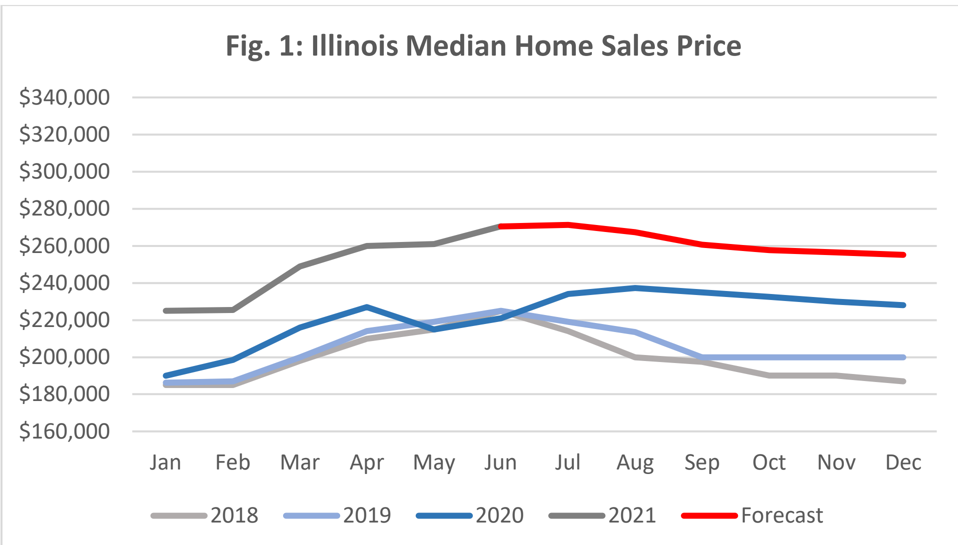
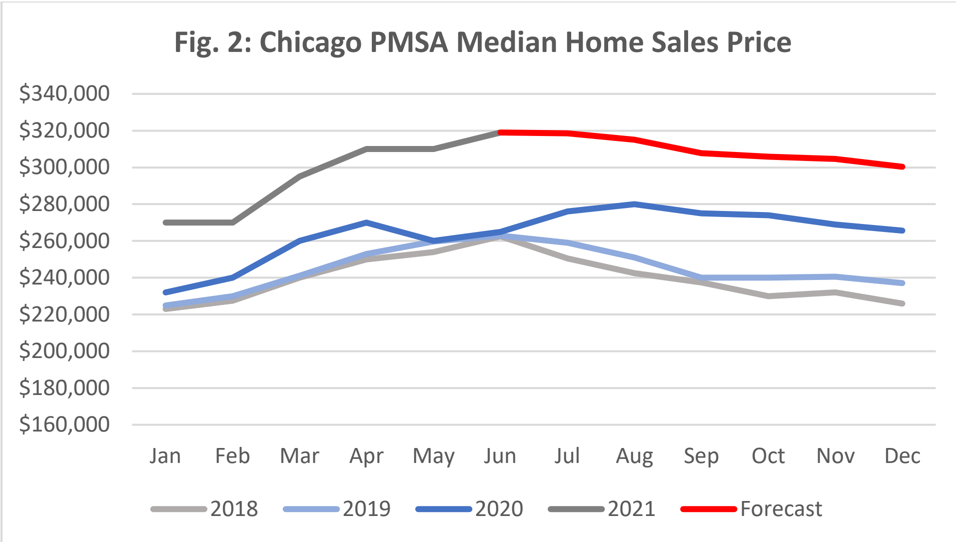
Housing Forecasts for the Next Six Months: Chicago Metro Area and Illinois

Given the uncertainty about the housing market for the remainder of 2021, the Regional Economic Applications Laboratory (REAL) has developed an interim housing forecast of prices and sales through December 2021. The data focuses on sales and median prices for Illinois and the Chicago Metro Area. The forecast also reviews some of the economic issues were are monitoring.

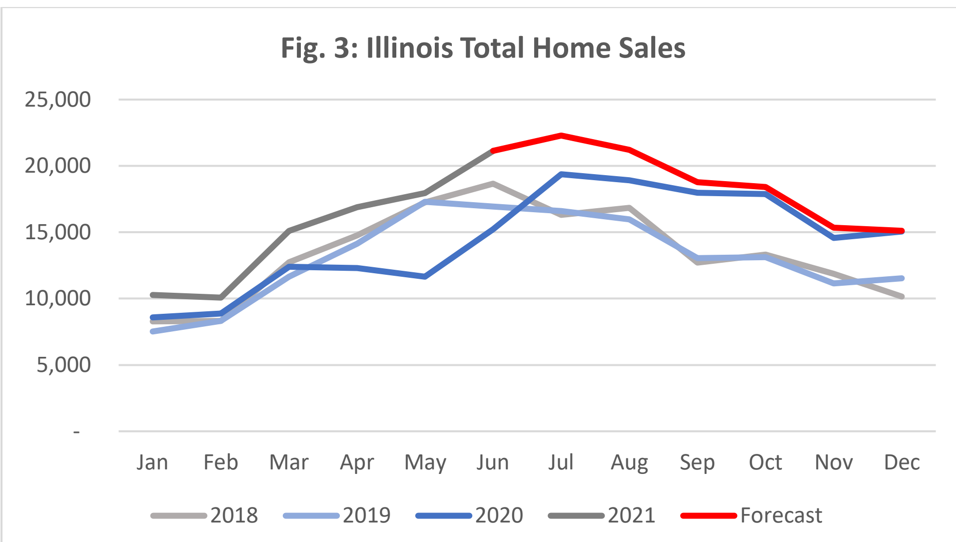
"Over the next six months, the housing market is expected to sustain higher price increases than a year ago while moderating sales changes reflect very tight inventories," noted Geoffrey J.D. Hewings of the Regional Economics Applications Laboratory at the University of Illinois. "While employment growth has been very robust for the last two months, there is some concern about the potential impact of the spread of the Delta COVID-19 variant dampening activity during the rest of the year."

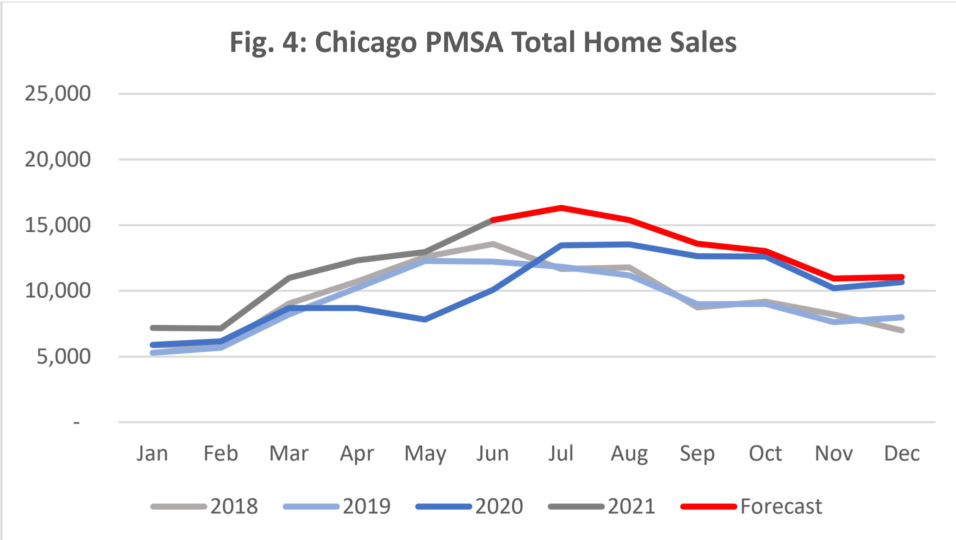
1. Price and Sales Changes





- The annual changes in prices by month will ameliorate somewhat over the next 6 months from over 20% in June to 11% in December in Illinois and from 15% to 13% in Chicago Metro Area; the continued low inventory accounts for the continuation of double-digit price changes.





- In contrast to the price changes, we can expect a sharp decline in Illinois annual sales from 15% in June to virtually unchanged in December; in the Chicago Metro Area, a 21% increase in June quickly drops to single digits in September, to virtually no change by the end of the year.
- Both sales and prices have followed a typical hump-shaped pattern in both Illinois and the Chicago Metro Area, but price changes have been well above those recorded in 2020.

2. What we are watching

Forbearances into foreclosures

- Over the next several months, many forbearance agreements will expire and there is some increasing concern about the share of these properties that may move to foreclosure proceedings as owners are unable to negotiate new mortgage repayment agreements.
- The foreclosure inventory had started to build again in 2018 but in 2020 was in abeyance; in 2021, it has starting to build again.

Changes in supply

Nationally, there is some evidence of very small increases in supply, but these have not been large enough to affect price appreciation or contribute significantly to increasing the inventory that is at historically low levels.

In June, Illinois had enough housing inventory for 1.7 months (down from 3.5 last year). In the Chicago Metro Area, the comparable figure was 1.5 months (down from 3.1 last year).

New housing construction/material costs

- One expectation was that given price escalation, the market would respond with an increase in new construction.
- This has not happened for two reasons – a huge increase in material costs, especially lumber, steel and wiring (record high copper prices, as much as 90% higher than one year ago)
- While wholesale lumber prices have declined (as much as 50% over the last month), retailers have large inventories of lumber they purchased at record high prices and are unwilling to replenish stocks until they can move the inventory to sales.
- In addition, construction firms report difficulty hiring workers, increasing wages in the hope that this attracts more workers.
- The combined effects have increased construction costs by double-digit amounts.

Consumer sentiment

- Both consumer sentiment indices that we monitor, the Conference Board and the University of Michigan, reported flat changes in June but levels that were still higher than February 2020.
- Consumers seem reasonably positive about the trajectory of the economy in the coming months.

Gap between buyer and seller sentiment

- We have noted in past months an increasing gap between consumer housing sentiments between those selling (a good time to sell) and those buying (not a good time to buy); this gap has exceeded double digits in the last few months.

Housing affordability

- In June, the market shares of homes in the lowest price ranges (<$200K) experienced the largest change compared to a year ago.
- In Illinois, the market share for homes at $100-200K decreased to 22.9% from 29.8% a year ago; the comparative figure for the Chicago Metro Area showed a decrease to 16.3% from 24.4% a year ago.
- Price escalation has decreased affordability and, at the same time, decreased supply in the lowest price tiers.