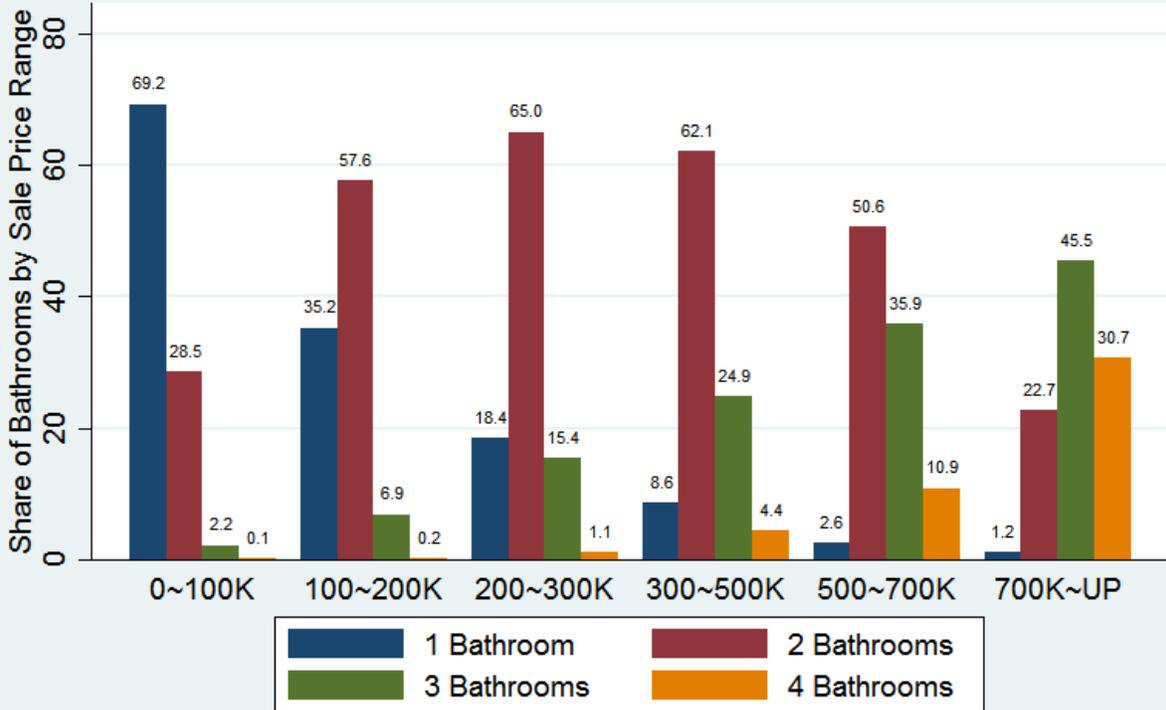
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Chicago PMSA Bedroom Shares by Sale Price Stratification



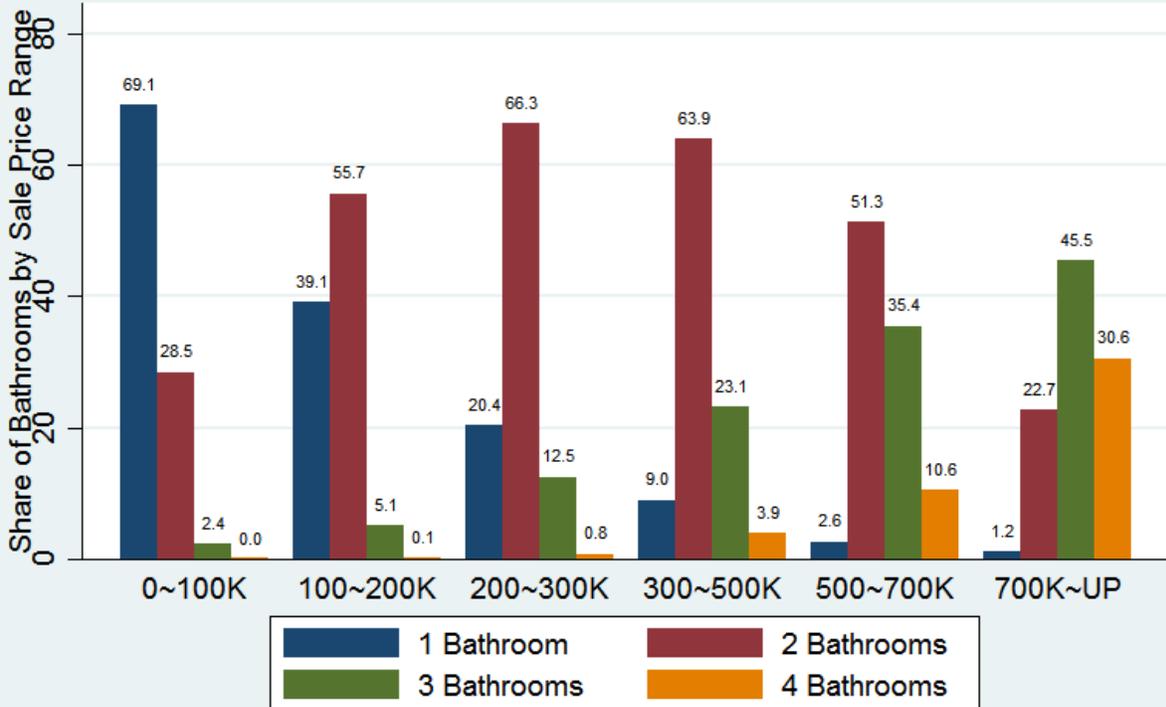
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Illinois Bathroom Shares by Sale Price Stratification



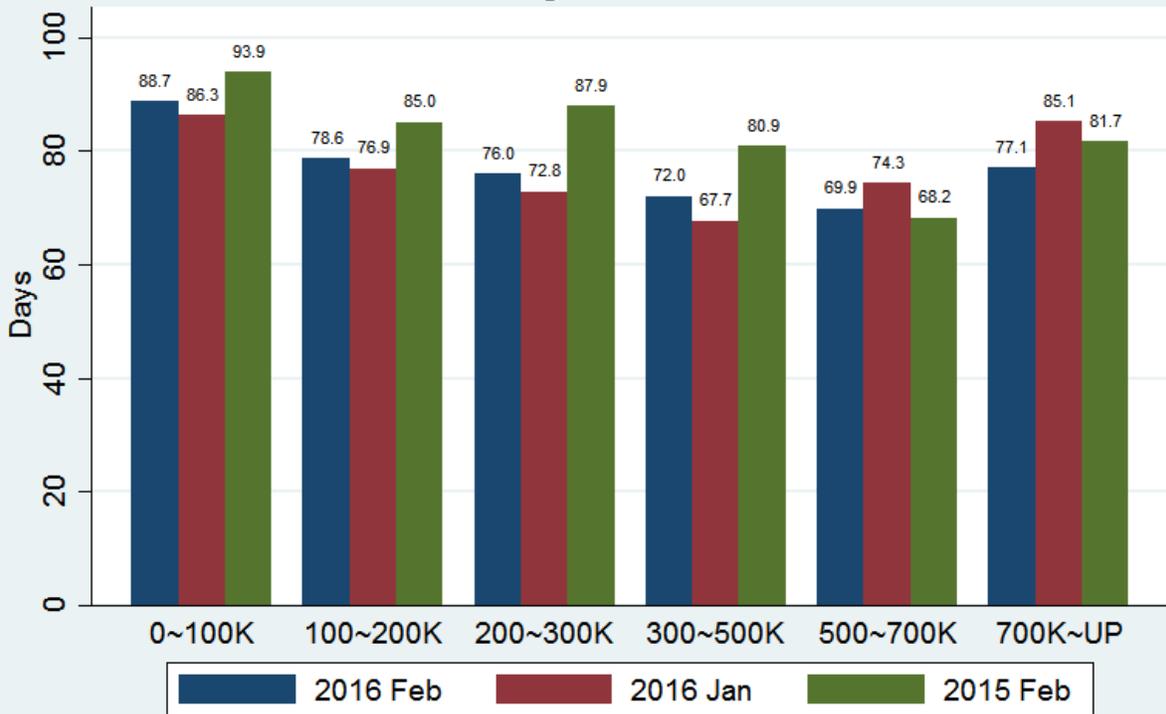
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Chicago PMSA Bathroom Shares by Sale Price Stratification



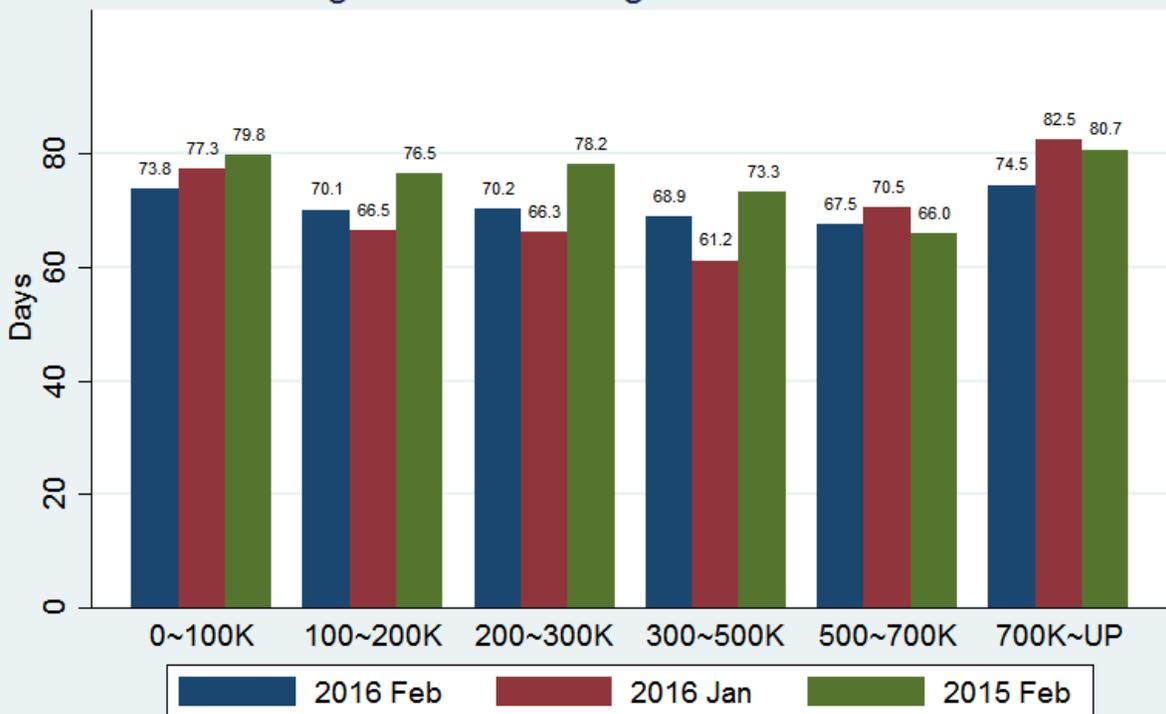
Source: University of Illinois REAL, Illinois Association REALTORS

Illinois Average Time on the Market



Source: University of Illinois REAL, Illinois Association REALTORS

Chicago PMSA Average Time on the Market



Source: University of Illinois REAL, Illinois Association REALTORS