

Housing Price Forecasts, 2020

Illinois and Chicago MSA

Presented To

Illinois Association of Realtors

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Regional Economics Applications Laboratory,
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Introduction: The State of the Economy

In October 2019, according to the Bureau of Labor Statistics (BLS) Employment Situation report, the national unemployment rate was little changed at 3.6% and nonfarm payroll jobs experienced a gain of 128,000 jobs. Statewide, according to the Illinois Department of Employment Security (IDES), by September 2019 the Illinois unemployment rate declined to 3.9% and 4,800 non-farm payroll jobs were created. The largest gains were in three sectors; trade, transportation and utilities (+1,400), government (+600), financial activities (+400) and educational and health services (+400).

While U.S. consumer confidence declined compared to a year ago, home purchase sentiment increased. In October 2019, the Conference Board Consumer Confidence Index declined to 125.9 from 137.9 a year ago and the University of Michigan Consumer Sentiment Index decreased to 95.5 from 98.6. Both surveys revealed that the overall levels of consumer confidence have remained quite favorable, but expectations weakened slightly as consumers expressed some concerns about business conditions and job prospects. The more housing market specific index, Fannie Mae Home Purchase Sentiment Index (HPSI)¹, increased to 88.8 from 85.7 last October. [owever, the survey reported that the ‘good time to buy’ component has declined notably, despite low mortgage rates, due in part to the persistent challenge of a lack of affordable housing supply.

¹ 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.

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The Housing Market Conditions and Forecasts

Current Conditions

In the last twelve months, median prices maintained positive annual growth in each month while sales experienced a more mixed trend. The median sale prices in both Illinois and the Chicago PMSA generally experienced lower annual growth rate than forecasted. Actual sales and forecasted sales in Illinois and the Chicago PMSA experienced lower annual growth rates than forecasted but followed a very similar pattern.²

Median prices in 2019 showed moderate growth in both Illinois and the Chicago PMSA. In Illinois, annual growth rates for each month varied between 0.2% and 6.8%. The comparative range for the Chicago PMSA was between 0.2% and 4.3% (See Figures: Illinois Median Home Sales Price Annual Percentage Change & Chicago Median Home Sales Price Annual Percentage Change). This has been the seventh consecutive year with positive annual growth rate for each month since 2013.

Sales in 2019 in both Illinois and the Chicago PMSA experienced periods of irregular growth, alternating between positive and negative annual growth rates. The growth rates of sales were between -9.5% and 2.5% for Illinois and between -9.9% and 2.3% for the Chicago PMSA. During the last few months, both regions experienced negative annual growth rates in sales (See Figures: Illinois Total Price Annual Percentage Change & Chicago PMSA Total Sales Annual Percentage Change).

Furthermore, the change of sales in the Chicago PMSA was characterized by overall negative growth in both regular sales and foreclosed sales. For the regular sales, the annual growth rates were between -8.7% and 3.2%. For foreclosed sales, the comparative figures were between -26.5% and -3.7%. Moreover, the percentage of foreclosed sales out of total sales continued decreasing to a monthly average of 7.3% in 2019, about one third lower than the monthly average of 12.5% between 2010 and 2019 (See Figures: Chicago PMSA Annual Change Rates for Sales Foreclosed vs. Regular sales & Ratio of Foreclosed Sales over Total Sales).

² This is to compare the real growth rates in 2019 with the forecasted growth rates in 2018 for 2019, using ANOVA analysis. The significance level of 5% is used. See figures: 2019 Real vs Forecast Annual Sales/Median Prices Change Rates

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Forecasts and Future Condition

Median prices are forecast to continuously grow in 2020 within a higher and slightly broader range compared with 2019. On a year-over-year basis, these gains will range from 3.6% to 7.1% for Illinois and 2.4% to 5.7% for the Chicago PMSA (See Figures: Illinois Median Home Sales Price Annual Percentage Change & Chicago Median Home Sales Price Annual Percentage Change). By December 2020, the median price of homes is forecast to be \$207,409 in Illinois and \$243,533 in Chicago PMSA, respectively 3.8% and 2.4% higher on an annual basis (See Table: Annual Median Prices Forecast [Nov 2019 to Dec 2020]). As a complement to the median housing price index (HPI), the REAL HPI³ forecasts indicate a slightly negative growth trend for Illinois and a positive growth trend for the Chicago PMSA in the months ahead (see Figures: Illinois Housing Price Index & Chicago PMSA Housing Price Index). The REAL HPI (Jan 2008=1) is forecast to experience a growth rate between -4.5% and -0.1% for Illinois and 2.4% to 5.1% for the Chicago PMSA. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month.

As for sales, they are forecast to experience overall negative gains in 2020 for Illinois and positive gains for the Chicago area. The annual growth in monthly sales is forecast to be in the range from -5.2% to 3.9% for Illinois, with negative gains for most months. The comparative range for the Chicago PMSA is from -3.2% to 15.3%, with positive gains for most months. If we exclude foreclosed sales from all sales, we obtain the forecasts for the regular sales which indicate a growth range of -1.0 ~ 17.8% for the Chicago PMSA.

According to Freddie Mac’s latest set of predictions for 2020, the U.S. real estate market will “continue to firm” as home sales increase. The first and most notable prediction has to do with home sales in 2019 and 2020. The group issued a mostly positive outlook for residential real estate sales activity in 2020. Home sales nationwide are expected to reach 6 million by the end of this year, and then rise to 6.1 million during 2020. This contradicts some of the previous predictions for the U.S. real estate market, which suggested that the market could actually cool down next year. A growing chorus of voices are now predicting that real estate sales activity could actually ramp up next year, partly due to low mortgage rates. On the other hand, Freddie

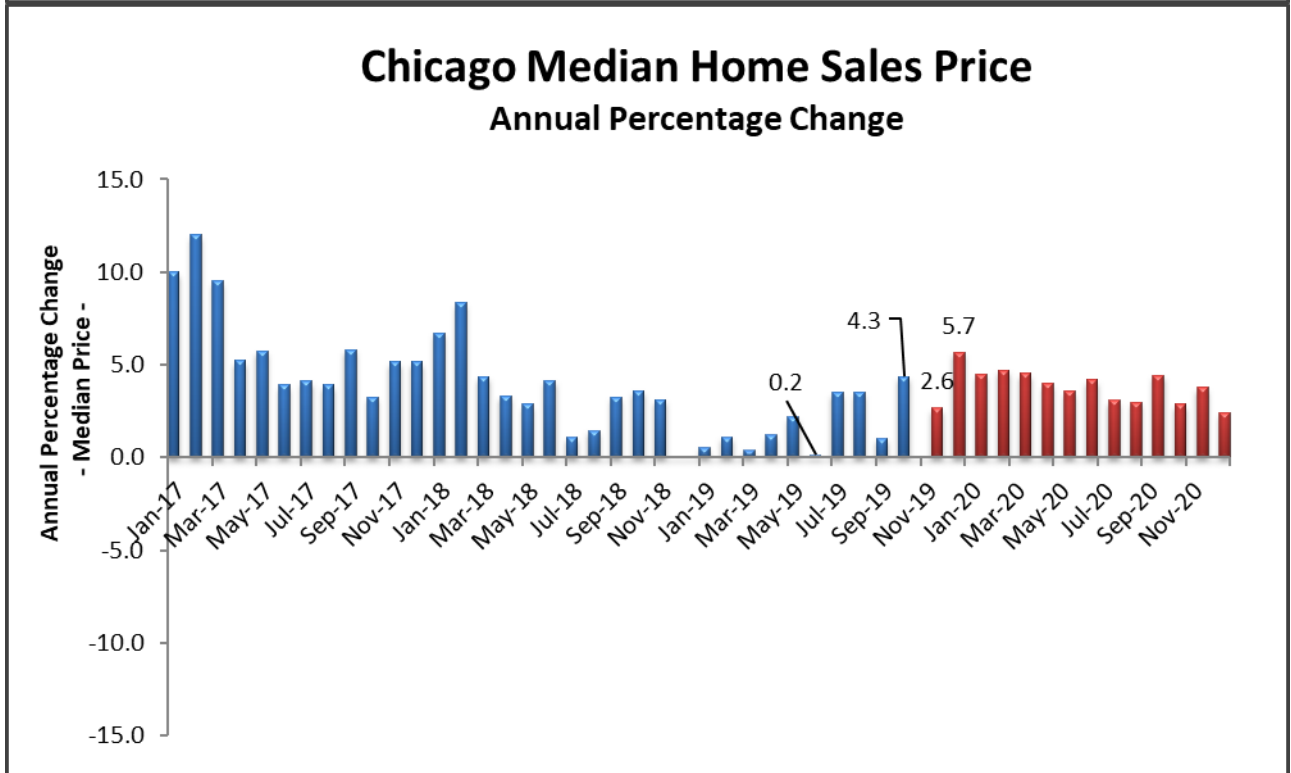
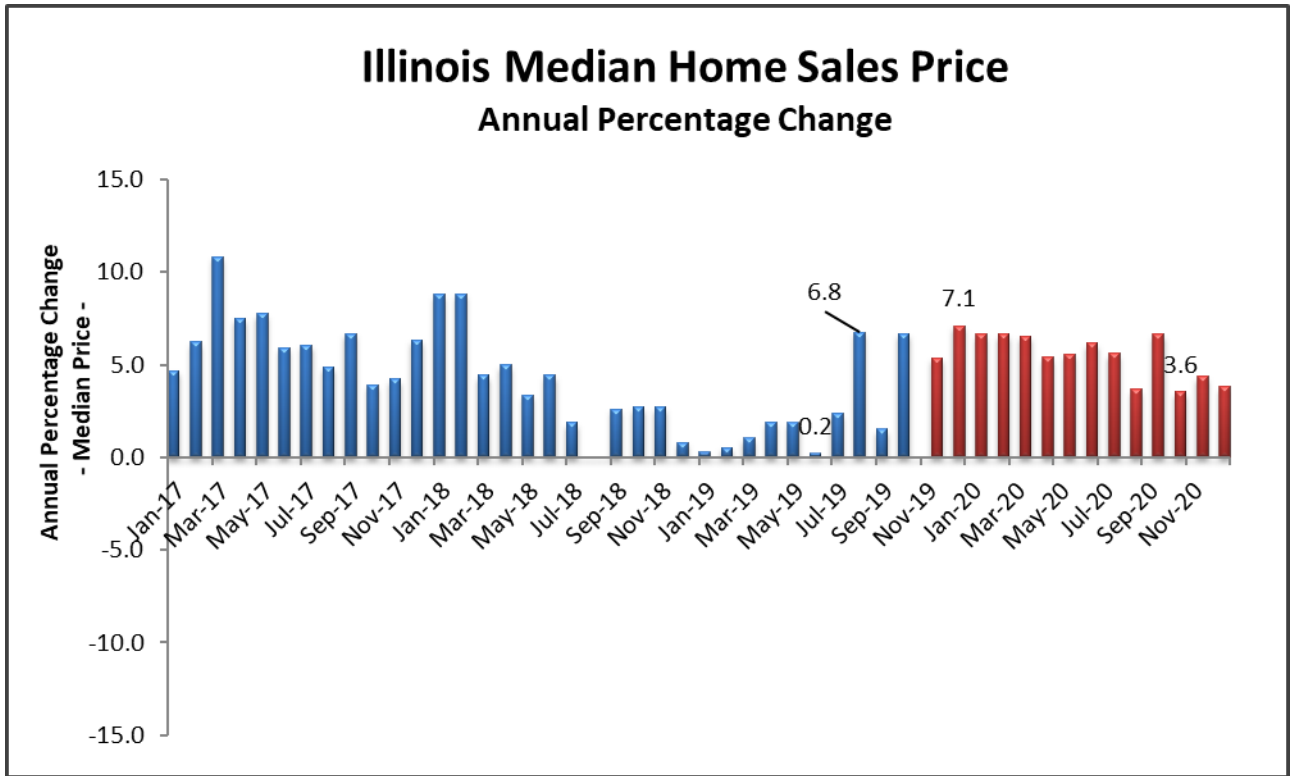
³ REAL HPI was developed by Esteban Lopez and Minshu Du. Contact us for further details.

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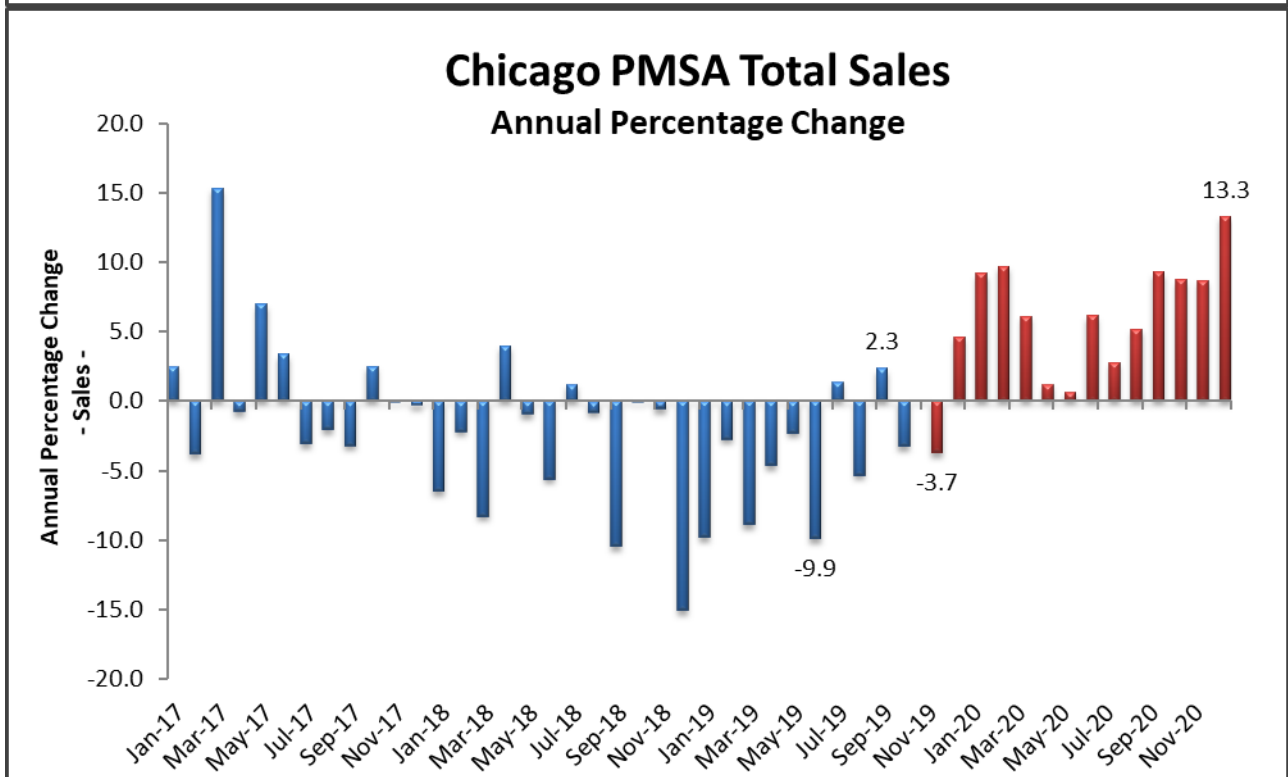
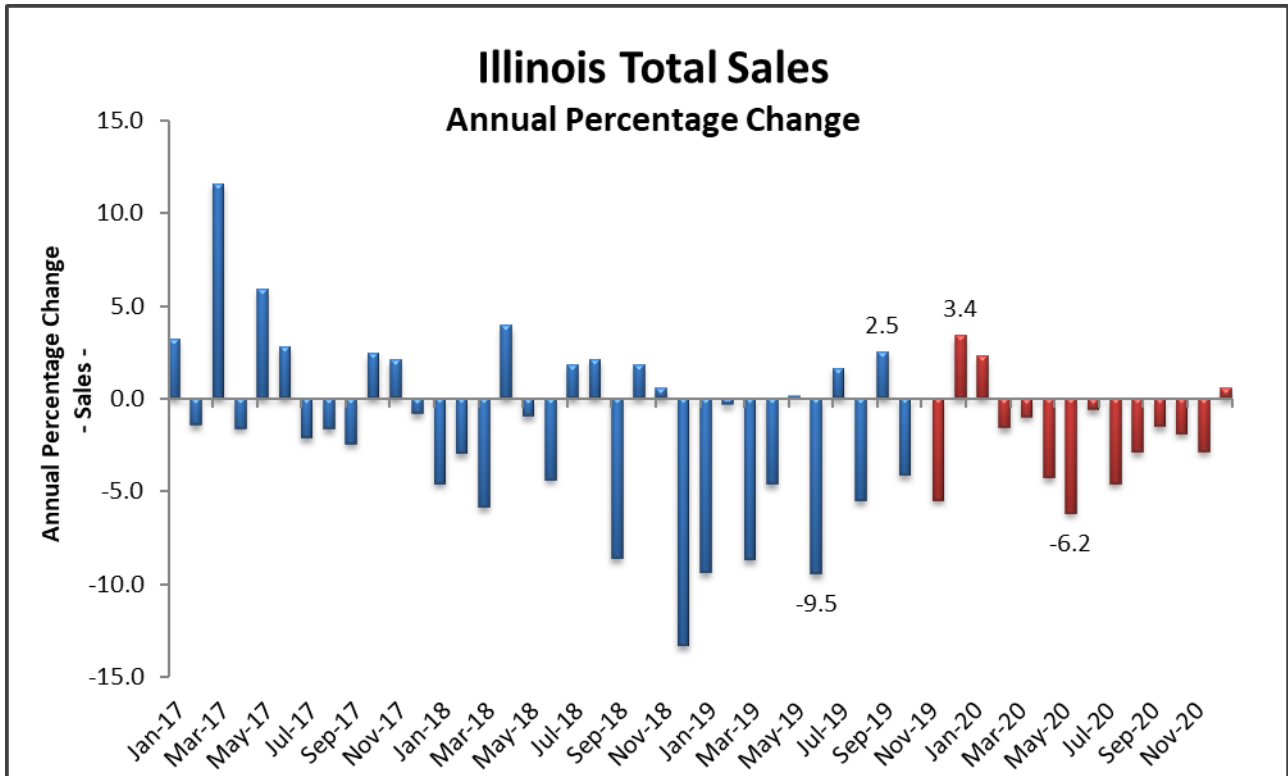
Mac's latest real estate predictions suggest that home prices across the U.S. could rise more slowly in 2020 than they did in 2019.

“The mixed signals from the market are reflected in a housing market that remains positive in terms of prices but with considerable variance in terms of sales ” noted Geoffrey J.D. Hewings, Director of the Regional Economics Applications Laboratory of the University of Illinois. “Affordability and limited inventory dampen demand while low interest rates make ownership attractive; the net effect of these forces is reflected is a market that is difficult to forecast.”

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Annual Sales Forecast (Nov 2019 to Dec 2020)

Percentage Change Forecasts for the Total Number of Sales								
(Illinois and Chicago PMSA: Forecast range)								
	Monthly				Annually			
	Illinois		Chicago		Illinois		Chicago	
Nov-19	-10.25%	-13.87%	-9.47%	-12.81%	-4.66%	-6.31%	-3.15%	-4.26%
Dec-19	-5.53%	-7.48%	-6.44%	-8.71%	2.88%	3.90%	3.92%	5.30%
Jan-20	-22.73%	-30.76%	-17.76%	-24.03%	1.95%	2.64%	7.80%	10.55%
Feb-20	5.38%	7.28%	6.66%	9.01%	-1.35%	-1.83%	8.23%	11.13%
Mar-20	34.89%	47.20%	34.11%	46.14%	-0.84%	-1.13%	5.17%	7.00%
Apr-20	14.54%	19.68%	15.81%	21.39%	-3.63%	-4.91%	1.03%	1.40%
May-20	17.17%	23.24%	16.63%	22.49%	-5.25%	-7.10%	0.57%	0.77%
Jun-20	3.06%	4.14%	4.16%	5.63%	-0.52%	-0.70%	5.22%	7.06%
Jul-20	-5.01%	-6.78%	-5.35%	-7.23%	-3.90%	-5.28%	2.37%	3.21%
Aug-20	-1.88%	-2.54%	-3.00%	-4.06%	-2.46%	-3.32%	4.40%	5.95%
Sep-20	-14.57%	-19.72%	-14.13%	-19.11%	-1.28%	-1.73%	7.87%	10.65%
Oct-20	-2.00%	-2.71%	-1.03%	-1.39%	-1.62%	-2.19%	7.42%	10.04%
Nov-20	-10.97%	-14.84%	-9.51%	-12.86%	-2.42%	-3.27%	7.38%	9.98%
Dec-20	-2.74%	-3.71%	-3.11%	-4.20%	0.48%	0.65%	11.29%	15.27%

Negative variations are in red.

Annual Median Prices Forecast (Nov 2019 to Dec 2020)

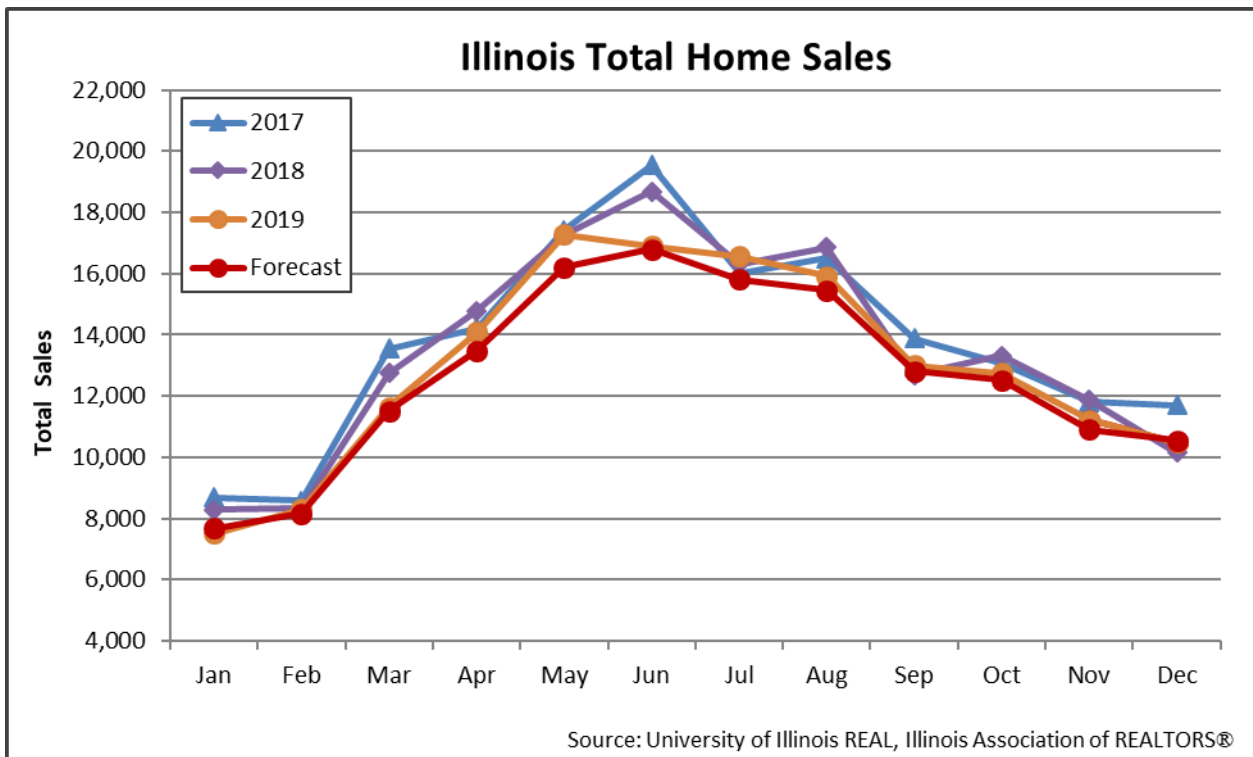
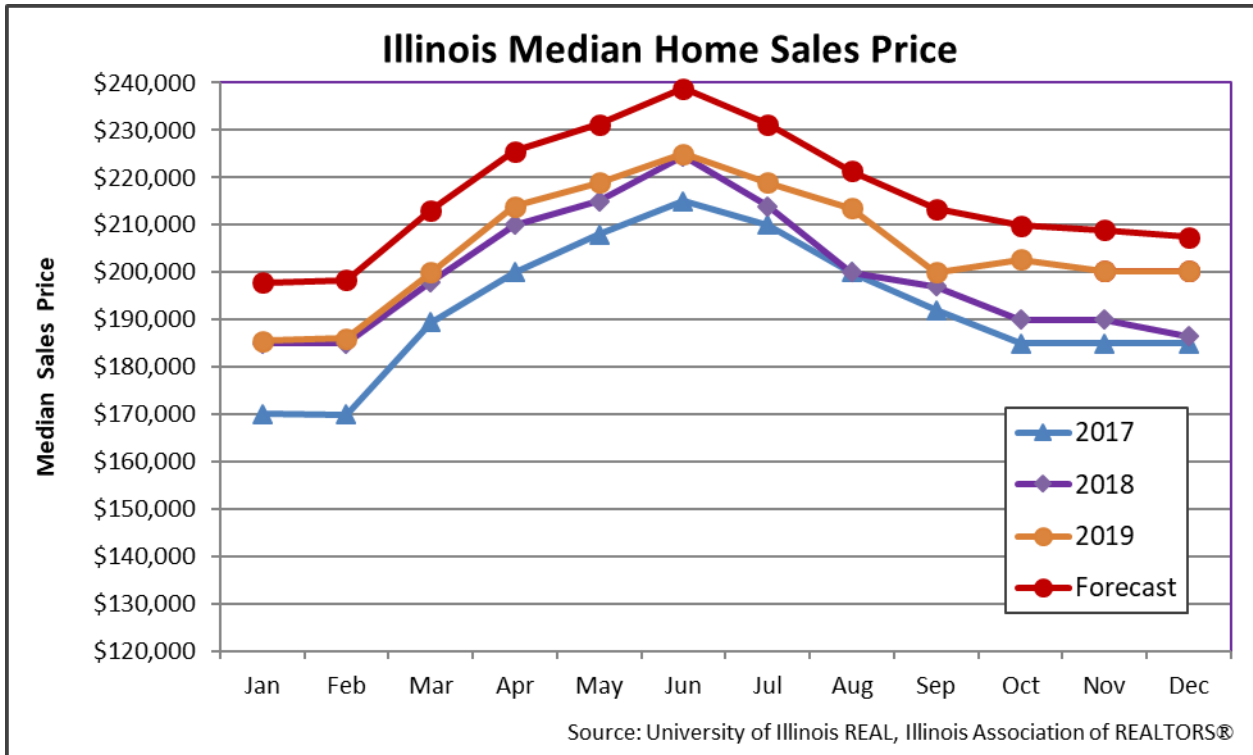
Summary of the Forecast for the Median Price					
(Illinois and Chicago PMSA)					
	Illinois	Chicago		Illinois	Chicago
Nov-19	\$200,205	\$238,143	Nov-17	\$190,000	\$232,000
Dec-19	\$199,763	\$237,744	Dec-17	\$186,500	\$225,000
Jan-20	\$197,883	\$234,344	Jan-18	\$185,550	\$224,250
Feb-20	\$198,383	\$240,785	Feb-18	\$186,000	\$230,000
Mar-20	\$213,059	\$251,943	Mar-18	\$200,000	\$241,000
Apr-20	\$225,565	\$263,081	Apr-18	\$214,000	\$253,000
May-20	\$231,222	\$268,791	May-18	\$219,000	\$259,500
Jun-20	\$238,875	\$273,945	Jun-18	\$225,000	\$262,900
Jul-20	\$231,270	\$266,938	Jul-18	\$219,000	\$259,000
Aug-20	\$221,343	\$258,494	Aug-18	\$213,500	\$251,000
Sep-20	\$213,325	\$250,632	Sep-18	\$200,000	\$240,000
Oct-20	\$209,896	\$246,909	Oct-18	\$203,000	\$240,000
Nov-20	\$208,977	\$247,093			
Dec-20	\$207,409	\$243,533			

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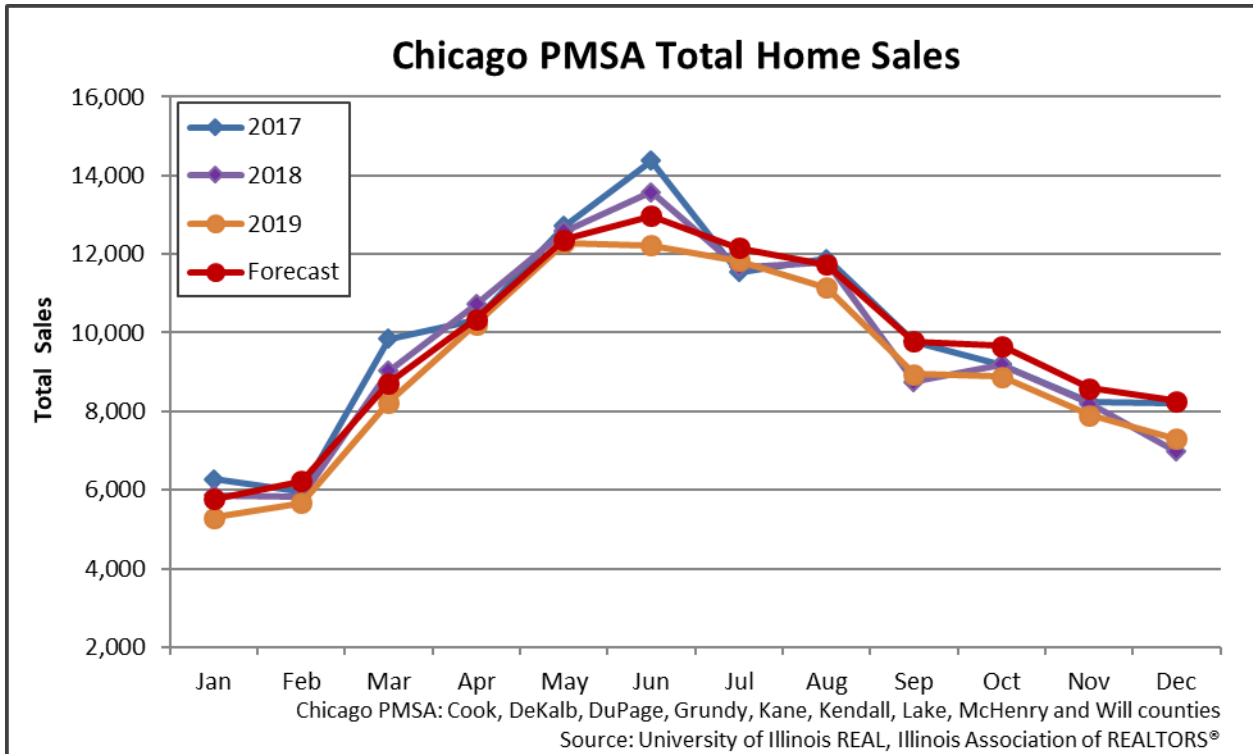
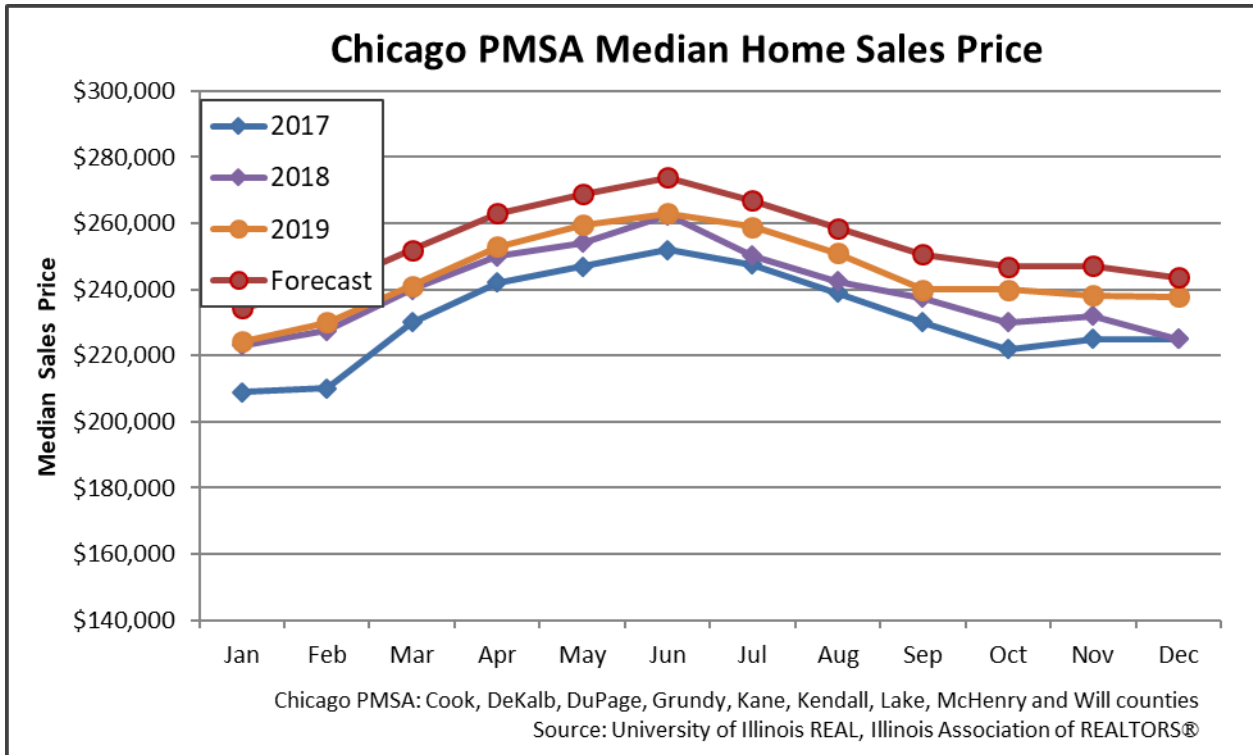
Annual Forecasts for Regular Property Sales in Chicago PMSA (Nov 2019 to Dec 2020)

Summary of the Forecasts for <i>Regular Property Sales</i>					
(Chicago PMSA)					
	Sales			Median Prices	
	Forecasted Sales	Annually		Forecasted Price	Annually
Nov-19	7,311	-0.99%	-1.33%	\$248,050	3.35%
Dec-19	6,872	9.55%	12.92%	\$246,213	4.77%
Jan-20	5,347	13.15%	17.79%	\$246,344	5.28%
Feb-20	5,568	11.39%	15.41%	\$251,173	4.66%
Mar-20	7,905	6.55%	8.86%	\$261,123	4.45%
Apr-20	9,500	1.31%	1.78%	\$271,703	4.10%
May-20	11,316	-0.65%	-0.87%	\$274,602	3.62%
Jun-20	11,958	3.77%	5.10%	\$280,440	4.47%
Jul-20	11,243	1.84%	2.49%	\$273,385	3.55%
Aug-20	10,824	4.02%	5.44%	\$265,353	3.05%
Sep-20	9,006	7.86%	10.64%	\$257,261	4.15%
Oct-20	8,810	7.31%	9.89%	\$254,040	2.64%
Nov-20	7,917	7.04%	9.53%	\$255,662	3.07%
Dec-20	7,709	10.35%	14.00%	\$252,441	2.53%

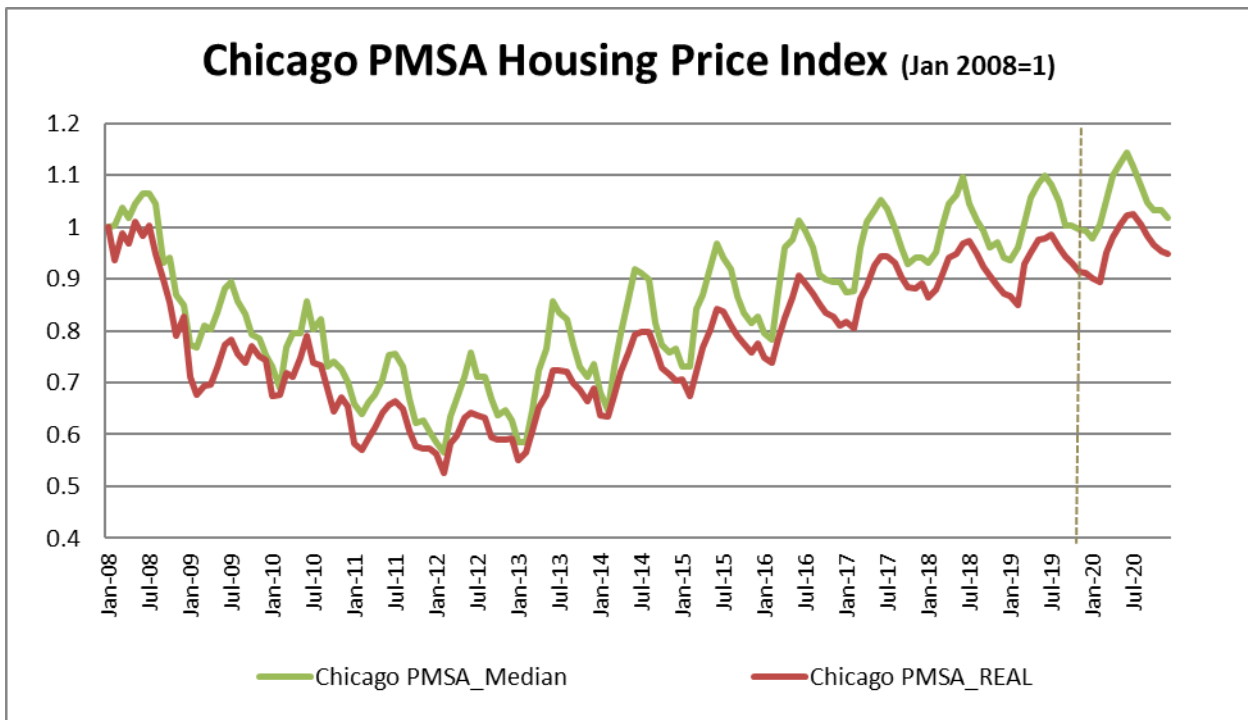
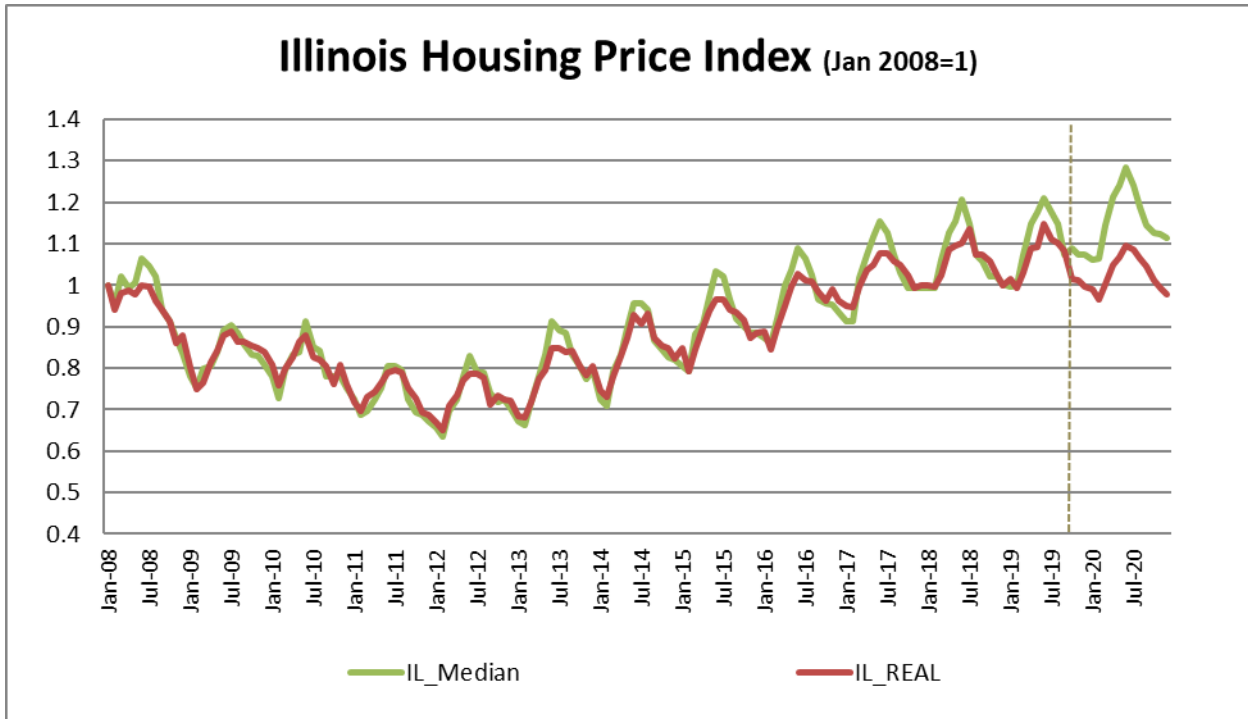
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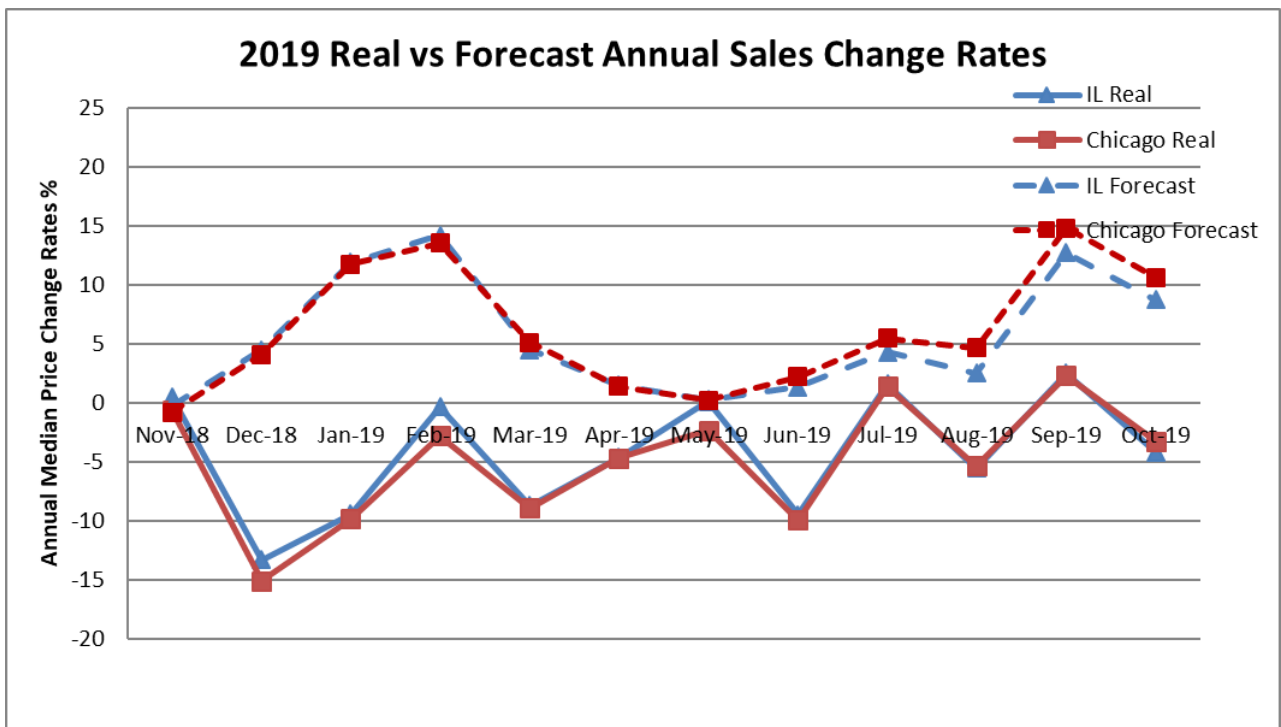
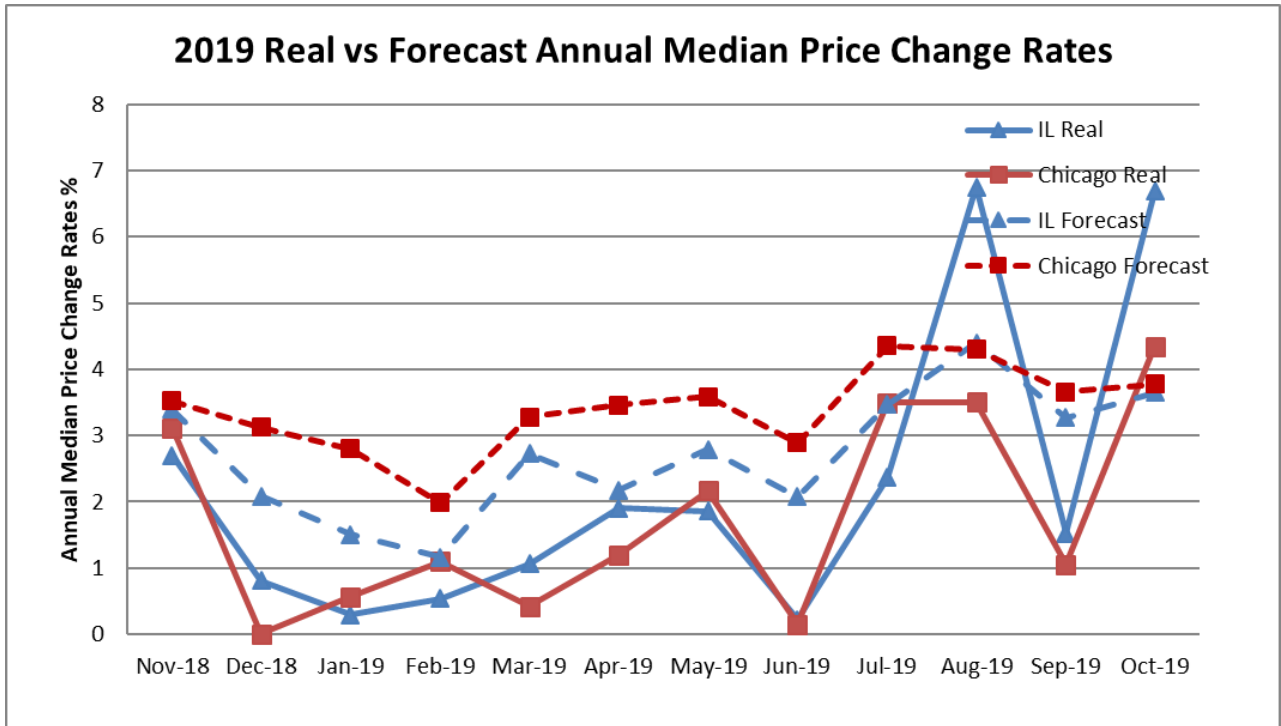
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