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GOODBYE TO SEASONAL PATTERNS

At the midway point of 2019, the housing market continues to be an enigma. Even though activity remains close to where it has been for the last four years, our Dane County closings are down—down 2.2 percent for the second quarter and down 2.8 percent for the year.

Just as odd, closings are erratic when you look from one month to the next. The second quarter has an inconsistent pattern similar to what we saw in the first quarter. Dane County closings in April were down, then up in May, and down again in June (see chart).

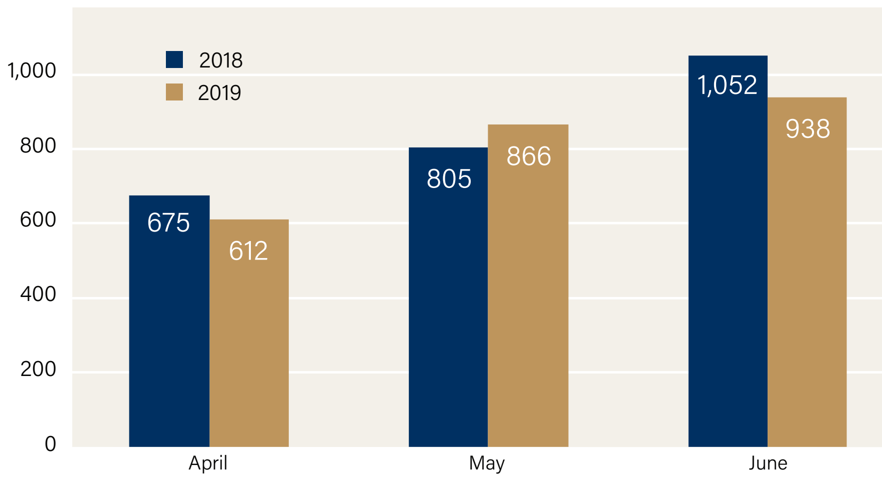
REAL ESTATE MARKET SOURCE
OF SOUTH CENTRAL WISCONSIN

THERE WERE PLENTY OF POSITIVE SIGNS TOO. New listings in May were up nicely from the previous two years. And, our internal numbers showed buyers were busy; the number of offers to purchase indicates a very strong June. After a cold, wet spring, it seemed the market was slow to open, but found its pace midway through the quarter.

Still, as uneven as activity has been this year, it's hard to know if this surge will last. Recent history would suggest we're in for more ups and downs. New listings dropped again in June. While the second quarter was a little better than the first, new listings are down more than five percent for the year. In a market that can use more inventory, this isn't going to cut it. Anecdotal reports are that activity has been slow in early July, but with the 4th on a Thursday, a long holiday weekend certainly drove the drop. Will it pick up again? Who knows?

A year ago we speculated that the market might be starting a downturn. Indeed, closings for the first half of the year have fallen a bit each year for the last four. This year is no different, with closings down more than seven percent from 2016. Over the same period, available inventory is down more than 16 percent. To this writer, it seems that the market isn't slowing down so much as it's getting stretched thin. Slowly falling inventories cause slowly falling sales, which in turn, causes prices to gradually rise. Not enough inventory in the price ranges needed is slowly starving the market of the fuel it needs to run at full capacity.

DANE COUNTY CLOSINGS, 2018 VS 2019



The second quarter has an erratic pattern similar to what we saw in the first quarter. Dane County closings in April were down 9.3 percent. In May, they went up 7.6 percent and then finished down 10.8 percent in June.

What to do? The answer, we think, is nothing, really. We don't mean this in the 'give up' sense, but rather in the 'acceptance' sense. It's easy to think of slowly falling sales as a sign of weakness in the market. We don't believe it is. There's no law that says every year should be a record, nor that the previous record is the equilibrium point for which the market is shooting. It simply means that in the environment we're in, this is the level of sales we're going to be able to produce. Prices will continue to rise, because demand will outstrip supply.

Let's look more closely at the primary variables as we hit the halfway point for 2019.

HIGH ODDS OF SELLING

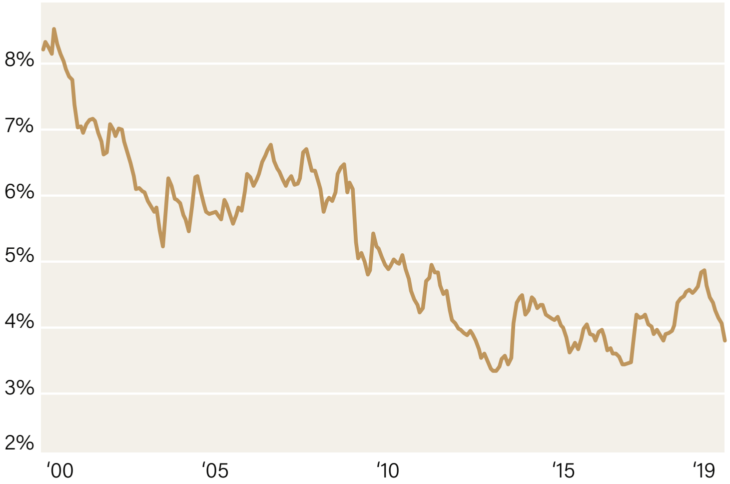
It's important to focus on demand, because that's what drives the market. Things are not slowing down because demand is softening. In our view, it's strictly because we have yet to see supply rise to meet the demand that's there. We know this because we continue to see multiple offers on many new listings, and the odds of a home selling in this market are still very high. For example, in 2018, Dane County saw 9,313 new listings and 8,027 sales. That means 86 percent of listings sold. Or as we say, the odds of selling last year were 86 percent. They're almost at 87 percent for the 12 months ending on June 30, 2019. That's *insanely* high. In a 'normal' market, the odds are more like 70-80 percent. In other words, almost everything that gets listed gets sold. That means demand is strong. No doubt we'd be selling more houses if we had more supply.

MYSTERIOUS MORTGAGE RATES

A year ago we wrote about how after years of crying wolf on mortgage rates, we were finally seeing the increases to normal levels that everyone felt was inevitable. Indeed, in October and November of last year, 30-year rates touched five percent for the first time since 2011. Since then, inexplicably to some, it's been nothing but downhill for rates ever since. In fact, as of this writing, 30-year rates are back below four percent and show no immediate sign of rising.

There are many reasons for this, as always. Rates rose last year in response to Federal Reserve tightening (as well as the tariff wars). Many thought the Fed went too far, given the economic uncertainty that was present at the time. They seem to have admitted as much in recent weeks. Many economists are now predicting a possible Fed rate cut, or at least no movement for a while. Some of this is being priced into future mortgage rates.

30-YEAR MORTGAGE RATES, 2000-2019



After years of below-normal mortgage rates, we saw a rise. In October and November of last year, 30-year rates touched five percent for the first time since 2011. Moving forward, it's been nothing but downhill.

There are other factors at work though, some of which may be more fundamental and longer lasting. For example, I just read a *Wall Street Journal* editorial by regular columnist Andy Kessler. Kessler credits technology improvements in supply chain management for the prolonged expansion of the economy we've enjoyed for the past 10 years. While this has nothing to do with mortgage rates directly, it may explain in part how companies have been able to remain profitable, even as wages have been rising recently, without much inflation.

In other words, our economy is becoming more efficient. It's been able to raise our productivity and overall standard of living without much danger of overheating or inflation, which tends to drive overall interest rates higher. Signs of easing trade tensions have also helped. The point is, it's possible that the continuing expansion without rising interest rates is more structural, and less of a fluke than we've thought, due to fundamental changes in our economy that are driving productivity and wealth.

We're not generally ones to buy into 'new normal' talk. Especially as things could change quickly due to any number of factors, both internal and external. Indeed, the most recent very strong jobs report led many to wonder if things were about to change right now. But there's no denying that the persistence of low rates has been impressive. It certainly seems that something fundamental has changed to keep them so low for so long, despite strong economic growth. We will see higher rates some day, we just don't know when, and right now they're a bargain. So, buyers, now that the spring rush is over, you might want to get out and take advantage of them. Particularly as you have more houses to choose from and less competition. It's cheaper in every way than it will be next year at this time.

PRICES ON THE RISE AGAIN

Price increases have been very steady over the past four years, with the 12-month median‡ rising an average of 6.1 percent per year in Dane County since June 2016. The median Dane County price for the first six months is up 5.76 percent compared to the full year of 2018. So, we'll probably end up around $295K for the full 12 months of 2019. Single-family homes alone (without condos) have decisively cracked the $300K barrier this year. For the past 12 months, their median has been at $308K but all the way up to $319K for the most recent six months. As we've said, low supply and high demand means prices rise.

Last year we speculated that price increases might moderate somewhat if demand slowed a bit and buyers became more selective, or started to show price resistance. So far, that has not been the case. Lower mortgage rates will add fuel to the price fire, particularly if they draw out more buyers this summer and fall. It does appear that most of this year's price increases have already occurred, and with less competition in the second half of the year, buyers might find better buying conditions this summer and fall.

We'd like to say that we know how this cycle will be broken, but at this point, we don't see any easy answers. As we've documented in previous editions of this newsletter, the high costs of new construction, baby boomers 'aging in place' rather than selling or downsizing, and our region's accelerating population growth are all factors. We've been encouraged in recent weeks to hear some of our elected officials talking more pointedly about the need for more housing in our region, particularly 'workforce' housing, which can mean both affordable owner-occupied and rental housing. But at present, these discussions are mainly aspirational without many concrete proposals as to how to make it a reality. And any long-term solution will take time.

For now, we should expect that price increases in the neighborhood of five to six percent per year in Dane County will be the norm. Prices generally are lower, and increases have been more moderate, in counties outside of Dane. Perhaps buyers looking for better value could shop further out if they're willing to make the commute into Madison. No matter how you slice it, buyers need to factor in the near certainty that the longer they wait to buy, the higher prices will be in the foreseeable future. Once you're an owner, price increases work for you. If you're a renter, it just gets more expensive as time goes on.

LOOKING AHEAD

The last two years have seen unusual gyrations in activity that have distorted normal seasonal patterns. We expect this year to be no different. A busy June might well be followed by a quiet July, and then a pickup in activity after Labor Day. We're hearing stories of potential buyers extending their leases after failing to land a home in the spring. However, some of these extensions have been shorter in duration, so perhaps they'll be reentering the market this summer or fall.

A year ago we thought the market was starting to turn slightly in a more normal direction, and in a way, we were right. Sales have dropped slightly, seasonal patterns are changing, and buyers are indeed becoming pickier and playing the game a little differently than a couple years ago. But the underlying growth in demand remains, and until we figure out a way to produce more housing at a faster pace than we have so far, the market dynamics we have will remain in place.

That means we'll probably see continued rising prices, along with slightly slowing sales, until we reach the point where prices are high enough and sales slow enough that inventories start to meaningfully rise. We're a long way from that at present.

Let's make sure we are clear about one thing: the problems of 2019 are far preferable to the problems of 2009. While this market has its frustrations, it's still a healthy and growing one. We'll take that any day.

BUYER STRATEGIES

The relationship between supply and demand is probably at its most favorable for you over the next few months. Inventories will peak this summer, and competition will be a little less than it was during the spring. Sellers who failed to sell during the spring rush may be reducing prices or willing to sell for better value. So if you can get out there now, do it.

Today's hyper-low interest rates are also a big draw, and they probably won't last forever (although who knows these days?). It's cheaper to buy a house now in every way than it will be next year at this time. Beyond that, all the standard strategies apply. Be preapproved for your financing, and be sure you have a good Realtor who can help you craft a competitive offer that leads to your success. No matter what is happening in the market, you want to make sure you get the best value for what you are paying.

SELLER STRATEGIES

Yes, we're still in a seller's market. Your odds of selling are high, and the average list to sale price ratio is very small. We saw list prices take a jump this spring. Many sellers got their asking price. However, the spring is now over, and if history is any guide, most of the price increases we'll see this year have already occurred. So, if you're looking to list in the next few months, recent comparable sales will be a very good guide for what you can expect. Price smartly and you should have success. Don't assume you can bump your list price up another 5-10 percent from sales this spring. You probably won't get it. If you do price high, be ready to negotiate downward; don't expect a bidding war. And remember, your first offer is almost always your best offer. If you and the buyer are close, take it. The buyer can always move on to the next one, but you'll be buying your house back for the difference. Activity almost always falls the longer you're on the market.

DANE COUNTY

	Single Family			Condominiums			Total Residential		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
2nd Quarter Closings*	1900	1917	2050	516	553	557	2416	2470	2607
Year-to-Date Closings	2898	2957	3029	819	868	843	3717	3825	3872
Active Inventory	1029	1021	1096	220	245	218	1249	1266	1314
Months of Inventory†	2.0	2.0	2.2	1.5	1.6	1.5	1.9	1.9	2.0
12-Month Median‡	308,000	290,000	274,101	195,000	191,900	178,000	285,000	271,000	255,000

SAUK & COLUMBIA COUNTIES

	Single Family			Condominiums			Total Residential		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
2nd Quarter Closings*	415	473	424	57	65	71	472	538	495
Year-to-Date Closings	664	732	686	82	105	109	746	837	795
Active Inventory	395	463	574	81	75	87	476	538	661
Months of Inventory†	3.2	3.5	4.5	5.3	4.1	5.0	3.4	3.6	4.6
12-Month Median‡	197,000	190,000	171,000	172,800	165,000	148,000	194,850	188,000	168,000

*Sales reported to the South Central Wisconsin Multiple Listing Service (SCWMLS) with closing dates between 4/1/19 and 6/30/19. †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. 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 7/11/19. This is not intended to solicit existing listings.