

Illinois Housing Prices: An Update

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The Spring 1997 ILLINOIS REAL ESTATE LETTER featured an analysis of Illinois housing markets. The following discussion provides an update. A more detailed discussion of repeat sales price indices appears in the earlier article. We thank Freddie Mac for providing us with data.

The following text and graphs present a brief analysis of housing prices from 1st quarter 1987 through 4th quarter 1997 for the US, the East North Central Region (Illinois, Indiana, Michigan, Ohio, and Wisconsin), Illinois, and seven metropolitan areas in the state. We have again obtained data from the excellent Freddie Mac/Fannie Mae Conventional Mortgage House Price Indices (CMHPI).

The interpretation of a CMHPI value is similar to that for the well-known Consumer Price Index (CPI); an index of 150 indicates that prices have risen by 50% since the base year, with an index value of 100 (the CMHPI base year is 1987). If the index is 150 in the 4th quarter of one year and 158 in the 4th quarter of the next year, the rate of change over the measured year is $(158/150) - 1$, or 5.33%.*

Overview

1997 was generally a flat year for Illinois housing prices. For three of the seven MSAs (Metropolitan Statistical Areas, which are localities affected by the same

economic factors without regard to city or county boundaries) studied, 1997's CMHPI change was the lowest one-year change in a decade. In only one MSA (Chicago) did the CMHPI's 1996 - 1997 change exceed the 1995 - 1996 change. In fact, even the Chicago area was outpaced by both the US and the East North Central Region in 1997.

Index Values for Seven Illinois MSAs

Bloomington-Normal's year-end 1997 CMHPI value was 153.41. The index's increase was a fairly dismal 1.5% during 1997, following 1996's stellar 9.3%. The latter portion of the year was particularly volatile, with a 1.7% 3rd quarter decline followed by a 1.7% 4th quarter increase. For the five years ending in 1997, the area's overall increase was 29.5% (5.3% annualized).

Chicago's year-end 1997 CMHPI value was 180.75. The area's index experienced an overall 3.8% increase in 1997, up slightly from 1996's 3.4% gain. The 1st quarter was the year's best, with a 1.1% increase. For the five years ending in 1997, prices for Chicago's six-county MSA rose 22.3% (4.1% annualized).

The Quad Cities' year-end 1997 CMHPI value was 168.61. The Moline-Rock Island (IL)/Davenport-Bettendorf
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"Anchoring Rights" (page 1) deals with the growing popularity among American boaters of anchoring their boats outside of marinas for short or, sometimes, lengthy stays. This activity has implications for recreational boating, commercial navigation, and owners of waterfront land, as well as for government resources and the redevelopment of downtown areas. "A Note on THE ECONOMICS OF OPEN SPACE" (page 7) provides a response to an earlier IREL article; its authors offer an approach to allocating land to residential and open space uses based on a simple analysis of marginal costs and benefits. "Investment Decisions: An Economic Tutorial" (page 8) explains the theoretical foundations of the Net Present Value (NPV) and Internal Rate of Return (IRR) tools used as decision criteria by investors. A graphical analysis involving two time periods demonstrates that the NPV criterion is superior to the IRR criterion, because choosing a project with a higher NPV is uniformly consistent with maximizing the decision-maker's satisfaction. "Illinois Housing Prices: An Update" (page 16) supplements a previous article on our state's home values. An interesting finding is that, according to Freddie Mac data, prices of Illinois residences generally rose little during 1997, substantially trailing the home price trends observed both nationwide and in other nearby states.

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(IA) area led the other Illinois MSAs in its 5.0% 1997 increase, supported by a strong 2.9% 2nd quarter gain. The total five-year increase was an impressive 32.0% (5.7% annualized).

Peoria – Pekin's year-end 1997 CMHPI value was 193.75. Although the area's 3.1% 1997 increase marks the lowest one-year change in ten years, its 37.1% five-year increase (6.5% annualized) is the highest among MSAs studied.

Rockford's year-end 1997 CMHPI value was 162.70. Rockford also saw its lowest one-year housing price increase in a decade, with a 2.8% CMHPI change. The area did post the highest 4th quarter 1997 (2.0%) rise among included Illinois areas, although its 3rd quarter change was

a 0.4% decrease. The total five-year gain was 24.8% (4.5% annualized).

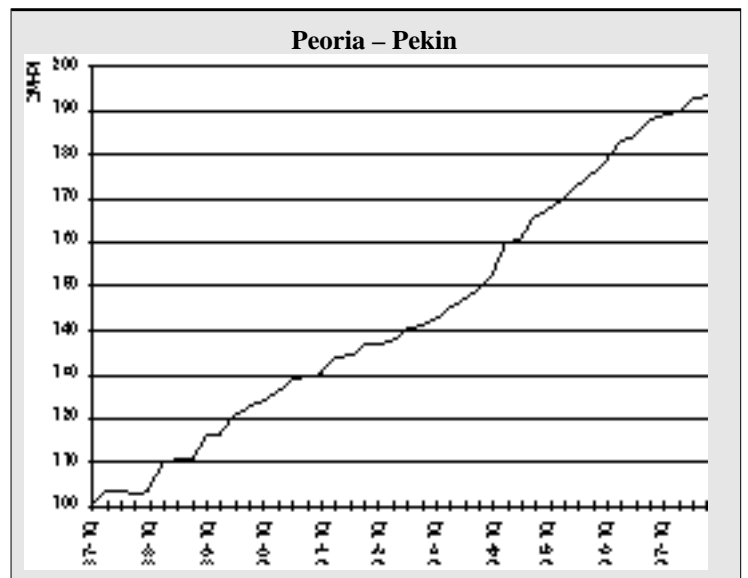
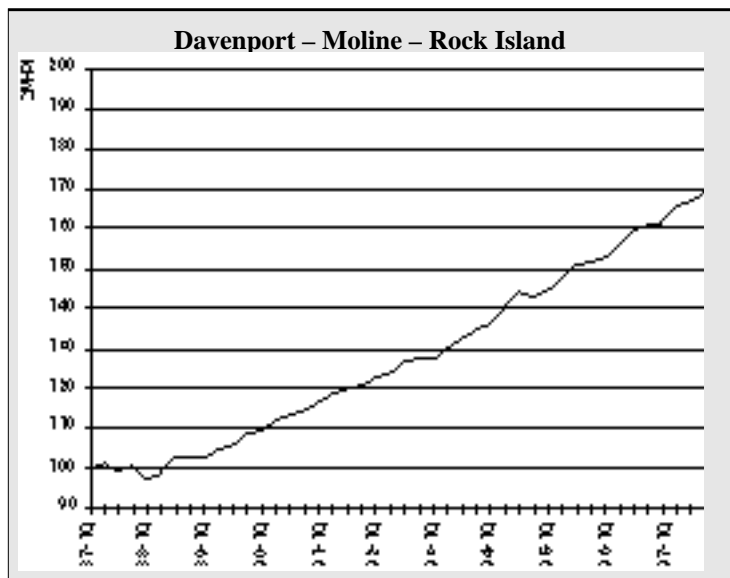
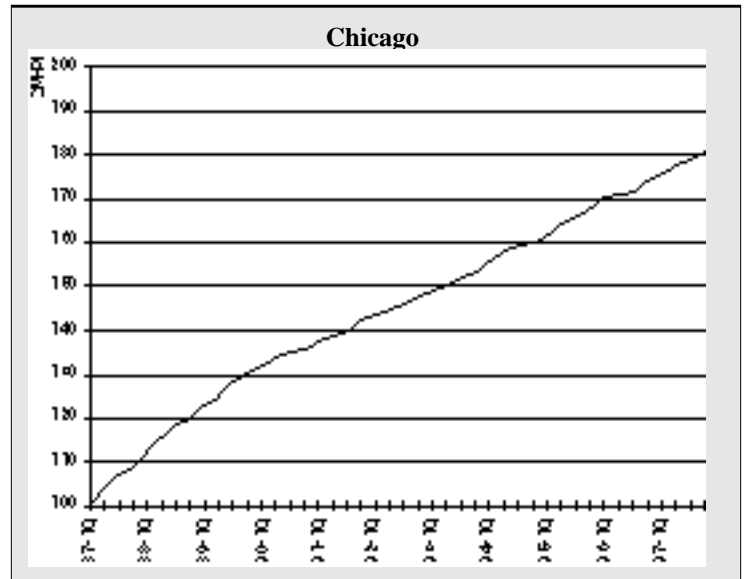
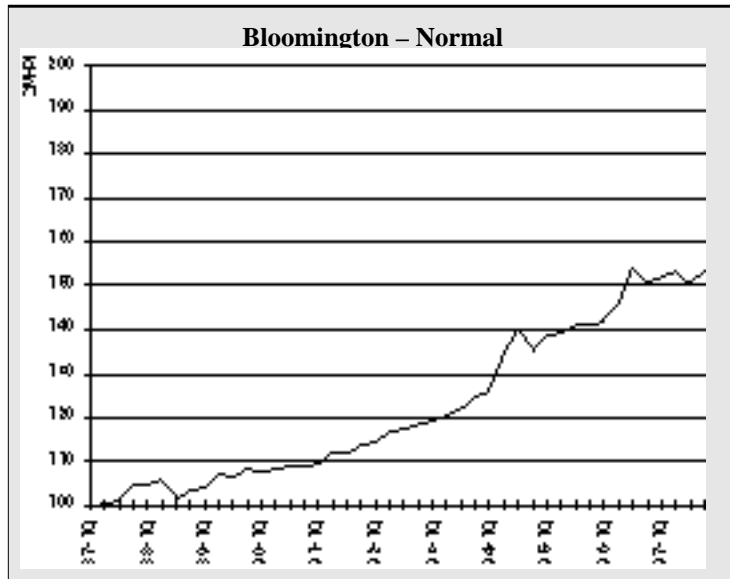
St. Louis's (including "Metro East" suburbs') year-end 1997 CMHPI value was 140.31. With strong 1st (1.2%) and 3rd (1.3%) quarter gains, area home prices rose by 4.0%, second among included MSAs. The year marks the fourth straight with St. Louis area CMHPI gains of at least 4% (3.2% was the highest one-year 1988 – 1993 change). The total five-year change was 21.8% (4.0% annualized).

Springfield's year-end 1997 CMHPI value was 148.29. One factor in the state capital's .3% 1997 price index decline was the 1st quarter's 2.0% drop. The area's 17.0% increase (3.2% annualized) for the five years ending 1997 was the lowest among the Illinois MSAs studied.

State, Regional, and National Figures

The state's 4.0% 1997 CMHPI rise was its smallest one-year change in a decade. In fact, its index has grown by progressively smaller amounts in each of the last four years. The East North Central Region posted strong 1997 numbers, beating the Illinois areas studied and the nation in its 5.6% increase (neighboring states' prices thus rose, on average, more than those in Illinois). National 1997 figures were also strong, with a 5.3% CMHPI increase. ■

* The FMHPI has a 1987 base year (1987 index value = 100). As in the earlier article, multi-year growth is stated as a compound annualized figure, computed as a period's ending index value divided by its beginning index value, raised to the reciprocal of the number of years, minus one. For example, Springfield's respective 4th quarter 1992 and 1997 index values were 126.77 and 148.29. The annualized growth rate over that five-year period therefore is $(148.29/126.77)^{1/5} - 1 = 3.19\%$.



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