

Housing Price Forecasts

Illinois and Chicago PMSA, December 2015

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The Housing Market

In November, sales experienced annual and monthly decreases while median prices grew at moderate annual rates. 9,640 houses were sold in Illinois, down 26.4% from a month ago and down by 3.5% from a year ago. In the Chicago PMSA, 6,836 houses were sold, down 26.6% from a month ago and down 3.9% from a year ago. The median price was \$165,000 in Illinois, up 6.5% from November last year; the comparable figure for the Chicago PMSA was \$196,000, up 7.9% from this time last year.

For the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 16.6%, the lowest November reading since 2009. 5,546 regular sales were made, 1% less than last year. 1,240 foreclosed properties were sold, 15.7% less than last year. The median price was \$215,050 for regular property sales, up 4.9% from last year; the comparable figure for the foreclosed properties was \$125,000, up 5.9% from this time last year.

The sales forecast for December, January and February 2015 suggests minimal change on the monthly basis and small positive growth on yearly basis. Annually for Illinois, the three-month average forecasts point to a change of about -0.2%; for the Chicago PMSA, the change will range from 1.8% to 2.5%. On a monthly basis, the three-month average sales are forecast to decrease by 4.2%-5.7% for Illinois and 3.4%-4.6% for the Chicago PMSA.

The median price forecast indicates moderate annual growth in both Illinois and the Chicago PMSA for December, January and February. In Illinois, the median price is forecast to rise by 8.1% in December, 5.1% in January and 4.7% in February. For the Chicago PMSA, the comparable figures are 9.7% in December, 8.5% in January and 6.4% in February. As a complement to the median housing price index (HPI), the REAL HPI¹ forecasts mixed and milder growth for Illinois and the Chicago PMSA. In Illinois, the REAL HPI (Jan 2008=1) is forecast to rise by 6.9% in December, -0.7% in January and 2.0% in February. The comparable figures for the Chicago PMSA are 8.1% in December, 3.3% in January and 5.9% in February. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month.

Sale prices in November 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 November 2008 median sale price was \$163,000 (in \$2008) and \$182,086 (in \$2015); the current price level was 91% of the 2008 level after adjusting (101% before adjusting). In the Chicago PMSA, the November 2008 median sale price is \$208,000 (in \$2008) and \$232,355 (in \$2015); the comparable figure for price recovery in November 2015 is 84% after adjustment (94% before adjusting). According to average annual growth rates of prices in the past months, it could take between 1.4~1.8 years (16~21 months) for Illinois and 1.4~1.9 years (17~23 months) for the Chicago PMSA to recover to the 2008 levels.

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

While the impact of student debt on millennials' home ownership has been under debate, research at the Federal Reserve Bank of Cleveland provides more evidence of the negative link between them. The research indicates that the decreasing share of young people with a home mortgage in the past decade is strongly related to the rising student loan debt. The recession made it more difficult for all millennials to secure a mortgage; it has become even more difficult for those with significant student debt.

Interestingly, on the other hand, there are stories about baby boomers not selling. Economists at Freddie Mac said the baby boomers were not downsizing or selling their homes as previous generations did when children moved out. They cited the Federal Reserve's recent Survey of Consumer Finances (2013) that two thirds of home equity was held by households older than 55. Since boomers are staying in their houses longer than usual, it could partially account for a supply shortage of home listings, according to Sean Beckett, the chief economist at Freddie Mac. Meanwhile, millennial renters increased by about half a million a year while boomer renters did not change significantly between 2010 and 2013.

However, the shortage in listings could be due to different reasons for different price ranges, such as negative equity. Zillow Negative Report for the third quarter revealed that homeowners in many areas are still facing severe negative equity, although this situation has been improving. The Chicago Metropolitan area ranked second on a list of metro areas with the highest share of underwater homeowners; 20.6% of homeowners were underwater in the Chicago Metro area in the third quarter, well above the nationwide of 13.4%. The tighter inventory for homes listed at the low end in the Chicago PMSA could relate to the high share of homes with negative equity. In November, the months' supply of homes priced below 100K decreased by 35.7%, from 4.7 months a year ago to 3.0 months. In contrast, the average decrease experienced by other price ranges was -12.2%.

The Housing Market – Current Condition

- In November, sales experienced annual and monthly decreases while median prices grew at moderate annual rates. 9,640 houses were sold in Illinois, down 26.4% from a month ago and down by 3.5% from a year ago. In the Chicago PMSA, 6,836 houses were sold, down 26.6% from a month ago and down 3.9% from a year ago. The median price was \$165,000 in Illinois, up 6.5% from November last year; the comparable figure for the Chicago PMSA was \$196,000, up 7.9% from this time last year. (Reference: Illinois and Chicago PMSA Total Home Sales and Median Home Sales Price figures; Forecast for December 2015 report table)
- In November, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 16.6%, the lowest November reading since 2009. 5,546 regular sales were made, 1% less than last year. 1,240 foreclosed properties were sold, 15.7% less than last year. The median price was \$215,050 for regular property sales, up 4.9% from last year; the comparable figure for the foreclosed properties was \$125,000, up 5.9% from this time last year.

- In November, at the latest average annual pending sales rate, Illinois had enough housing inventory for 4.7 months² (down from 5.9 months a year ago). In the Chicago PMSA, the comparable figure was 3.5 months (down from 4.5 months a year ago). However, months of 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 November, 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 26.0% from 29.0% a year ago; the comparative figure for the Chicago PMSA showed a decrease to 17.7% from 21.3% 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 December, January and February. In Illinois, the median price is forecast to rise by 8.1% in December, 5.1% in January and 4.7% in February. For the Chicago PMSA, the comparable figures are 9.7% in December, 8.5% in January and 6.4% in February. (Reference: Forecast for December 2015 report table)
- As a complement to the median housing price index (HPI), the REAL HPI³ forecasts mixed and milder growth for Illinois and the Chicago PMSA. In Illinois, the REAL HPI (Jan 2008=1) is forecast to rise by 6.9% in December, -0.7% in January and 2.0% in February. The comparable figures for the Chicago PMSA are 8.1% in December, 3.3% in January and 5.9% in February. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month. (Reference: Housing Price Index)
- The sales forecast for December, January and February 2015 suggests minimal change on a monthly basis and small positive growth on a yearly basis. Annually for Illinois, the three-month average forecasts point to a change of about -0.2%; for the Chicago PMSA, the change will range from 1.8% to 2.5%. On a monthly basis, the three-month average sales are forecast to decrease by 4.2%-5.7% for Illinois and 3.4%-4.6% for the Chicago PMSA. (Reference: Forecast for December 2015 report table)
- The pending home sales index⁴ is a leading indicator based on contract signings. This November, the number of homes put under contract was greater than last year but less than last month. The pending home sales index is 111.8 (2008=100) in Illinois, down 15.6% from last month but up 5.8% from a year ago. In the Chicago PMSA, the comparable figure is 133.5, down 13.1% from a month ago and up 13.7% from a year ago. (Reference: Illinois and Chicago PMSA Pending Home Sales Index figure)
- In November 2015, 1,624 houses were newly filed for foreclosure in the Chicago PMSA (down 13.6% and 25.8% respectively from a year and a month ago). 1,314 foreclosures were completed⁵ (down 49.3% and 11.0% respectively from a year and a month ago). As of November 2015, there are 36,389 homes at some stage of foreclosure — the foreclosure

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.

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.

inventory. The average inventory change rates⁶ were 1.2% in the past 6 months, 1% in the last 12 months and -1.8% in the last 24 months. Given the 24-month rate of change, the foreclosure inventory would return to the pre-bubble levels⁷ by July 2020. 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).

The Economy

- In November 2015, according to the Bureau of Labor Statistics (BLS) Employment Situation report, the national unemployment rate kept unchanged at 5.0% and nonfarm payroll jobs experienced gains of 211,000 jobs. The employment growth was led by construction (+46,000), among which residential specialty trade contractors (26,000) contributed the most. The growth was followed professional and business services (+28,000) and health care (+24,000).
- In October 2015, according to the Illinois Department of Employment Security (IDES) news release, the Illinois unemployment rate kept unchanged at 5.4%. 14,100 non-farm payroll jobs were created, the strongest month since February this year after four consecutive months of job losses. In addition, the participation rate was higher. At current rates of job growth, the Illinois will not regain its pre-recession level until December 2016. Education and Health Care (+7,900), Leisure and Hospitality (+3,500) and Trade, Transportation and Utilities (+1,800) were sectors created the most jobs.
- In October 2015, the one-year-ahead forecast for Illinois indicates that the non-farm employment will increase at a rate between 0.44% and 0.84%, corresponding to job gain between 25,900 and 49,600. Seven out of ten sectors are forecast with positive job growth: construction (3.08%; 6,500), financial activities (0.65%; 2,400), professional and business services (1.11%; 10,400), education and health (2.03%; 18,400), leisure and hospitality (1.81%; 10,200), other services (0.83%; 2,100), and government (0.22%; 1,800).

Longer-term Outlook

- In November, two consumer indices pointed in different directions. The Conference Board Consumer Confidence index was reported decreasing to 90.4 from 99.1 last month. However, the University of Michigan Consumer Sentiment Index edged up to 91.3 from 90.0 last month. According to their household survey, this increase was mainly due to the increases in confidence of the lower and middle-income households while the upper third households' confidence retreated.
- In November, Fannie Mae Home Purchase Sentiment Index (HPSI) decreased to 80.8 from 83.2. *Good Time to Sell* decreased by 6 points and *Good Time to Buy* edged up by 1 point. Furthermore, the household income component decreased by 5 points, indicating respondents' negative sentiment on their income compared with a year ago. This index uses information from their National Housing Survey collecting consumers' feeling and opinions

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

on home purchasing, directions and conditions of the housing market, finance conditions and the job market.

- The Chicago Business Activity Index (CBAI) increased to 100.7 in October from 96.1 in September. The rise is attributed to the job growth in the non-manufacturing and construction sectors and to the improved retail activities in the Chicago area.

“Median prices continued to increase,” noted Geoffrey J.D. Hewings, Director of the Regional Economics Applications Laboratory, “even though sales declined on both a monthly and an annual basis. Much of this decline can be attributed to the significant drop in the sales of foreclosed properties. Adjusted for inflation, house prices in Illinois have recovered to 91% of their November 2008 level; the comparable figure for Chicago is 84%. At current rates of growth of prices, recovery will take between 12 and 18 months in both cases.”

Forecast for December 2015 report

PERCENTAGE CHANGE FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois		Chicago PMSA	Illinois		Chicago PMSA		
Sep-15	7.2%		6.6%	-9.0%		-10.6%		
Oct-15	-1.1%		-0.4%	-6.4%		-5.7%		
Nov-15	-3.5%		-3.9%	-26.4%		-26.6%		
3 Month Avg.	1.2%		1.2%	-13.5%		-13.9%		
SUMMARY OF THE FORECAST INTERVALS FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois		Chicago PMSA	Illinois		Chicago PMSA		
Dec-15	-8.0%	-10.8%	-6.3%	-8.5%	7.6%	10.3%	8.3%	11.2%
Jan-16	9.6%	13.0%	11.2%	15.2%	-13.0%	-17.5%	-11.3%	-15.3%
Feb-16	1.4%	1.9%	3.8%	5.1%	-6.7%	-9.0%	-6.5%	-8.8%
3 Month Avg.	-0.2%	-0.2%	1.8%	2.5%	-4.2%	-5.7%	-3.4%	-4.6%
SUMMARY OF THE FORECAST FOR THE MEDIAN PRICE								
	Illinois		Chicago PMSA		Illinois		Chicago PMSA	
Sep-15	\$171,950		\$207,000	Sep-14	\$162,000		\$195,000	
Oct-15	\$168,000		\$200,000	Oct-14	\$158,000		\$185,000	
Nov-15	\$165,000		\$196,000	Nov-14	\$154,900		\$181,690	
Dec-15	\$166,478		\$200,809	Dec-14	\$154,000		\$183,000	
Jan-16	\$157,722		\$189,934	Jan-15	\$150,000		\$175,000	
Feb-16	\$154,929		\$186,153	Feb-15	\$148,000		\$175,000	
ANNUAL PERCENTAGE CHANGE OF THE MEDIAN PRICE								
	Illinois		Chicago PMSA		Illinois		Chicago PMSA	
Sep-15	6.1%		6.2%	Sep-14	4.5%		5.4%	
Oct-15	6.3%		8.1%	Oct-14	5.3%		5.7%	
Nov-15	6.5%		7.9%	Nov-14	6.9%		7.2%	
Dec-15	8.1%		9.7%	Dec-14	3.7%		3.7%	
Jan-16	5.1%		8.5%	Jan-15	10.7%		7.4%	
Feb-16	4.7%		6.4%	Feb-15	12.1%		12.6%	

Median Prices and Recovery

	Illinois		Chicago PMSA	
	[\$2008]	[\$2015]	[\$2008]	[\$2015]
November 2008 Median Price	\$163,000	\$182,086	\$208,000	\$232,355
November 2015 Median Price	\$147,705	\$165,000	\$175,456	\$196,000
Price Ratio (November 15/November 08)	Adjusted	0.91	Adjusted	0.84
	Unadjusted	1.01	Unadjusted	0.94

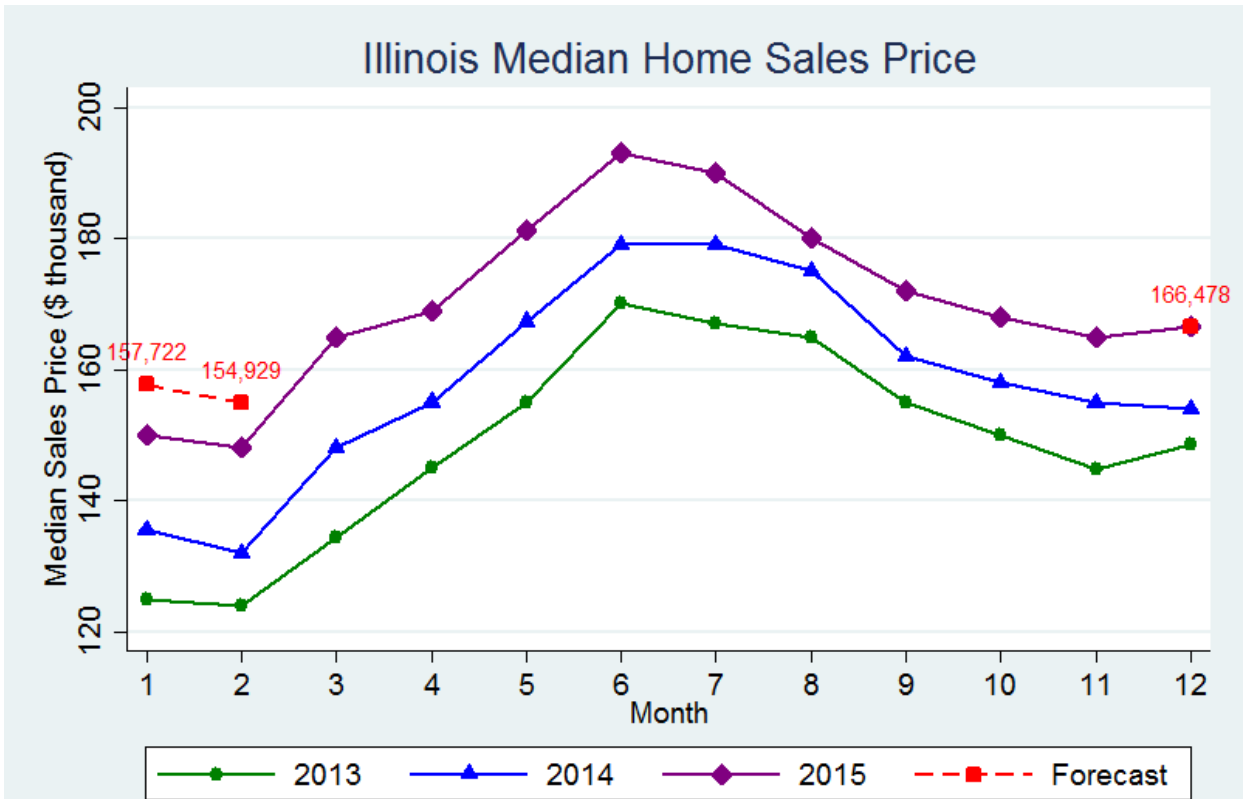
Recovery Forecasts using *Annually Growth Rates*

	Illinois	Chicago PMSA		
	Annual Recovery Rate*	Years to Recover**	Recovery Rate	Years to Recover
Current Month	6.1%	1.7	7.4%	1.4
Past 3 months	6.1%	1.7	7.2%	1.4
Past 6 months	5.8%	1.8	5.3%	1.9
Past 9 months	7.1%	1.4	7.1%	1.4
Past 12 months	7.5%	1.4	7.3%	1.4

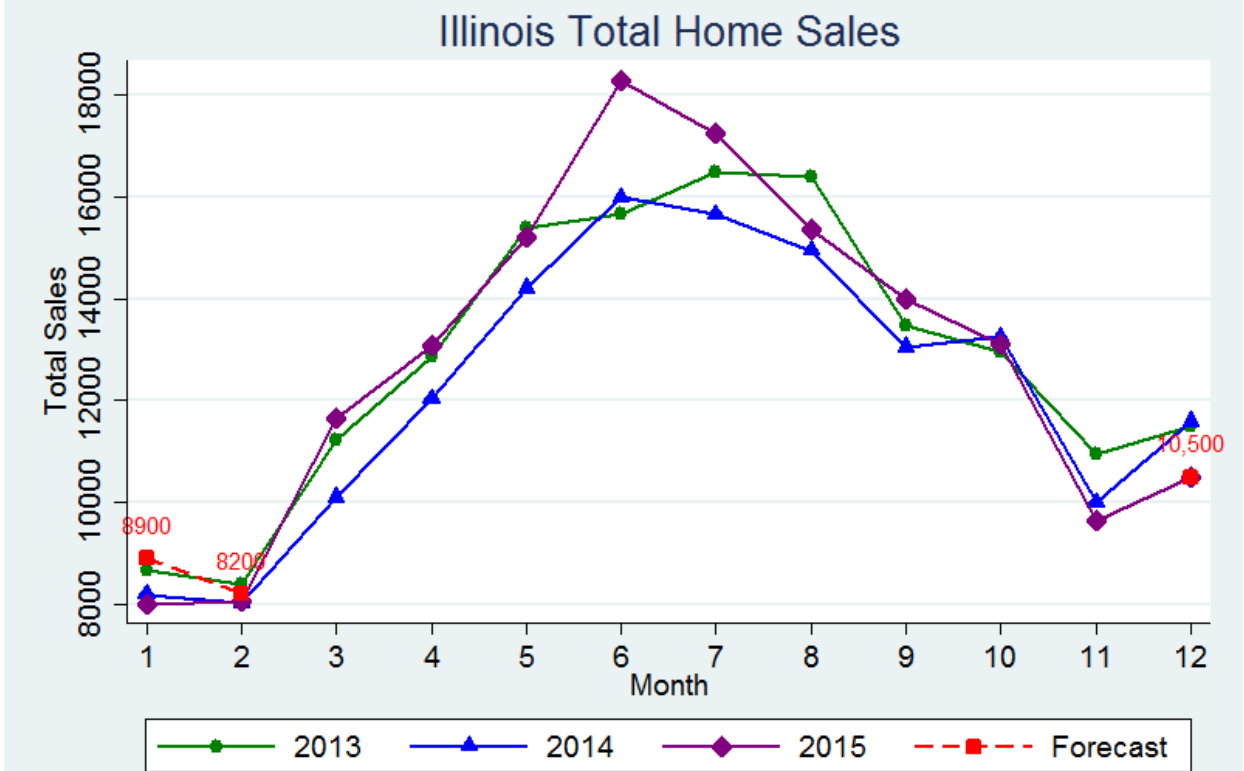
*Annual recovery rate is the average of *annual* change rates in past months

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

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