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THE RISK OF INACTION

As we embark on year four of our high sales/low inventory real estate market, the picture once again looks very familiar. After three years of nearly identical sales levels and steadily declining inventories, it appears we're in for more of the same. First quarter sales were up a bit from last year. Inventories were down. So what else is new?

Frankly, nothing. And since nothing is new, and this market seems to be staying for the foreseeable future, perhaps an attitude adjustment is in order. Maybe it's time to stop worrying about it, and start embracing it.

REAL ESTATE MARKET SOURCE
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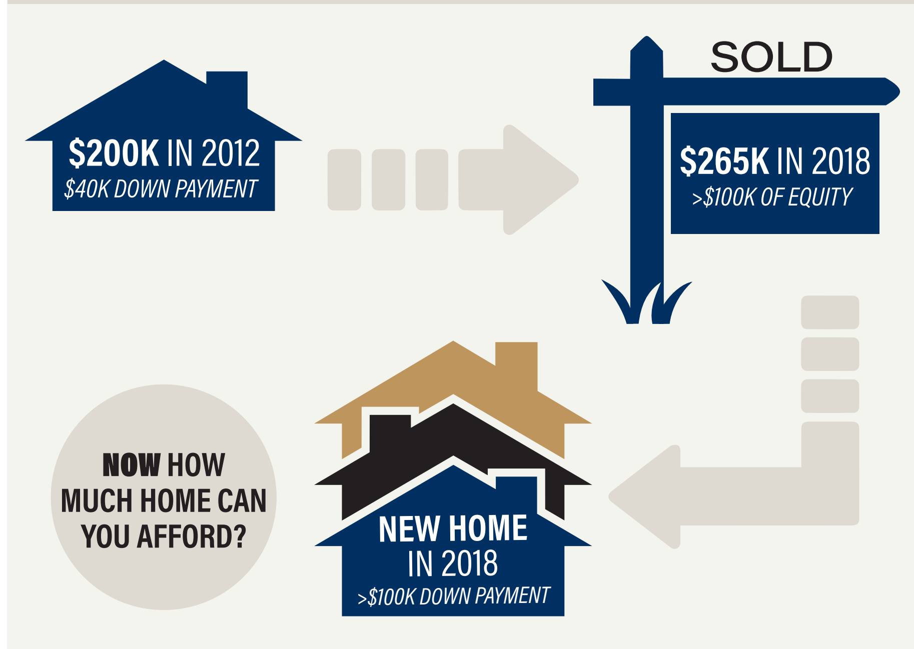
OPPORTUNITIES ABOUND FOR BUYERS AND SELLERS ALIKE. Yes, it's true, the days are gone (for now) when properties routinely took a month or two to sell, and sellers negotiated with only one buyer at a time. While everything is moving at a much faster pace, the buyers who have committed to this market have already been amply rewarded. Most are ending up with a very good outcome, despite the frenzied nature. We think it's time to start focusing on the positives.

Here's something positive: people tend to forget a very important feature of rising markets. Rising markets increase your purchasing power as a current homeowner far more than you may realize.

As an example, imagine you bought your home in 2012 just as the recession was ending. You put 20 percent down on your (then) $200K property. If your home's value increased at the same pace as the Dane County median price, your home would now be worth about $265K. Look at what that does to your potential down payment on a new home. If your income has increased and you have made your monthly mortgage payments, you may be situated to buy a bigger home than you'd imagined.

HOW MUCH EQUITY DO HOMEOWNERS TRULY HAVE?



Plus, if you are looking at buying in a higher price point, you may find the housing inventory isn't quite as tight. (See *Advice for Sellers* on page 3.) This is how homeownership serves as a powerful engine for wealth building.

We certainly understand that with these positives, there are also challenges and risks. We are in no way trying to minimize them. There's no doubt that buyers are likely to experience frustration, and sellers will be faced with logistical hurdles. However, in general, the real risks arise more from inaction than from action. That's why we've dedicated the remainder of this newsletter to detailed advice for both buyers and sellers—information to help you off the fence one way or another.

When all is said and done, people move because of change in their lives. If you are experiencing the kind of change that prompts you to want to move, it would be a shame to let your perceptions of the marketplace hold you back. Real estate markets are dynamic, always in flux. If your life has changed, commit to this market and take advantage of it. We doubt you'll regret taking the plunge.

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ADVICE FOR BUYERS

WHY BUY NOW? The reason here is fairly obvious—waiting will cost you money. Prices have been rising since the recession ended, and the pace has been quickening in the past couple years. In December of 2012, the Dane County median *sales* price hit a post recession low of $202K. In the years since, the median has risen 31 percent to roughly $265K. Nearly half of that growth came in the last two years—six percent in 2016, another 8.2 percent in 2017. Now look at what's happened to median *list* prices so far this year—they've risen from just over $274K in 2017 to $295K in 2018.

While we don't know exactly what will happen to prices in 2018, we do know that since the first quarter of last year, there have been 6.5% more closings while inventories are down 5.9%. Econ 101 tells us that shrinking supply and rising demand means rising prices. Another eight percent increase, give or take, is likely.

If that weren't enough, we have to deal with the real risk of rising interest rates. As of early April, Freddie Mac reports the average 30-year mortgage rate to be 4.44 percent. Just three months ago it was 3.95 percent. While still very low by historical standards, it is nonetheless the highest rate we've seen since late 2013.

Let us be clear; we don't believe this is bad news. We have been predicting rising mortgage rates for years, and we believe firmly that higher rates are both inevitable and healthy in a strong economy. We will probably level out some day in the six percent range, and the market will continue to function very well at that level. The point is, they are still lower *right now*. The cost of buying will only go up as both prices and rates rise—making today look like a bargain. To wait is to miss the opportunity.

CHALLENGES FOR BUYERS The primary challenge faced by buyers today is the frustration of having to compete with numerous others for the same property. Paramount here is the deep disappointment of falling in love with a home, making an offer, and then losing out. We get it, and we share the frustration. Buying a home today can be something of an emotional grind, especially if you're buying below $300K. It's not uncommon for buyers to make offers on at least four or five properties before they finally win. Nonetheless, we strongly advise that you persist until you succeed—for all the reasons we mention above. Waiting will only make it more expensive. And as a general rule, we find buyers love the house they finally get, often feeling it was meant to be.

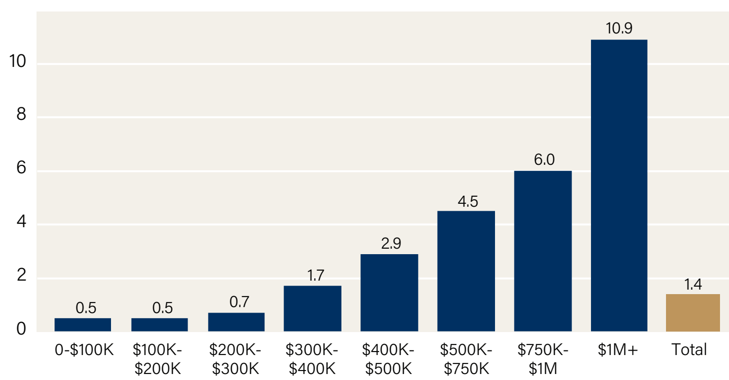
It's also important to note, a good buyer's agent can help you make your offer as strong and competitive as possible. Find an agent you trust, and take their advice. We've been in this market for a while, and we know the techniques you'll need to employ. Of course, every situation is different, and there are no guarantees, but a good agent can raise your odds of success.

Another fear many have is overpaying. If you're looking at a home that was just listed, there's a high probability you'll be competing with other buyers. The winner will likely pay over list price. This has been the story for the last three years. How do you avoid paying too much?

First, we go back to having a good buyer's agent. He or she can help you interpret the market, show you what other similar properties have sold for, and help you track where the market is going. Ultimately, the decision on how much to pay is up to you. But a good agent can help you make an informed decision as to where to draw the line.

Second, and perhaps just as important, decide *before* you start looking exactly how much you want to pay. Period. For any house. Establish your upper limit by getting pre-approved at a good mortgage lender (which will help you immeasurably with competition). You don't have to spend as much as the lender will lend you. You want to be comfortable with your house payment over the long run. In general, if you're comfortable with your payment and like the house, you're probably not overpaying. People get in trouble when their payment makes them feel house poor. The main problem during the last recession was that people were allowed to borrow more than they could afford. That's not happening today, or at least it shouldn't be. Buy the home you love that fits you financially and appears to be a decent value compared to the competition. If those elements are in place, you should be ok.

DANE COUNTY MONTHS OF INVENTORY



Overall, Dane County has 1.4 months of active inventory with little below $400K. Between $400K-$500K we have almost three months. Over $500K, it's really a buyer's market.

DANE COUNTY

	Single Family			Condominiums			Total Residential		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
1st Quarter Closings*	1032	969	1019	310	283	266	1342	1252	1285
Year-to-Date Closings	1032	969	1019	310	283	266	1342	1252	1285
Active Inventory	775	851	1062	206	191	335	981	1042	1397
Months of Inventory†	1.5	1.6	2.0	1.4	1.3	2.4	1.5	1.6	2.1
12-Month Median‡	284,500	265,000	250,000	185,000	172,000	157,000	265,000	249,200	234,000

*Sales reported to the South Central Wisconsin Multiple Listing Service (SCWMLS) with closing dates between 1/1/18 and 3/31/18. 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

ADVICE FOR SELLERS

WHY SELL NOW? Perhaps the most interesting anomaly of today's market is the number of sellers who would like to move, but won't. The number one reason we hear, repeatedly? "I'm afraid I won't find anything to buy." It's a classic chicken-and-egg problem. There's nothing to buy, because sellers won't sell. They won't sell, because there's nothing to buy. Where does it end?

There are two reasons sellers should sell now. First, this sweet spot won't last forever. If you haven't had an agent come out lately and tell you what your house is worth, do it. You might be surprised how much you can get. We don't mean to imply, nor do we believe, that prices are too high now and will ultimately fall. We think there's very little chance of that in the long run. But the red hot seller's market is with us *now*. The day will come when selling your house will take longer. Plus, after you're a seller, you become a buyer. That means the longer you wait, just like any other buyer, the more you'll pay for your new house. You'll pay higher interest rates too. You have the leverage now. Someday, you won't. That doesn't mean you can't succeed a few years from now, it just means it may not be as easy.

"But wait," you say. "If prices keep going up for the house I want to buy, they'll go up for my current home too, so it's a wash. I'll still be fine down the road, right?" True enough. But there's a second reason you might want to sell now. If you are a 'move-up' seller, the current market presents a very unique opportunity that also won't last forever.

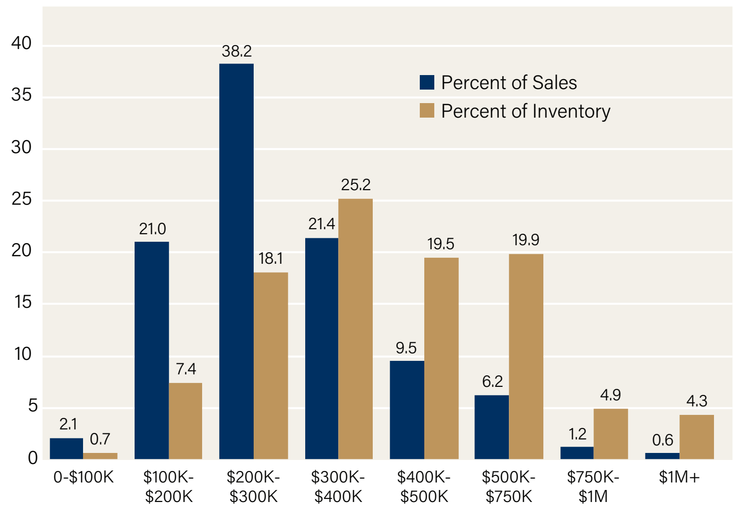
Note the chart in the next column. It shows we have two very different markets. Roughly half of the current inventory is *under* $400K. Yet, this is where nearly 83 percent of sales are taking place—hence the high competition. Of course, that means the other half of the available inventory is *over* $400K—where only 17 percent of total sales are happening. Compare this to the months of inventory chart and you will see that home buying becomes far more manageable starting around $400K. If you are selling for under $300K, and buying over $400K, you are in one of the best move-up markets we've ever seen.

We understand that not everyone can buy a $400K house or more. But many can, and you might be surprised at what your current house is worth. (See page 1.) Do the math. You might be able to afford more than you think.

CHALLENGES FOR SELLERS The major headache sellers face in this market are logistics. If your house sells in a day, and you haven't found a home to buy, what do you do? If you're buying under $300K-400K, finding a house can be a challenge. That said, if you want to take advantage of today's market, at some point you have to put your head down and power through it. There are two basic ways to approach it. Many sellers have opted to buy first, then list, taking the gamble that their current home will sell quickly. This is smart if you're comfortable with the risk of owning two homes for a short period of time. More often than not, it will work. If you do this, we counsel against making your offer contingent on the sale of your current home. If you're in competition, you'll probably lose. Owning two homes for a while is a risk. But, if you're priced properly, and assuming there's nothing unusual about your current home, you hopefully won't have to own two homes for long. Of course, if you can't handle it financially, don't do it.

If you prefer to sell first, you're always in a stronger buying position. If you're buying in the upper price ranges, you should have plenty to choose from. But there's always a chance you won't find a home to buy before you close on your current home, and you may have to make an interim move of some kind. We know this isn't ideal, but it's not uncommon. As you negotiate the sale of your current home, you can always ask for an extended closing date to give you more time to find something. And don't forget new construction. If you can't find it, build it. Again, you'll have to negotiate plenty of time in your offer to allow the new home to be completed.

DANE COUNTY SALES AND INVENTORY



Homes selling for under $300K make up 61 percent of the sales yet only 26 percent of the inventory. Those under $400K make up nearly 83 percent of sales yet barely half the active inventory. Over $400K is only 17 percent of sales yet the other half of the inventory.

SAUK & COLUMBIA COUNTIES

	Single Family			Condominiums			Total Residential		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
1st Quarter Closings*	257	261	264	40	38	26	297	299	290
Year-to-Date Closings	257	261	264	40	38	26	297	299	290
Active Inventory	358	545	683	82	89	151	440	634	834
Months of Inventory†	2.8	4.1	5.2	4.3	5.6	11.1	3.0	4.3	5.8
12-Month Median‡	186,750	169,900	162,112	162,000	146,125	152,750	183,000	166,000	161,950

price, the median is the price of the home in the exact middle. 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 4/10/18. This is not intended to solicit existing listings.