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A TALE OF A THREE-YEAR TREND

Another year is in the books. Another year to compare data and analyze trends. Three months ago, we described a real estate market that had settled into a groove, repeating itself from year to year. Looking at the chart of Dane County home sales for the last three years, it's safe to say nothing much has changed.

And it's not just sales. New listings? 9,113 in 2017 and 9,131 the year before.

Prices? Up about 8 percent versus 6 percent in 2016. Thirty-year interest rates? Currently 3.95 percent versus 4.2 (when will they finally rise?). Home inventories? Down again, by about 16 percent from a year ago.

REAL ESTATE MARKET SOURCE

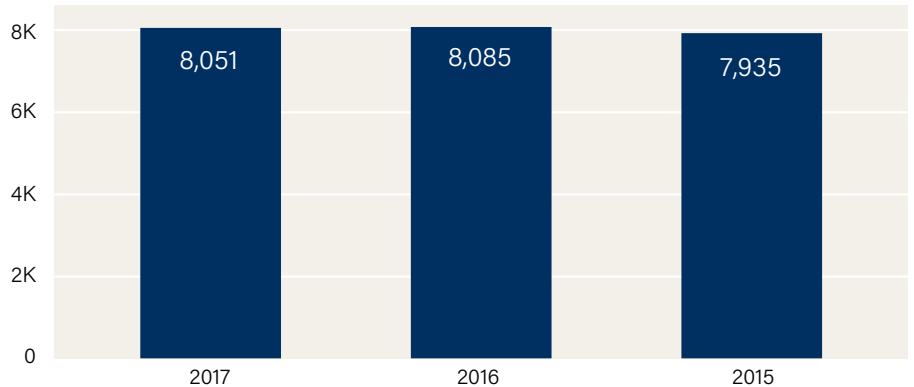
OF SOUTH CENTRAL WISCONSIN

IN SHORT, WE CONTINUE TO LIST AND SELL at the same rate each year, yet we keep selling more than we list. In a way, it's amazing that we've been able to keep up the pace of sales as well as we have with inventories continuing to shrink. Dane County is now down to what we believe is a record low 1.3 months of inventory.[†] While the beginning of the year is always the low point, this is the lowest point we've started from—ever. What this means should be obvious. Unless something unexpected happens to change the outlook, we're probably heading for another year of heavy demand for scarce properties, with multiple offers pushing prices up yet again.

How much longer we can go on like this, or what will change it, is hard to say. As we've said, we seem to find the inventory when we need it. There's no law of the universe that says there must always be six months of inventory waiting for someone to come along and buy it. For now, both consumers and the industry seem to have adapted as well as can be expected to the current reality. But there is no doubt that the competition for available houses wears on both buyers and sellers alike. It would be a relief to many to be able to return to the more orderly buying process of the past.

There is also the worry that prices will rise too high, creating either an unsustainable bubble, or pricing too many buyers out of the market. While we may be overly optimistic, our belief is that this problem will solve itself over time. If prices do indeed rise too high for buyers to afford, price increases will moderate. Prices are being pushed up now because buyers can actually afford them. With today's prudent loan underwriting, few buyers should find themselves with loans they can't pay. While we'd rather not become an expensive market, there are many expensive markets around the country that have sustained themselves for years. Try home shopping on the West Coast if you want to see what we mean. Luckily, we're still a long way from anything like that.

ANNUAL DANE COUNTY HOME SALES



During the past three years, the total number of Dane County residential sales reported to the Multiple Listing Service (MLS) has remained fairly consistent. A few more sales may trickle in, but we'll probably finish 2017 just behind 2016.

Could we be facing a bubble? By definition, a bubble is heated buying that pushes prices beyond what the fundamental economic health of the region can absorb. It's usually coupled with a lot of speculative momentum (the thought you can get rich quick from a real estate purchase). South Central Wisconsin is the fastest growing region in the state, and one of the fastest growing in the country. We don't see much housing speculation here; people are looking for places to actually live. If people are buying and living in housing they can afford, we should be able to sustain whatever price level we have.

So where can we find more inventory? In truth, this is a national problem shared by many markets, not just ours. More new construction is the obvious long-term answer. Awareness of this issue by the industry and local leaders seems to be growing. We hope the lending environment continues to become more accommodating, particularly to land developers and builders. Anything we can reasonably do to streamline permitting processes and lower costs for developers would be welcome. But these are long-term solutions that will require years to fully restore balance to the market. For now, we have to deal with the reality of today's tight inventories, and trust that the market will take care of itself.

TAX REFORM

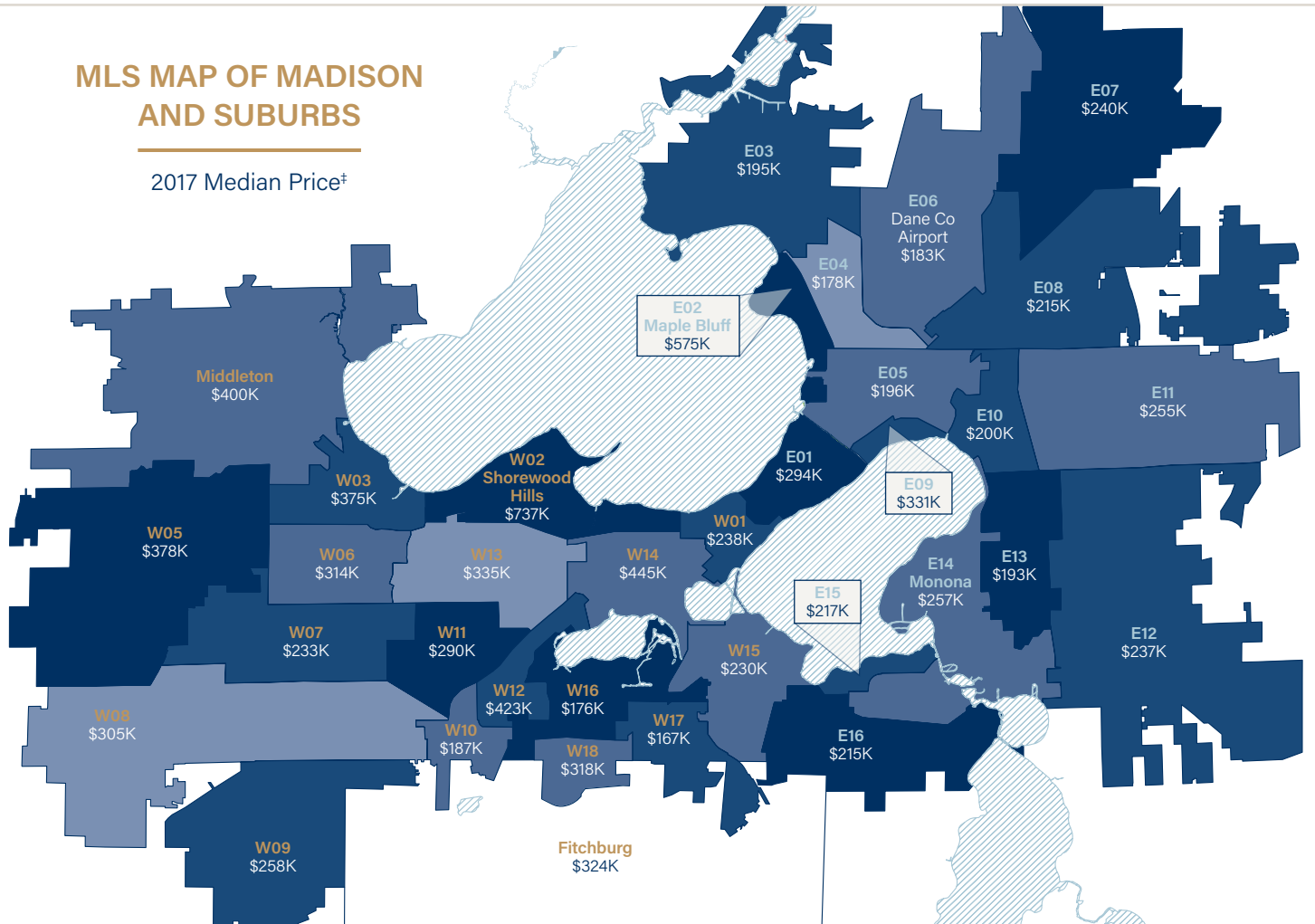
In December, a potential wild card was suddenly thrown into the mix—Congress passed tax reform. As the legislative process unfolded, there was some angst about the effect this new law could have on housing. While it will take time before we understand all the implications, our initial read is that housing here will be minimally impacted, particularly if our local economy remains vibrant.

For starters, the deductibility of mortgage interest remains fundamentally in place. The standard deduction was raised to \$24K for a couple, which led some to worry that fewer people would itemize to take the interest deduction. We think this worry is overblown. If the standard deduction is greater than the interest deduction, homeowners will pay even less tax than under current law, leaving more money to spend. It's hard to see this as a negative for housing.

A bigger worry has been capping the state and local tax deduction at \$10K total. How will we be affected here, with our relatively high state and local

MLS MAP OF MADISON AND SUBURBS

2017 Median Price*



East Madison	2017 # Sold	Current Inventory	Months of Inventory ¹	% Change to Median	West Madison	2017 # Sold	Current Inventory	Months of Inventory ¹	% Change to Median	Other	2017 # Sold	Current Inventory	Months of Inventory ¹	Median Price	% of Change
E01	54	6	1.3	13.4	W01	6	1	2.0	-57.8	Baraboo	199	42	2.5	\$152K	6.9
E02	21	10	5.7	14.3	W02	22	2	1.1	3.8	Cottage Grove	76	10	1.6	\$276K	7.8
E03	140	6	0.5	7.9	W03	57	1	0.2	10.3	DeForest	190	32	2.0	\$266K	7.7
E04	82	5	0.7	8.2	W05	248	46	2.2	6.9	Fitchburg*	245	29	1.4	\$324K	3.1
E05	124	5	0.5	14.0	W06	56	2	0.4	-1.3	McFarland	143	13	1.1	\$295K	13.7
E06	3	0	-	10.9	W07	10	0	-	2.2	Middleton*	165	23	1.7	\$400K	5.3
E07	67	10	1.8	13.2	W08	271	28	1.2	8.9	Mt. Horeb	103	23	2.7	\$279K	16.4
E08	86	4	0.6	3.9	W09	296	13	0.5	7.3	Oregon	147	24	2.0	\$315K	16.7
E09	28	1	0.4	-5.4	W10	43	11	3.1	3.0	Portage	116	25	2.6	\$129K	5.8
E10	74	6	1	8.1	W11	77	2	0.3	7.4	Stoughton	195	26	1.6	\$223K	17.8
E11	279	25	1.1	6.0	W12	72	6	1.0	6.3	Sun Prairie	527	55	1.3	\$270K	5.3
E12	175	3	0.2	1.2	W13	138	6	0.5	7.2	Verona	209	23	1.3	\$330K	2.8
E13	79	4	0.6	7.5	W14	101	2	0.2	10.4	Waunakee	233	36	1.9	\$412K	5.1
E14	98	7	0.9	10.5	W15	20	0	-	16.5						
E15	15	0	-	-8.8	W16	10	0	-	8.5						
E16	27	1	0.4	7.5	W17	2	1	6.0	11.8						
					W18	16	2	1.5	26.0						
Total	1,352	93	0.8	5.8	Total	1,855	175	1.1	6.0						

East Madison's total median price for 2017 was \$227K.

West Madison's total median price for 2017 was \$320K.

*Included in total median price for West Madison.

taxes? While every taxpayer's situation will be different, it looks to us like the major impact of this change, if any, will be at the upper end of the market. Limiting what you can deduct only matters if you have more to deduct than the standard \$24K. Many, if not most, homeowners will not have that problem. See your tax advisor to assess how the new law affects your personal situation.

The real question is, how important are tax considerations to the decision whether to rent or own? In our experience, tax benefits are an afterthought for most buyers, and have always been dwarfed by the many other financial advantages of home ownership. Only time will tell whether the new law actually alters consumer behavior or not. Until then, people still need a place to live, and ownership still provides the best financial return and the best quality of life. If you're letting the tax consequences drive your decision, you're missing the boat.

NEIGHBORHOOD ANALYSIS

As in years past, we're providing an analysis of the City of Madison and nearby cities and villages broken down by MLS sub-area (see the nearby map as your guide). We outline the number of sales, inventory levels, and median price data (single-family homes only).

It's almost shocking how lean inventories are in most of the City of Madison. The inventory scarcity champion on the east side is area E12, with only three active listings yet 175 sales in 2017. Nearly as lean is area W14 in the heart of the campus neighborhood, with 101 sales last year but currently only two active listings.

Of course, this snapshot comes at the inventory low point for the year, but most areas didn't pile up much more than this throughout 2017. Still, we'll see plenty of new listings over the next few months, so buyers should get ready and be prepared to move quickly when the right home hits the market.



ADVICE FOR BUYERS

Another year of heavy competition awaits you. We probably shouldn't say that, as we don't want to discourage you before the market even opens. But it's the truth, and it helps to be prepared. If this year is like the last three, waiting only means you'll pay more. So, a reminder on the basics. First, choose a good Realtor to start watching the market. You may need to move quickly and your agent can let you know early what's coming up. Second, go see a lender. Get as completely pre-qualified as you can. You won't win a competition if your loan isn't ready to go. Third, if you have a house to sell, start prepping it now (your Realtor can help with that too). Finally, adopt the right mindset. You might lose a few before getting your new home. In our experience, it tends to work out as it should. Don't be discouraged, just go for it!



ADVICE FOR SELLERS

Check the neighborhood chart for the supply-and-demand dynamics in your particular neighborhood. A good Realtor can help you assess the specific environment your house will face. If this year is like the last three, and if you're in one of the hotter neighborhoods, your best strategy is still to price your home reasonably. It can be tricky because we really don't know how prices will respond as the spring market unfolds. But buyers still tend to focus on new listings. If your home doesn't sell in a few weeks, it becomes 'old inventory' very quickly, resulting in even longer sale times and lower prices. Work with your agent to find the sweet spot, and you should do just fine.

DANE COUNTY

	Single Family			Condominiums			Total Residential		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
4th Quarter Closings*	1282	1213	1202	350	345	333	1632	1558	1535
Year-to-Date Closings	6263	6283	6263	1788	1792	1672	8051	8085	7935
Active Inventory	674	805	1068	196	237	363	870	1042	1431
Months of Inventory†	1.3	1.5	2.1	1.3	2.4	3.4	1.3	1.6	2.2
12-Month Median‡	280,000	262,900	249,765	183,700	170,000	155,000	264,396	245,000	231,250

SAUK & COLUMBIA COUNTIES

	Single Family			Condominiums			Total Residential		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
4th Quarter Closings*	362	378	371	47	42	42	409	420	413
Year-to-Date Closings	1543	1605	1525	224	179	165	1767	1784	1690
Active Inventory	367	509	658	71	88	120	438	597	778
Months of Inventory†	2.9	3.8	5.2	3.8	5.9	8.7	3.0	4.0	5.5
12-Month Median‡	180,000	168,000	160,000	160,500	148,000	150,000	179,500	165,000	159,000

*Sales reported to the South Central Wisconsin Multiple Listing Service (SCWMLS) with closing dates between 10/1/17 and 12/31/17. Data for all years was pulled between the 7th-10th of the month following the end of the quarter. †Months of Inventory represents the number of months it would take to sell the entire active inventory at the pace of sales for the most recent 12 months. ‡A six-month inventory is considered balanced. §When all properties sold during the period are ranked in order of price, the median is the price of the home in the exact middle. ©2018 Stark Company Realtors.® All rights reserved. The above sales figures herein are based on data supplied to the SCWMLS Corporation by its Participants. The MLS does not guarantee and is not responsible for its accuracy. Data maintained by the MLS does not reflect all real estate activity in the market. Data presented here was generated from the SCWMLS on or before 1/10/18. This is not intended to solicit existing listings.