

# Housing Price Forecasts

## Illinois and Chicago PMSA, October 2020

Presented To

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As noted last month, while the economy continues to add jobs (661,000 in September) and the unemployment rate declined to 7.9%, the pace of job growth has slowed. Further, while the number of temporary layoffs decreased, the number of permanent job losses increased. There is continuing concern about the prospects for a second stimulus package being passed before the election next month. CoreLogic has noted that the 120-day delinquency rate was at a 21-year high. In July 2019, the serious delinquency rate (mortgages more than 90 days past due), was 1.3% while in July 2020, while it had climbed to 4.1% in July 2020.

However, the housing market remains reasonably buoyant, both median prices and sales experienced a positive annual change in both Illinois and the Chicago PMSA for the third month in a row.

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## Housing Price Forecast: Illinois and Chicago PMSA, October 2020

### The Housing Market

In September, both median prices and sales experienced a positive annual change in both Illinois and the Chicago PMSA. 17,658 houses were sold in Illinois, changing by -6.4% from a month ago and 35.2% from a year ago. In the Chicago PMSA, 12,451 houses were sold, changing by -7.9% from a month ago and 38.7% from a year ago. The median price was \$235,000 in Illinois, up 17.5% from September last year; the comparable figure for the Chicago PMSA was \$275,000, up 14.6% from September last year.

In September, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 5.0%. 11,834 regular sales were made, 43.4% more than last year. 525 foreclosed properties were sold, 19.2% less than last year. The median price was \$279,000 for regular property sales, up 12.7% from last year; the comparable figure for the foreclosed properties was \$195,000, up 16.8% from this time last year.

Illinois and Chicago PMSA both have already recovered to their pre-bubble levels on average. The median sales price in September 2008 has been adjusted to 2020 values to enable calculation of the housing price recovery considering the effects of inflation. In Illinois, the September 2008 median sales price was \$159,950 (in \$2008) and \$192,811 (in \$2020); the current price level was 122% of the 2008 level after adjusting (147% before adjusting). In the Chicago PMSA, the September 2008 median sales price was \$199,070 (in \$2008) and \$239,968 (in \$2020); the comparable figure for price recovery in September 2020 is 115% after adjustment (138% before adjusting).

The sales forecast for October, November and December suggests an increase on a yearly basis and a decrease in a monthly basis for both Illinois and the Chicago PMSA. Annually for Illinois, the three-month average forecasts point to an increase in the range 18.4% to 24.9%; the comparative figures for the Chicago PMSA are an increase in the range 24.2% to 32.7%. On a monthly basis, the three-month average sales are forecast to decrease in the range -7.8% to -10.5% for Illinois and decrease in the range -6.3% to -8.5% for the Chicago PMSA.

The pending home sales index<sup>1</sup> is a leading indicator based on contract signings. This September, the number of homes put under contract was more than last year in both Illinois and the Chicago PMSA. The pending home sales index is 200.5 (2008=100) in Illinois, up 46.2% from a year ago. In the Chicago PMSA, the comparable figure is 225.0, up 50.6% from a year ago. At the latest average annual pending sales rate, Illinois had enough housing inventory for 2.8 months<sup>2</sup> (down from 4.8 last year). In the Chicago PMSA, the comparable figure was 2.5 months (down from 4.0 last year). Months of supply for homes in the lowest price ranges (<100K) experienced declines both in Illinois and the Chicago PMSA.

The median price forecast indicates positive annual growth for October, November, and December in both Illinois and the Chicago PMSA. In Illinois, the median price is forecast to change by 15.4% in October, 15.4% in November and 15.3% in December. For the Chicago PMSA, the comparable figures are 12.4% in October, 13.1% in November and 12.6% in

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<sup>1</sup> The base level (100) of pending home sales is the average pending home sales of year 2008.

<sup>2</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.

December. As a complement to the median housing price index (HPI), the REAL HPI<sup>3</sup> forecasts a positive growth trend for both Illinois and the Chicago PMSA. In Illinois, the REAL HPI (Jan 2008=1) is forecast to change by 4.3% in October, 4.0% in November and 2.9% in December. The comparable figures for the Chicago PMSA are 7.1% in October 4.7% in November and 6.4% in December. REAL HPI takes housing characteristics into account and constructs comparable “baskets” of homes for each month.

In September, both the Conference Board Consumer Confidence Index and the University of Michigan Consumer Sentiment Index increased. The Conference Board Consumer Confidence Index survey revealed that a more favorable view of current business and labor market conditions, coupled with renewed optimism about the short-term outlook, helped spur this month’s rebound in confidence. The University of Michigan Consumer Sentiment Index survey noted that while consumers have anticipated gains in the national economy ever since the April shutdown, the September survey recorded a significant increase in the proportion that expected a reestablishment of good times financially in the overall economy. The more housing specific sentiment index, the Fannie Mae Home Purchase Sentiment Index (HPSI) also increased. The survey revealed that consumers’ home price expectations were up strongly this month, with high home prices playing an increasingly important role in driving both the increase in ‘good time to sell’ sentiment and the decline in ‘good time to buy’ sentiment.

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

- In September, both median prices and sales experienced a positive annual change in both Illinois and the Chicago PMSA. 17,658 houses were sold in Illinois, changing by -6.4% from a month ago and 35.2% from a year ago. In the Chicago PMSA, 12,451 houses were sold, changing by -7.9% from a month ago and 38.7% from a year ago. The median price was \$235,000 in Illinois, up 17.5% from September last year; the comparable figure for the Chicago PMSA was \$275,000, up 14.6% from September last year. (Reference: Illinois and Chicago PMSA Total Home Sales and Median Home Sales Price figures; Forecast for October 2020 report table)
- In September, for the Chicago PMSA, the percentage of foreclosed sales (e.g. REOs) among the total sales was 5.0%. 11,834 regular sales were made, 43.4% more than last year. 525 foreclosed properties were sold, 19.2% less than last year. The median price was \$279,000 for regular property sales, up 12.7% from last year; the comparable figure for the foreclosed properties was \$195,000, up 16.8% from this time last year. (Reference: Ratio of Foreclosed Sales over Total Sales, Sales & Median Prices: Foreclosed vs. Regular figures)
- In September, at the latest average annual pending sales rate, Illinois had enough housing inventory for 2.8 months<sup>4</sup> (down from 4.8 last year). In the Chicago PMSA, the comparable figure was 2.5 months (down from 4.0 last year). Months of supply for homes in the lowest price ranges (<100K) experienced declines both in Illinois and the Chicago PMSA. (Reference: Illinois and Chicago PMSA Annual Months’ Supply by Price Range figures)
- In September, 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 less than

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

<sup>4</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.

\$100K decreased to 12.8% from 15.8% a year ago; the comparative figure for the Chicago PMSA showed a decrease to 4.1% from 6.2% a year ago. (Reference: Illinois and Chicago PMSA Price Stratification figures)

### **The Housing Market – Forecast and Future Condition**

- The median price forecast indicates positive annual growth for October, November, and December in both Illinois and the Chicago PMSA. In Illinois, the median price is forecast to change by 15.4% in October, 15.4% in November and 15.3% in December. For the Chicago PMSA, the comparable figures are 12.4% in October, 13.1% in November and 12.6% in December. (Reference: Forecast for October 2020 report table)
- As a complement to the median housing price index (HPI), the REAL HPI<sup>5</sup> forecasts a positive growth trend for both Illinois and the Chicago PMSA. In Illinois, the REAL HPI (Jan 2008=1) is forecast to change by 4.3% in October, 4.0% in November and 2.9% in December. The comparable figures for the Chicago PMSA are 7.1% in October 4.7% in November and 6.4% 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 suggests an increase on a yearly basis and a decrease in a monthly basis for both Illinois and the Chicago PMSA. Annually for Illinois, the three-month average forecasts point to an increase in the range 18.4% to 24.9%; the comparative figures for the Chicago PMSA are an increase in the range 24.2% to 32.7%. On a monthly basis, the three-month average sales are forecast to decrease in the range -7.8% to -10.5% for Illinois and decrease in the range -6.3% to -8.5% for the Chicago PMSA. (Reference: Forecast for October 2020 report table)
- The pending home sales index<sup>6</sup> is a leading indicator based on contract signings. This September, the number of homes put under contract was more than last year in both Illinois and the Chicago PMSA. The pending home sales index is 200.5 (2008=100) in Illinois, up 46.2% from a year ago. In the Chicago PMSA, the comparable figure is 225.0, up 50.6% from a year ago. (Reference: Illinois and Chicago PMSA Pending Home Sales Index figure)
- In September 2020, 235 houses were newly filed for foreclosure in the Chicago PMSA (down 83.5% and up 14.6% respectively from a year and a month ago). 529 foreclosures were completed<sup>7</sup> (down 35.3% and up 197.2% respectively from a year and a month ago). As of September 2020, there are 21,231 homes at some stage of foreclosure — the foreclosure inventory. The monthly average net flows of foreclosures (foreclosure inflows - outflows) were -182 in the past 6 months, 236 in the last 12 months and 401 in the last 24 months. (Reference: Chicago PMSA Foreclosure Inflows and Outflows, and Inventory figures).

### **The Economy**

- In September 2020, according to the Bureau of Labor Statistics (BLS) Employment Situation report, the national unemployment rate declined to 7.9% and nonfarm payroll jobs experienced a gain of 661,000 jobs. These improvements in the labor market reflect the continued resumption of economic activity that had been curtailed due to the coronavirus (COVID-19) pandemic and efforts to contain it. Employment rose sharply in leisure and

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<sup>6</sup> The base level (100) of pending home sales is the average pending home sales of year 2008.

<sup>7</sup> Including cancelled foreclosures and auctions

hospitality (+318,000), retail trade (+142,000), and health care and social assistance (+108,000).

- In September 2020, according to the Illinois Department of Employment Security (IDES) news release, the Illinois unemployment fell to 10.2%. Non-farm payroll jobs lost by 12,000 over the month. The industry sectors that reported the largest payroll declines were: Professional and Business Services (-12,400), Government (-8,500) and Educational and Health Services (-7,300).
- In July 2020, the one-year-ahead forecast for Illinois indicates that the non-farm employment will change at a rate between 3.30% and 5.55%, corresponding to job gain between 185,300 and 311,800. The largest contributors to the forecast increase are education and health, trade, transportation and utilities, and government.
- In September 2020, according to a new report from the Mortgage Bankers Association's (MBA) Research Institute for Housing America, September proved to be a difficult month for more than 6 million households who weren't able to make their rent or mortgage payments on time. "Rent and mortgage payment collections improved over the summer as more people went back to work, but high unemployment continues to place hardships on millions of U.S. households," said Gary V. Engelhardt, professor of economics in the Maxwell School of Citizenship and Public Affairs at Syracuse University and one of the study's co-authors.
- In September 2020, Freddie Mac has released its quarterly forecast for the beginning of 2020's fourth quarter, bumping its projection of total originations for the year to \$3.6 trillion. "Even as the economy faces challenges from the coronavirus pandemic, the housing market has been showing strength," said Freddie Mac chief economist Sam Khater. "Refinance activity is solid and homebuyer demand continues, resulting in increased sales and an acceleration in house price growth."

### **Longer-term Outlook**

- In September, both the Conference Board Consumer Confidence Index and the University of Michigan Consumer Sentiment Index increased. The Conference Board Consumer Confidence Index stands at 101.8, up from 86.3 last month. The survey noted that a more favorable view of current business and labor market conditions, coupled with renewed optimism about the short-term outlook, helped spur this month's rebound in confidence. Consumers also expressed greater optimism about their short-term financial prospects, which may help keep spending from slowing further in the months ahead. The University of Michigan Consumer Sentiment Index rose to 80.4 from 74.1 last month. The survey revealed that while consumers have anticipated gains in the national economy ever since the April shutdown, the September survey recorded a significant increase in the proportion that expected a reestablishment of good times financially in the overall economy.
- In September, Fannie Mae Home Purchase Sentiment Index (HPSI) increased to 81.0 from 77.5 last month, rising for the second consecutive month and continuing the rebound from late spring. The survey reported that consumers' home price expectations were up strongly this month, with high home prices playing an increasingly – though unsurprisingly – important role in driving both the increase in 'good time to sell' sentiment and the decline in 'good time to buy' sentiment.
- The Chicago Business Activity Index (CBAI) increased to 60.8 in August from 38.7 in July.

The increase is mainly attributed to positive manufacturing and nonmanufacturing job growth.

## Forecast for October 2020 report

PERCENTAGE CHANGE FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
<b>Jul-20</b>	16.4%	13.8%		27.4%	33.8%			
<b>Aug-20</b>	18.2%	21.0%		-2.5%	0.3%			
<b>Sep-20</b>	35.2%	38.7%		-6.4%	-7.9%			
<b>3 Month Avg.</b>	22.4%	23.3%		4.6%	6.4%			
SUMMARY OF THE FORECAST INTERVALS FOR THE TOTAL NUMBER OF SALES								
	Annual			Monthly				
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
<b>Oct-20</b>	21.6%	29.3%	25.6%	34.6%	-5.7%	-7.7%	-5.0%	-6.7%
<b>Nov-20</b>	20.6%	27.8%	26.0%	35.1%	-13.6%	-18.4%	-12.8%	-17.3%
<b>Dec-20</b>	12.7%	17.2%	20.8%	28.2%	-3.6%	-4.9%	-0.3%	-0.4%
<b>3 Month Avg.</b>	18.4%	24.9%	24.2%	32.7%	-7.8%	-10.5%	-6.3%	-8.5%
SUMMARY OF THE FORECAST FOR THE MEDIAN PRICE								
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
<b>Jul-20</b>	\$234,000	\$276,000		<b>Jul-19</b>	\$218,900	\$259,000		
<b>Aug-20</b>	\$237,500	\$280,000		<b>Aug-19</b>	\$213,000	\$251,000		
<b>Sep-20</b>	\$235,000	\$275,000		<b>Sep-19</b>	\$200,000	\$240,000		
<b>Oct-20</b>	\$230,882	\$269,696		<b>Oct-19</b>	\$200,000	\$240,000		
<b>Nov-20</b>	\$230,879	\$271,488		<b>Nov-19</b>	\$200,000	\$240,000		
<b>Dec-20</b>	\$229,934	\$266,831		<b>Dec-19</b>	\$199,500	\$237,000		
ANNUAL PERCENTAGE CHANGE OF THE MEDIAN PRICE								
	Illinois	Chicago PMSA		Illinois	Chicago PMSA			
<b>Jul-20</b>	6.9%	6.6%		<b>Jul-19</b>	2.3%	3.5%		
<b>Aug-20</b>	11.5%	11.6%		<b>Aug-19</b>	6.5%	3.5%		
<b>Sep-20</b>	17.5%	14.6%		<b>Sep-19</b>	1.5%	1.1%		
<b>Oct-20</b>	15.4%	12.4%		<b>Oct-19</b>	5.3%	4.3%		
<b>Nov-20</b>	15.4%	13.1%		<b>Nov-19</b>	5.3%	3.4%		
<b>Dec-20</b>	15.3%	12.6%		<b>Dec-19</b>	6.7%	5.3%		

**Median Prices and Recovery**

	Illinois		Chicago PMSA	
	[\$2008]	[\$2020]	[\$2008]	[\$2020]
<b>September 2008 Median Price</b>	\$159,950	\$192,811	\$199,070	\$239,968
<b>September 2020 Median Price</b>	\$194,948	\$235,000	\$228,131	\$275,000
Price Ratio (September 20/ September 08)	Adjusted	1.22	Adjusted	1.15
	Unadjusted	1.47	Unadjusted	1.38

**Recovery Forecasts using *Annually Growth Rates***

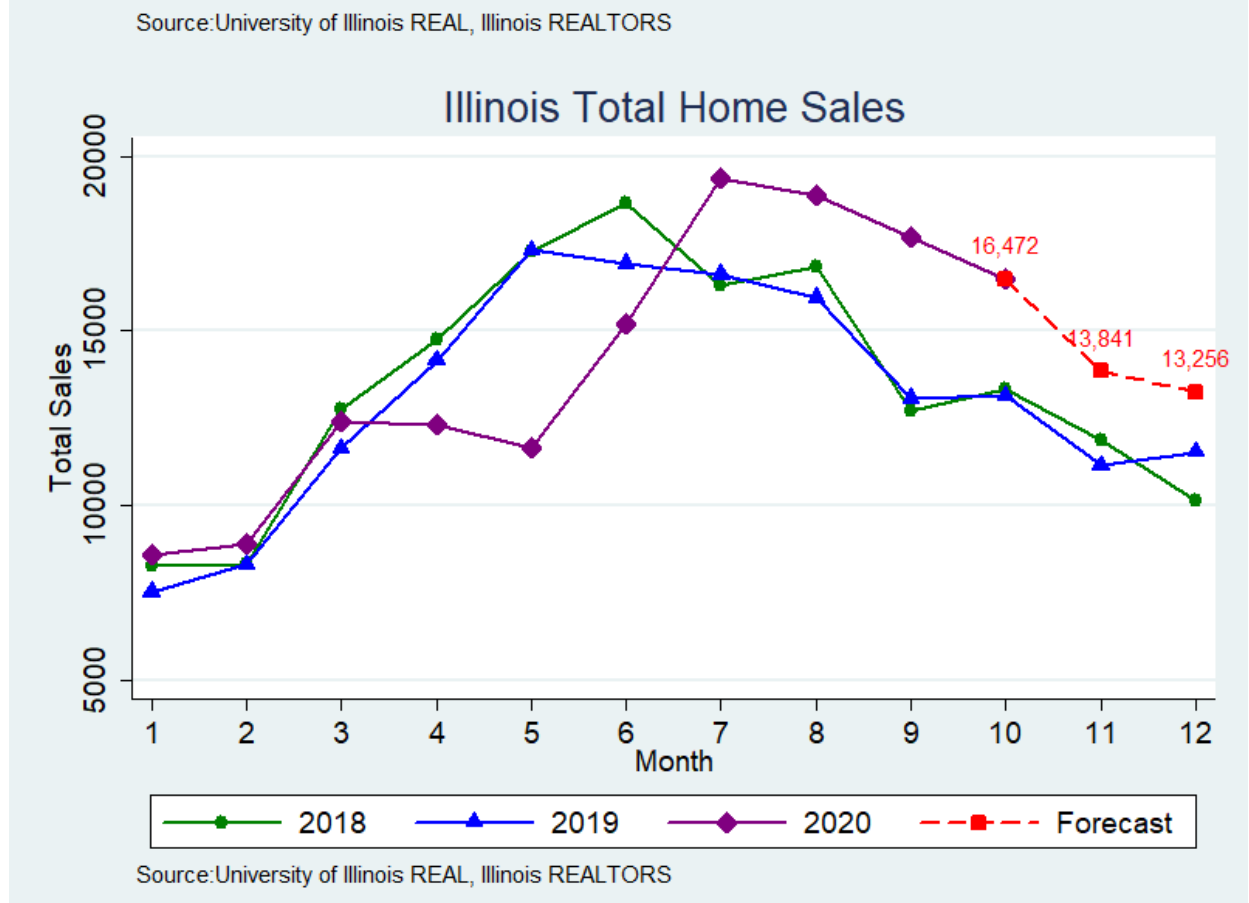
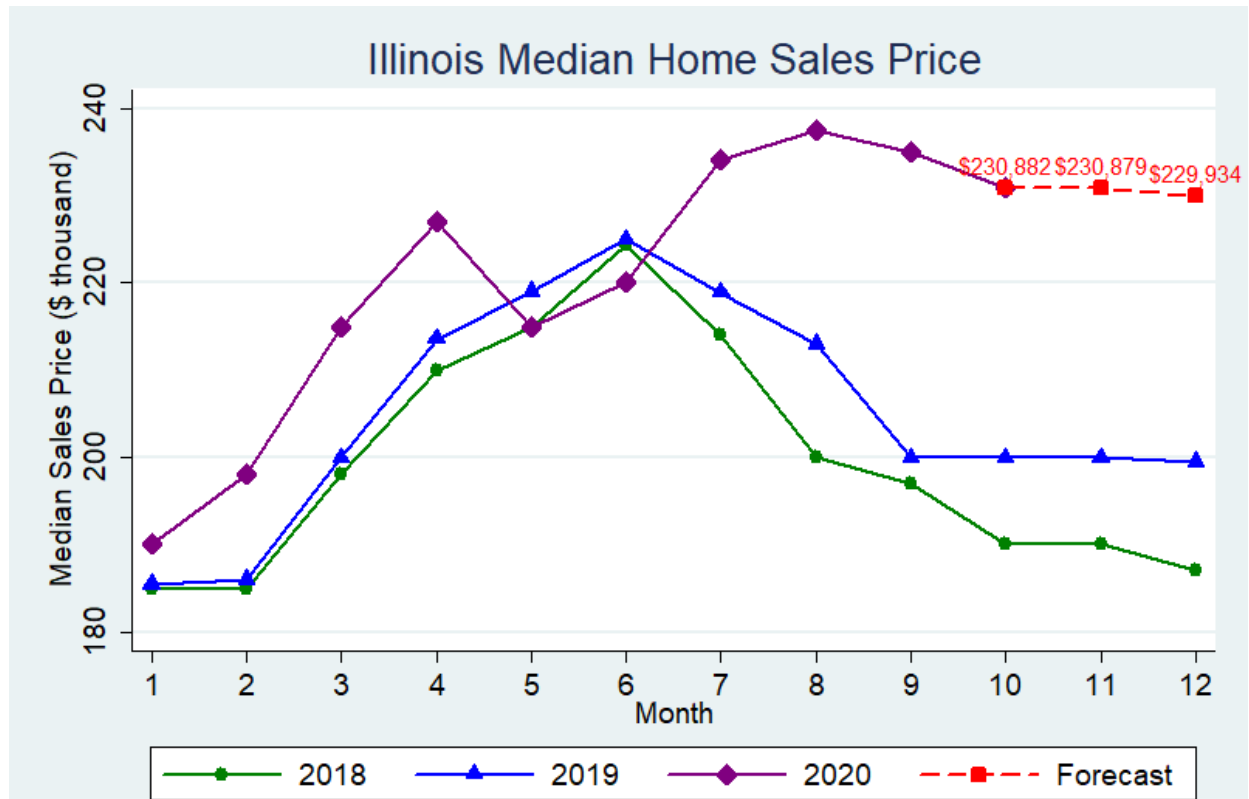
	Illinois	Chicago PMSA		
	Annual Recovery Rate*	Years to Recover**	Recovery Rate	Years to Recover
Current Month	15.8%	-1.4	12.9%	-1.1
Past 3 months	10.6%	-2.0	9.5%	-1.5
Past 6 months	5.4%	-3.7	5.8%	-2.4
Past 9 months	4.7%	-4.3	4.9%	-2.9
Past 12 months	4.5%	-4.5	4.3%	-3.3

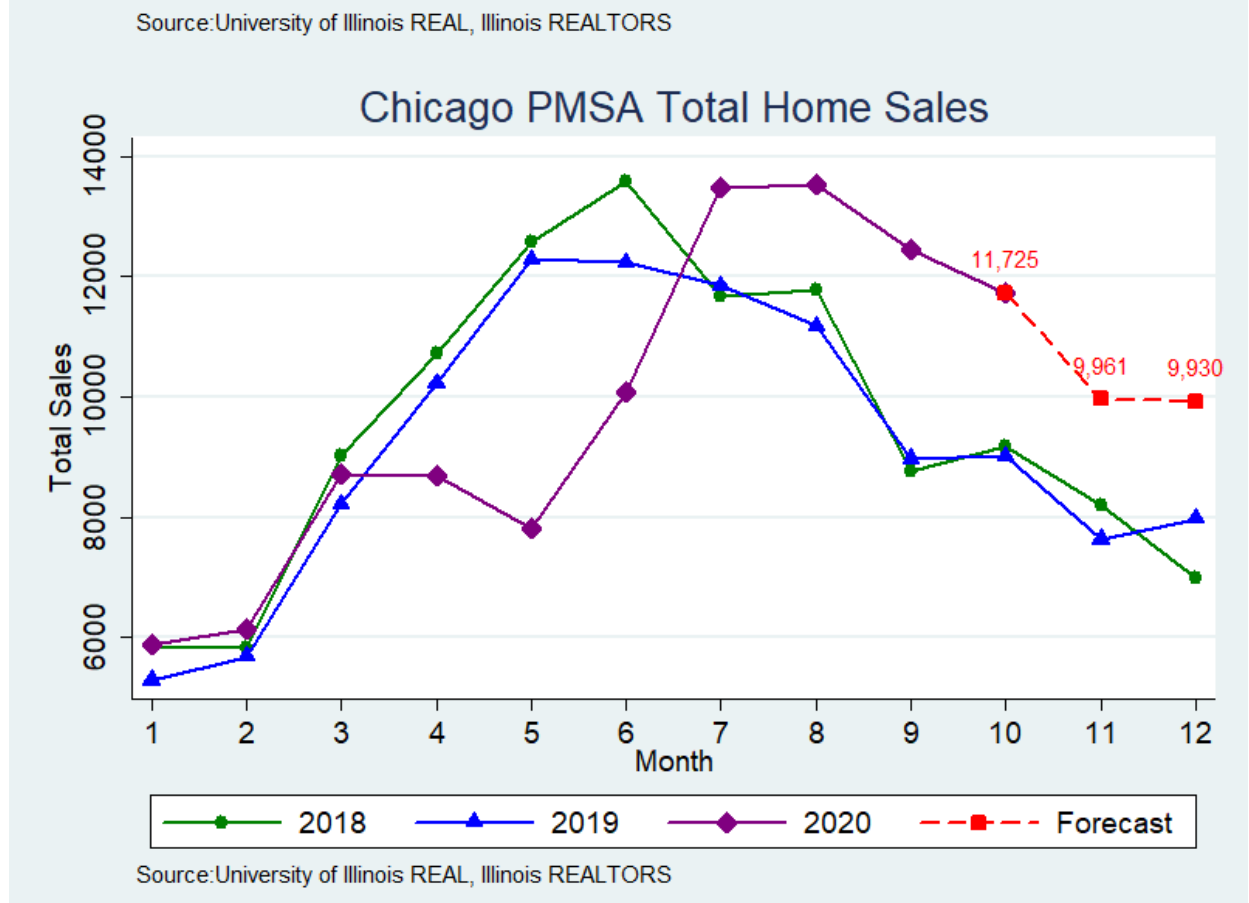
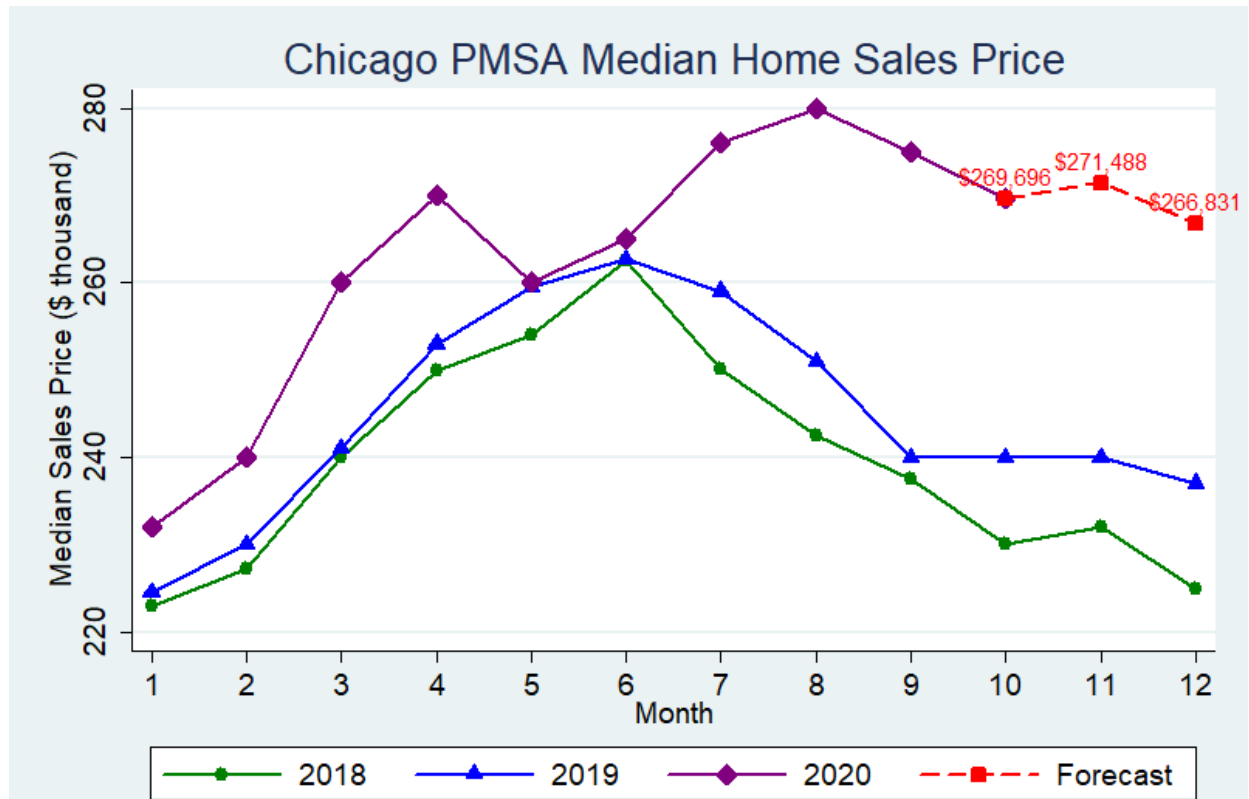
\*Annual recovery rate is the average of *annual* change rates in past months

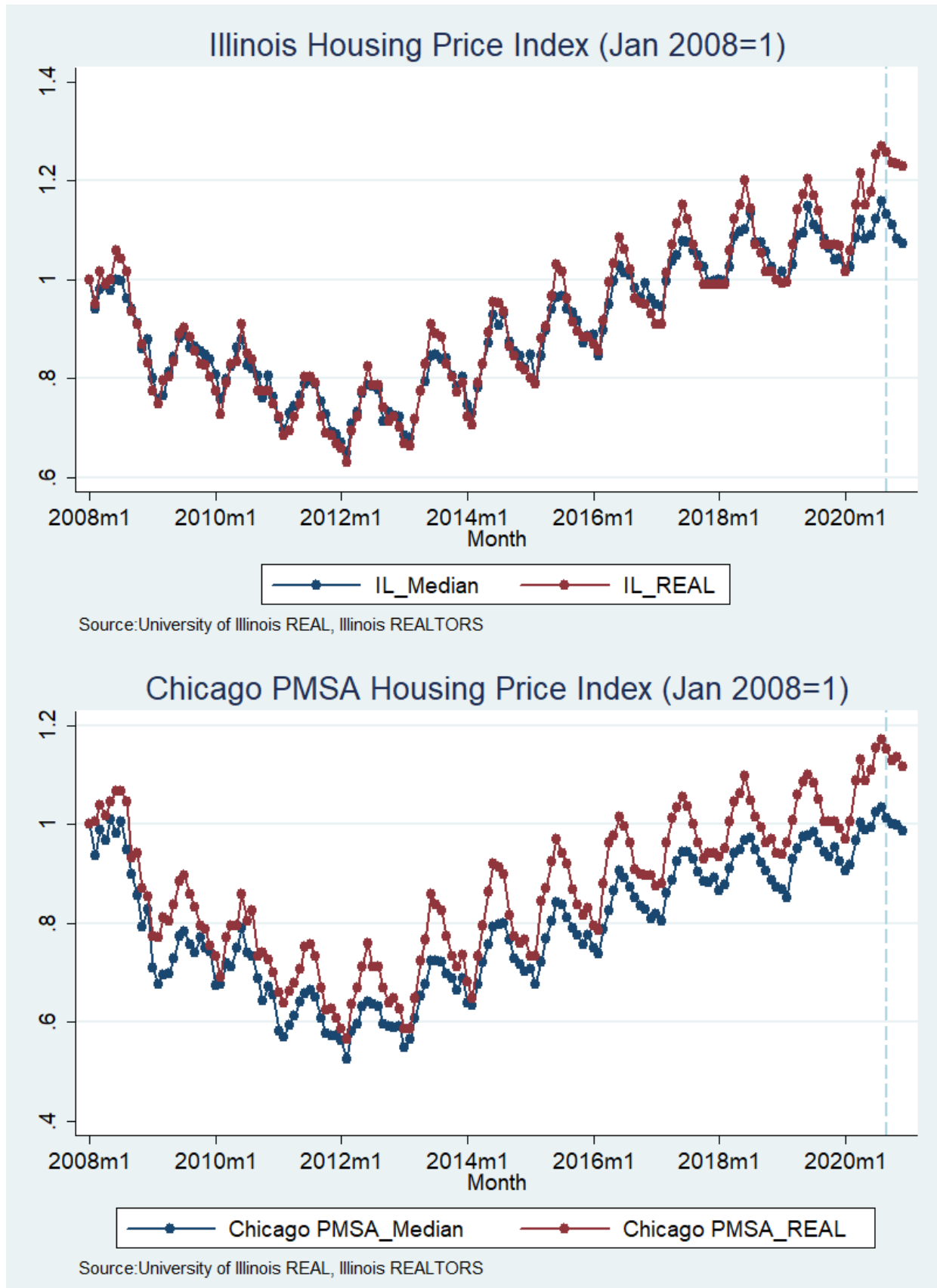
\*\* Years to recover is calculated using the following formula:

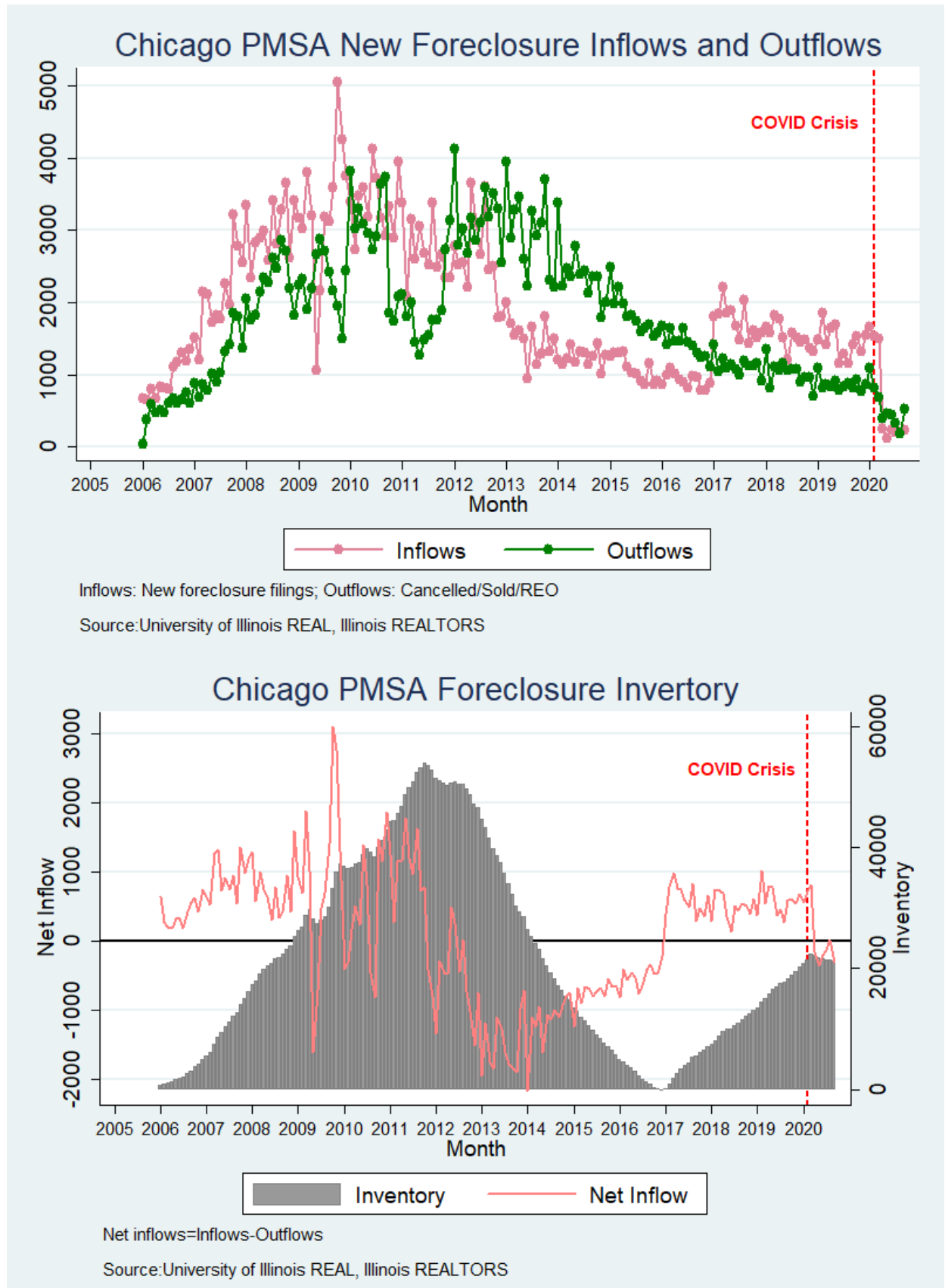
$Price_{September2020} * (1 + recovery\ rate)^{years} = Price_{September2008}$ . Prices used in the formula are inflation adjusted. The recovery rate is applied as a constant annual change rate to recoup the differences between the current month and its corresponding month in 2008.

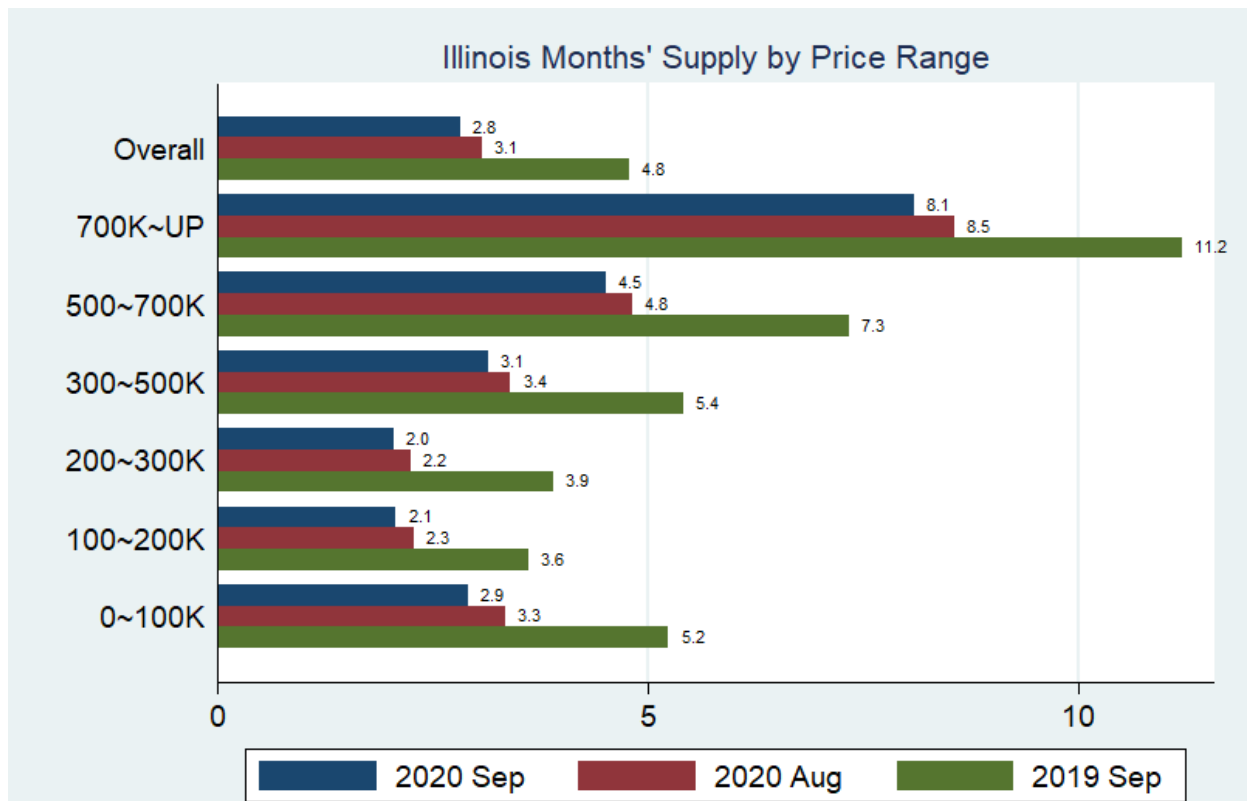




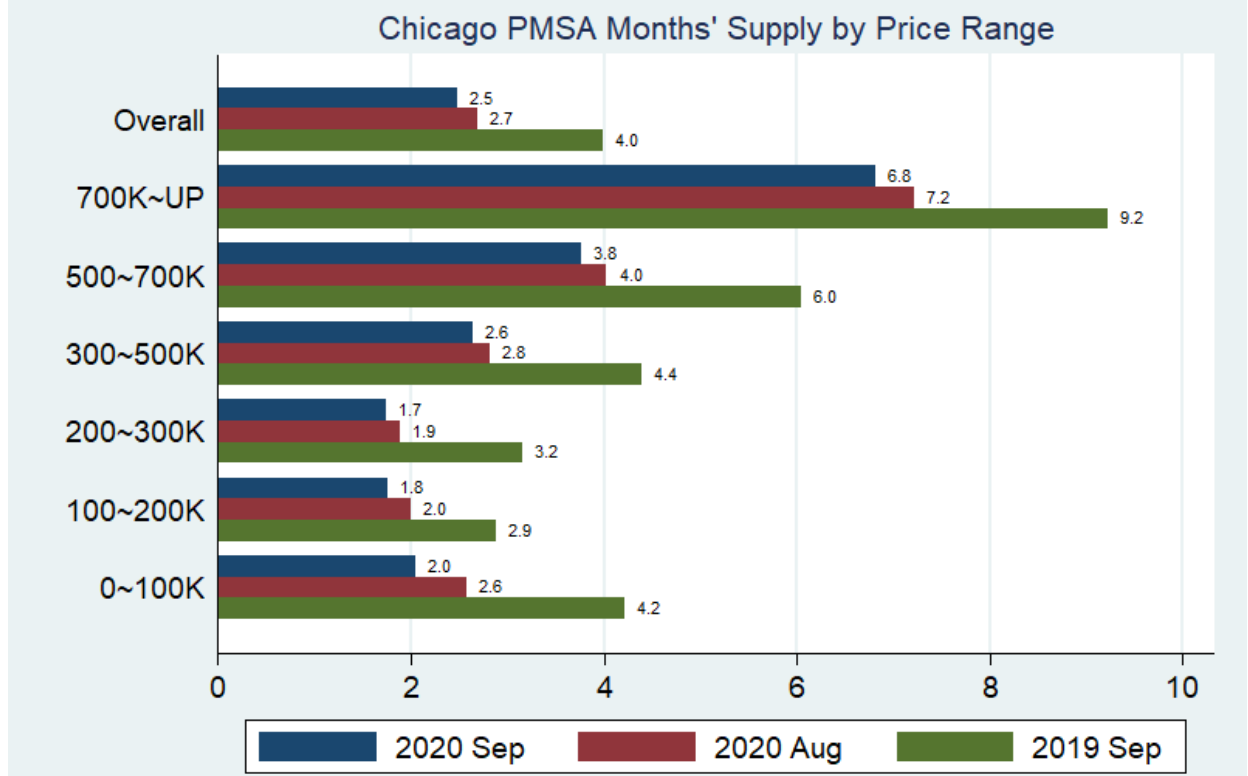




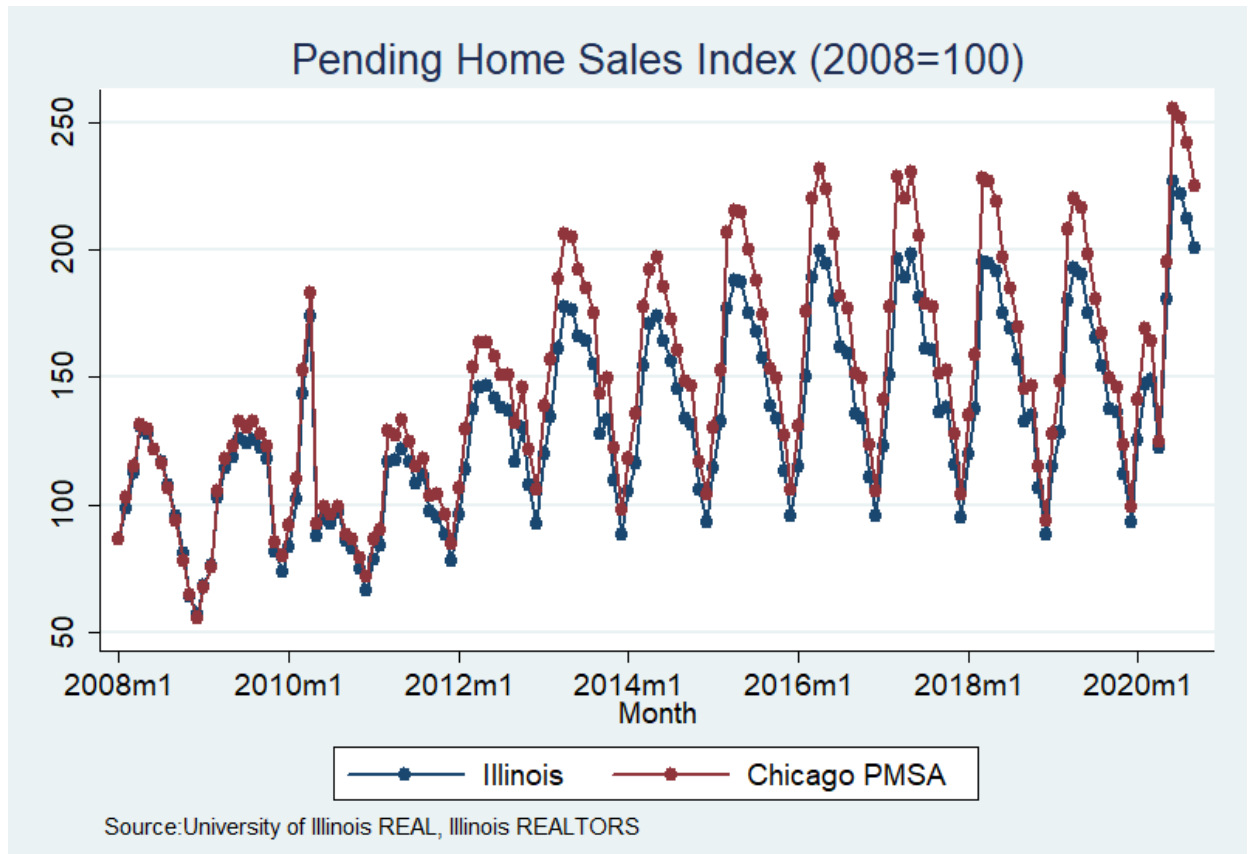


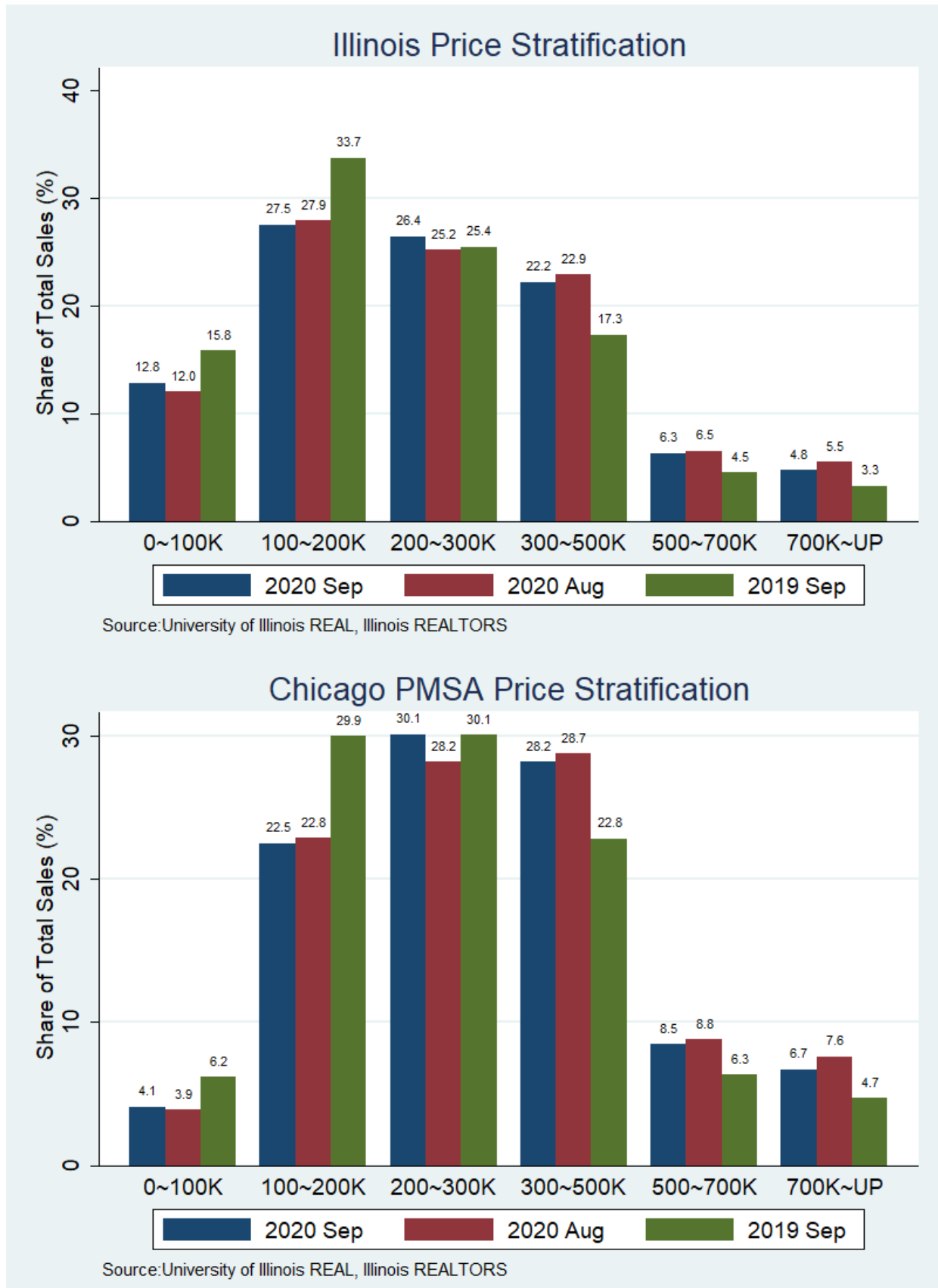


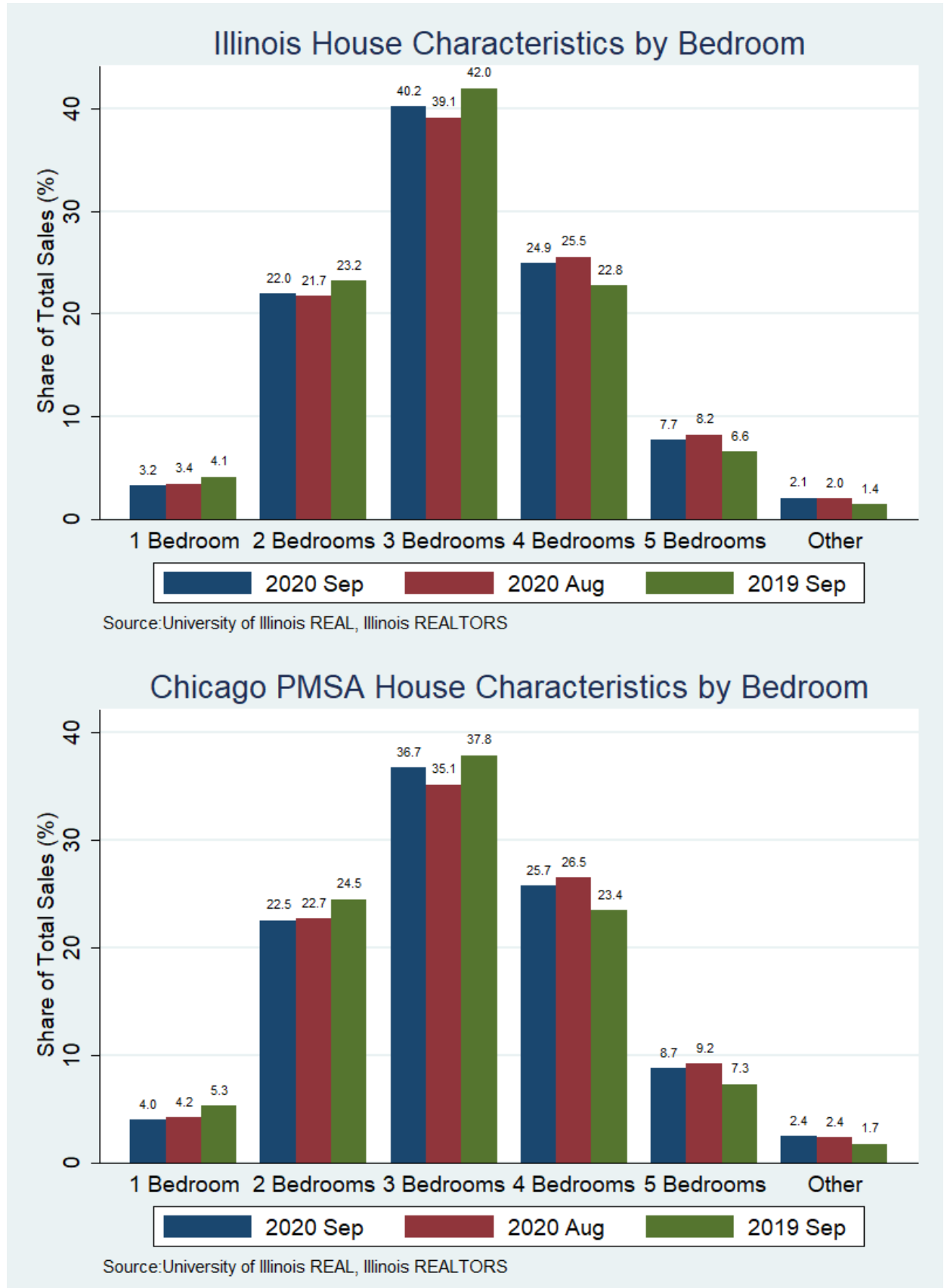
Source: University of Illinois REAL, Illinois REALTORS



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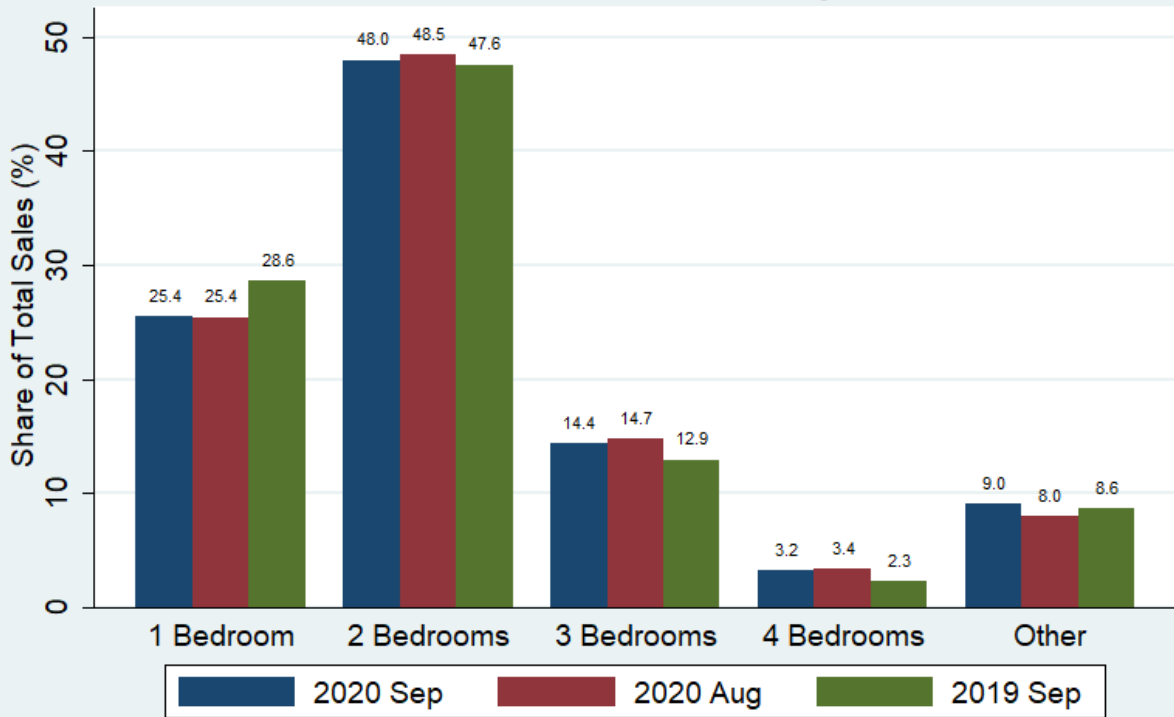






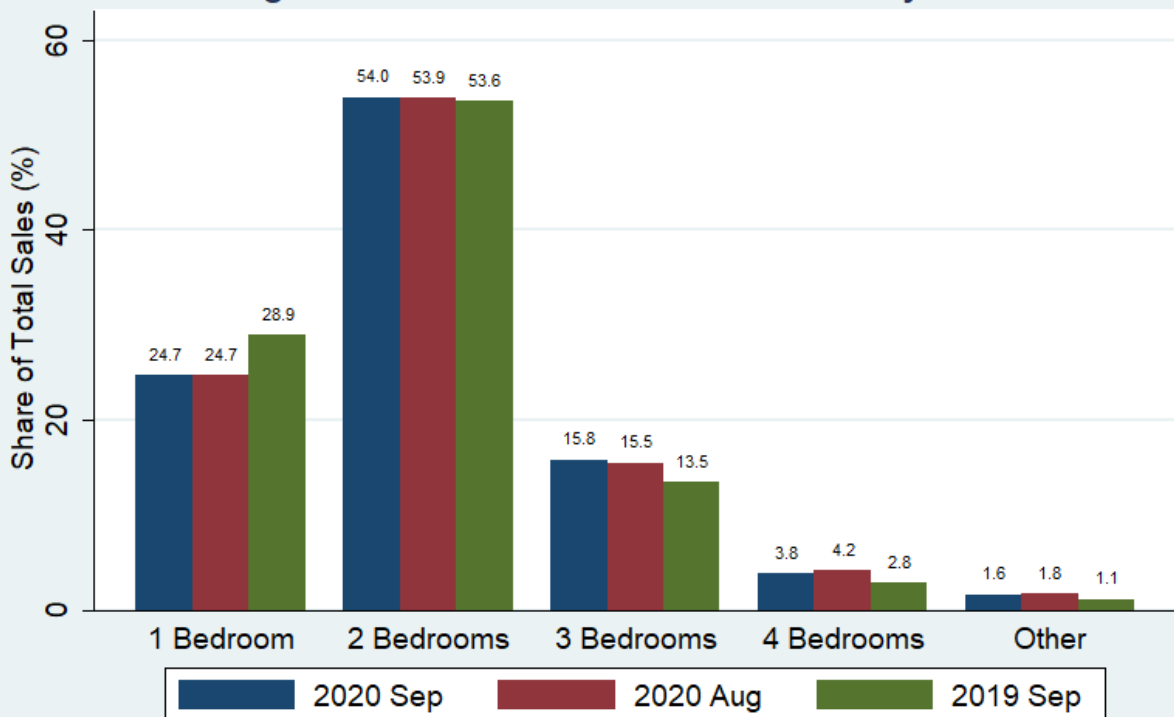


### Illinois House Characteristics by Bathroom



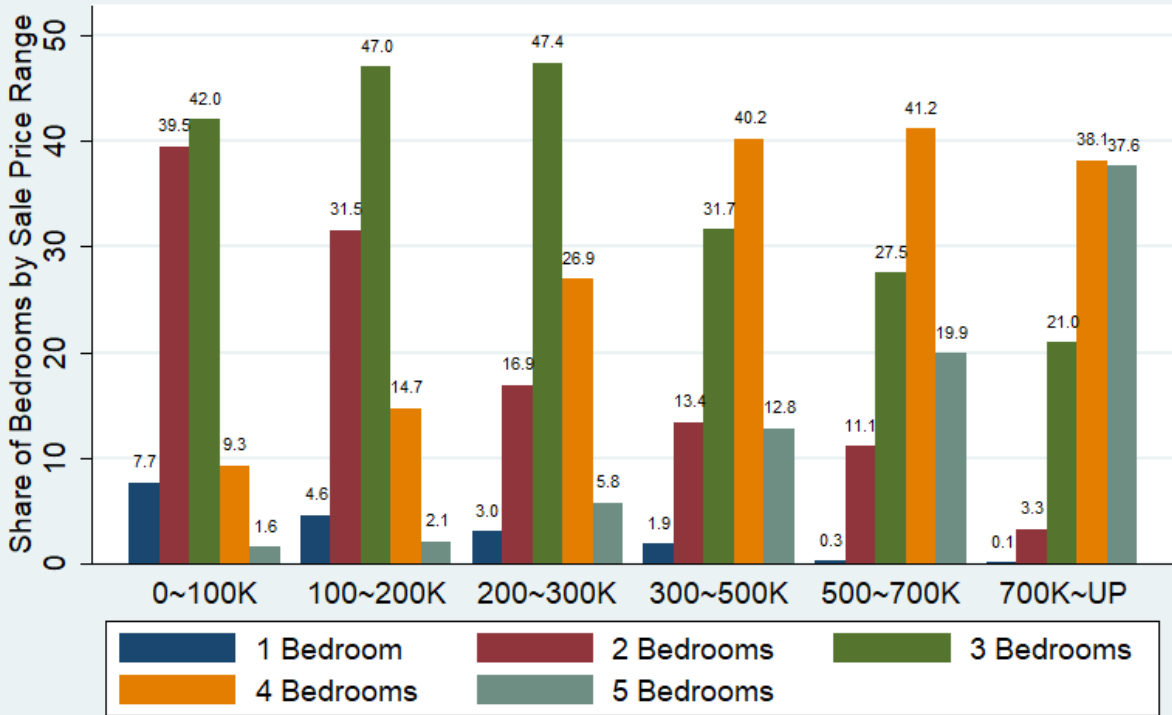
Source: University of Illinois REAL, Illinois REALTORS

### Chicago PMSA House Characteristics by Bathroom



Source: University of Illinois REAL, Illinois REALTORS

### Illinois Bedroom Shares by Sale Price Stratification



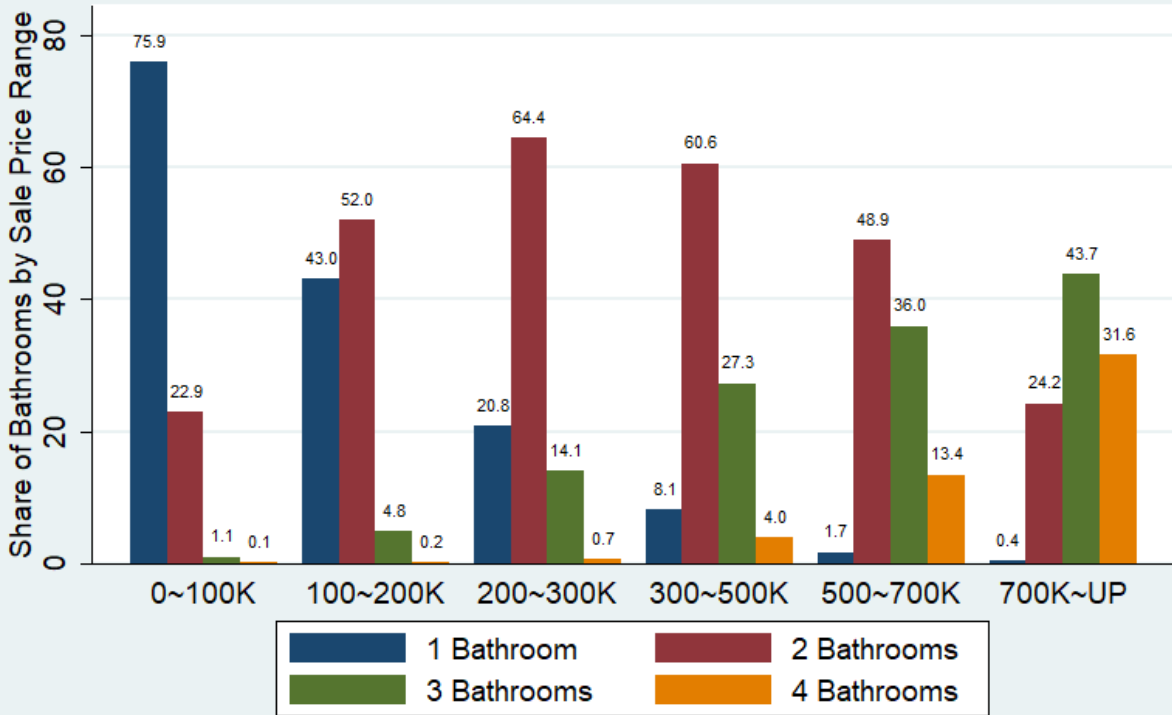
Source: University of Illinois REAL, Illinois REALTORS

### Chicago PMSA Bedroom Shares by Sale Price Stratification



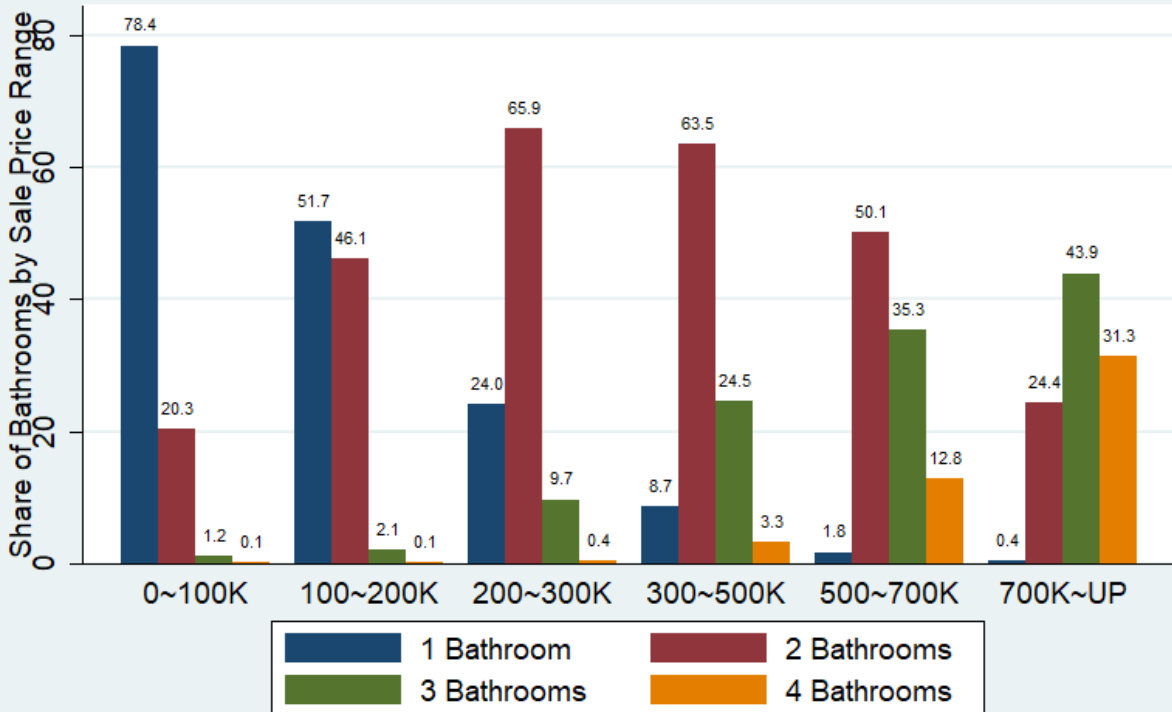
Source: University of Illinois REAL, Illinois REALTORS

### Illinois Bathroom Shares by Sale Price Stratification



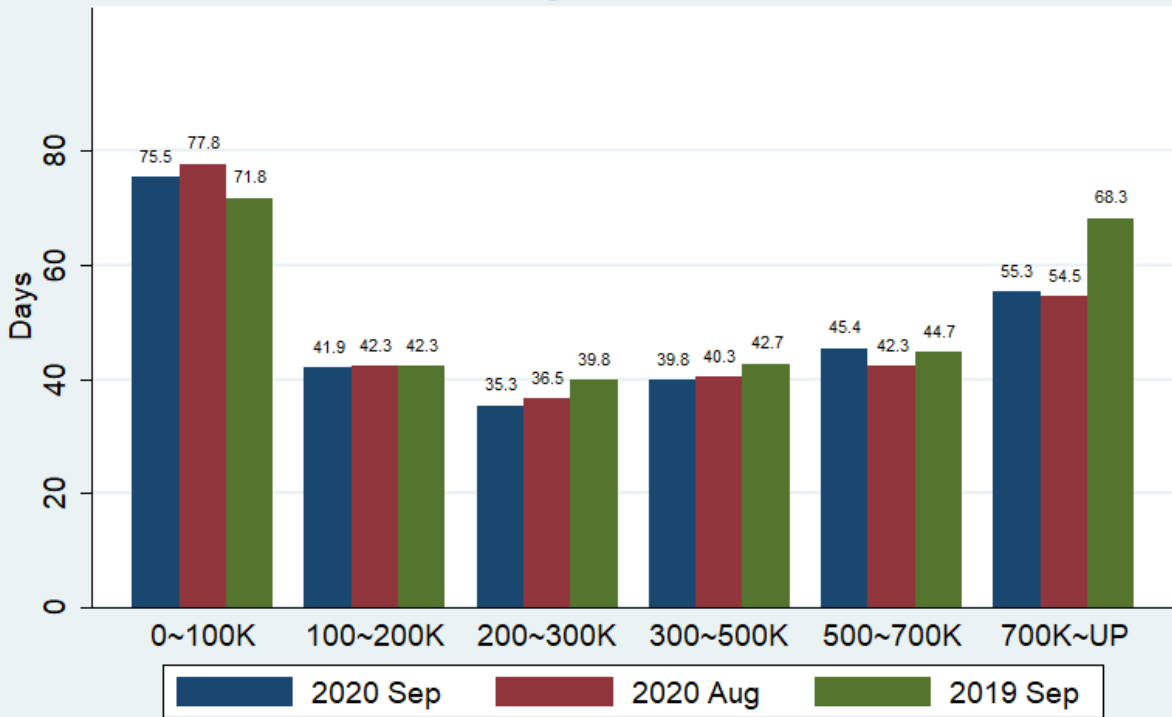
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### Chicago PMSA Bathroom Shares by Sale Price Stratification



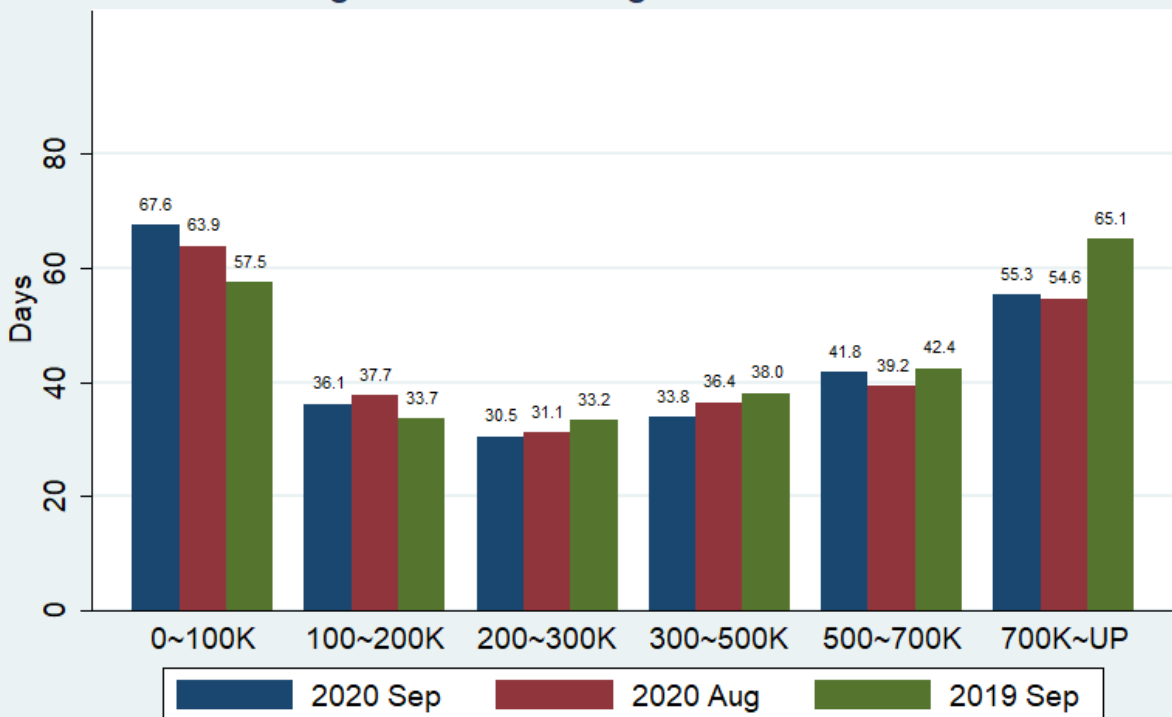
Source: University of Illinois REAL, Illinois REALTORS

### Illinois Average Time on the Market



Source: University of Illinois REAL, Illinois REALTORS

### Chicago PMSA Average Time on the Market



Source: University of Illinois REAL, Illinois REALTORS

