

# Housing Price Forecasts

**Illinois and Chicago PMSA, November 2015**

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From

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

### **The Housing Market**

In October, sales experienced both annual and monthly decreases while median prices grew at moderate annual rates. 12,881 houses were sold in Illinois, down 7.7% from a month ago and down by 2.8% from than a year ago. In the Chicago PMSA, 9,155 houses were sold, down 7.2% from a month ago and down 2.0% from a year ago. The median price was \$168,000 in Illinois, up 6.3% from October last year; the comparable figure for the Chicago PMSA was \$200,000, up 8.1% from this time last year.

In the Chicago PMSA, the decreases in sale were attributed to the decreases in distressed sales rather than regular sales. 7,637 regular sales were made, 2.0% more than last year. 1,459 foreclosed properties were sold, 18.7% less than last year. The median price was \$219,000 for regular property sales, up 5.5% from last year; the comparable figure for the foreclosed properties was \$131,000, up 9.2% from this time last year. In October, the percentage of foreclosed sales (e.g. REOs) among the total sales was 15.1%, the lowest October reading since 2009.

The sales forecast for November, December and January 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 4.1% and 4.8%; for the Chicago PMSA, the change will range from 5.4% to 6.3%. On a monthly basis, the three-month average sales are forecast to decrease by 12.0%-14.0% for Illinois and 11.6%-13.6% for the Chicago PMSA.

The median price forecast indicates moderate annual growth in both Illinois and the Chicago PMSA for November, December and January. In Illinois, the median price is forecast to rise by 5.8% in November, 7.4% in December and 4.3% in January. For the Chicago PMSA, the comparable figures are 7.7% in November, 9.5% in December and 8.3% in January. As a complement to the median housing price index (HPI), the REAL HPI<sup>1</sup> also forecasts moderate growth for Illinois and the Chicago PMSA. In Illinois, the REAL HPI (Jan 2008=1) is forecast to rise by 6.8% in November, 9.0% in December and 3.2% in January. The comparable figures for the Chicago PMSA are 5.8% in November, 8.1% in December and 3.4% in January. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month.

Sale prices in October 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 October 2008 median sale price was \$170,000 (in \$2008) and \$153,146 (in \$2015); the current price level was 90% of the 2008 level after adjusting (99% before adjusting). In the Chicago PMSA, the October 2008 median sale price is \$225,000 (in \$2008) and \$182,317 (in \$2015); the comparable figure for price recovery in October 2015 is 81% after adjustment (89% before adjusting). According to average annual growth rates of prices in the past months, it could take between 1.4~2.1 years (17~26 months) for Illinois and 1.4~2.0 years (16~24 months) for the Chicago PMSA to recover to the 2008 levels.

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

The foreclosure starts in the local market is less a highlight compared to the shoots in the foreclosure starts nationwide. From our data, it showed Chicago PMSA experienced 29.6% increases in foreclosure starts a monthly basis, not too much a surprise compared with past Octobers. However, according to RealtyTrac, nationwide foreclosure starts increased by 12% compared to last month, and this rate was two times bigger than the average October monthly change rate of 5% in the past five years. According to CNBC news, part of the rising might be due to the increases in re-defaults of remodified mortgages. Data from Black Knight Financial Services indicated 57% of the new foreclosure filings were from re-defaults.

Even though the foreclosure starts in October was not unusual for the Chicago PMSA, the foreclosure activities (starts, auction scheduling, REOs) in Illinois were still high and among the top five states. According to RealtyTrac, one in every 680 housing units in Illinois was related with a foreclosure filing. Chicago PMSA data also indicates a slower recovery of foreclosure inventory. Given the 24-month rate of change, the foreclosure inventory would return to the pre-bubble levels<sup>2</sup> by November 2020.

While there were expectations on the interest rate hike in a few months, market signals were mixed. Employment growth was good in October with a total of 271,000 nonfarm payroll jobs and the unemployment rate dropped to 5%. However, the GDP growth estimate for the third quarter was weak (1.5%). Further, two consumer indices did not consistently point to positive direction, and Fannie Mae Home Purchase Sentiment Index (HPSI) also decreased.

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

- In October, sales experienced both annual and monthly decreases while median prices grew at moderate annual rates. 12,881 houses were sold in Illinois, down 7.7% from a month ago and down by 2.8% from than a year ago. In the Chicago PMSA, 9,155 houses were sold, down 7.2% from a month ago and down 2.0% from a year ago. The median price was \$168,000 in Illinois, up 6.3% from October last year; the comparable figure for the Chicago PMSA was \$200,000, up 8.1% from this time last year. (Reference: Illinois and Chicago PMSA Total Home Sales and Median Home Sales Price figures; Forecast for November 2015 report table)
- In October, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 15.1%, the lowest October reading since 2009. 7,637 regular sales were made, 2.0% more than last year. 1,459 foreclosed properties were sold, 18.7% less than last year. The median price was \$219,000 for regular property sales, up 5.5% from last year; the comparable figure for the foreclosed properties was \$131,000, up 9.2% from this time last year.
- In October, at the latest average annual pending sales rate, Illinois had enough housing inventory for 5.1 months<sup>3</sup> (down from 6.2 months a year ago). In the Chicago PMSA, the comparable figure was 3.8 months (down from 4.9 months a year ago). However, months of

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<sup>2</sup> Average foreclosure inventory from 1997-2005

<sup>3</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.

supply are increasing for homes priced above \$700K in both Illinois and the Chicago PMSA. (Reference: Illinois and Chicago PMSA Annual Months' Supply by Price Range figures)

- In October, 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 23.9% from 27.8% a year ago; the comparative figure for the Chicago PMSA decreased to 15.4% from 20.5% 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 November, December and January. In Illinois, the median price is forecast to rise by 5.8% in November, 7.4% in December and 4.3% in January. For the Chicago PMSA, the comparable figures are 7.7% in November, 9.5% in December and 8.3% in January. (Reference: Forecast for November 2015 report table)
- As a complement to the median housing price index (HPI), the REAL HPI<sup>4</sup> also forecasts moderate growth for Illinois and the Chicago PMSA. In Illinois, the REAL HPI (Jan 2008=1) is forecast to rise by 6.8% in November, 9.0% in December and 3.2% in January. The comparable figures for the Chicago PMSA are 5.8% in November, 8.1% in December and 3.4% in January. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month. (Reference: Housing Price Index)
- The sales forecast for November, December and January 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 4.1% and 4.8%; for the Chicago PMSA, the change will range from 5.4% to 6.3%. On a monthly basis, the three-month average sales are forecast to decrease by 12.0%-14.0% for Illinois and 11.6%-13.6% for the Chicago PMSA. (Reference: Forecast for November 2015 report table)
- The pending home sales index<sup>5</sup> is a leading indicator based on contract signings. This October, homes put under contract were more than last year but less than last month. The pending home sales index is 135.5 (2008=100) in Illinois, down 12.7% from last month and up 1.1% from a year ago. In the Chicago PMSA, the comparable figure is 159.1, down 9.6% from a month ago and 7.1% from a year ago. (Reference: Illinois and Chicago PMSA Pending Home Sales Index figure)
- In October 2015, 2,189 houses were newly filed for foreclosure in the Chicago PMSA (down 37.7% and up 29.6% respectively from a year and a month ago). 1,476 foreclosures were completed<sup>6</sup> (down 52.9% and 7.0% respectively from a year and a month ago). As of October 2015, there are 36,079 homes at some stage of foreclosure — the foreclosure inventory. The average inventory change rates<sup>7</sup> were 1.3% in the past 6 months, 0.9% in the last 12 months and -2.0% in the last 24 months. Given the 24-month rate of change, the foreclosure inventory would return to the pre-bubble levels<sup>8</sup> by November 2020. According

<sup>4</sup> REAL HPI was developed by Esteban Lopez and Minshu Du. Contact us for further details.

<sup>5</sup> The base level (100) of pending home sales is the average pending home sales of year 2008.

<sup>6</sup> Including estimated foreclosure completions that are missing in the data.

<sup>7</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>8</sup> Average foreclosure inventory from 1997-2005

to the positive 6-month rate and almost unchanged 12-month rate, the inventory would increase (Reference: Chicago PMSA Foreclosure Activity and Inventory figures).

## The Economy

- In October 2015, according to the Bureau of Labor Statistics (BLS) Employment Situation report, the national unemployment rate edged down to 5.0% and nonfarm payroll jobs experienced gains of 271,000 jobs. This monthly job gain is greater than the average job gains in the past 12 months (230,000). The employment growth is led by professional and business services (+78,000), followed by health care (+45,000) and retail trade (+44,000).
- In September 2015, according to the Illinois Department of Employment Security (IDES) news release, the Illinois unemployment rate edged down to 5.4%. 6,900 non-farm payroll jobs are shed and it's the fourth consecutive month of drop. The job growth in this state is way behind the rest of the country. While the nation reached a new peak of employment well above its pre-recession level, the Illinois will not regain its pre-recession jobs until April 2017 at current rates of job growth. Government (+2,100), Other Services (+1,500) and Education and Health Care (+1,400) were sectors creating jobs in August in Illinois.
- In August 2015, the one-year-ahead forecast for Illinois indicates that the non-farm employment will decrease at a rate between 0.53% and 0.14%, corresponding to job loss between 8,300 and 31,500. Four out of ten sectors are forecast with positive job growth: construction (1.06%; 2,200), professional and business services (0.24%; 2,200), education and health (1.22%; 11,000), and leisure and hospitality (0.93%; 5,200).

## Longer-term Outlook

- In October, two consumer indices pointed at different directions. The Conference Board Consumer Confidence index was reported decreasing to 97.6 from 102.6 last month. However, the University of Michigan Consumer Sentiment Index increased to 90.0 from 87.2 last month. According to their household survey, this increase was majorly due to the increases in confidence of the lower income household.
- In October, Fannie Mae Home Purchase Sentiment Index (HPSI) decreased to 83.2 from 83.8 last month. *Good Time to Sell* and *Good Time to Buy* component both decreased, respectively, by 2 points and 6 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) decreased to 96.1 in September from 99.3 in August. The fall is attributed to the negative job growth in the construction sector in the Chicago area.

“The housing market appears to have returned to its longer-run annual pattern,” noted Geoffrey J.D. Hewings, Director of the Regional Economics Applications Laboratory. “Distressed housing sales have declined to levels last seen in 2009 as prices continue to move upwards at modest rates. The consumer sentiment indices are once again moving in opposite directions suggesting that there is uncertainty in the way consumers view future prospects.”

## Forecast for November 2015 report

PERCENTAGE CHANGE FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois		Chicago PMSA	Illinois		Chicago PMSA		
Aug-15	2.7%		4.6%	-11.0%		-12.5%		
Sep-15	6.9%		6.5%	-9.1%		-10.7%		
Oct-15	-2.8%		-2.0%	-7.7%		-7.2%		
3 Month Avg.	2.2%		3.1%	-9.4%		-10.4%		
SUMMARY OF THE FORECAST INTERVALS FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois		Chicago PMSA	Illinois		Chicago PMSA		
Nov-15	5.0%	5.9%	5.3%	6.2%	-18.1%	-21.3%	-17.7%	-20.8%
Dec-15	1.0%	1.1%	3.7%	4.3%	11.2%	13.1%	11.8%	13.8%
Jan-16	7.4%	8.6%	7.8%	9.2%	-26.0%	-30.5%	-25.7%	-30.1%
3 Month Avg.	4.1%	4.8%	5.4%	6.3%	-12.0%	-14.0%	-11.6%	-13.6%
SUMMARY OF THE FORECAST FOR THE MEDIAN PRICE								
	Illinois		Chicago PMSA		Illinois		Chicago PMSA	
Aug-15	\$180,000		\$220,000	Aug-14	\$175,000		\$215,000	
Sep-15	\$172,000		\$207,500	Sep-14	\$162,000		\$195,000	
Oct-15	\$168,000		\$200,000	Oct-14	\$158,000		\$185,000	
Nov-15	\$163,825		\$195,688	Nov-14	\$154,900		\$181,690	
Dec-15	\$165,344		\$200,467	Dec-14	\$154,000		\$183,000	
Jan-16	\$156,506		\$189,525	Jan-15	\$150,000		\$175,000	
ANNUAL PERCENTAGE CHANGE OF THE MEDIAN PRICE								
	Illinois		Chicago PMSA		Illinois		Chicago PMSA	
Aug-15	2.9%		2.3%	Jun-14	5.3%		7.3%	
Sep-15	6.2%		6.4%	Aug-14	6.1%		9.1%	
Oct-15	6.3%		8.1%	Sep-14	4.5%		5.4%	
Nov-15	5.8%		7.7%	Oct-14	5.3%		5.7%	
Dec-15	7.4%		9.5%	Nov-14	6.9%		7.2%	
Jan-16	4.3%		8.3%	Dec-14	3.7%		3.7%	

### Median Prices and Recovery

	Illinois		Chicago PMSA	
	[\$2008]	[\$2015]	[\$2008]	[\$2015]
<b>October 2008 Median Price</b>	\$170,000	\$186,489	\$225,000	\$246,823
<b>October 2015 Median Price</b>	\$153,146	\$168,000	\$182,317	\$200,000
Price Ratio (October 15/October 08)	Adjusted	0.90	Adjusted	0.81
	Unadjusted	0.99	Unadjusted	0.89

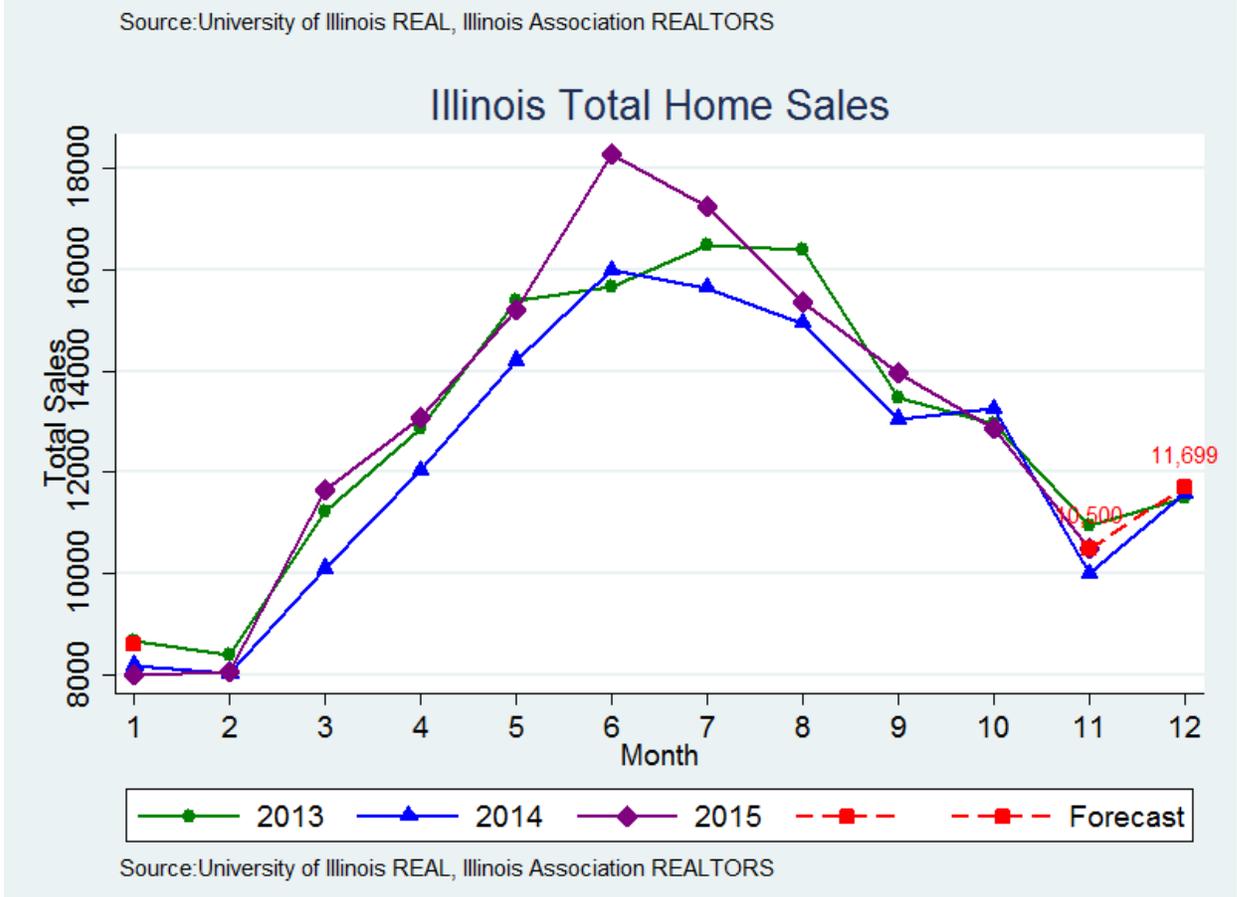
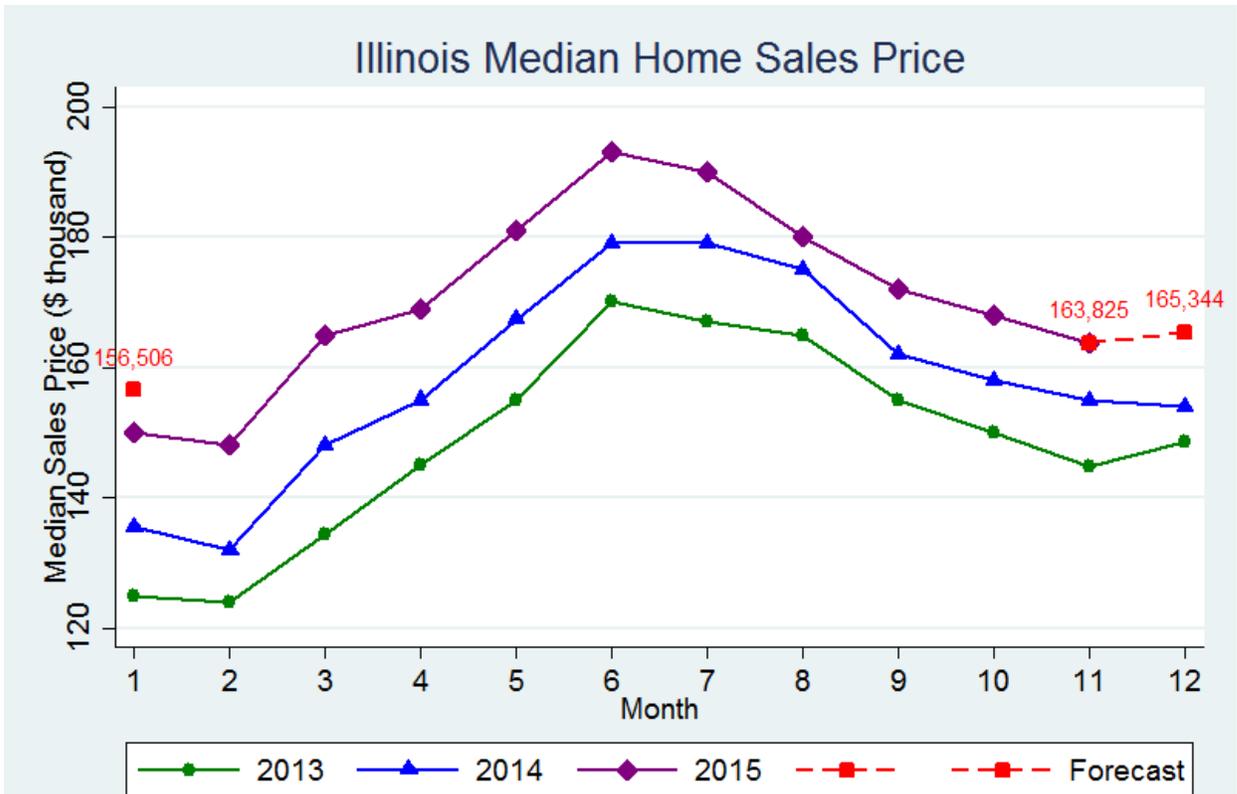
### Recovery Forecasts using *Annually Growth Rates*

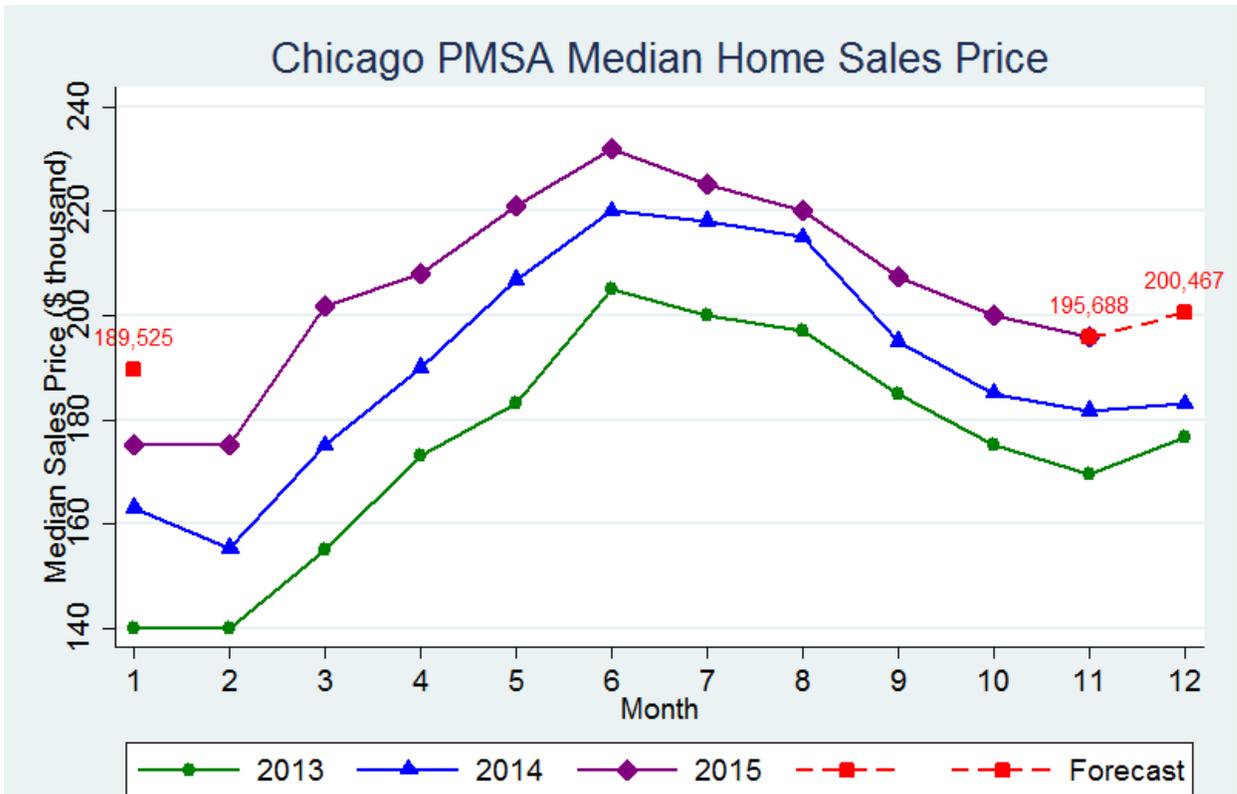
	Illinois	Chicago PMSA		
	Annual Recovery Rate*	Years to Recover**	Recovery Rate	Years to Recover
Current Month	6.2%	1.7	8.0%	1.4
Past 3 months	5.0%	2.1	5.5%	1.9
Past 6 months	6.1%	1.8	5.3%	2.0
Past 9 months	7.7%	1.4	7.7%	1.4
Past 12 months	7.4%	1.5	7.1%	1.5

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

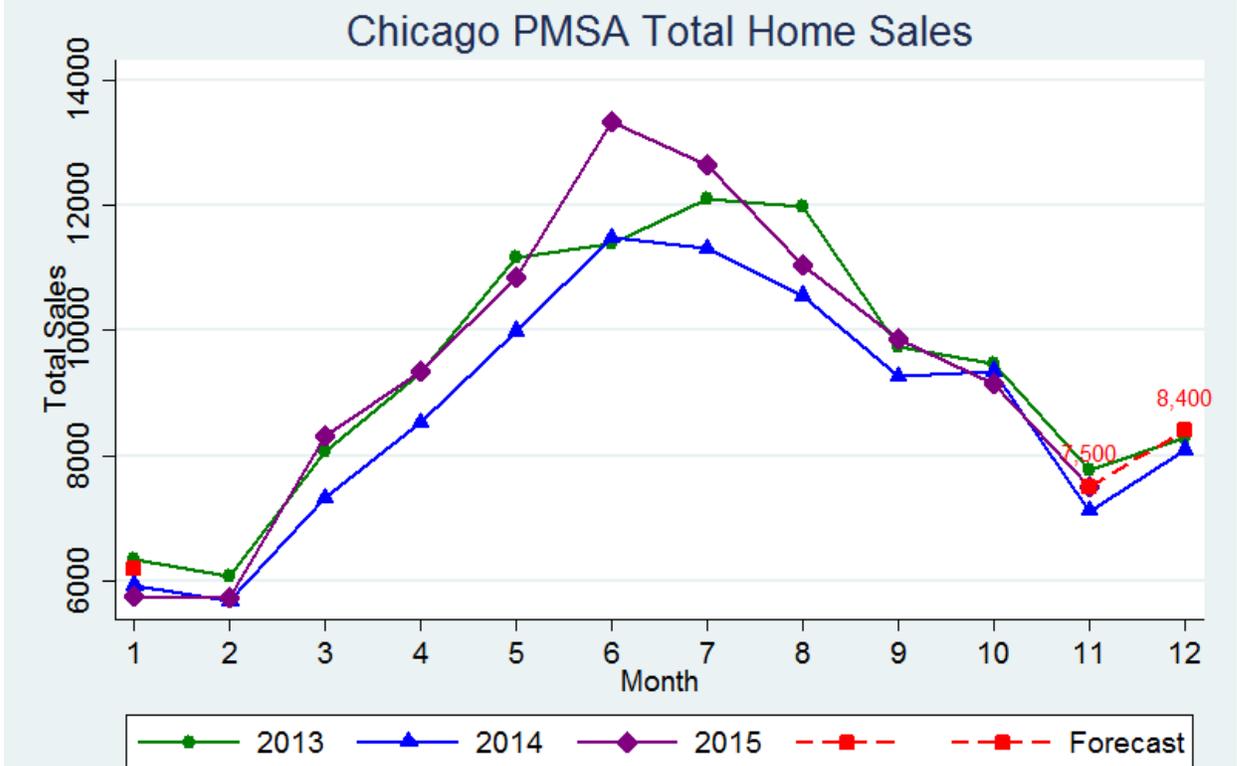
\*\* Years to recover is calculated using the following formula:

$Price_{\text{October 2015}} * (1 + \text{recovery rate})^{\text{years}} = Price_{\text{October 2008}}$ . 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.





Source: University of Illinois REAL, Illinois Association REALTORS



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