Housing Price Forecasts 2010

Illinois and Chicago MSA

Presented To

Illinois Association of REALTORS®

From

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Institute of Government and Public Affairs
University of Illinois

Introduction: The State of the Economy

In recent months, there have been a number of signs that the impact of the recession may be moderating. First, the gross product grew at an annual rate of 3.5% in the third quarter of 2009. Secondly, the volume of job losses nationally, while still high, appears to be declining albeit not consistently and thirdly, manufacturing production appears to be moving up. There is much debate about the efficacy of the stimulus package and the degree to which the "cash-for-clunkers" program provided an ephemeral boost to economic activity. Economic analysts who were touting the presence of "green shoots" as a sign of a turnaround some months ago have, understandably, grown a little cautious.

A year ago, we noted that in the first several months of 2008, the Illinois economy added jobs even while the U.S. as a whole and the Rest of the Midwest (RMW)—which includes Indiana, Iowa, Michigan, Missouri, Ohio and Wisconsin—lost jobs. In 2008, however, Illinois shed 100,700 jobs. Through the end of October, 2009, Illinois has lost 215,100 jobs; in the last 12 months, the job losses amount to 306,000 and since the beginning of the recession, the losses amount to 359,000. Perhaps, the most alarming statistic for the state is the realization that Illinois never fully recovered from the 2000-2001 recession. Illinois is now 424,700 jobs below its prior peak of November 2000. Since 1945, Illinois has never taken longer than 8 years to recover a prior peak employment level; we are now entering the 10th year. Since 1980, the state has exceeded the national employment growth rate on only three occasions—and all of those occurred before 1990. Given the state's history and the consensus expectation among economists that we are likely to witness a jobless recovery for the next 12-18 months, it is unlikely that Illinois will recover its prior peak employment much before 2016.

While the weaker U.S. dollar has certainly helped Illinois' international exports, the bulk of our export activity (around 80-85%) is destined for the U.S. and of that, over one-third for the Midwest. Given the economic conditions in the Rest of the Midwest, the prospects of a rapid recovery look less than promising. Sadly, neither major political party in Illinois appears to have recognized this new economic reality; the state's worsening fiscal position, the pervasive sense that corruption is an acceptable way of doing business combined with the erratic and inconsistent manner in which state revenue enhancements have been proposed have combined to generate a less than favorable business climate.

The Housing Sector and the Economy

Given the economic picture, one might anticipate another difficult year for the housing market. However, there is more positive news here than for the economy as a whole. Even though unemployment rates continue to inch upwards, there is still some churning in the labor market. Prior analysis conducted by REAL with data from the early 1990s through 2006 has found that the average county in Illinois experiences an 11% turnover in population—with slightly less than half moving in and the remainder moving out of the county. Somewhere between 4% and 15% of the households also move within the county in a typical year; the "turnover" rates are higher in metropolitan counties and lower in rural counties. These household dynamics are the source of much of the demand for housing sales and, in the recession, it is likely that the turnover has decreased as fewer people are changing jobs and even fewer contemplating moves within the same county (especially for the purpose of purchasing a larger or more expensive house).

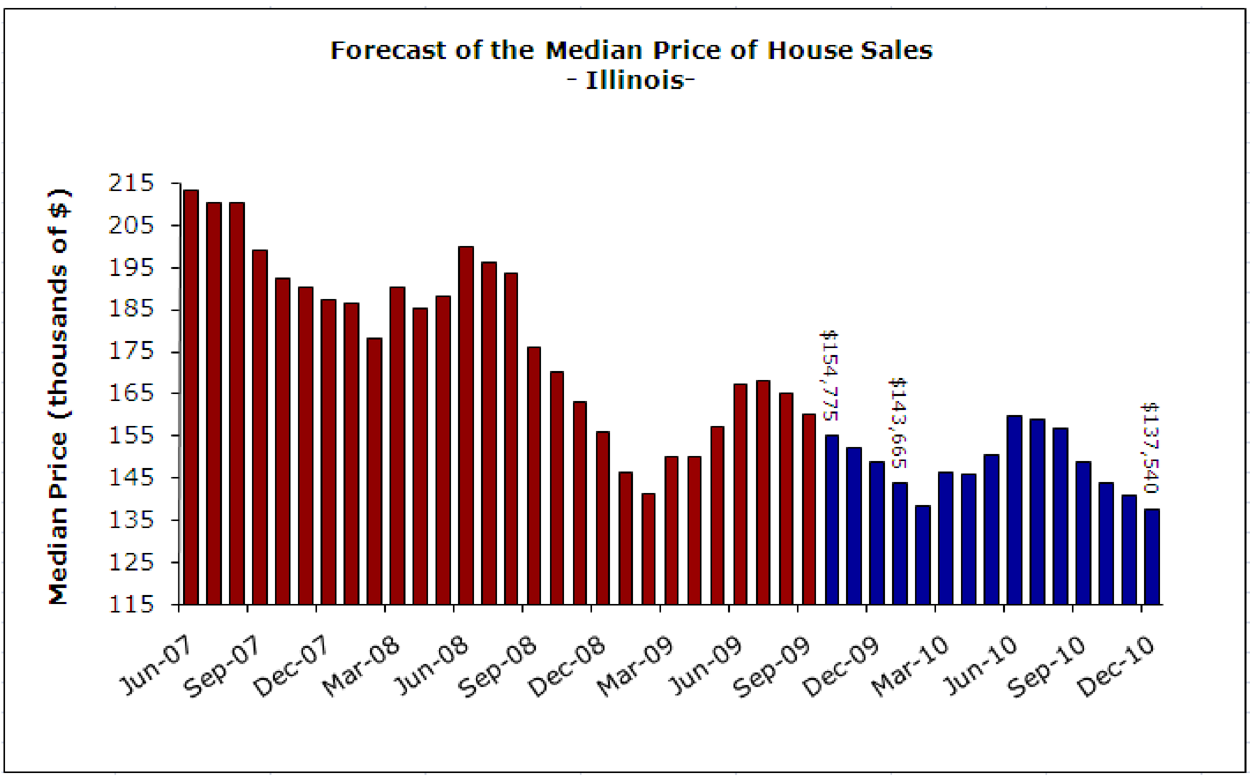
With more limited turnover in the labor market, one should not be surprised to see concomitant declines in housing sales. As consumer confidence in the economy is restored, then it is likely that a more robust rebound in sales will occur; in the interim, a high percentage of the housing transactions will be from households relocating as a result of job changes and, with the continuing aging of the Illinois and U.S. populations, there will be housing sales as a result of retirements. As Chicago is the second largest source of retiree outmigration (New York is first), the housing market in the state has more typically received an increase in supply of houses for sale from this segment of the population but the percentage who relocate within the state is much less. However, in the current environment, many retirees are remaining in the state in their existing homes in anticipation of some price recovery. Many analysts have pointed to this withdrawal from the market in many Midwest states as one of the reasons for significant price and sales declines in states like Arizona and Florida that have, in the past, been prime destinations for retirees.

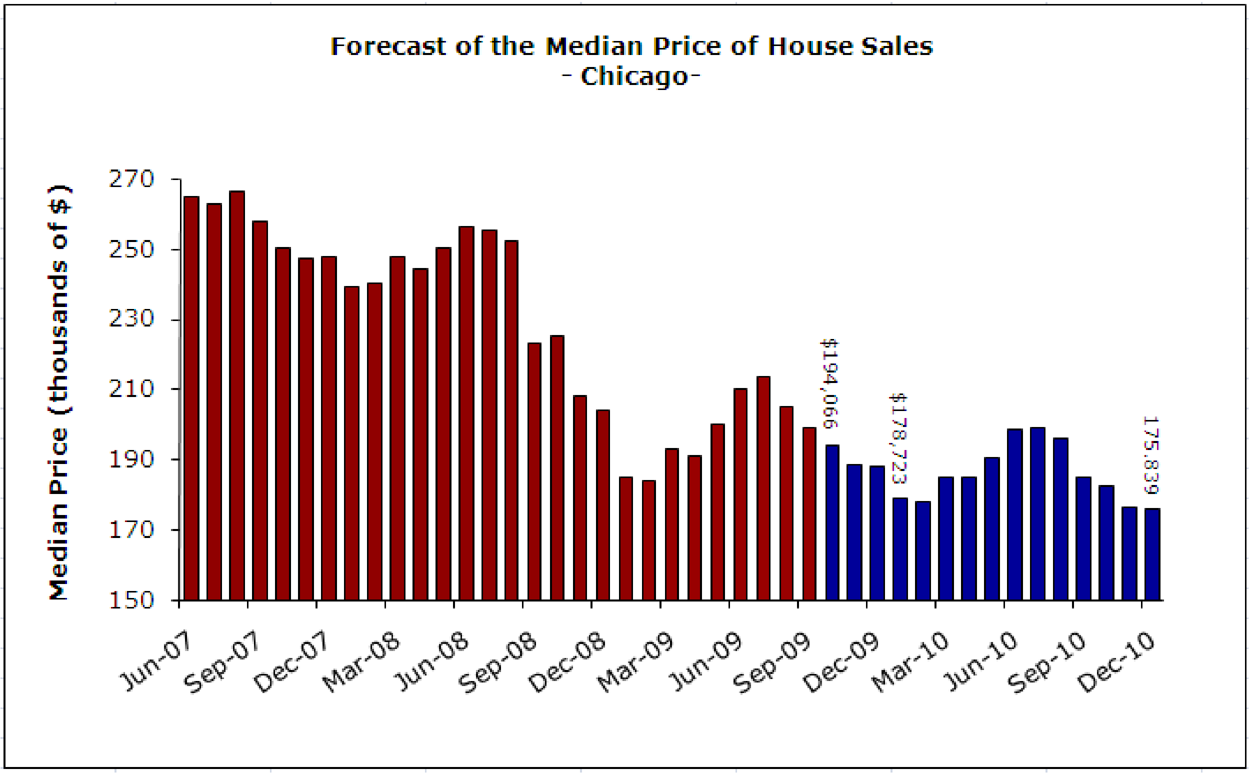
The annual forecasts for 2009 were characterized by (1) negative sales on an annual basis (comparing the month in 2009 with the same month in 2008) and (2) only a few months with positive values on a month-to-month basis (comparing one month with the preceding month).

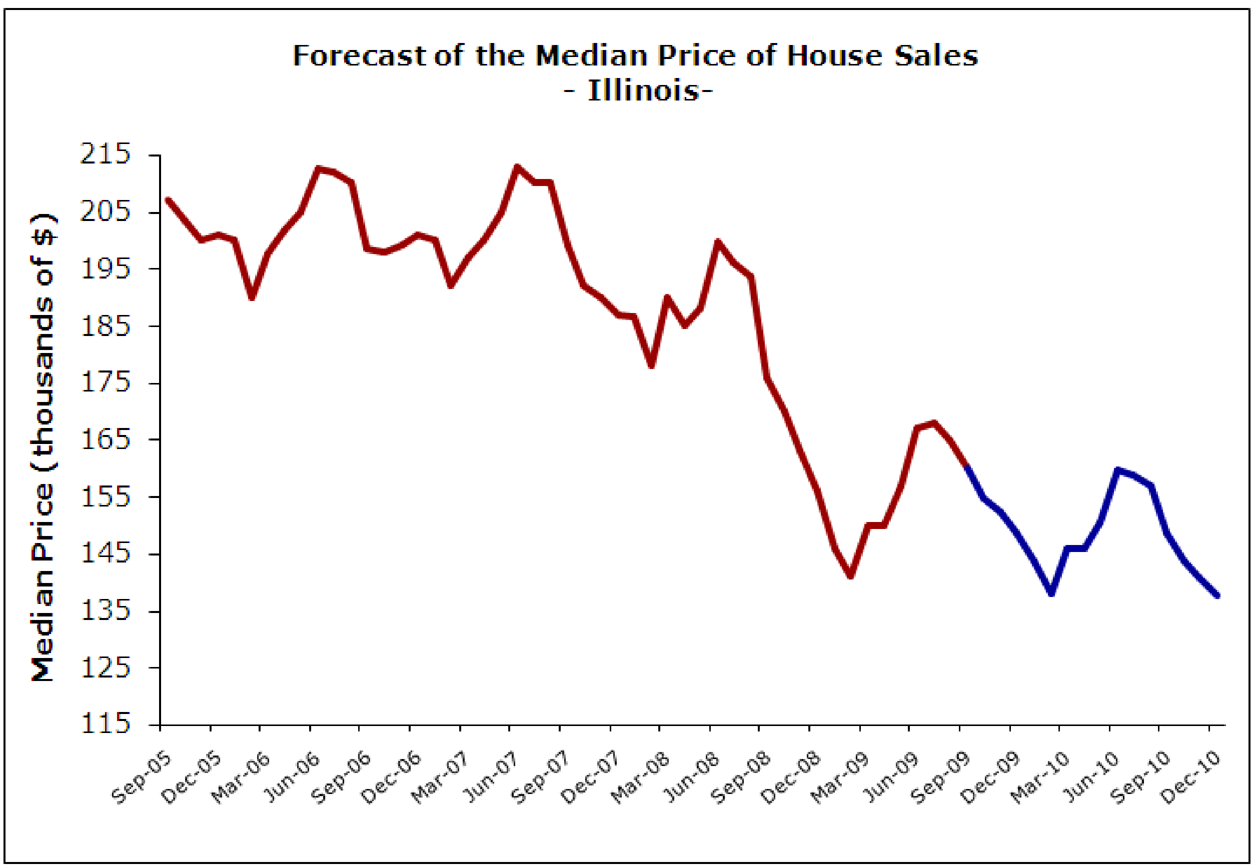
For the last quarter of 2009, the sales on an annual basis are estimated to be positive in the 3-10% range for Illinois and 0-6% range for Chicago.

For Illinois as a whole, total home sales (single family and condominiums) in 2010 all but June and July are forecast to be in the positive side of the ledger and in those two months the range also embraces positive values. However, bear in mind that in 2009, sales volumes declined dramatically. The picture for Chicago is less attractive. January and February look to have modest, positive gains but the rest of the year will see the sales move negative. Clearly the housing market is entering a period of uncertainty as positive signals from the economy generate an increase in sales only to be deflated the following month when the economic news is not sustained.

For prices, the recovery seems more elusive. Using data through October and forecasts for November and December 2009, the median price for Illinois in 2010 is expected to be $145,900 compared to the forecast 2009 median of $153,500 (-5.0%). For the Chicagoland PMSA, the 2010 median is expected to be $184,900 compared to the forecast 2009 median of $193,500 (-4.4%).




Forecast of the Median Price of House Sales
- Chicago-
Median Price (thousands of $)
270
250
230
210
190
170
150
$194,066
$178,723
175,839
Jun-07
Sep-07
Dec-07
Mar-08
Jun-08
Sep-08
Dec-08
Mar-09
Jun-09
Sep-09
Dec-09
Mar-10
Jun-10
Sep-10
Dec-10


Forecast of the Median Price of House Sales
- Illinois-
Median Price (thousands of $)
215
205
195
185
175
165
155
145
135
125
115
Sep-05
Dec-05
Mar-06
Jun-06
Sep-06
Dec-06
Mar-07
Jun-07
Sep-07
Dec-07
Mar-08
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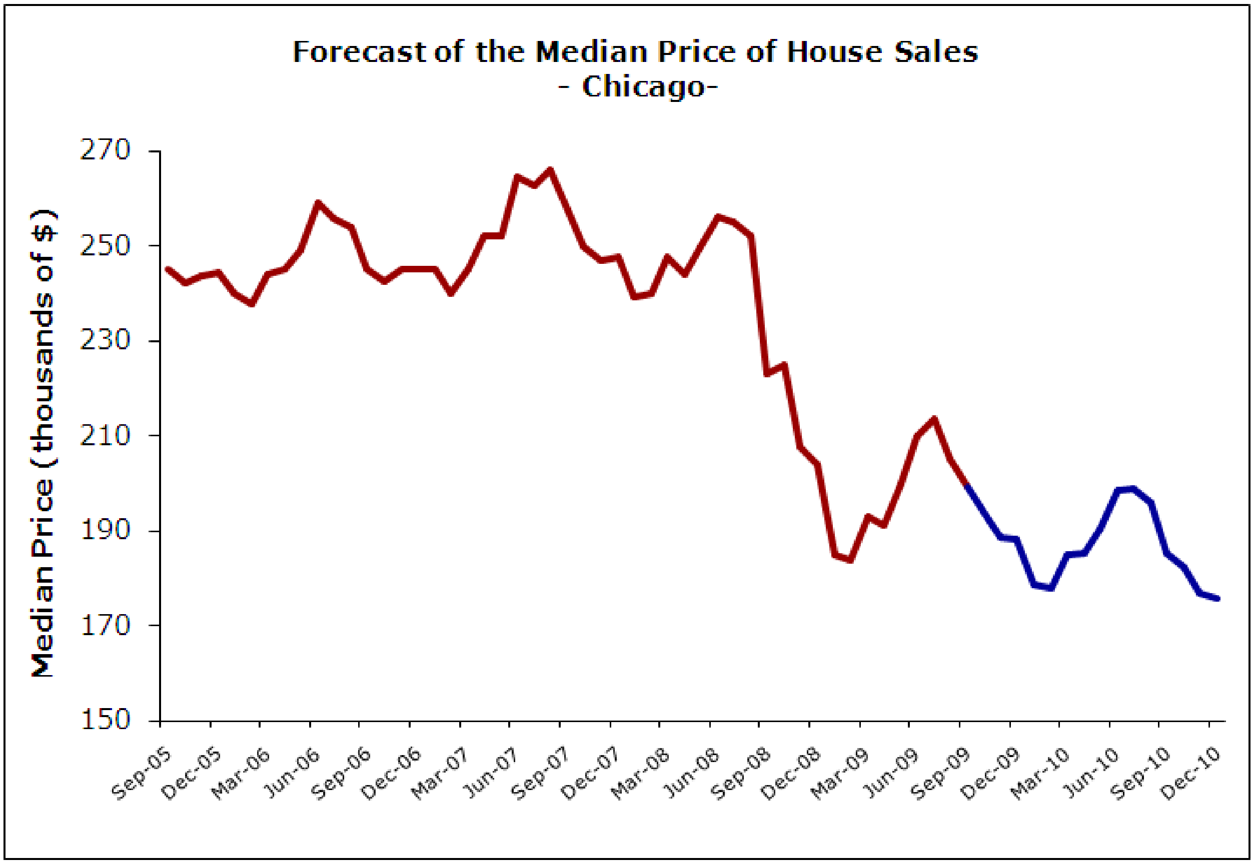
Dec-10



About REAL the IAR Housing Forecast

Leading economists from the University of Illinois Regional Economics Applications Laboratory (REAL) developed the Illinois housing price forecast using an augmented distributed lag model as the framework to relate house pricing and the economic business cycle. This "ARIMA" model is considered a highly accurate forecasting method and one that can be easily updated with data provided by the Illinois Association of REALTORS® each month and quarter and selected monthly economic data available for the state and metropolitan regions. Leading the research team is Dr. Geoffrey J.D. Hewings, director of REAL and a professor of Geography, Economics and Urban and Regional Planning.

If you have any questions about the reports, write to iarnews@iar.org or call the Communications Department at 217-529-2600.