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THE RISE OF FALL
NO FROST ON THE AUTUMN MARKET

Three months ago, we speculated as to whether a record year was in store for us here in South Central Wisconsin. As we write the fall edition of *Market Source Newsletter*, that possibility is still very much in play.

Our regular readers may remember that in 2013, we had a similar fast start to the year, only to see it die in the fall and lead to a less active 2014.

It appears we'll have no such worries this year.

ACTIVITY STAYED STRONG THROUGHOUT THE THIRD QUARTER, albeit at a slightly less hectic pace than earlier in the year. That said, the pace has been picking up again since Labor Day. So much so, that if you adjust for the seasonality of the industry, September was the strongest month of the entire year for offers to purchase homes… *so far.* October closings are following suit.

A quick look at third quarter numbers depicts the strength of the season.

	DANE COUNTY		SAUK & COLUMBIA COUNTIES	
Q3 RESIDENTIAL SALES	↑9% from 2014	↑13% year-to-date	↑25% from 2014	↑11% year-to-date
INVENTORIES SINCE JUNE	virtually unchanged		↓9%	
MEDIAN‡ PRICES	↑5% from 2014	$230K	↑8% from 2014	$155K

Paradoxically, despite the increase in sales, showings are down–a pattern we've observed all year. Year-to-date, home showings are down about six percent from 2014, but offers are up 16 percent. That tells you something; with inventories still thin, buyers are committing faster than ever before, and homes are selling with fewer showings.

All in all, it's a great time for real estate in our region.

This leads to the natural question on most people's minds: is there anything on the horizon that can derail the momentum? Specifically, could the recent stock market hiccup, coupled with weakness in China and around the globe, lead us back to 2008?

THE CHINA SYNDROME

Anyone with a stock portfolio is aware that the stock market has entered some choppy waters since August. The S&P 500 index is currently about even for the year, losing roughly nine percent in August and September and then struggling most of the way back in October.

The general culprit has been identified as "international economic weakness," with China serving as the primary catalyst to the August/September sell-off. It's important to note here that the weakness is "international," not based in the U.S.

By all accounts, the U.S. economy remains on reasonably solid footing, and while debates here rage about employment, interest rates, and whether our overall economic growth is what it should be, no one seems to dispute that our economy is performing far better than those of our friends overseas.

This distinction is important when analyzing the health of the housing market. In 2008, housing was at ground zero of the financial crisis. In 2015, housing is arguably one of the bright spots in the overall American economic picture, particularly in our region.

This is not to say that a recession in the U.S. can't happen. Someday, one will. But so far, no economists (that we've heard) are predicting one. And if a recession were to occur in the next few years, housing should not be the focal point like it was in 2008.

Someday housing will see a slowdown, but probably not another meltdown. The conditions that existed 10 years ago simply don't exist today.

When the next recession comes, housing will be affected, but shouldn't be devastated.

REAL ESTATE MARKET SOURCE
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IS THE FED FOR REAL?

A positive byproduct of the stock market decline has been that interest rates have remained low, even declining slightly again in August and September. Those who follow markets closely also know that speculation was rampant in September that the Federal Reserve would, finally, raise interest rates. Once again, the Fed did not, citing "international economic weakness" and the absence of any sign of inflation.

Unexpectedly, the markets acted somewhat negatively to the news, causing further volatility. Why is that? Do the markets actually want the Fed to raise rates? It appears many investors do.

> **"World to Fed: Get On With It.**
> Many central bankers prefer certainty over agony of waiting for the U.S. to raise rates"
>
> *Wall Street Journal*, Oct. 12, 2015

There is no doubt that the markets are anticipating that the Fed will raise rates soon. When the Fed failed to act yet again, it was taken by some as a sign the economy may not be as strong as perceived. This led to the almost bizarre scene of Fed officials, led by Chairwoman Janet Yellen, virtually *promising* that rates will be raised in 2015. That, of course, remains to be seen. Things will continue to change over the next couple months. But if conditions stay as they are, or improve, there remains a high probability of a Fed rate hike in December.

So, if the Fed finally moves, will this be good for housing? That depends. The good news is that the Fed has been clear; when they do move, it will be a small move–most expect 25 basis points, or a quarter of a percent–and that further moves will be slow and very incremental. It remains our belief that gradual rate hikes over a 2-3 year period will have little or no impact on housing sales on a year-over-year basis.

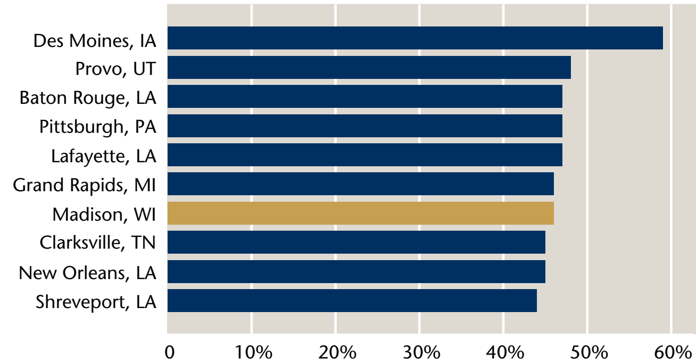
It's a sudden move that we fear, but that doesn't seem to be in the cards. At the UW Real Estate and Economic Outlook Conference held Sept. 25, Professor Rajeev Dhawan of Georgia State University not only predicted a rate hike in December, but suggested it could be the best thing to happen to housing. His reasoning? Many first-time buyers are sitting on the fence waiting for a clear signal that rates have truly bottomed. A Fed rate hike would serve as that signal, stimulating these buyers to jump into the market before rates go higher.

We'll see what the future brings, but if Professor Dhawan is right, 2016 could indeed be another exciting year in the housing market.

MILLENNIAL MANIA

In our last edition, we made reference to Dane County's robust growth rate, driven in no small part by an influx of Millennials, many brought here by Epic Systems and other high-tech startups. We now have more solid evidence of this trend thanks to findings from National Association of Realtors Chief Economist Jonathan Smoke. In his report, Smoke ranked cities where Millennials made up the largest share of homebuyers. Madison ranked seventh in the nation with Millennials taking out roughly 45 percent of purchase mortgages this year (the national average was 37 percent).

WHERE MILLENNIALS ARE BUYING HOMES



These are the top 10 cities for first-time home buyers where Millennials made up the highest share of people to use a mortgage to buy a home. *Source: Realtor.com*

This reinforces our belief that the Madison region is among the best positioned to benefit economically in years to come. Historically, Smoke notes, 25 to 34-year-olds are the largest segment of homebuyers.

ADVICE FOR BUYERS

We find it interesting that buyers seem to be reactivating this fall. It makes sense, if you believe what we wrote regarding the future of interest rates. Warm fall weather hasn't hurt either, and early predictions are for a mild winter (famous last words). It would appear many buyers have finally accepted that waiting for things to improve only costs more money down the road. Both rates and prices are likely to be higher by this time next year, and competition for scarce inventory will once again be fierce next spring. Our one caution: please pay attention to the TRID rules outlined in this edition and act with haste in getting required documentation to your lender. A strong pre-approval (not pre-qualification) is a big help. We hope to not see many delayed closings, but you don't want yours to be one of the few.

ADVICE FOR SELLERS

With the new TRID rules, sellers need to be just as vigilant as buyers. Be sure your buyer is moving quickly to supply all documents, and the lender is meeting the required deadlines. Our firm has made it a point to stay on top of buyer's agents to be sure they're leaving enough time to get things done. A good Realtor is as important as ever. As to pricing, we hate to sound like a broken record. Our research still shows that to maximize your final price, it's best to price attractively from the start–avoiding a price reduction, if possible. Buyers continue to pounce on new inventory and will tend to dismiss the old. You still have time to sell this fall, so it's a little early to recommend waiting for spring. But price reasonably. If you don't, you may end up waiting for spring, whether you like it or not.

He says the current generation has delayed homeownership due to the recession. But that's ending, and the Millennial generation is starting to buy in a big way, with Madison at the forefront of this trend.

"TRID" TREPIDATION

Beginning Oct. 3, new disclosure rules generated by the Consumer Financial Protection Bureau (CFPB) took effect for all mortgage loan applications on or after that date. It's called TRID (TILA-RESPA Integrated Disclosure… don't ask).

The purpose of the new rules is to make the loan application process more transparent and easier for consumers to understand. Incredibly, it seems the CFPB may have actually succeeded to some extent, a first in our experience. That said, there are some important potential pitfalls that both buyers and sellers must be aware of. The big issue is that the new rules include new deadlines, forms and waiting periods that lenders must now meet. For instance, the lender must now get the borrower a Loan Estimate within three business days after the date of application for the loan.

However, the new form toward the *end* of the process–the Closing Disclosure Form–is the form to watch. The form, in its final format with any and all changes made, must arrive a minimum of three days before the scheduled closing or the closing must be delayed ***by law***. Delayed closings are something we try to avoid if at all possible.

We do not mean to sound overly negative here, because it does appear most lenders are ready for the change. In truth, the new forms are easier to understand. The problem is that lenders are still burdened by excessive documentation from the CFPB and that's not going to change. For that reason, it is critical that the buyer chooses a lender well equipped to handle the new rules. Buyers need to act as quickly as possible to provide ALL requested documentation–however silly some of it may seem–and to allow at least 45 days from offer to closing. This ensures ample time for underwriting and time to solve any unanticipated problems. Sellers need to pay attention too, making sure their buyer is acting quickly and getting good advice.

If everyone stays on top of it, TRID should not cause undue problems for most transactions.

LOOKING AHEAD

The strength we experienced in the last four months of 2014 led to a red hot 2015. This fall feels much the same, possibly stronger. Our local economy is exceptionally robust, and slowly rising interest rates may motivate buyers to act sooner rather than later. Inventories are still low, and new construction is improving. Prices are rising steadily. It looks like a recipe for another strong year in 2016.

When we publish our next edition of *Market Source Newsletter* in 2016, we'll have an idea how things are going. Based on current trends, it looks like another wild but happy ride may well be in store.

DANE COUNTY

	Single Family			Condominiums			Total Residential		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
3rd Quarter Closings*	1811	1621	1820	504	494	533	2315	2115	2353
Year-to-Date Closings	4997	4267	4669	1330	1296	1375	6327	5563	6044
Active Inventory	1547	2033	2031	455	592	829	2002	2625	2860
Months of Inventory†	3.1	4.6	4.3	3.4	4.4	6.1	3.1	4.6	4.7
12-Month Median‡	246,000	235,000	225,000	155,900	153,000	150,125	230,000	218,000	210,000

SAUK & COLUMBIA COUNTIES

	Single Family			Condominiums			Total Residential		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
3rd Quarter Closings*	471	363	407	48	51	63	519	414	470
Year-to-Date Closings	1153	996	1043	123	148	129	1276	1144	1172
Active Inventory	864	1118	1162	179	164	198	1043	1282	1360
Months of Inventory†	7.0	10.3	10.5	13.1	11.1	14.9	7.6	10.4	11.0
12-Month Median‡	158,000	144,000	139,900	142,700	139,900	143,500	155,500	142,750	139,950

*Sales reported to the South Central Wisconsin Multiple Listing Service (SCWMLS) with closing dates between 7/1/15 and 9/30/15. Data for all years was pulled between the 8th-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. 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 10/10/15.