Housing Price Forecasts, 2009

Illinois and Chicago MSA

Presented To

Illinois Association of REALTORS®

From

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Institute of Government and Public Affairs
University of Illinois

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Introduction: The State of the Economy

In the introduction to the 2008 forecasts, it was noted that "2008 will be a difficult year for the real estate sector; the convergence of the sub-prime meltdown, a slowing in the rate of growth of the economy as a whole and the recent spike in oil prices will provide conditions that are likely to generate continuing uncertainty." What could not be forecast at that time was the degree to which the US economy would weaken, generating a world-wide downturn that has most commentators now referring to it as a recession. The combination of the anticipated $700 billion bailout of the financial sector, the current estimate of the costs of the wars in Iraq and Afghanistan (>$700 billion) and the fact that a similar amount of funds is reputed to leave the US each year to pay for imported oil and gas. In November 2008, the challenges facing the US economy are unprecedented; these challenges also include attention to aspects of the real estate sector that are likely to have profound impacts on the possibilities of recovery during the course of 2009. In particular, Congress and the current Administration are discussing some potential programs that could help forestall the wave of foreclosures that has been recorded and the anticipation of even larger numbers in 2009.

The economy has entered a period where consumer sentiment has been buffeted by the sub-prime market problems and the elevation of unemployment rates to levels not seen in a decade or more. These two events have resulted in a significant retrenchment in spending – especially on big-ticket items associated with home renovation and repair and equally significantly on automobile spending. The ripple effects from the downturn in construction and the supply chains associated with the automobile industry has generated significant job losses.

While nationally, the US economy has shed close to 1 million jobs through October in 2008, several Midwest states, especially Ohio and Michigan, have experienced even greater percentage declines in employment. Illinois usually lags several months behind the national economy and has now experienced four months of job declines.

In 2007, the Illinois economy added almost 42,000 jobs (REAL's forecast was for 35-40,000 jobs); in the first several months of 2008, the Illinois economy added jobs even while the US as a whole and the Rest of the Midwest lost jobs. In the last twelve months, Illinois has lost 14,900 and 15,800 jobs since the beginning of the year. Illinois has now lost ground in progress towards recovering its prior peak employment of November 2000; when account is taken of population growth, a comparable target for November 2000 would require a further increase of close to 100,000 jobs. Even in good times, this would represent several years' job growth. The employment forecasts for next year suggest Illinois will lose somewhere between 15-35,000 jobs with increasing weight now being placed on the higher figure. If this came to pass, the gains for 2007 would be eliminated.

Even with reductions in interest rates, for the first time ever coordinated across many economies, the prospects for recovery look less than promising. The Obama administration has been considering a massive infrastructure investment program to try to jump-start the economy and consideration is being given to loans to companies beyond the financial sector (especially heavy industries like steel and the automobile sectors).

The Housing Sector and the Economy

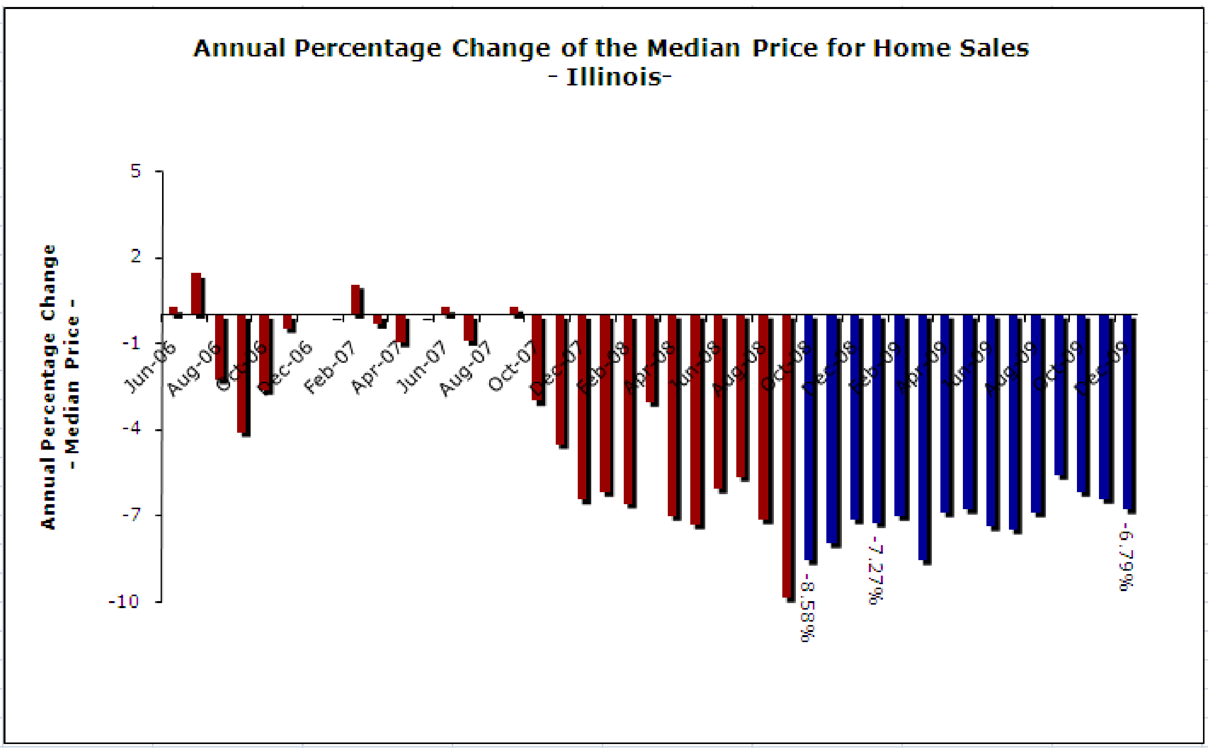
Month over month housing sales over some possibilities for positive changes in February though June. However, comparing the month in 2009 with the same month in 2008, the declines in sales are forecast to continue, so that the positive month to month changes that are forecast are going to be made from a much lower base.

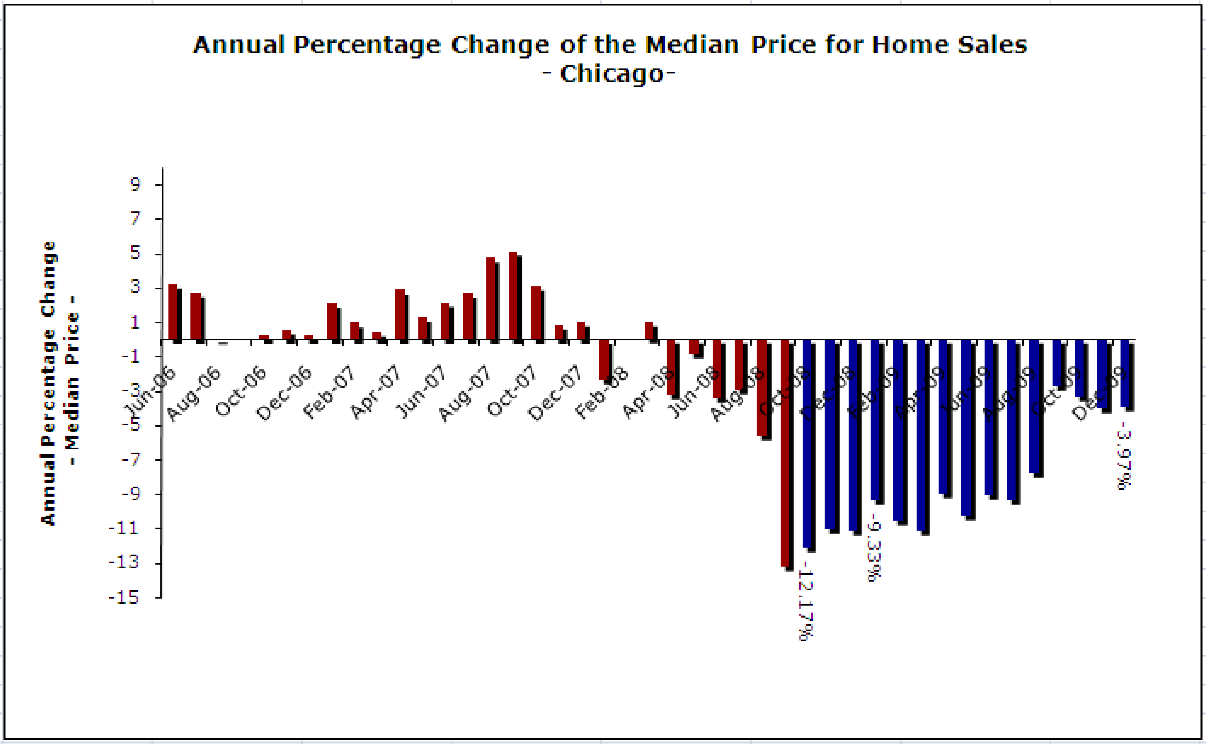
There appears to be little trend to the forecast prices changes; there is a slight downward trend in the declines but it is really not statistically significant. The median prices in both Chicago and Illinois may recover in mid year (2009) but will trend down again in the last four months of 2009. By year's end, the median prices in Illinois are forecast to be well below the levels of January 2005 by about $20,000; for Chicago the comparable data suggest a decline of about $10,000 over the same period.

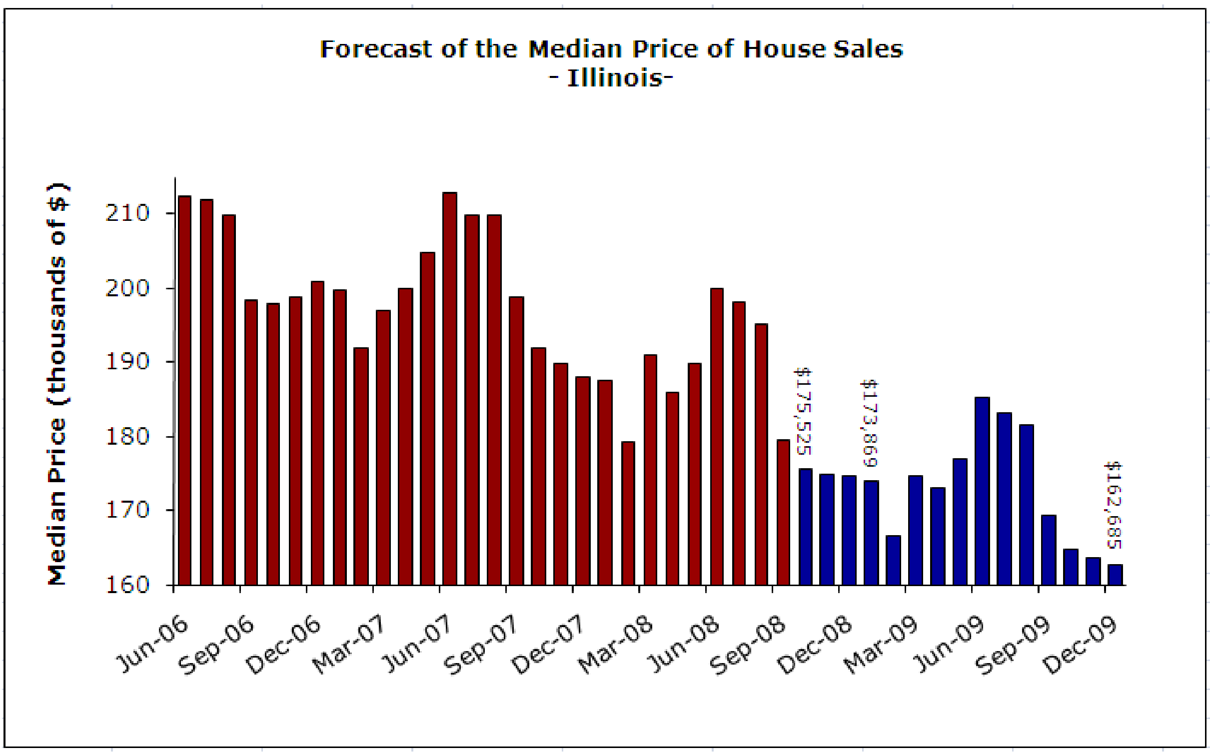
All of these forecasts have been made without considering any potential impact of a major stimulus program (beyond the not very effective rebate plan enacted earlier). While there is always a sense of optimism associated with a new President, there is a guarded sense of realism about the depth of the problems and a realization that recovery is probably going to extend over a period several years rather than several months.

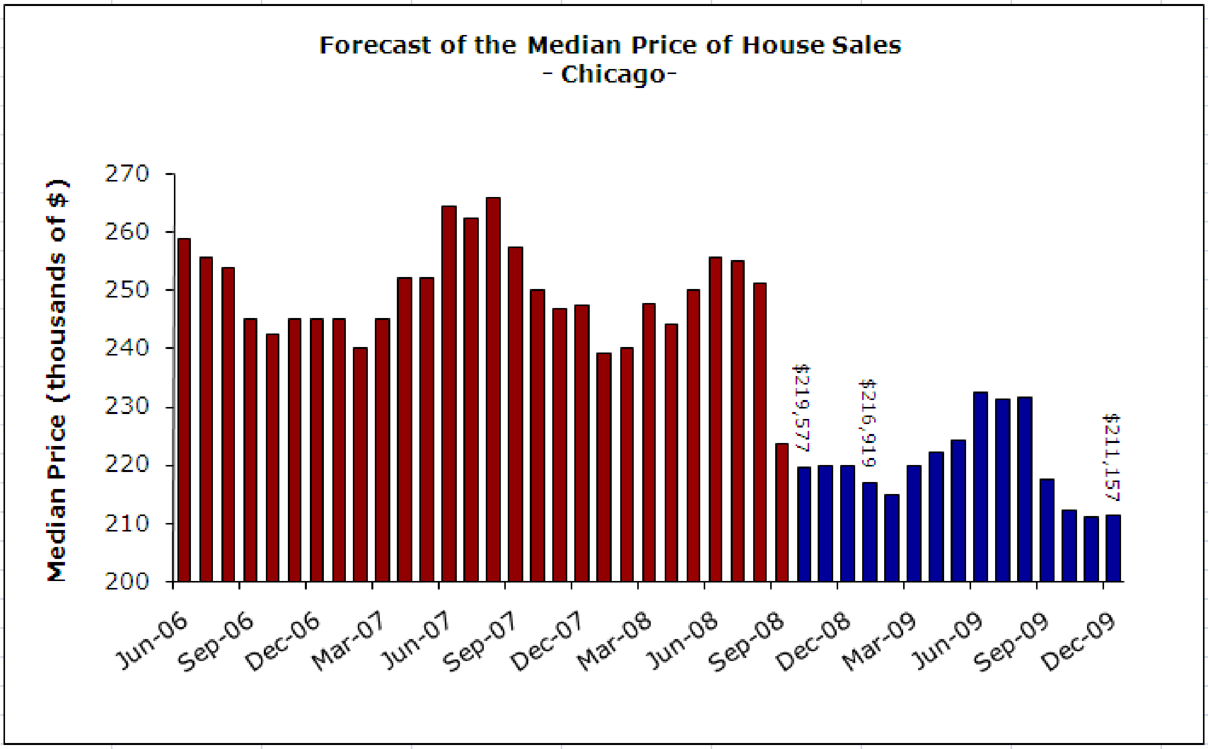
PERCENTAGE CHANGE FOR THE TOTAL NUMBER OF SALES (forecast range)				
	Monthly		Annual	
	Illinois	Chicago	Illinois	Chicago
Oct 2008	-10.61 % -6.61 %	-11.66% -7.66%	-17.10% -11.10%	-14.25% -10.25%
Nov 2008	-17.45 % -11.45 %	-19.11% -13.11%	-20.59% -14.59%	-19.34% -13.34%
Dec 2008	-19.36 % -13.36 %	-19.28% -13.28%	-23.38% -17.38%	-22.69% -16.69%
Jan 2009	-32.07 % -24.07 %	-29.72% -21.72%	-28.22% -20.22%	-27.57% -20.57%
Feb 2009	14.65 % 20.65 %	7.49% 11.49%	-27.38% 20.38%	-28.06% -20.06%
Mar 2009	23.55 % 31.55%	32.09% 40.09%	-24.66% -18.66%	-25.28% -19.28%
Apr 2009	8.00% 12.00%	4.01% 8.01%	24.10% 18.10%	-25.19% -19.19%
May 2009	16.73% 22.73%	12.74% 16.74%	-22.96% -16.96%	-24.45% -18.45%
Jun 2009	3.58% 5.58%	9.32% 13.32%	-22.72% -16.72%	-23.89% -17.89%
Jul 2009	-6.65% -4.65%	-6.48% -4.48%	-23.10% -17.10%	-24.30% -18.30%
Aug 2009	-5.62% -3.62%	-9.09% 5.09%	-23.42% -17.42%	-24.82% -18.82%
Sep 2009	-12.88% -7.88%	-9.00% -5.00%	-24.14% -18.14%	-25.35% -19.35%
Oct 2009	-12.48% -7.48%	-12.66% -8.66%	-24.90% -18.90%	-27.21% -20.21%
Nov 2009	-19.06% -13.06%	-20.97% -14.97%	-26.37% -20.37%	-28.91% -20.91%
Dec 2009	-21.53% 15.53%	-21.57% -15.57%	-29.36% -21.36%	-30.96% -22.96%

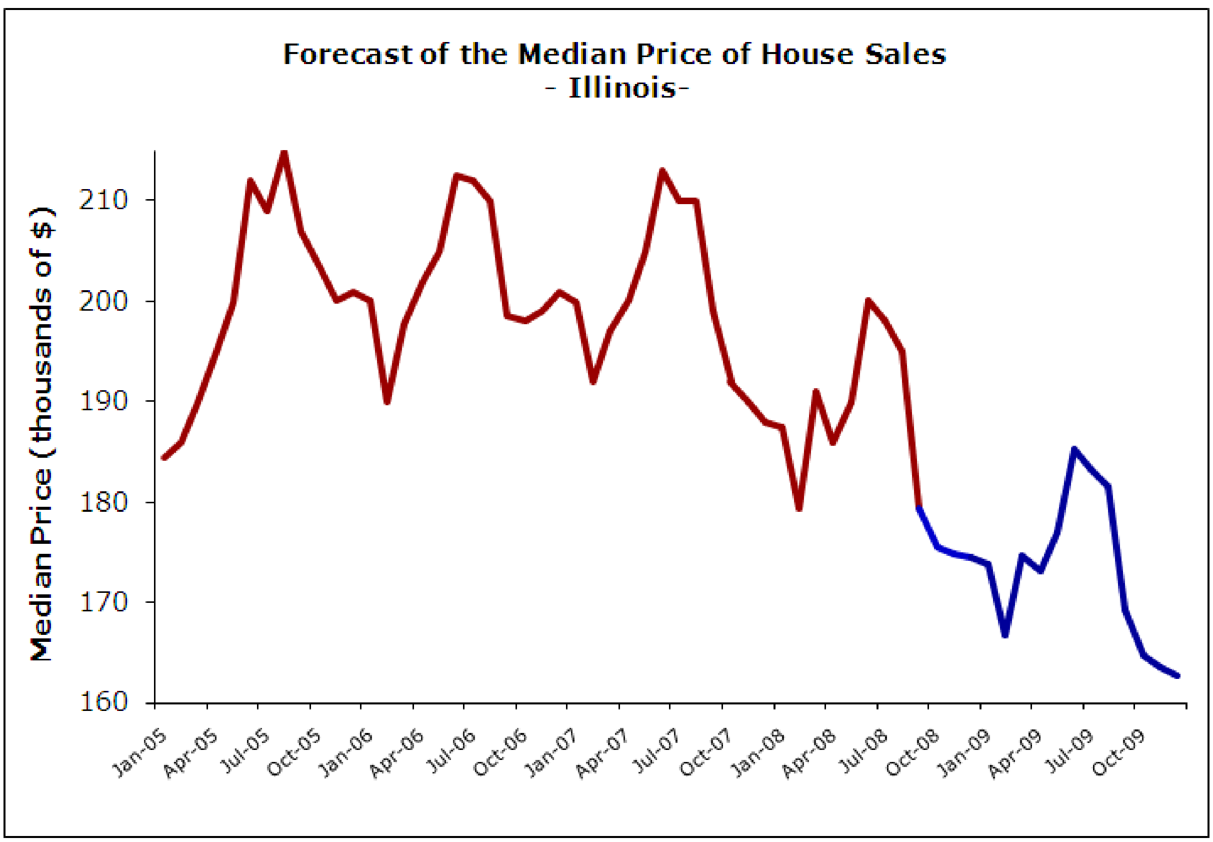
Positive variations are in red.




Annual Percentage Change of the Median Price for Home Sales
- Chicago-
Annual Percentage Change
- Median Price -
9
7
5
3
1
-1
-3
-5
-7
-9
-11
-13
-15
Jun-06
Aug-06
Oct-06
Dec-06
Feb-07
Apr-07
Jun-07
Aug-07
Oct-07
Dec-07
Feb-08
Apr-08
Jun-08
Aug-08
-12.17%
-9.33%
-3.97%


Forecast of the Median Price of House Sales
- Illinois-
Median Price (thousands of $)
210
200
190
180
170
160
$175,525
$173,869
$162,685
Jun-06
Sep-06
Dec-06
Mar-07
Jun-07
Sep-07
Dec-07
Mar-08
Jun-08
Sep-08
Dec-08
Mar-09
Jun-09
Sep-09
Dec-09


Forecast of the Median Price of House Sales
- Chicago-
Median Price (thousands of $)
270
260
250
240
230
220
210
200
$219,577
$216,919
$211,157
Jun-06
Sep-06
Dec-06
Mar-07
Jun-07
Sep-07
Dec-07
Mar-08
Jun-08
Sep-08
Dec-08
Mar-09
Jun-09
Sep-09
Dec-09


Forecast of the Median Price of House Sales
- Illinois-
Median Price (thousands of $)
210
200
190
180
170
160
Jan-05
Apr-05
Jul-05
Oct-05
Jan-06
Apr-06
Jul-06
Oct-06
Jan-07
Apr-07
Jul-07
Oct-07
Jan-08
Apr-08
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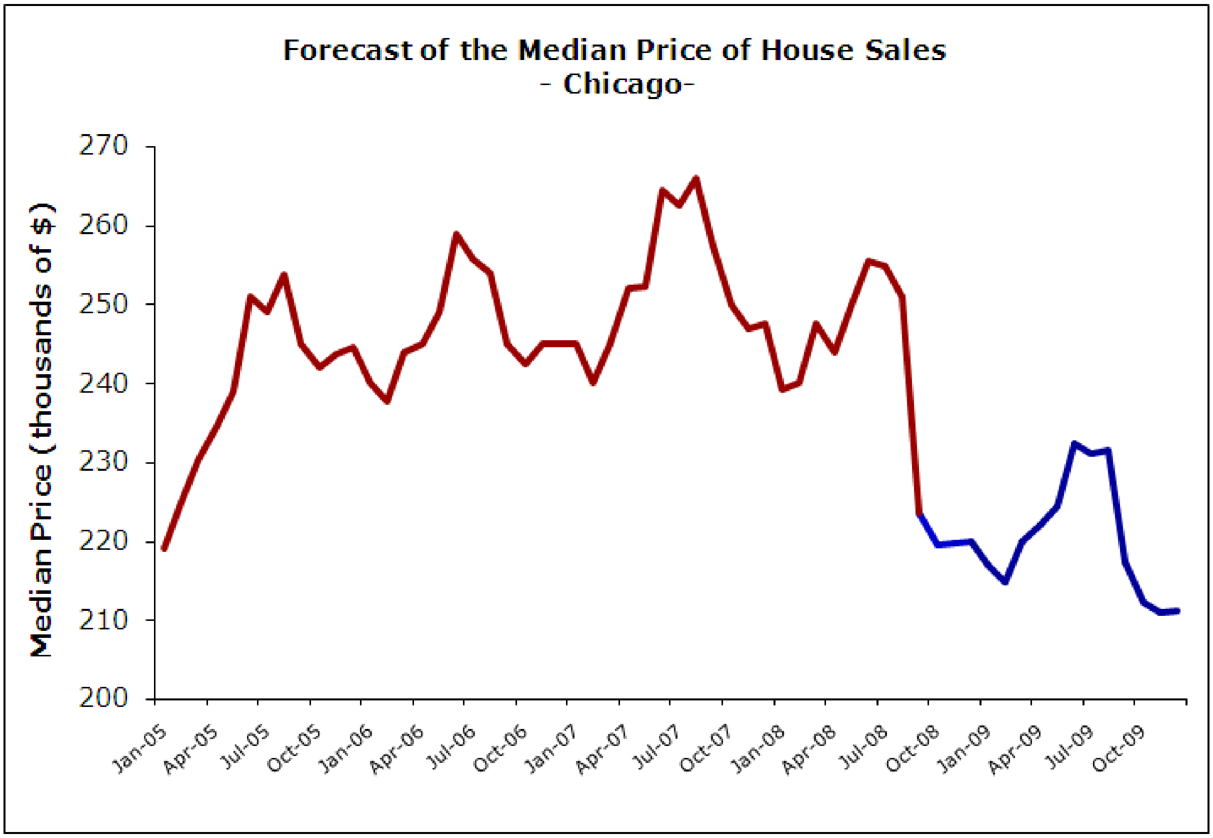
Apr-09
Jul-09
Oct-09



SUMMARY OF THE FORECAST FOR THE MEDIAN PRICE (Illinois and Chicago)					
	Illinois	**Chicago**		**Illinois**	**Chicago**
Oct 2008	$ 175,525	$ 219,577	**Oct 2007**	$ 192,000	$ 250,000
Nov 2008	$ 174,848	$ 219,714	**Nov 2007**	$ 190,000	$ 247,000
Dec 2008	$147,540	$ 219,894	**Dec 2007**	$ 188,000	$ 247,500
Jan 2009	$ 173,869	$ 216,919	**Jan 2008**	$ 187,500	$ 293,250
Feb 2009	$ 166,672	$ 214,753	**Feb 2008**	$ 179,330	$ 240,000
Mar 2009	$ 174.632	$ 219,894	**Mar 2008**	$ 191,000	$ 247,500
Apr 2009	$ 173,071	$ 222,024	**Apr 2008**	$ 185,900	$ 243,850
May 2009	$ 176,977	$ 224,300	**May 2008**	$ 189,900	$ 250,000
Jun 2009	$ 185,261	$ 232,280	**Jun 2008**	$ 200,000	$ 255,500
Jul 2009	$ 183,140	$ 231,089	**Jul 2008**	$ 198,068	$ 254,900
Aug 2009	$ 181,533	$ 231,388	**Aug 2008**	$ 195,000	$ 251,000
Sep 2009	$ 169,284	$ 217,330	**Sep 2008**	$ 200,000	$ 223,000
Oct 2009	$ 164,680	$ 212,261	**Oct 2008**	$ 175,525	$ 219,577
Nov 2009	$ 163,586	$ 210,848	**Nov 2008**	$ 174,848	$ 219,714
Dec 2009	$ 162,685	$ 211,157	**Dec 2008**	$147,540	$ 219,894

ANNUAL PERCENTAGE CHANGE OF THE MEDIAN PRICE (Illinois and Chicago)					
	Illinois	**Chicago**		**Illinois**	**Chicago**
Oct 2008	-8.58 %	-12.17 %	**Oct 2007**	-3.03 %	3.09 %
Nov 2008	-7.97 %	-11.05 %	**Nov 2007**	-4.52 %	0.82 %
Dec 2008	-7.16 %	-11.15 %	**Dec 2007**	-6.47 %	1.02 %
Jan 2009	-7.27 %	-9.33 %	**Jan 2008**	-6.20 %	-2.35 %
Feb 2009	-7.06 %	-10.52 %	**Feb 2008**	-6.60 %	0.00 %
Mar 2009	-8.57 %	-11.15 %	**Mar 2008**	-3.05 %	1.02 %
Apr 2009	-6.90 %	-8.99 %	**Apr 2008**	-7.05 %	-3.19 %
May 2009	-6.81 %	-10.28 %	**May 2008**	-7.32 %	-0.87 %
Jun 2009	-7.37 %	-9.09 %	**Jun 2008**	-6.10 %	-3.40 %
Jul 2009	-7.54 %	-9.37 %	**Jul 2008**	-5.68 %	-2.90 %
Aug 2009	-6.91 %	-7.81 %	**Aug 2008**	-7.14 %	-5.64 %
Sep 2009	-5.63 %	-2.76 %	**Sep 2008**	-9.86 %	-13.20 %
Oct 2009	-6.18 %	-3.33 %	**Oct 2008**	-8.58 %	-12.17 %
Nov 2009	-6.44 %	-4.03 %	**Nov 2008**	-7.97 %	-11.05 %
Dec 2009	-6.79 %	-3.97 %	**Dec 2008**	-7.16 %	-11.15 %

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.

All reports are available for members to download from the IAR Web site in Markets Stats, www.illinoisrealtor.org. Click on "Members Only Market Stats."

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