REAL ESTATE MARKET SOURCE

OF SOUTH CENTRAL WISCONSIN

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Sun Prairie, WI 53590
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TREND WATCH

Likely Direction Next Six Months

Number of Homes Sold (Most Recent 12 Months)

	Dane	Sauk	Columbia
12 Months Ended 9/30/14	6903	802	671
12 Months Ended 6/30/14	7140	812	714
12 Months Ended 9/30/13	7303	802	681

→

Comment

Dane continues down 5-6%. Sauk and Columbia seem to have settled into a groove.

30 Year Mortgage Rates

September, 2014	4.16%
June, 2014	4.16%
September, 2013	4.49%

Source: Freddie Mac

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Not only do they not rise, they don't even move. It sounds like the Fed will hold this year, start moving rates up next year.

Median Sales Price – Single-Family & Condos (12 Months)

	Dane	Sauk	Columbia
12 Months Ended 9/30/14	218,000	145,125	139,000
12 Months Ended 6/30/14	214,000	146,130	138,000
12 Months Ended 9/30/13	210,000	145,050	130,500

↑

Dane continues at around 4%. Sauk and Columbia are now flat.

Inventories – Single Family & Condo

	Dane	Sauk	Columbia
September, 2014	2625	719	563
June, 2014	2725	787	574
September, 2013	2860	775	585

→

Basically flat. It seems this is where we'll be going forward.

New Listings – Single Family & Condo

	Dane	Sauk	Columbia
3rd Quarter 2014	2278	335	321
3rd Quarter 2013	2439	386	327
YTD 2014	7962	1161	977
YTD 2013	8277	1200	1001

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Slightly fewer new listings all year. We need new construction!

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REAL ESTATE MARKET SOURCE

OF SOUTH CENTRAL WISCONSIN

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Dave Stark

Three months ago, it looked as though the Dane, Sauk, and Columbia County markets were heading for a strong third quarter. And strong it was, if you take out August. Since we can't do that, we're left with a muddled picture as we enter the final quarter of 2014. Officially, the tri-county market was down 10.4% in the third quarter compared to the same period last year. August was the culprit, down 21% from the previous year. July was down 7%, September only 2%. For the year we're off roughly 7%, and if the current pace holds, we'll finish at just under 7000 sales in Dane County, compared to 7400 in 2013. Our readers will recall that 2013 was crazy busy right through August, then limped to the finish line with a very weak 4th quarter. Adding to the contradictions this year, offer activity was up smartly in both August and September, leading to the possibility we might catch up in the remaining three months.

Whether we catch last year or not, we're now far enough along to say with certainty that 2014 will be another solid year. Our prediction 12 months ago that this year would finish somewhere between 2012 and 2013 is proving to be spot on. And it looks like we'll be closer to '13 than '12, which is even better. All the main drivers of market health have remained remarkably stable,

DANE COUNTY

	Single Family			Condominiums			Total Residential		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
3rd Quarter Closings	1621	1820	1386	494	533	405	2115	2353	1791
Year-to-Date Closings	4267	4669	3680	1296	1375	966	5563	6044	4646
Active Inventory	2033	2031	2338	592	829	1069	2625	2860	3407
Months of Inventory	4.6	4.3	6.4	4.4	6.1	11.1	4.6	4.7	7.4
3 Month Median	249,435	230,750	219,250	153,500	157,500	147,900	230,000	216,000	203,750
12 Month Median	235,000	225,000	217,500	153,000	150,125	145,000	218,000	210,000	203,477

SAUK COUNTY

	Single Family			Condominiums			Total Residential		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
3rd Quarter Closings	205	215	185	41	41	32	246	256	217
Year-to-Date Closings	510	563	469	109	77	72	619	640	541
Active Inventory	611	635	613	108	140	134	719	775	747
Months of Inventory	10.9	10.8	12.4	10.0	17.7	19.6	10.8	11.6	13.3
3 Month Median	157,900	151,000	133,500	127,000	185,000	141,000	151,450	154,750	133,500
12 Month Median	147,500	145,000	135,000	140,000	149,900	136,000	145,125	145,050	135,000

COLUMBIA COUNTY

	Single Family			Condominiums			Total Residential		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
3rd Quarter Closings	158	192	168	10	20	16	168	212	184
Year-to-Date Closings	483	477	446	39	50	48	522	527	494
Active Inventory	507	527	529	56	58	76	563	585	605
Months of Inventory	9.8	10.2	11.3	14.3	11.4	15.7	10.1	10.3	11.7
3 Month Median	156,450	155,200	138,250	149,750	114,950	147,000	154,000	153,250	138,800
12 Month Median	140,000	134,250	128,000	134,900	114,900	101,075	139,000	130,500	127,250

* Closed sales reported to the SCW MLS between 7/1/14 and 9/30/14. Data for all years pulled between the 15th-18th of the month following the end of 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.

which helps people make decisions. Interest rates have hardly budged all year, inventories have drifted down slightly, and months of inventory have been rock steady at around 4.6 months in Dane County. Dane even hit a milestone of sorts, as the 12 month median price reached $218,000, regaining the previous peak set in 2007.

All in all, we seem to have reached a sort of equilibrium, at least for now. If nothing else were to change in the macro-economic environment, we could expect many more years much like this. That level of predictability would be most welcome. But we're not sure we can count on it yet. As we did last year at this time, let's examine the major influencers of that stability, with an eye toward anticipating what we can expect for 2015 and beyond.

INTEREST RATES

30 Year Mortgage Rates, 2000-2014

Interest rates are the biggest wild card as we look ahead. We've enjoyed 4% to 4.25% 30 year mortgage rates all year, and that's great. But the Federal Reserve is about to finish completely it's "quantitative easing" bond buying program, and there are increasing signs that 2015 may finally be the year they start raising short term interest rates. We recently learned, on good authority (it hasn't been stated publicly), that a major industry trade organization is predicting a 6.5% 30 year mortgage rate by the end of 2016. We've been predicting the same rate for some time, but it's been very slow to happen. Whenever it happens, it will change the playing field, but it's hard to know in advance what the effect will be.

It would be easy to assume that rising rates will be bad news for the housing markets, and it could cause disruptions in the short run, particularly if the increase is fast and dramatic. But over the longer term, it might even be helpful. Economists and analysts are divided as to whether current Federal Reserve policy is good or bad for the economy, but no one argues the current policy is desirable into perpetuity. Ultra low interest rates are good for borrowers but bad for savers, and artificially low rates imply that the economy is still weak. Higher interest rates will follow fundamental economic strength, and a strong growing economy is good for all industries, including housing. Perhaps most important, interest rates set by the market are more stable and predictable than rates set by policy, and long term stability is a critical condition for sustained growth. So we must at some point get rates back up to market levels, and then the housing market must adapt to them. A 6.5% 30 year rate is still very reasonable by historical standards (see the chart above), and it was often the rate during the last boom, so we know the market can function at that level. We just have to get there, and it's the prospect of getting there that causes some uncertainty.

We still have no idea when this will happen. As we write this edition, economic concerns overseas are once again pushing interest rates lower. Whether this will further delay the raising of rates by the Fed is unclear. As we've said so many times before: we don't know when this will happen, only that it will, someday. Until that day arrives, take advantage of low rates if you can.

PRICES

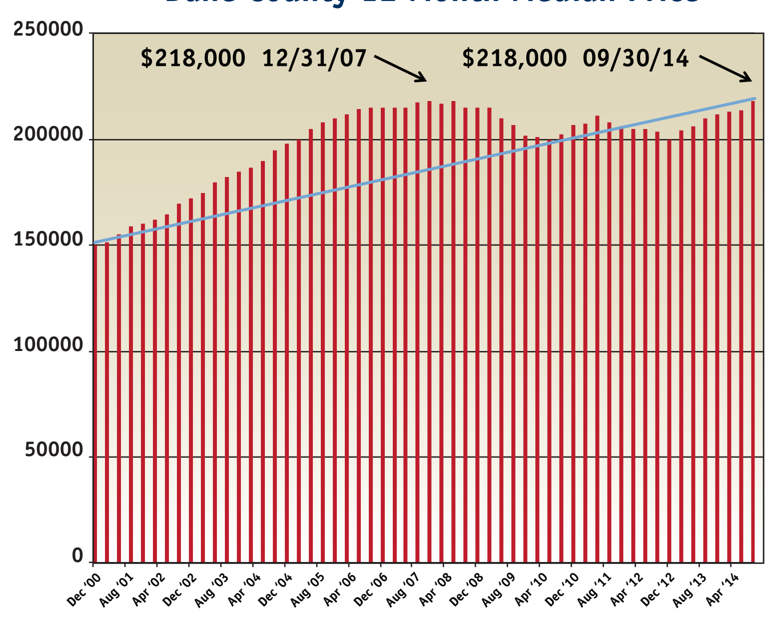
We already mentioned that the Dane County 12 month median just regained its peak. The median moved from $214,000 three months ago to $218,000 at the end of September, an increase of 1.87%. So far this year, the median price is up 2.59%. In the past two years, the average increase has been 3.59%, which is right in line with the average since 1992 of 3.81%.

So, what's the outlook for prices going forward? On the plus side, inventories remain lean, the market has continued momentum, and interest rates are still low. On the negative side, rates may well start to rise meaningfully in 2015, blunting price increases in the short run. If sales fall further next year, inventories may rise, keeping a lid on prices.

So which is it? Our best guess (and it's only a guess) is that rates will slowly rise over the next two years, keeping prices fairly flat during that period. After we reach rate equilibrium, prices will start back up again at a 3-4% pace. Could we actually see prices fall as rates rise? Possibly, but we don't think it's likely. Despite the price volatility of the past 10 years, the appreciation rate over the past 15-25 years has been very steady on average, leaving us with prices that are close to where we think they should be. Our region continues to grow, so demand should grow as well. If rates increase gradually, their incremental influence on affordability will be small, and rising rates often cause sales to spike up as buyers rush to beat the increase. And another foreclosure crisis (which led to the inventory glut during the recession) is not in the cards, as mortgage loan underwriting is now very tight, leading to very few defaults.

With our market fundamentals in great shape, prices should be stable going forward. We'll see what the future brings.

Dane County 12 Month Median Price



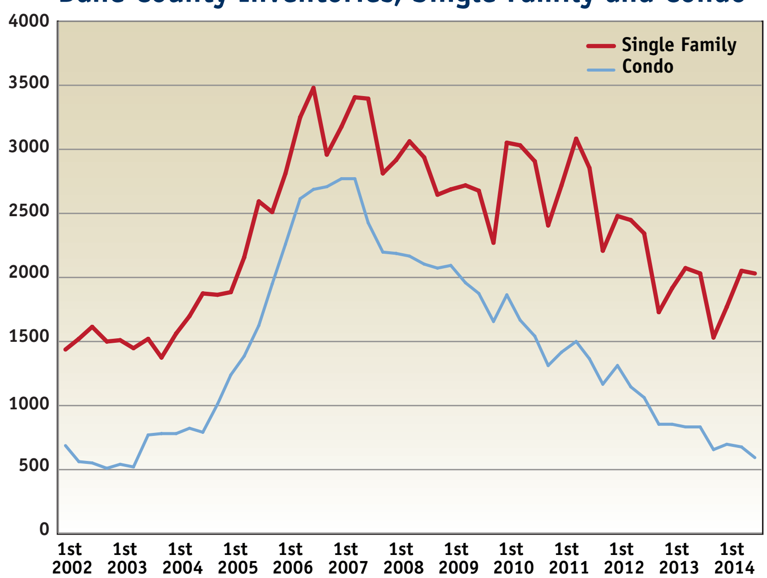
INVENTORIES

After years of excess, inventories have remained stable over the past two years. Our current 4.6 months of total residential inventory (single family and condo combined) in Dane County is almost identical to last year's 4.7 months. Actual single family inventories are dead even with a year ago, while condo inventories continue to drop, falling another 29% from 829 to 592. Months of condo inventory are actually lower now than single family, at 4.4 compared to 4.6.

While inventories at this level are lean, they are not catastrophically so. They make for a moderate seller's market, and have re-built a floor under prices. As discussed in past issues, the liquidation of distressed inventory has done much to bring inventories down. What's keeping them down is a continued deficit in new construction, at least by comparison to previous years.

To give you an idea of this, consider that so far this year, 361 new construction single family home sales have been reported to the MLS, 8.5% of total sales. A year ago, there were 344 new construction sales, 7.3% of the total. In 2005, the peak of the boom, there were 1,092 new construction sales, 22.6% of the total. In 2001, there were 822 new construction sales through September, 21% of the total.

Dane County Inventories, Single Family and Condo



Our region is growing, and for the past 8 years it's been largely re-sale inventory absorbing the demand. As we outlined in last quarter's issue of the Market Source, much of our growth has been driven by members of Generation Y, who for now are more likely to rent than own. But it's expected that a high percentage of Millennials will buy in the next 5 years, so we can't just re-cycle existing inventory forever or real shortages will eventually occur.

Until new construction gets going, our inventories will probably stay lean. Undoubtedly, tight lending rules are continuing to limit land development opportunities, and developers and lenders are rightly cautious about jumping back in too quickly in a big way. But as we grow, the need for new housing will become acute. New construction is critical to the long term health of our housing stock, and it's only a matter of time before it starts to become a larger force.

LOOKING AHEAD

The fourth quarter is normally much slower than the third, so not much is likely to change for the rest of 2014. That said, it was two years ago that our inventories suddenly evaporated, setting up the crazy spring of 2013. Could something similar happen this fall?

As things stand, we don't expect inventories to drop significantly further heading into 2015. Demand is slightly better than a year ago at this time, and new listings are arriving at about the same pace. Continued erosion of condo inventory may start to put pressure on the lower end of the single family market, so that will bear watching. For now, interest rates are staying low, under pressure from recession in Europe, declining oil prices, and uncertainty in the stock market. If rates stay low and demand picks up, a real shortage is not out of the question, but we don't think that's the most likely scenario, at least not yet.

If rates don't change, we expect a level of demand similar to this year in the first half of 2015, which will put moderate upward pressure on prices. Our best guess is that inventories will stay about where they are, as demand attracts supply of both new and used housing. If rates rise a little, not much will change. If they rise a lot, we'll see what happens. Three months from now, we'll have a clearer picture to show you. In the meantime, enjoy today's stability. It may not be as exciting to read about, but it's a lot more fun to live with.

ADVICE FOR BUYERS AND SELLERS

BUYERS

There won't be as many new listings from now to the end of the year, so if you really want to move in 2014, we'd advise giving older inventory a look. There may be some good values to be had. Jumping on new listings right away is still probably necessary if you want a shot at the best, but at least you shouldn't have quite as much competition for the next couple months. Interest rates could be very favorable this fall, another reason to stay active. Next spring could be another barn-burner, so now is the time to beat the rush.

SELLERS

Your situation is a little more complicated. When the weather changes, you should consider changing too. It might be a good idea to take new pictures, as photos of a green leafy yard give the impression you've been on the market a long time when there's actually snow on the ground. Make sure snow removal is arranged, the furnace is in good order, and your house still looks its best. You don't want cold weather problems ruining a valuable showing. Fall activity is still good, so it makes sense to hang in there for a month or two, but if you haven't sold by the holidays, you might consider giving it a rest and coming back fresh in early spring.