



A family tradition since 1908



DAVID STARK

PRESIDENT
Stark Company
Realtors®

DID HOME SALES HIT THE 10-YEAR HIGH?

Close... but not quite! All year, 2015 looked like it may set a record for Dane County residential sales and it *almost* did. In the end, we missed it by a little over 100 properties. (See graph.) However, with a solid 13 percent sales increase over 2014 and a 12 percent increase in the Sauk/Columbia market, no one should be complaining as we kick off the new year.

There are so many story lines heading into 2016 that we don't have space to do them all justice.

But the big one, trumping all others, is inventory.

More specifically, the lack thereof.

REAL ESTATE MARKET SOURCE

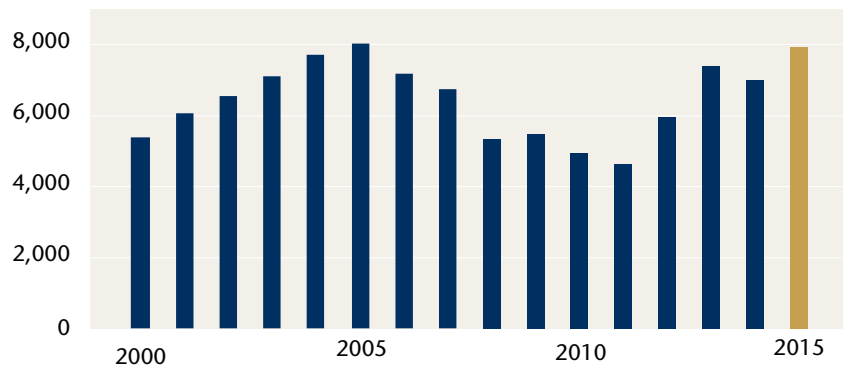
OF SOUTH CENTRAL WISCONSIN

WE THINK IT'S SAFE TO SAY, WE HAVE A SELLER'S MARKET NOW.

Over the course of 2015, Dane County supply on hand fell 22 percent. This has the county heading into 2016 with an average of only 2.2 months of inventory. In this issue, we always publish our annual breakdown of the market by neighborhood. You'll see that many areas in Greater Madison have less than two months of inventory, some less than one. Inventories in Sauk and Columbia counties fell below six months for the first time since the housing bubble burst. (Six months of inventory represents a balanced market.) Prospective sellers reading this edition will want to take note.

Keep in mind though, while early January historically represents a low point for inventories, this month's comparisons to the same time last year are telling. The number of new listings in 2015 was virtually identical when compared to 2014. The difference was 2015 demand was much higher. While there are no easy answers to this dilemma, we expect to see lots of new listings hitting the market over the next few months and are betting that builders are licking their chops. Beyond that, if you're looking to sell your home and buy a new one, now is the time! Even with inventories as lean as they were in 2015, we seemed to be able to find the homes we needed when we needed them. We hope that will continue this year.

DANE COUNTY RESIDENTIAL SALES, 2000-2015



The final number of single-family and condo sales reported to the MLS for 2015 was 7,935—falling just short of the record 8,041 sales set in 2005. Still, not bad at all, and a solid 13 percent increase over 2014.

INTERESTING RATES

The second big story has to be interest rates. At the December meeting of the Federal Reserve Open Market Committee, the Fed finally raised interest rates. The move may have been the most widely-anticipated, drawn out decision ever made by a governing body. The Committee raised the target Fed Funds rate by 25 basis points—or a quarter of a percentage point—stating that they anticipate more increases in 2016. They said future increases would depend on the economy and would, in any case, be very gradual.

At an economic conference held in Madison in early January, Federal Reserve Bank of Chicago President Charles Evans shared that the Fed's consensus view anticipated an increase in the Fed Funds rate of about one percent per year over the next three years—topping out between three and four percent in 2019 and beyond. After the most recent move, the rate currently stands at about 0.25 percent.

That said, the news may not be that big after all. Despite all the hand-wringing leading up to the decision, longer term rates (including mortgage rates) actually went down after the announcement. Yes, you read that correctly. How can that be?

This is a bigger topic than we can tackle in depth here. But suffice it to say, economies the size of ours are complex systems and Federal Reserve policy is but one influence on long-term interest rates. For example, the Chinese economy has again shown jitters, and oil prices have continued to fall to unexpected lows. Low oil prices are putting pressures on some countries—and areas of the U.S.—that are highly dependent on oil revenues. This has led some to predict a global recession. The point for us is that any form of economic weakness puts downward pressure on both inflation and long-term interest rates.

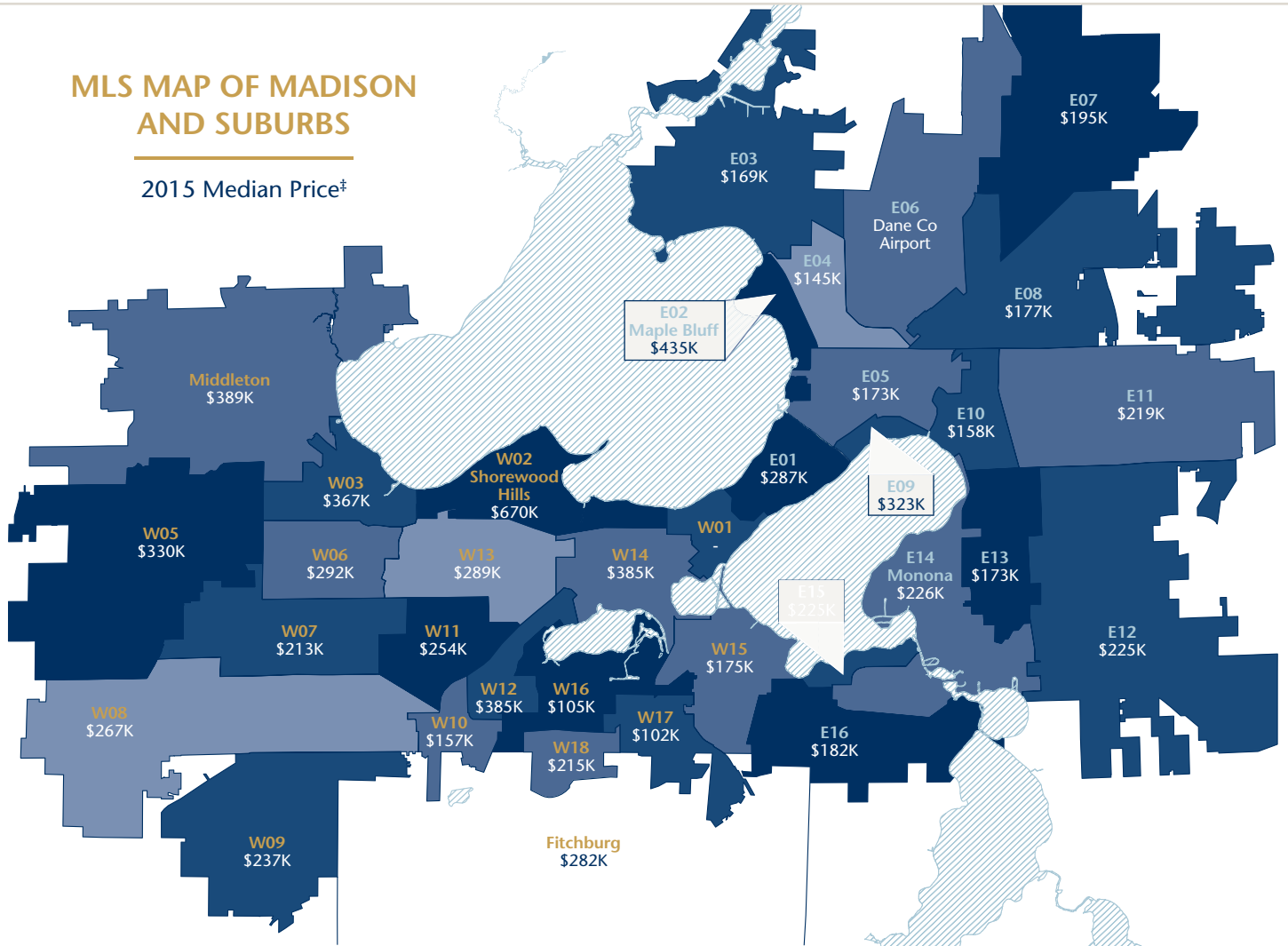
It's very hard to tell what effect all this will have on our local housing economy, if any. Statements from the Fed suggest they continue to believe the U.S. economy remains on solid footing, and recent jobs reports have been strong. There are early signs of wage inflation, which could put upward pressure on rates. Our best guess is that our local economy will remain strong and only marginally affected. Gradual rate increases by the Fed, if they continue, should be easily absorbed. Remember, long-term mortgage rates were in the six percent range during the housing bubble. They're around four percent now. That makes 2016 a great year to buy before rates do in fact go up.

PRICE PREDICTIONS

In 2015, the Dane County 12-month median price[†] rose five percent, while the Sauk/Columbia median rose almost eight percent. Future increases will depend on supply and demand over the coming year, but with inventories this lean, it's a good bet that prices will continue to rise. If 2016 plays out like 2015, we'd expect a similar price rise in Dane County. In the Sauk/Columbia market, some of the increase is surely due to a decrease in the number of distressed sales. Distressed sales, including bank-owned properties, tend to

MLS MAP OF MADISON AND SUBURBS

2015 Median Price[†]



East Madison	2015 # Sold	Current Inventory	Months of Inventory [†]	% Change to Median	West Madison	2015 # Sold	Current Inventory	Months of Inventory [†]	% Change to Median	Other	2015 # Sold	Current Inventory	Months of Inventory [†]	Median Price	% of Change
E01	37	12	3.9	5.6	W01	0	1	-	-	Baraboo	163	70	5.2	\$138K	10.4
E02	27	12	5.3	15.2	W02	29	8	3.3	5.6	Cottage Grove	121	12	1.2	\$259K	-1.5
E03	145	19	1.6	1.7	W03	41	8	2.3	33.7	DeForest	148	23	1.9	\$214K	5.0
E04	73	13	2.1	3.5	W05	190	43	2.7	3.9	Fitchburg*	271	37	1.6	\$282K	3.5
E05	108	10	1.1	1.8	W06	67	11	2.0	6.2	McFarland	117	16	1.6	\$243K	8.0
E06	0	0	-	-	W07	16	0	0.0	8.8	Middleton*	201	59	3.5	\$389K	11.3
E07	47	5	1.3	2.4	W08	301	39	1.6	0.3	Mt. Horeb	102	25	2.9	\$225K	8.8
E08	103	13	1.5	-3.3	W09	334	30	1.1	5.0	Oregon	158	31	2.4	\$251K	-3.5
E09	29	6	2.5	4.2	W10	41	15	4.4	-0.8	Portage	117	54	5.5	\$110K	8.1
E10	71	6	1.0	1.9	W11	86	9	1.3	1.1	Stoughton	192	53	3.3	\$187K	3.0
E11	252	33	1.6	4.7	W12	76	10	1.6	3.9	Sun Prairie	527	75	1.7	\$235K	2.2
E12	233	26	1.3	8.9	W13	144	14	1.2	4.1	Verona	186	41	2.7	\$302K	2.8
E13	88	12	1.6	1.0	W14	92	7	0.9	8.7	Waunakee	216	62	3.4	\$399K	5.8
E14	123	13	1.3	10.2	W15	35	2	0.7	19.9						
E15	21	4	2.3	-34.9	W16	6	1	2.0	-10.6						
E16	34	3	1.1	-2.8	W17	2	0	0.0	33.1						
					W18	9	1	1.3	-7.3						
Total	1,391	187	1.6	5.6	Total	1,941	295	1.8	3.3						

East Madison's total median price for 2015 was \$197K.

West Madison's total median price for 2015 was \$279K.

*Included in total median price for West Madison.

sell at a substantial discount to fair market value. As distressed sales decline in number, there are fewer underpriced properties pulling the overall median down. For that reason, our initial guess is that the Sauk/Columbia median price increase will be more in line with Dane County this year.

While it's still very early, all signs from the strong finish of 2015 and the quick uptick in early January point to a demand picture very similar to last year. If that's true, then the unknown variable driving prices will be the number of new listings. New construction will also play a role. The large volume builders are doing brisk business right now, but the smaller custom builders are still not as active as they once were. Usually, demand stimulates supply, so there's every reason to believe we'll see plenty of inventory coming on line as the spring progresses. And, we expect it to move quickly.

AREA ANALYSIS

As we do at the end of each year, we present on **page two** a breakdown of housing activity for the Greater Madison area. Here are a couple things to note about the data. The number of sales, and therefore the meaningfulness of the data, varies widely from area to area. In general, the fewer the number of sales, the less meaningful that data is, particularly when it comes to median prices. Movements in the median do not necessarily mean individual home prices have increased (or decreased) by the same amount. A good example is area W03 on Madison's west side. It includes relatively small properties in Spring Harbor, as well as very expensive properties in the Highlands and on the shore of Lake Mendota. On paper, the 2015 median price increased a whopping 34 percent. The main reason was due to proportionately more sales in the more expensive neighborhoods compared to the mix in 2014. It is highly unlikely prices actually rose 34 percent in W03.

The most compelling thing to see is how short inventories are in many neighborhoods. If you're buying or selling in a neighborhood with lots of sales and no inventory, expect a very competitive market in 2016. Both buyers and sellers will need to be on their toes and ready to make commitments.



ADVICE FOR BUYERS

You're heading into a spring market with even less inventory on average than last year. Should you bother? Absolutely! With both mortgage rates and prices likely to rise, you'll never buy for less than you will right now. If you've been waiting for a bottom in mortgage rates, this is probably it. We don't expect big increases, but downward movements are less likely than ever. This year, we can't stress enough the value of a strong preapproval. By that, we mean a fully underwritten application, approval subject only to finding the house and the appraisal. A quick opinion from a lender is not enough. If you have to sell, do it first if you can. Subject to sale offers will be looked upon badly this year.



ADVICE FOR SELLERS

The market needs you. It's too early to tell how much and how fast prices will rise this year, but look on the map in this issue and see what's happening in your neighborhood. If inventory is short relative to sales, you probably have some pricing power. But as always, don't get too carried away. You still have to compete with whatever else is on the market, and if you're too high, you'll be passed over. But price within reason, and you should do well. Lowering your price *after* going on the market is never a good idea. Right price your home from the very beginning. As we said for buyers, we recommend selling first, then buying if you can. You will be in a much stronger position to win on the buying side, and you won't have to worry about owning two homes.

DANE COUNTY

	Single Family			Condominiums			Total Residential		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
4th Quarter Closings*	1202	1070	1026	333	288	305	1535	1358	1331
Year-to-Date Closings	6263	5388	5712	1672	1594	1685	7935	6982	7397
Active Inventory	1068	1357	1532	363	482	648	1431	1839	2180
Months of Inventory†	2.1	3	3.2	2.6	3.6	4.6	2.2	3.2	3.5
12-Month Median‡	249,765	239,000	226,500	155,000	154,950	152,500	231,250	220,168	212,000

SAUK & COLUMBIA COUNTIES

	Single Family			Condominiums			Total Residential		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
4th Quarter Closings*	371	320	302	42	41	29	413	361	331
Year-to-Date Closings	1525	1315	1345	165	189	157	1690	1504	1502
Active Inventory	658	811	895	120	122	185	778	933	1080
Months of Inventory†	5.2	7.4	8	8.7	7.8	14.1	5.5	7.4	8.6
12-Month Median‡	160,000	150,000	139,000	150,000	134,900	143,500	159,000	147,500	139,900

*Sales reported to the South Central Wisconsin Multiple Listing Service (SCWMLS) with closing dates between 10/1/15 and 12/30/15. 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. ©2016 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 01/10/16.