

Housing Price Forecasts

Illinois and Chicago PMSA, October 2015

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The Housing Market

In September, sales and median prices both grew at moderate annual rates. 13,794 houses were sold in Illinois, down 9.9% from a month ago and up by 5.6% from than a year ago. In the Chicago PMSA, 9,753 houses were sold, down 11.5% from a month ago and up 5.3% from a year ago. The median price was \$172,000 in Illinois, up 6.2% from September last year; the comparable figure for the Chicago PMSA was \$207,570, up 6.4% from this time last year.

In September, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 14.1%, the lowest September reading since 2009. 8,194 regular sales were made, 7.5% more than last year. 1,500 foreclosed properties were sold, 5.2% less than last year. The median price was \$224,900 for regular property sales, up 3.2% from last year; the comparable figure for the foreclosed properties was \$126,550, up 9.6% from this time last year.

The sales forecast for October, November and December 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 0.5% and 0.6%; for the Chicago PMSA, the change will range from 6.5% to 7.7%. On a monthly basis, the three-month average sales are forecast to decrease by 7.2%-8.5% for Illinois and 4.0%-4.7% for the Chicago PMSA.

The median price forecast indicates moderate annual growth in both Illinois and the Chicago PMSA for October, November and December. In Illinois, the median price is forecast to rise by 6.0% in October, 5.4% in November and 7.0% in December. For the Chicago PMSA, the comparable figures are 6.0% in October, 6.1% in November and 7.3% in December. As a complement to the median housing price index (HPI), the REAL HPI¹ also forecasts moderate growth for Illinois and the Chicago PMSA. In Illinois, the REAL HPI (Jan 2008=1) is forecast to rise by 5.8% in October, 5.8% in November and 7.9% in December. The comparable figures for the Chicago PMSA are 4.6% in October, 4.2% in November and 6.0% in December. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month.

Sale prices in September 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 September 2008 median sale price was \$175,000 (in \$2008) and \$189,943 (in \$2015); the current price level was 91% of the 2008 level after adjusting (98% before adjusting). In the Chicago PMSA, the September 2008 median sale price is \$222,900 (in \$2008) and \$241,933 (in \$2015); the comparable figure for price recovery in September 2015 is 86% after adjustment (93% before adjusting). According to average annual growth rates of prices in the past months, it could take between 1.3~2.1 years (15~25 months) for Illinois and 1.3~2.6 years (16~32 months) for the Chicago PMSA to recover to the 2008 levels.

The job market has not been reporting job gains at a rate that most economists had expected over the last several months. In September, according to the Bureau of Labor Statistics (BLS)

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

Employment Situation report, the national unemployment rate remained unchanged at 5.1% and nonfarm payroll jobs only experienced gains of 142,000 jobs. While the job growth was well below expectations, the labor force experienced a decline of 350,000 and its participation rate declined to 62.4%. Many sectors experienced a increase in the number of unfilled positions. The July Job Openings and Labor Turnover Survey data showed that the job openings rate jumped to 3.9% while the hiring rate dropped to 3.5%. The construction sector has been the one of the more visible representative sectors that has faced a shortage of labor. According to the National Association of Home Builders (NAHB) survey, builders were still citing the limited access to labor as their top concern.

At the state level, the employment situation was more worrying. In September 2015, according to the Illinois Department of Employment Security (IDES) news release, the Illinois unemployment rate edged down to 5.4%. However, 6,900 non-farm payroll jobs were shed and providing the fourth consecutive month of negative numbers. The job growth in this state is way behind the rest of the country. While the nation's employment has reached its pre-recession level, it is unlikely that Illinois will regain its pre-recession job levels until April 2017 at current rates of job growth. Local job news has contributed some disturbing data. For instance, Caterpillar announced a global cutback of 10,000 jobs in the next three years. Although it is not clear yet how many local employees would be influenced (especially in the Peoria economy) this may dampen would-be homebuyers' decision-making.

Given these job market conditions and the international economic conditions, the Federal Open Market Committee voted for a further delay in increasing the interest rates. The NAHB analysis using the survey data from the Conference Board Consumer Confidence Index, revealed that the consumers' expectation on the rising interest rate can spur their home buying plans, but in a somewhat limited way; the major spurring effects on people's home-buying plans were attributed to consumers' confidence about the economy. Despite the disappointing job report, the September Conference Board Consumer Confidence index was reported edging up to 103.0 from 101.3 last month. Further, the Fannie Mae Home Purchase Sentiment Index (HPSI) increased to 83.8 from 80.8 last month. Both the *Good Time to Sell* and *Good Time to Buy* components increased.

The Housing Market – Current Condition

- In September, sales and median prices both grew at moderate annual rates. 13,794 houses were sold in Illinois, down 9.9% from a month ago and up by 5.6% from than a year ago. In the Chicago PMSA, 9,753 houses were sold, down 11.5% from a month ago and up 5.3% from a year ago. The median price was \$172,000 in Illinois, up 6.2% from September last year; the comparable figure for the Chicago PMSA was \$207,500, up 6.4% from this time last year. (Reference: Illinois and Chicago PMSA Total Home Sales and Median Home Sales Price figures; Forecast for October 2015 report table)
- In September, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 14.1%, the lowest September reading since 2009. 8,194 regular sales were made, 7.5% more than last year. 1,500 foreclosed properties were sold, 5.2% less than last year. The median price was \$224,900 for regular property sales, up 3.2% from last year;

the comparable figure for the foreclosed properties was \$126,550, up 9.6% from this time last year.

- In September, at the latest average annual pending sales rate, Illinois had enough housing inventory for 5.3 months² (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 September, 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 22.9% from 26.7% a year ago; the comparative figure for the Chicago PMSA decreased to 14.7% from 18.7% a year ago. (Reference: Illinois and Chicago PMSA Price Stratification figures) s

The Housing Market – Forecast and Future Condition

- The median price forecast indicates moderate annual growth in both Illinois and the Chicago PMSA for October, November and December. In Illinois, the median price is forecast to rise by 6.0% in October, 5.4% in November and 7.0% in December. For the Chicago PMSA, the comparable figures are 6.0% in October, 6.1% in November and 7.3% in December. (Reference: Forecast for October 2015 report table)
- As a complement to the median housing price index (HPI), the REAL HPI³ also forecasts moderate growth for Illinois and the Chicago PMSA. In Illinois, the REAL HPI (Jan 2008=1) is forecast to rise by 5.8% in October, 5.8% in November and 7.9% in December. The comparable figures for the Chicago PMSA are 4.6% in October, 4.2% in November and 6.0% in December. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month. (Reference: Housing Price Index)
- The sales forecast for October, November and December 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 0.5% and 0.6%; for the Chicago PMSA, the change will range from 6.5% to 7.7%. On a monthly basis, the three-month average sales are forecast to decrease by 7.2%-8.5% for Illinois and 4.0%-4.7% for the Chicago PMSA. (Reference: Forecast for October 2015 report table)
- The pending home sales index⁴ is a leading indicator based on contract signings. This September, 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 September 2015, 1,689 houses were newly filed for foreclosure in the Chicago PMSA (down 24.9% and 3.4% respectively from a year and a month ago). 1,379 foreclosures were completed⁵ (down 55.4% and 1.0% respectively from a year and a month ago). As of

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.

September 2015, there are 35,366 homes at some stage of foreclosure — the foreclosure inventory. The average inventory change rates⁶ were 1.4% in the past 6 months, 0.9% in the last 12 months and -2.3% in the last 24 months. Given the 24-month rate of change, the foreclosure inventory would return to the pre-bubble levels⁷ by May 2019. 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 September 2015, according to the Bureau of Labor Statistics (BLS) Employment Situation report, the national unemployment rate kept unchanged at 5.1% and nonfarm payroll jobs experienced gains of 142,000 jobs. The job growth was way below expectation. Among all industries, health care added the most jobs (+34,000), followed by information (+12,000) and professional and business services (+31,000).
- 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 increase at a rate between 0.08% and 0.25%, corresponding to job gains between 4,900 and 14,700. The total gains are forecast to be accounted for by six out of ten sectors: construction (2.53%; 5,300), trade, transportation and utilities (0.22%; 2,600), financial activities (1.51%; 5,600), professional and business services (0.01%; 100), education and health (1.57%; 14,100), and leisure and hospitality (1.23%; 6,900).

Longer-term Outlook

- In September, two consumer indices pointed at different directions. The Conference Board Consumer Confidence index was reported edging up to 103.0 from 101.3 last month. However, the University of Michigan Consumer Sentiment Index further decreased to 97.2. It is the lowest in the last 11 months, but still above other months since May 2007. According to their household survey, 25% of respondents revealed their concerns about the international stock market and trade.
- In September, Fannie Mae Home Purchase Sentiment Index (HPSI) increased to 83.8 from 80.8 last month. *Good Time to Sell* and *Good Time to Buy* component both increased, respectively, by 13 points and 3 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.

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

- The Chicago Business Activity Index (CBAI) decreased to 97.3 in August from 99.6 in July. The fall is attributed to the negative job growth in the manufacturing, nonmanufacturing and construction sectors and to a decline in retail activities in the Chicago area.

“The annual pattern of home sales continues with modest annual gains but negative month over month growth rates,” noted Geoffrey J.D. Hewings, Director of the Regional Economics Applications Laboratory. “The dampening effect of less-than-expected job growth has not yet affected the housing market and housing prices continue to climb modestly. At the state level, the median price index, adjusted for inflation, is 91% of the 2008 peak; for Chicago, the comparable figure is 86%.”

Forecast for October 2015 report

PERCENTAGE CHANGE FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois		Chicago PMSA	Illinois		Chicago PMSA		
Jul-15	10.1%		11.7%	-5.8%		-5.3%		
Aug-15	2.4%		4.4%	-11.2%		-12.7%		
Sep-15	5.6%		5.3%	-9.9%		-11.5%		
3 Month Avg.	6.2%		7.3%	-8.8%		-9.7%		
SUMMARY OF THE FORECAST INTERVALS FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois		Chicago PMSA	Illinois		Chicago PMSA		
Oct-15	1.8%	2.2%	4.5%	5.4%	-2.1%	-2.5%	0.3%	0.3%
Nov-15	5.0%	5.9%	9.0%	10.7%	-21.6%	-25.6%	-19.9%	-23.6%
Dec-15	-4.9%	-5.8%	6.5%	7.7%	4.6%	5.5%	10.8%	12.8%
3 Month Avg.	0.5%	0.6%	6.5%	7.7%	-7.2%	-8.5%	-4.0%	-4.7%
SUMMARY OF THE FORECAST FOR THE MEDIAN PRICE								
	Illinois		Chicago PMSA		Illinois		Chicago PMSA	
Jul-15	\$190,000		\$225,000	Jul-14	\$179,000		\$218,000	
Aug-15	\$180,000		\$220,000	Aug-14	\$175,000		\$215,000	
Sep-15	\$172,000		\$207,570	Sep-14	\$162,000		\$195,000	
Oct-15	\$167,461		\$196,132	Oct-14	\$158,000		\$185,000	
Nov-15	\$163,284		\$192,929	Nov-14	\$154,900		\$181,845	
Dec-15	\$164,808		\$196,450	Dec-14	\$154,000		\$183,000	
ANNUAL PERCENTAGE CHANGE OF THE MEDIAN PRICE								
	Illinois		Chicago PMSA		Illinois		Chicago PMSA	
Jul-15	6.1%		3.2%	Jun-14	5.3%		7.3%	
Aug-15	2.9%		2.3%	Jul-14	7.2%		9.0%	
Sep-15	6.2%		6.4%	Aug-14	6.1%		9.1%	
Oct-15	6.0%		6.0%	Sep-14	4.5%		5.4%	
Nov-15	5.4%		6.1%	Oct-14	5.3%		5.7%	
Dec-15	7.0%		7.3%	Nov-14	6.9%		7.3%	

Median Prices and Recovery

	Illinois		Chicago PMSA	
	[\$2008]	[\$2015]	[\$2008]	[\$2015]
September 2008 Median Price	\$175,000	\$189,943	\$222,900	\$241,933
September 2015 Median Price	\$158,469	\$172,000	\$191,176	\$207,500
Price Ratio (September 15/September 08)	Adjusted	0.91	Adjusted	0.86
	Unadjusted	0.98	Unadjusted	0.93

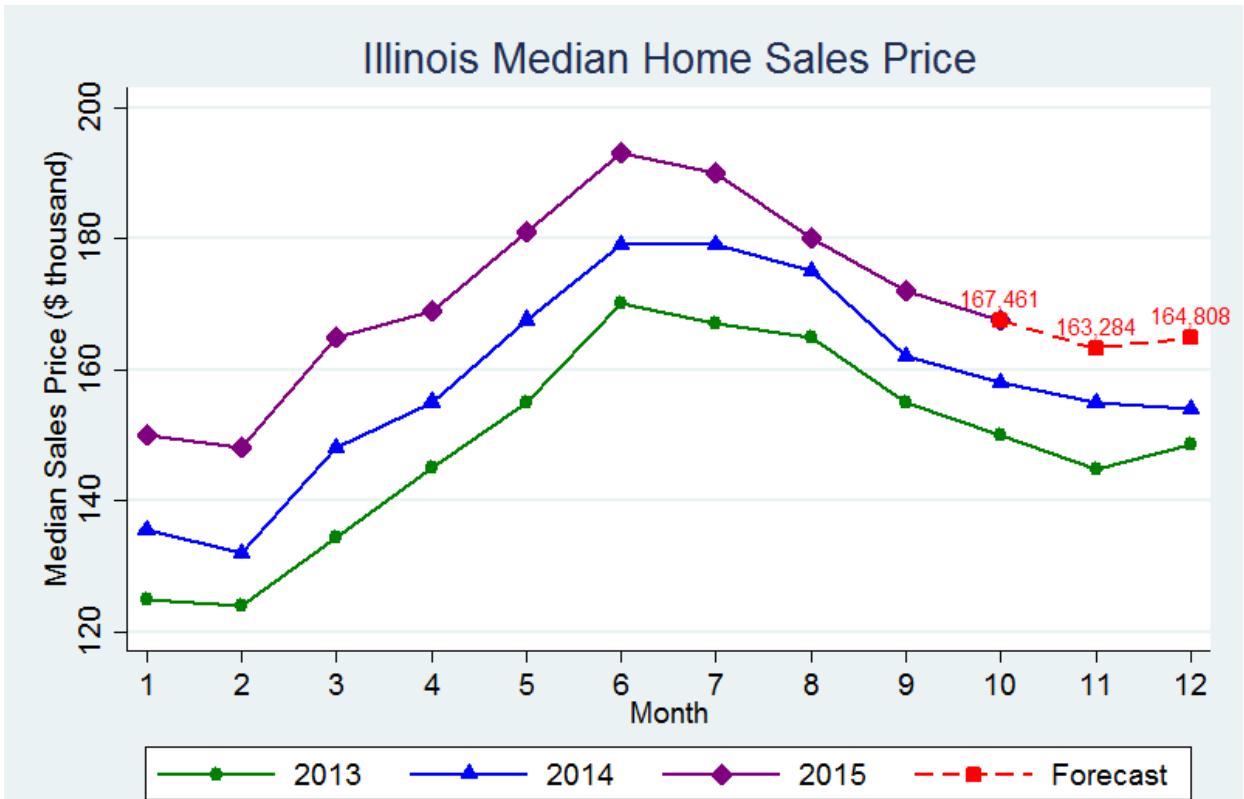
Recovery Forecasts using *Annually Growth Rates*

	Illinois	Chicago PMSA		
	Annual Recovery Rate*	Years to Recover**	Recovery Rate	Years to Recover
Current Month	6.2%	1.6	6.4%	1.6
Past 3 months	4.9%	2.1	3.8%	2.6
Past 6 months	6.6%	1.6	5.5%	1.8
Past 9 months	8.2%	1.3	7.6%	1.3
Past 12 months	7.2%	1.4	6.8%	1.5

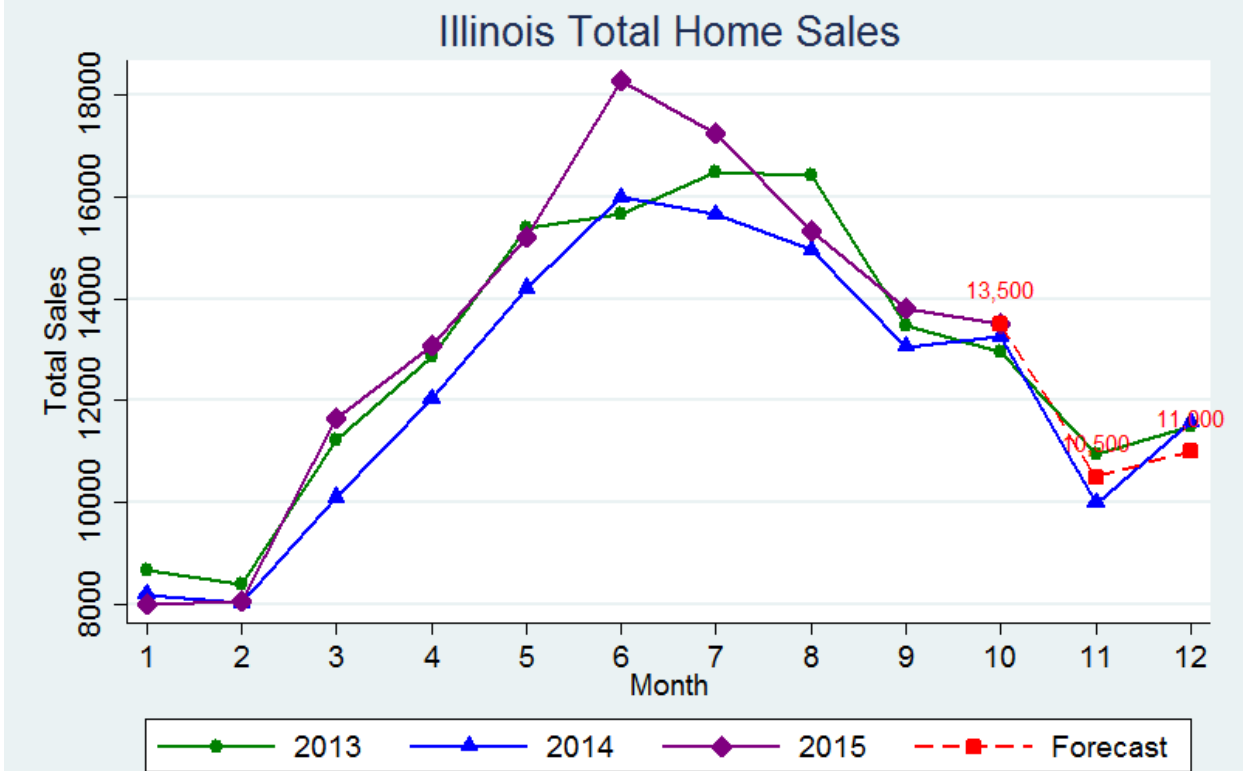
*Annual recovery rate is the average of *annual* change rates in past months

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

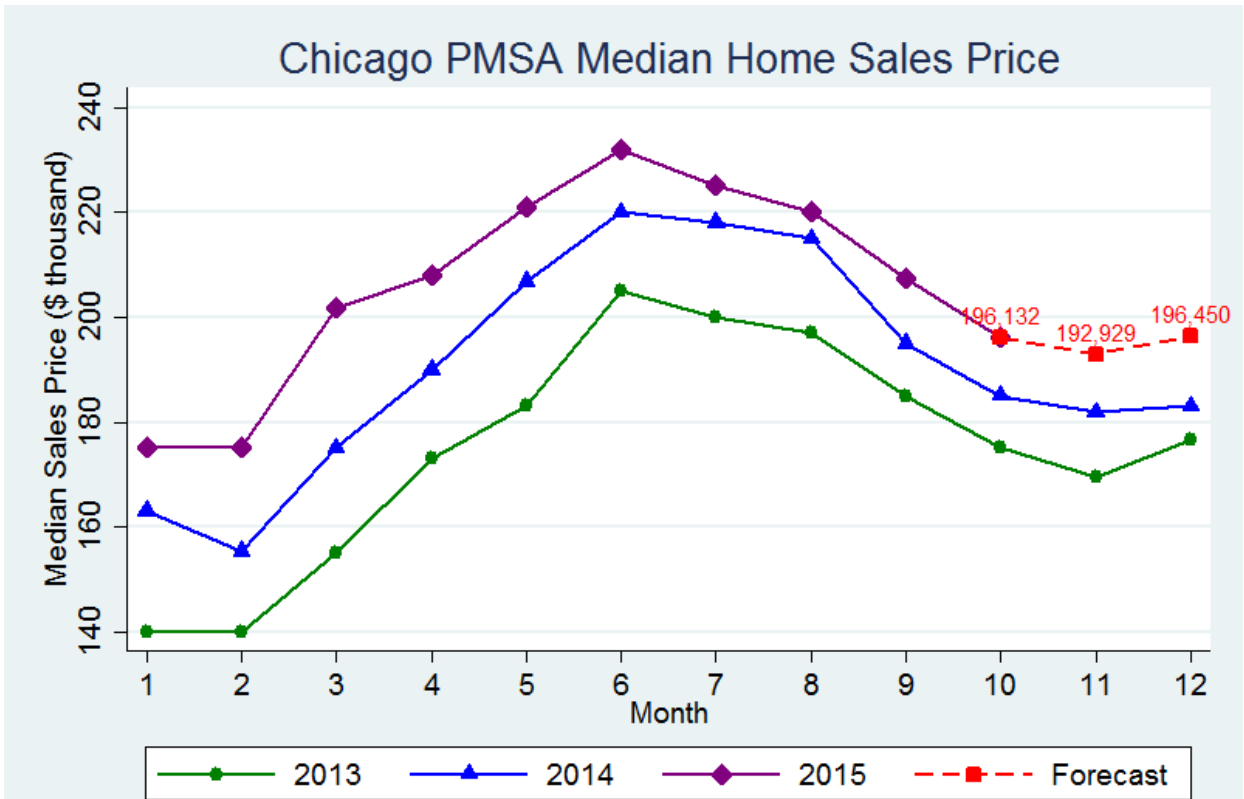
$Price_{\text{September 2015}} * (1 + \text{recovery rate})^{\text{years}} = Price_{\text{September 2008}}$. Prices used in the formula are inflation adjusted. The recovery rate is applied as a constant annual change rate to recoup the differences between the current month and its corresponding month in 2008.



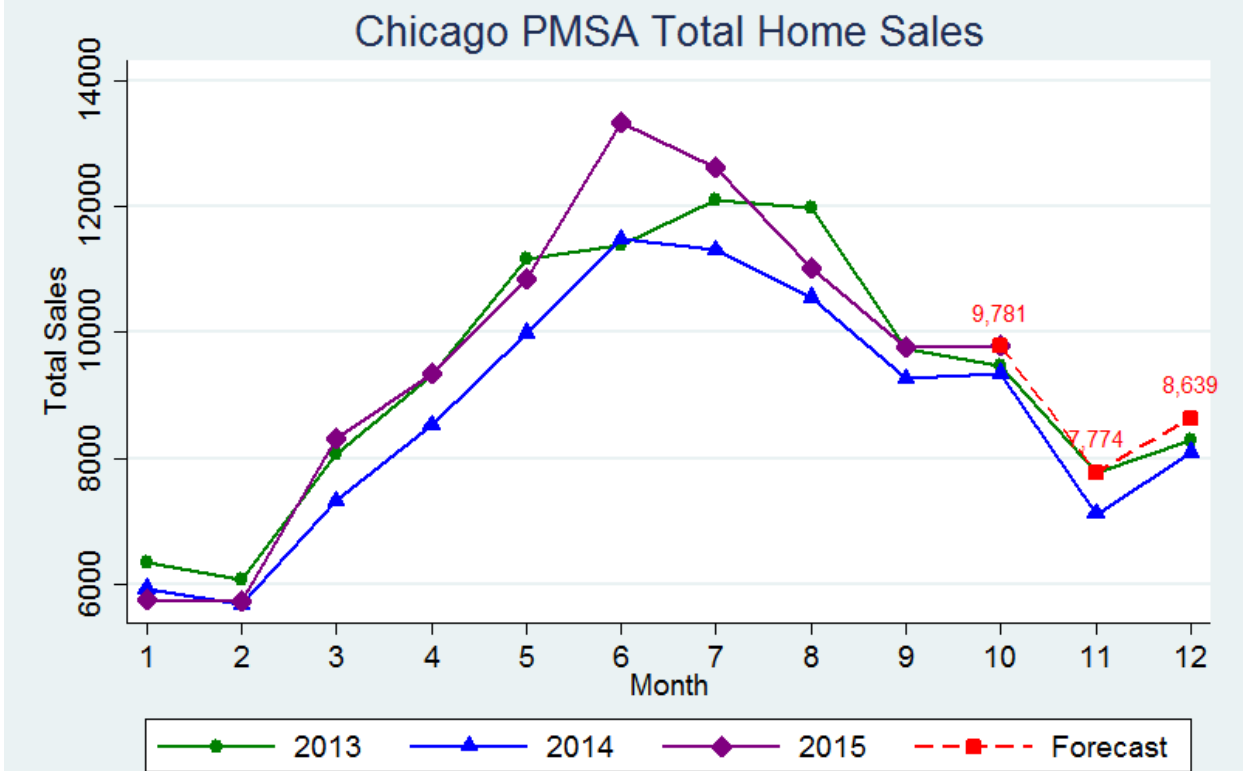
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