The 2019 Chicago Home Partner Real Estate Forecast

Introduction

Welcome to the 8th Annual Chicago Home Partner Real Estate Forecast, 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 2019.

As in previous versions of this report, we've focused specifically on North Side neighborhoods when discussing market trends and data.

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

What We Predicted Last Year

2018 Chicago Home Partner Predictions		
Our Prediction	**Measurement**	**2018 Results**
Prices continue to increase but at a much slower pace.	Median Sales Price	3.3% increase in median home price
Slight increase in available inventory	Months Supply of Inventory	Inventory increased by 15% in 2018
Mortgage rates increase slightly	Median Interest Rate or 2018	Rates increased from 3.9% to 4.5%
Entry-level buyer will drive much of the market	Median Sales Price	Over 60% of homes sold for less than $400,000
Sellers will become more realistic with regards to pricing	Expired Listings	Expired listings increased by 16%

For much of the 2018 real estate season, trends followed previous years with a "slow and steady" approach to most important measures of data.

Median home prices continued to grow, but at a slower pace than years prior. The average home sold for only 3.3% higher ($392,000) in 2018 than in 2017 ($380,000). The only part of the market that experienced different results was in the new construction sector which sold at 10% higher in 2018, ($786,000) than it did in 2017, ($717,694).

Inventory of available well-priced homes in desirable locations had hindered much of the growth in previous years. In 2018, however, we finally saw an increase in available homes – an increase of nearly 15% over the previous year. This surge of new homes was higher than we would have expected, however, when diving into the numbers, we saw that many of these available homes were priced well out of the range of active buyers – resulting in inflated inventory numbers and a rise in expired listings, (those that were listed but failed to sell).

Mortgage rates continued to be a major headline in the housing market for much of 2018 yet failed to make truly significant movements. We started the year with rates hovering around 3.9%, saw some fluctuation in February, (rising to 4.4%), then again in November, (rising to 4.9%), before closing out the year around 4.5%. Overall, this resulted in an average increase of about 0.6% over 2017.

Entry-level buyers continued to drive much of the North Side market with over 60% of homes sold in 2018, (10,000 of the total 16,581 sales recorded), closing for under $400,000. Even though a significant number, many would-be buyers in this section of the market were stranded on the sidelines or lost out in multiple bids due to lack of inventory.

Seller realism was an optimistic addition to our list of predictions last year. Near the end of 2017, we witnessed the beginnings of buyer fatigue, as consumers stood their ground, refusing to compete over homes "at any price". This trend continued into 2018 and many sellers continued to overprice inventory entering the market. The result? A 16% increase in expired listings.

We at CHP cautioned our sellers to the dangers of overpricing, and in turn, priced listings aggressively and sold homes in less than 30 days at over 99% of asking price.

Overall, 2018 was a positive year with regards to Chicago real estate – especially on the North Side. However high taxes, minimal job growth and a shrinking population have resulted in Chicago recovering more slowly than most major markets. Where prices are up city-wide, (2.7%) and even more specifically on the North Side, (3.3%) this is well below the national average of 6.3% for 2018.

City of Chicago vs. North Side Numbers

It's important to remember that real estate is local – neighborhood by neighborhood and block by block. However, when the media is concerned, (television, newspapers, online portals or even reports like Case Shiller), Chicago is reported on as a ***one*** 234 square mile area, (or larger). To put that in perspective, New York City is 302 square miles. Needless to say, reporting on the macro level for this size of area tends to be inaccurate.

It's still important to take these macro numbers into consideration to develop a wholistic view. Below, we've provided the city of Chicago (as a whole) numbers side-by-side with those of the North Side.

2018 North Side Market in Review

Indicator	2017 Numbers	2018 Numbers	Difference
Median sales price	$380,000	$392,500	3.3% appreciation YOY
Total homes sold	17,627 units	16,581 units	5.9% decrease in sold homes
Market time for sold homes	71 days	77 days	7% increase in market time for sold homes
Average monthly homes for sale	7,624	8,041	5.5% increase of homes listed for sale
Months supply of inventory	3.6 months	4.2 months	17% increase in available inventory
Total number of expired listings	14,374 units	16,601 units	15% increase in expired listings

Price Appreciation

As stated in our 2018 predictions, the North Side grew at 3.3% YOY appreciation for single family homes and condos, down 1.5% from gains witnessed in 2017. For context, in 2017 the median home sold for $380,880 in 72 days and in 2018, $392,500 in 76 days. Where overall positive, this slowdown in appreciation can be directly attributed to two items; buyers refusing to pay "any price" for a home and a continued growth of the entry-level market, (under $400K).

These entry-level homes represented over 60% 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 under $400K market was high in demand, sold faster and drove the North Side market in 2018.

Sales Volume

One of the most publicized real estate stories in 2018 was a downturn in sales volume experienced by much of the nation. The North Side followed suit, with a cumulative reduction in sales of 6.5% (1,292 vs. 1,382). Month-to-month sales volume fluctuated heavily throughout the year, dipping as low as -23% in December of 2018.

This slowing of home sales should be scrutinized moving forward, however much of this can be directly attributed to the aforementioned lack of seller "price realism" and a continued reduction in well-priced, desirable, entry-level homes for sale.

Inventory

Where inventory spiked to the highest levels we've seen in over 5 years, the entry level markets still cannot keep up with demand. The unit of measure for tracking inventory used is Months Supply of Inventory, or MSI, which calculates the number of months needed to absorb the current housing stock. A lower MSI is considered a seller's market and a higher MSI is considered a buyer's market.

A "healthy" market has a 5-7 month supply of inventory, and we haven't been anywhere close to that post-downturn. In 2017, we witnessed the lowest amount of homes for sale in decades, (3.6 MSI), and 2018 made some slight progress towards balancing the market, ending the year at 4.2 MSI, an increase of 16%. Where this is nowhere near the numbers we were hoping for, it's a step in the right direction.

The difference between different sectors were radically different across the board. Homes selling for less than $400K averaged a 3.3 MSI for 2018, where homes selling above $400K averaged 5.3 MSI.

Seller Realism

One of the most important topics discussed going into 2018, was that sellers *really* needed to get real about pricing. In previous years, it was common for sellers to "test" the market by slapping on an inflated price tag and placing them for sale. This strategy often worked in the early years of the market rebound, however near the end of 2017, buyers drew a line in the sand and said, "no more."

This didn't mean that listings weren't selling. As indicated in above, thousands of homes were going under contract each month throughout 2018. However, homes achieving not only contracts, but closing, were in good locations, well priced, and staged to stand out from the competition. When we look to measure "seller realism" in the market, there are two main statistics to consider – expired listings and sale to list price ratio.

Expired listings are homes listed for sale that the market rejects and are eventually withdrawn, (expired), from the housing pool. In the later months of 2017, we started to see an uptick in expired listings as buyers said "enough" to competitive bidding wars and overpricing. In 2018, we again saw this number of failed listings grow, posting a 15% increase over the previous year.

Sales to list price ratio is the percentage of original list price that the seller grosses from the final sales price of the home. In 2018, homes that initially overpriced and experienced a reduction sold at 91% of original list price, (8% lower than those without price changes), in an average of 124 days, (twice that of those without price changes). Even "testing" the market with a higher list price came back to haunt many sellers in 2018.

What We Expect to See in 2019

So, what's in store for 2019? Unfortunately, even after all our experience in the market and thousands of sales, we at Chicago Home Partner are not clairvoyant, (yet). However, being diligent students of the market, we're confident placing some predictions on the year to come.

1. Home Sales Numbers Will Be Flat or Slightly Down

According to national experts, Chicago is predicted to experience the least amount of growth for any major metropolitan cities in the U.S. This outlook differs, however, as not all submarkets, (neighborhoods), will be affected the same. It's important to note that where these expert predictions rank Chicago among the lowest performers, this doesn't mean that we won't post positive numbers overall – they will just be much less dramatic than more volatile areas.

As stated in previous sections, Chicago consistently experiences more subtle movements when compared to large cities on either coast. That means that our numbers, (positive or negative), tend to take a more slow-and-steady approach. This insulated us from extreme price surges in the early 2000's and even protected us, (to some level), from devastating levels of depreciation experienced during the downturn.

After a number of strong years following the market crash, a stabilizing of the market is not a matter of if, but of when. We're basically 10 years into a cycle, there's going to be a downturn at some point, (with regards to housing sales) and 2019 shows signs of being that year. We expect to see a market that will be off by low single-digits in terms of unit sales this year, but not overly concerning.

It's important to note, that this minor downturn in sales could lead to a balancing of the market - a positive factor in the longer-term. If homes are allowed to enter the market and push MSI upwards, it will put more available inventory in front of potential home buyers, force sellers to become realistic regarding pricing and improve the overall health of the market.

Housing Inventory to Improve Slightly

We believe that the positive movement of inventory from 2018 will continue to build throughout 2019. Where inventory is expected to increase by 5% across the nation, we believe that North Side numbers will surpass this number, and not just in the upper/luxury market.

We expect that 2019 will bring a more patient and thoughtful buyer, influenced by these "new market realities" and help drive inventory into a more balanced and healthy position. No longer plagued by inevitable multiple-bid situations and having more options to choose from, buyers in 2019 will be more particular in their home shopping and less likely to stretch financially.

Last but not least, where most large developments cannot financially venture into the mid-tier priced units due to land values in North Side neighborhoods, many smaller projects consisting of modest single-family homes and mid-range condos developments have started to gain speed. With a large number of these small to mid-sized projects delivering this year, we should see affordable new construction make an impact in certain neighborhoods.

Home Prices Will Be Flat – But Not in the Media

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"Realtor.com forecasts the Chicago-Naperville-Elgin Metropolitan Area will experience the worst housing market slowdown among 100 of the nation's metropolitan areas in 2019." – **Realtor.com**

"Bleak Forecast for Chicagoland Housing Market in 2019. There's bad news for those looking to buy or sell their home in the Chicago area. – **CBS 2 Chicago**

"Next year is expected to be a tough environment for both buyers, particularly for entry-level buyers, and sellers, according to a forecast just released." – **Chicago Tribune**

The media likes nothing more than to make headlines – even when they aren't 100% accurate. The three above from fairly reputable sources all paint a pretty dismal picture for Chicago in 2019. However, when scrutinizing the data they're using, many of these headlines just don't hold water.

The studies and forecasts above utilize the S&P Case Shiller or the Realtor.com annual forecast which, although well founded, aggregate numbers from a fairly diverse set of markets. Each study provides insight on Chicago-LAND as an aggregate – from Lake Michigan to Naperville, and everything in between. We "city folk" tend to be protective of our boundaries and status, but I think we can all agree that downtown Elgin and Lincoln Park are fairly different markets.

Joking aside, this media shock-jockeying tends to either play up or down the current state of the real estate market in major fashion. Where we at Chicago Home Partner believe that prices will begin to stabilize on the North Side, we're also adamant on differentiating between ***depreciation*** and ***appreciation softening.*** There's a major difference between the two and these numbers will differ greatly by neighborhood and price-point of housing.

Over the past 24 months, home values on the North Side have appreciated 8.3%, slowing to 3.3% in 2018. We're definitely experiencing a softening trend with regards to appreciation in the market, but to say that home prices are depreciating would be erroneous. As stated earlier in the report, the inflation of prices due to historically low inventory had to stop somewhere as buyers became educated on the actual value of homes. We started to see this at the end of 2017, and this mentality continued through 2018.

Expect to see a balancing of price appreciation in 2019, probably flat numbers for the North Side as motivated sellers are forced to become realistic in every housing quartile. This should have a great impact on the market, enabling move up buyers to be more successful and therefore placing much needed, entry-level housing stock on the market.

Additional Factors Shaping Chicago's Market

A number of other factors should have implications on the market next year, though many of these we're already experiencing.

Experts at both the Mortgage Bankers of America and the National Association of Realtors® expect to see mortgage rates jump again in 2019, near 5.2% by years end. If achieved, this increase, coupled with already lofty home prices, could sideline some home buyers looking to enter the market.

Taxes in Illinois, and Chicago in particular, have made significant headlines, but have yet to derail the housing market as some predicted. Illinois homeowners are subject to the highest overall tax burden in the country, including the second highest property taxes in the nation. In addition, property bills will be released later this year reflect expected increases from 2018 triennial reassessment.

Millennials made up the largest segment of buyers in 2018, comprising 45% of mortgages compared to Boomers, (17%) and Gen Xers, (37 %). The next few years will shed even more light on how this highly scrutinized group feels about housing. Chicago has suffered from outmigration of this group over the past few years and if the trend continues, Millennials reaching prime home buying age might never enter the Chicago market.

New leadership in Illinois also could have implications on our local market as we've not only elected a new Governor, but will be electing a new Mayor as well. Where Pritzker seems to be very pro-housing, proposing ideas that would lessen property taxes, political changes have historically led to cautious home buyers in the market.

Where the above factors should have some significance on our local market, it's unknown how Chicagoans will react. As trusted advisors to many of you and students of an ever-changing market, our clients can rest assured that we will continue to lead and advise them to the best of our abilities.

What this means to the potential home buyer and seller in 2019

After all the facts, figures and speculation provided in our report, we're discussing 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 how 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 right time,* we would suggest you make a call to chat about your local market. Inventory in most neighborhoods and price points will continue to grow and competition will begin to increase throughout 2019. We've already seen a 5.5% increase in homes for sale of over January 2018 and expect this to continue growing throughout the year.

The list price of these homes has actually decreased from a year ago, however only slightly. The average list price of homes hitting the market last month was down 1.5% on the North Side, which could indicate that home sellers are finally getting the memo about realistic pricing.

If listing price continues to decline while market time increases, this could lead to a growth in local inventory, driving competition in some markets. This could provide those of you looking to move up an opportunity to buy a better home with a softer price, which will then outweigh selling the current home for slightly less.

Where we cannot in good faith tell everyone reading this that NOW is the time to sell their 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 with so many outside factors affecting the local market. There's a lot to be aware of this year with shifting market dynamics and the impending income tax changes, so conferring with an advisor is our number one piece of advice.

Flattening home prices and longer market times *could* bring additional buyers from the sidelines and increase competition for well-priced listings in desirable areas. Remember that, as stated for the sellers above, many have been priced out of the move-up market and are ready to move as inventory becomes available. Having your finances in order, achieving mortgage prequalification and doing some preliminary research will put you in a great place to move forward quickly.

Aside from that, keep in mind that over that past two years 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 will continue on a positive track, fueled by buyer demand and steadily growing home inventory.

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 we 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.

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CHP Market Report - Quoted Sources:

- IllinoisPolicy.org
- CBS 2 Chicago
- Chicago Tribune
- The Mortgage Reports
- Illinois News Network
- Freddie Mac
- The Real Deal Chicago
- Realtor.com
- Keeping Current Matters
- Ycharts – US 30 Year Mortgage History

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