The Chicago Home Partner Housing Report

2017 Year in Review
2018 Market Outlook

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Introduction

Welcome to the 7th annual "Chicago Home Partner Real Estate Roundup" where we discuss our predictions from the previous year and what we believe both potential home buyers and sellers should be on the lookout for in 2018.

The primary goal of our report is to create educated, informed and empowered real estate consumers. As in previous versions of this report, we've focused specifically on North Side neighborhoods when discussing market trends and data.

*These boundaries include the following: (**North** – Rogers Park, **West** – Irving Park/West Loop, and **East** – Lake Michigan and **South** - the Loop).*

What We Predicted Last Year

Following the booms of 2015 and 2016, we expected 2017 to be another banner year in Chicago real estate, and it delivered in spades. Unemployment numbers were the lowest since 2007, interest rates were barely breaking 4% and prices were edging forward with Midwestern cautiousness. All of this resulted in an increase of median sales prices, demand for homes in desirable locations and properties going under contract each month.

The decreases we saw in our local market were limited to average market time for listings and the number of available homes for sale, (inventory). The inventory crisis of previous years continued through 2017, with months supply of inventory, MSI, actually falling by 5% when compared to 2016 numbers.

Below you'll find our 2017 North Side market predictions as well as year-end numbers.

We are proud to report that, once again, the Chicago Home Partner team was pretty spot on! Where correct in our assumptions, the size of movements in median sales price and MSI surpassed our expectations.

2017 Chicago Home Partner Predictions		
Our Prediction	**Measurement**	**2017 Results**
Slow and steady price appreciation for home sales	Median Sale Price	4.4% increase in median home prices across North Side
Inventory of desirable home for purchase to remain lean	For Sale Inventory	Inventory numbers of for-sale homes fell by 4.8% in 2017
Interest rates to increase slightly by year end	Interest Rates	Essentially flat around 4%
First time buyers will drive a majority of the market in 2017	Entry level home sales	59% of North Side sales were entry level homes
New construction units and sales to surge	New construction sales	13.4% increase in new construction sales in 2017

It's hard to understand the full story of our market by statistics alone, which is why we'll discuss outside factors, trends and other influences that have impacted the Chicago housing market in 2017 and in the year to come.

2017 North Side Market in Review

For those veterans of our report, you know that when discussing the Chicago real estate market, there are two very interconnected measures we always take into consideration: *Price and Inventory*. These pieces, when considered as a whole, give solid insight into our market.

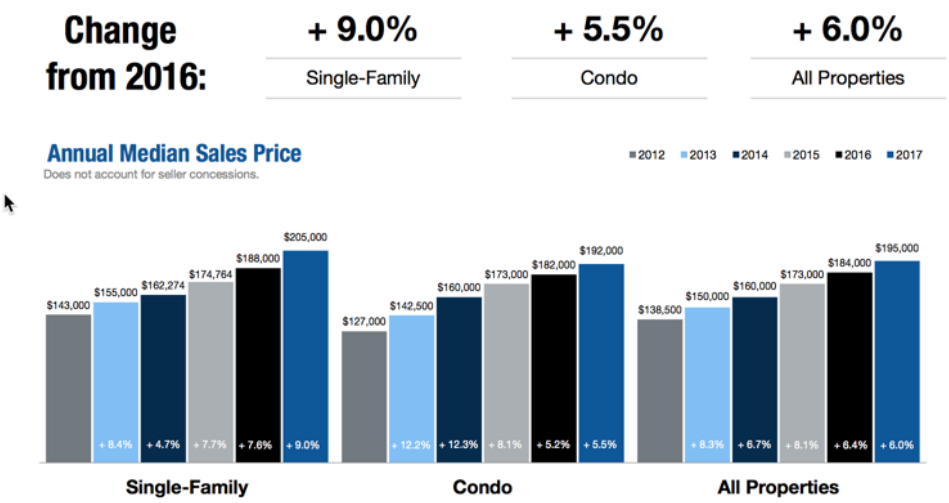
- **Price** – what in-market buyers were willing to pay for homes through cash or finance via mortgages.
- **Inventory** – the number of *QUALITY/WELL PRICED* homes available for sale and the buyer demand to purchase them.

2017 Home Price Appreciation – Nationally and Locally

Since 2012, the U.S. housing market has experienced steady price growth nationwide, averaging around 6% appreciation each of the past 5 years. 2017 reports from the National Association of Realtors® show final numbers coming in at 6.3%, with only the state of West Virginia failing to post price growth over 1%.

2017 Home Price Appreciation – Statewide

Illinois ended the year in positive territory for median prices, (+6%), marking 5 years of statewide gains. However, Illinois ranks among the lowest states for price growth in the country for 2017. This slow-and-steady price growth is indicative of our state as even during the 2005 boom, we ranked among the lowest year over year (YOY) appreciation. These steady gains served to insulate us (somewhat) when the market crashed in 2008.



2017 Home Price Appreciation – North Side

The North Side (as a whole) experienced a 4.5% YOY appreciation for single family homes and condos combined. For context, in 2016 the median North Side home sold for $330,697 in 76 days and in 2017 the median home sold for $345,880 in 72 days. Overall, this sounds like great news for homeowners on the North Side, but it all depended on which price point and where you were selling.

In 2017, homes under $500,00 sold in nearly 40% less time than their higher-priced counterparts. These same homes represented over 75% of the total closed transactions, meaning that their statistics had a dominating effect on year end numbers. Keep in mind that these include locations such as Bucktown, Lincoln Square, Lincoln Park and Lakeview, where 2 bedroom condos can easily START at $400K. Long story short, the entry level housing stock was in high demand, exited the market quickly and drove the North Side market in 2017.

2017 Inventory, Supply, Demand and Overall Activity - Nationally

A crippling lack of inventory remained the defining trait of the housing market in 2017. At the start experts believed the crunch that characterized 2016 would bottom out; instead it grew worse. At the end of 2017, the national housing supply actually reached a 20-year low of 3.4 months — the time it would take to run out of homes for sale if no new units were added. *A 6-7 month inventory is considered balanced.*

Where increased competition drives prices, the extremely unbalanced market which we faced in 2017 can actually stall growth altogether. For most of the year, existing home sale numbers nationwide were significantly (almost 25%) lower than in 2016.

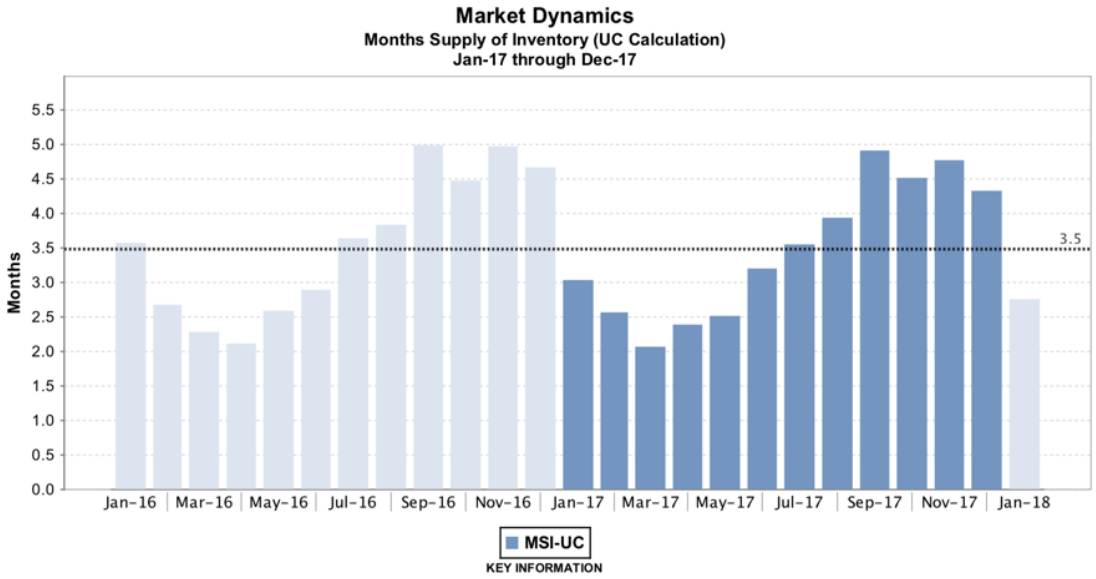
Low inventory, says Zillow Chief Economist Skylar Olsen, "drove all the dynamics that we saw, from bidding wars in the hottest U.S. housing markets, to the incredibly fast home value appreciation" across the country.

2017 Inventory, Supply, Demand and Overall Activity - North Side Market

The North Side of Chicago faced many of the same challenges as the national market in 2017. Powered by a record-breaking Spring market, year-end numbers showed a 2% increase in the number of homes sold. Most of this increase can be attributed to a red hot Q1, posting double-digital increases in January (+12.1%) and March (+17%). In fact, year-end sales numbers would have actually decreased without these numbers as Q3 and Q4 recorded flat or negative sales activity.

How limited is inventory? Take into consideration that in 2017 we witnessed the lowest amount of homes for sale in decades, with an average months supply of inventory of 3.5. Months supply of inventory, MSI, is calculated by dividing the number of homes available in a given month by the number of homes that have gone under contract for the same month. The result will be the number of months needed to absorb today's inventory, otherwise known as MSI.

As detailed in the chart below, the MSI in North Side neighborhoods, (regardless of home size), all fell well below healthy levels of a balanced market in 2017.



2017 Chicago Overall Activity – What We Saw in the Market

Low(er) inventory, high demand and competitive scenarios were the focus of many of our North Side neighborhoods, *BUT* in 2017, these markets began to show their individuality and differentiate from one another. Not every area was booming with fast sales and escalating prices, and this became more and more apparent as the year went on. In addition, economic factors and some media fear mongering played a big part in the balancing of the market in the second half of the year.

Below we've charted out some of the year-end numbers that show the differentiation between the two years and provide some insight as to why we believe this happened.

Indicator	2016 Numbers	2017 Numbers	Difference
Median sales price	$330,697	$345,880	4.3% appreciation YOY
Total homes sold	19,559	19,889	1.7% increase in sold homes
Days on market of sold homes	76 days	72 days	-6.3% market time for sold homes
Average monthly homes for sale	8,456	8,528	.8% increase of homes listed for sale
Months supply of inventory	3.6 months	3.4 months	-12% decrease in available inventory
New construction units sold	1,001 units	1,156 units	13.4% increase in new construction sales

The new year got off to a quick start with stronger than normal sales, (closings), and under contract numbers. Even the inventory slightly increased by 2% over the previous January which helped fuel the market. Our calendars at CHP were booked with both initial buyer consultations and listing appointments with clients eager to enter the market. 2017 had all the markings of a banner year.

But as the Spring market continued, it soon became clear that where contracts and closings continued at improved YOY numbers, for sale inventory was continued to dwindle. As a result of this, (and some other factors), the pace of sales cooled off more by June of 2017 and continued for much of the remainder of the year.

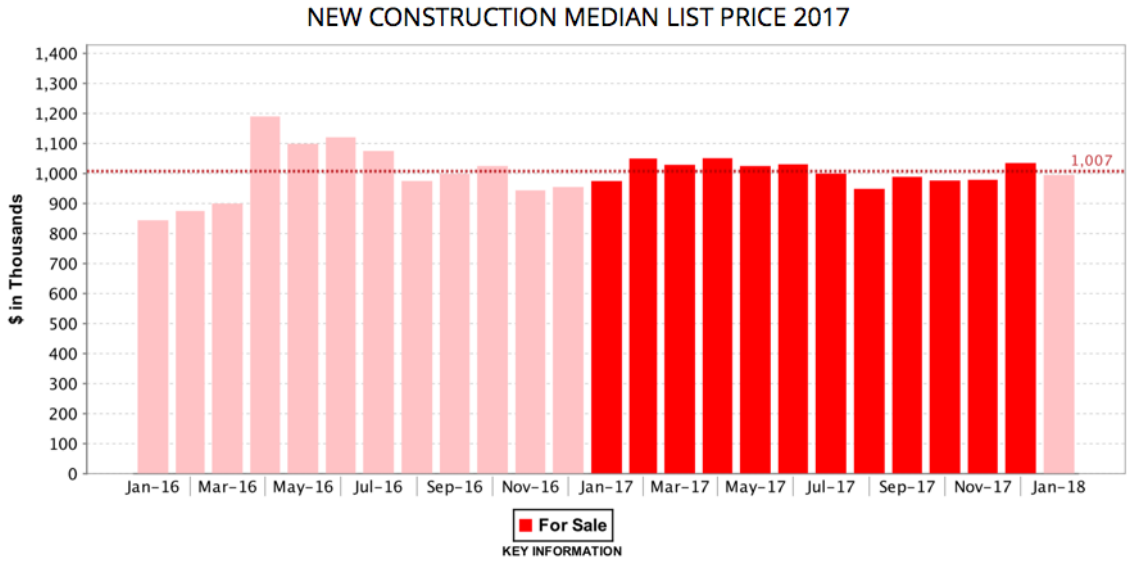
There were a number of factors that led to this reversal of trends including a high number of overpriced listings, lack of mid-priced new construction and uncertainty regarding implications of the new tax reform.

Overpriced Inventory

After years of sellers being able to successfully test the high end of the market, overpriced listings finally stalled out midway through 2017. We had entered a time in which not everything (at any price) was gobbled up by competitive home buyers. The measurement we typically use to measure overpriced homes are the number of expired listings, or listings that have essentially “failed” in the market. The beginning of Q3 marked the “wake up call” for many a home seller who ended up withdrawing from the market altogether or reducing their pricing to more realistic levels.

Lack of New Construction Delivery

Another factor was the lack of desperately needed affordable new construction development. New construction was finally delivering, however much of this was limited to a few neighborhoods and most in the luxury price point. Some North Side markets like Roscoe Village, North Center and Lincoln Square are nearly saturated with luxury single family new construction homes.



Where developers in these markets were delivering much needed inventory, their rampant delivery of one product in one price range essentially flooded the market. Due to this we began witnessing the first balancing of markets where market times began to rise and prices began to slightly soften with the abundance of choice for consumers. The luxury condo market in the Gold Coast and Streeterville saw a similar effects in 2017.

Meanwhile, the majority of the city was dealing with the opposite effect of new construction development. In addition to high-end condos, many major developers opted to building large-scale luxury rental apartments. With lower than anticipated affordable new construction coming into those markets, inventory continued to fall, buyer demand remained, and those markets stayed feverishly hot.

Tax Reform Implications

Finally, in the later part of the year, the pending impact of the newly proposed national tax reform frightened many homebuyers. With many new implications on real estate, opinions on how this *could* impact home values were widespread. However, impending economics changes, (rising taxes, rising interest rates, lower deductions), tend to be more

impactful to a market during the "speculation" phase than when actually implemented. It's the idea of the fear of the unknown versus what becomes the new norm.

For example, in 2015, IL residents saw their taxes grow 10% on average. Fear of home ownership and falling home values dominated the headlines. But once our first tax bills were issued and new amounts disclosed, home values continued to appreciate and sales quickly bounced back. Last year we witnessed the exact same effect surrounding the new tax bill. Markets slowed in November and December, however we expect to see long term reaction to be minimal.

What We Expect to See in 2018

Slow and Steady Price Appreciation

From December 2015 through December 2017 the Case-Shiller U.S. National Home Price Index increased nearly 6%, nearly matching the largest post-recession gains since 2013. Where the hottest markets in 2017 were western cities like Seattle and Las Vegas, Chicago's 5% appreciation was pretty marginal.

Experts say prices will continue their march higher in 2018, but the rate of increases will slow. *"Underlying the rising prices for both new and existing homes are low interest rates, low unemployment and continuing economic growth. Some of these favorable factors may shift in 2018,"* noted David Blitzer, head of the Index Committee at S&P.

Expect for prices in the Chicago to grow by about 2.5 percent over the course of 2018, compared to five percent this year. The slowing is based on Chicago's unemployment rate going up while it drops in other cities, and on population losses. Chicago was the only one of the country's 20 largest cities to see its **population** drop in 2017, and the third year we experienced this.

Other reasons appreciation will slow include buyer apprehension surrounding the impact of the tax bill, the state's continued budget issues remain unsolved and most interesting; multiple-offers aren't escalating as the way they used to. Unlike previous years, today we're seeing more potential buyers drop out and avoid the risk over-paying.

Certain neighborhoods on the North Side will continue their price gain trends including some of 2017's highest performers. Avondale, (23% YOY gain), Uptown, (+22% YOY gain), Edgewater, (+28% YOY gain), and the Near West Side, (+23% YOY gain), should all continue experiencing significant appreciation numbers, though not at the same rapid pace we witnessed last year.

Available Housing Inventory to Remain Lean

Looking to 2018, the general consensus is that inventory will pick up slightly, although well below healthy numbers that our market desires. Is this optimistic? Absolutely. However, the current stranglehold of inventory is unsustainable. Prices cannot rise faster than wages forever, an aging homeowner population is beginning to experience life-changes that will force them off the sidelines and the general consensus around selling has already begun to change.

According to data posted by Trulia.com, 31% of Americans believe 2018 will be a better year than 2017 to sell a home, far more than the 14% who feel it will be worse. However, they are quick to point out that of current homeowners, only 6% say they plan to sell.

Last but not least, Chicago new construction has started to swing away from rental units and luxury construction, to more modest single-family homes, mid-range condos and even some entry level developments. With an amazing number of cranes in the sky and more developments slotted for start every week, it feels like the new construction market might actually be on track.

Mortgage Rates will hover around 4%

Mortgage rates were another one of those areas that bucked traditional trends last year. In the past, movement from the FED has corresponded directly with mortgage rates. However we experienced three (3) of these moves in 2017 and two (2) in 2016 which caused the cost of a home loan to move slightly higher (immediately) and then come down again. Even the most recent movement of 25 points in December had very little effect on rates overall.

This begins to have experts question just what effect the three hikes the Fed has planned for 2018 will have on the housing market, or rates as a whole. Most, (Freddie Mac, Fannie Mae, the National Association of Realtors®, and the Mortgage Bankers Association), feel that rates will finish 2018 between 4% - 4.5%. This is only slightly higher than where rates for a greater part of 2017 hovered and is, historically very low.

The concern that some of us in the industry have about rates in 2018 is that experts, the 4 listed above and many more, cannot with confidence, explain WHY rates have continued to stay this low – immune to Fed hikes and a booming economy. Many cite low inflation, which has continued despite current economic gains, as the major culprit in keeping rates at current lows. Regardless, 2018 should remain a strong year for buyers looking to secure mortgages at low rates.

Millennial Demand for Housing will Keep Climbing

Homeownership rates in America finally began to climb in 2017 after a decade of decline, which is great news to not only the housing market, but the economy as a whole. The move was slight, with number of households occupied by owners (instead of renters) nudging up from a low of 62.9% to 63.9%, but this increase posted in the second quarter of 2017 had deeper meaning.

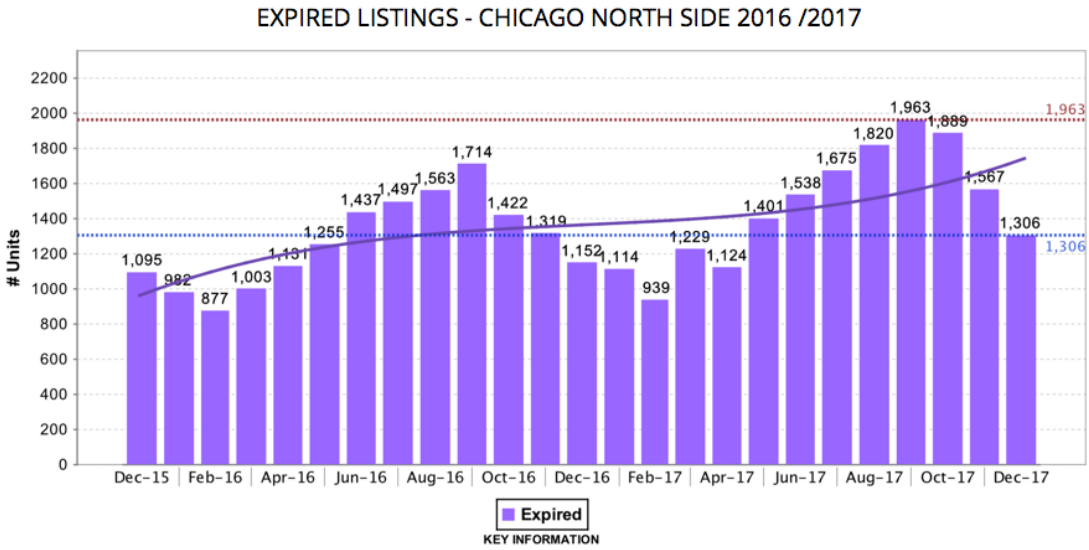
Ralph McLaughlin, Chief Economist at Trulia, stated that last year will go down as, "the year the bleeding stopped and the healing started." His reasoning for last year's increase was the millennial market finally, after years of speculation, entered the housing market, and as more of them age and grow their households, this trend is expected to continue.

These adults born after 1980 have been slow to enter the housing market, but as their lives change, they're buying homes at rates equal to their parents. In fact, single millennials are more likely to own a home than prior generations of singles. With more lenient lending standards and programs geared toward these younger buyers, the only thing standing in their way will be the personal apprehension of becoming home owners and, of course, a limited inventory of available homes.

Sellers Will Be Forced To Get Realistic About Pricing

As mentioned previously in our report, in the second half of 2017 sellers started getting greedy and "testing the market" flooding the market with unrealistically priced homes. We measured this two ways – by the number of expired listings and the List Price to Sales Price Ratio.

In Q3 of 2017 there were 13% more expired listings than 2016 and 32% more than 2015. Buyers essentially stated that they were NOT willing to pay *any* price to get a home, and these sellers were forced to withdraw from the market or make significant price adjustments. Where well-priced homes sold quickly and near list price, those that tested the market or overpriced averaged 82% of original list price *if* they finally came to the closing table.



This, coupled with implications of the new Trump Tax Bill on mortgage deductions have caused buyers to start seriously considering their finances and question the true value of a home. This is even more common in historically well-established areas, highly sought-after school districts and locations.

Sellers in the luxury market will need to heed this advice even more than their middle-market neighbors as the upper end is facing competition from both the resale and new construction market. After stalling out in 2017, the luxury market is saturated with homes from both traditional sellers and home builders alike. Expect to see a stabilization in median price for this section of the market.

What this means to the potential home buyers and seller in 2018

After all the facts, figures and speculation provided in our report, we understand that at the end of the day we're talking about something that's one of the most emotional decisions you'll make in your life. Where the finances need to make sense at the end of the day, we're still talking about a home, your home, and house this will impact your life moving forward.

Regardless of the situation, we are always here to help and advise you as to the BEST decision to help you achieve your goals. That being said, here are some overarching suggestions everyone entering the market should consider and discuss.

Sellers

If you've been considering listing your home and waiting for *the time* we would suggest you make a call to chat about your local market. Inventory in most neighborhoods and price points will remain low in 2018, but uncertainty regarding the new Tax Bill have buyers cautiously approaching the market. Those that are on the market early in the year have committed to purchasing regardless of mortgage deductions, however those later in the year may approach the market differently.

If price appreciation begins to flatten or decline this could also cause inventory to increase, driving competition in some markets. We witnessed this price stabilization in some of the most prevalent North Side neighborhoods, (Lakeview –4% median price YOY, Lincoln Park -1% median price YOY, West Town -2% median price YOY, Near North 0% change).

This could also provide those of your looking to move up an opportunity to take advantage of realized home gains on the sell side while capitalizing on your move up.

Where we cannot in good faith tell everyone reading this that NOW is the time to sell your home, it's a great idea to explore your options and discuss your local market sooner than later. Contact us and we'll be happy to provide any information you need.

Buyers

As always, planning is the key to success in any real estate venture, but even more so when buyer demand due to limited inventory. There's a lot to be aware of this year with shifting market dynamics and the impending Tax Bill, so conferring with an advisor is our number one piece of advice.

Aside from that, keep in mind that over that past two years of limited inventory, the highest number of homes for sale took place in the first two quarters of the year. Where there's always the possibility that your "perfect" home might not be listed for months, the widest selection for viewing should be in the first 5-6 months of the year.

Overall, we feel that the North Side as a whole will continue to appreciate in 2018, fueled by buyer demand and limited inventory. Especially if you are looking to buy in a highly desirable location, school district or building, it's important to have finances in order, search criteria narrowed down and be ready to pull the trigger as inventory becomes available.

In Conclusion

Buying or selling a home is much more than a financial decision – it's an emotional and personal one regarding your future, where you will raise your family (2 and 4 legged) and what life-changes you may be facing. We at Chicago Home Partner understand ALL the factors that come into play when making this decision and are here to advise regardless of the outcome.

PLEASE, feel free to reach out to us with any questions this report may have inspired or for more granular information on what YOUR neighborhood is currently experiencing.

The Chicago Home Partner Team

Amanda McMillan, Tiffany Vondran, Ressie Krabacher and Jared Nell

www.ChicagoHomePartner.com

Quoted Report Sources:

- CNBC
- Crains Chicago Business
- Forbes
- Chicago Magazine
- The Mortgage Reports
- CNN Money
- Illinois Association of Realtors®
- National Association of Realtors®
- USA Today
- Keeping Current Matters
- Ycharts – US 30 Year Mortgage History

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