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IT'S BEEN A WILD YEAR

We've been searching for a word to describe the South Central Wisconsin housing market. Active? Crazy? Nuts? It's difficult to know exactly what word to use and where to begin.

Three months ago, we reported the year was off to a solid start. At the end of May, the market looked very much like 2015's nearly record-setting year–at least on paper. However, 2016 Dane County closings reported through July 12 were actually *down* a half a percentage point while Sauk County and Columbia County closings were *up* nearly 10 percent.

While these remain great numbers overall, the dynamics of the 2016 market are still just… wild?

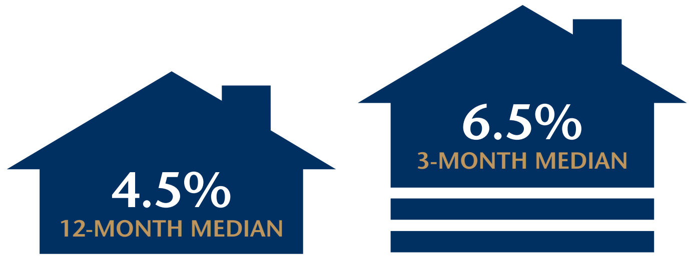
REAL ESTATE MARKET SOURCE
OF SOUTH CENTRAL WISCONSIN

IT'S BEEN A YEAR OF EXTREMES, with some of the most unusual conditions we've ever seen. As in April, July's story starts with extremely low housing inventories, particularly in Dane County. Dane County inventories are down 25 percent from a year ago, and they were already low then. Sauk and Columbia counties are down 20 percent. With current demand, Dane County continues near a paltry two months of inventory,† while Sauk and Columbia counties are finally balanced at around six months.

The upshot of this lean inventory environment was a spring market that featured intense competition for the homes that were available. It was virtually an expectation that when a new listing hit the market, there would be multiple showings the first day, and multiple offers within a day or so. The anecdotal spring record was 17 offers on the first day. Up to five offers was not considered unusual, and often there were more.

With that kind of demand, it's no surprise that overbids became necessary. And with overbids came rising prices. The 12-month median‡ in Dane County is up a manageable 4.5 percent from a year ago. The three-month median is up 6.5 percent. With many of the closings from the spring market still coming in, further increases are likely as the year goes on.

DANE COUNTY PRICES ON THE RISE



The median is the most meaningful–and simplest–way to measure change in home prices. When all properties sold during the period reported (12 months or three months in this example) are ranked in order of price, the median is the price of the home in the exact middle.

Adding to the weirdness has been continued instability in the financial markets (see Nathan Stotlar's piece on interest rates on page three). With Brexit (UK's vote to leave the EU) putting an exclamation point on it, mortgage rates are nearing all-time lows. How this will influence buying patterns through the summer is yet to be seen.

Perhaps craziest of all has been the wild swing in the pace of business throughout the year. March–the first real "spring market" month–was good, but not overwhelming, for offers to purchase. This led us to wonder if low inventories would constrict our business in 2016. Then came April and all heck broke loose. Demand was as intense as we had ever seen it, and it continued more or less unabated until Memorial Day. April was one of the busiest months in the history of our company, and May wasn't far behind.

And yet, when we got to the end of May, total closings in Dane County for the year were still *down* nearly one percent. May closings alone were down seven percent from 2015, which seemed impossible given the pace with current buyers. June closings are almost identical to a year ago, although a few more closings will trickle in over the next few weeks. Furthermore, the mania of the spring has given way to a more sedate pace for offers in June and early July.

Will we keep up the pace and match 2015, or not?

When all is said and done, it's good to remember that even if we fall somewhat short of 2015, our market remains very active. The challenges presented by the current low inventory are unprecedented in our experience, and we've been around a long time.

In our last issue, we tried to specifically address the fears many buyers and sellers might have heading into the spring (detailed discussions are on StarkHomes.com in the "News Nuggets" section). But there are still larger questions the market has yet to answer. Is low inventory starting to take a bite out of total sales? Will prices start to rise beyond their fundamentals? Will interest rates ever rise? Is the economy heading into recession?

We can't answer all these questions definitively, but we have some opinions that might help you negotiate the coming months. Let's start with prices, everyone's favorite metric.

PRICE BUBBLE BUBBLING?

No, we don't anticipate another price bubble. That's the short answer, at least right now. We hear this concern a lot, and the worry is understandable. The memories of 2007-2011 are fresh on everyone's mind, and no one wants a repeat.

First thing to note, there is a fundamental difference between today and the conditions present during the housing finance bubble of 2000-2005. We've said this before and we'll say it again; the fundamental problem 15 years ago was that mortgage lenders, for a variety of reasons, loosened mortgage underwriting standards to the point where all discipline was lost. The housing market was flooded with money. When it became apparent that many loans had been made to borrowers who could not –or would not– repay, the mortgage market seized up. It nearly brought the financial system to its knees. Housing was at the center of it all, and believe me, we felt it. Lending too much money sent prices too high. Then, prices fell too far when the money dried up.

Things are very different today. While many have argued that the government went too far in tightening mortgage lending rules, we can say with certainty that the vast majority of mortgages being made today are of high quality and will be repaid.

A 2008-style crash is just not in the cards.

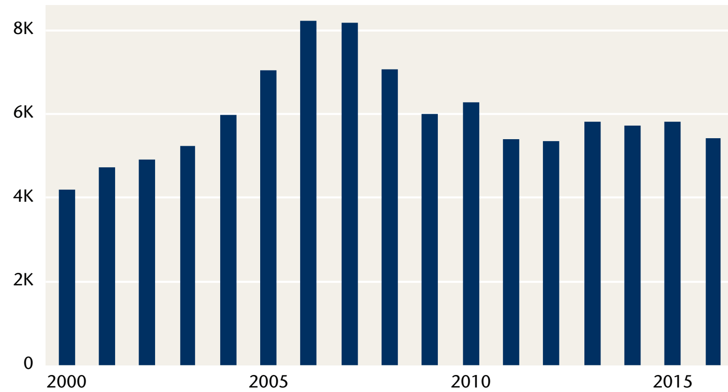
Lastly, today's prices are rising *not* because there's too much money available, but because there's too little *inventory* to meet demand. As supply and demand regain a balance, prices might moderate or stall out for a time. Remember, real estate is always a long-term investment, and price fluctuations over a few months, or even a year, are not meaningful.

If there is another recession (which there will be, someday), it will have some impact on our market, like all recessions do. However, we won't be at ground zero the way we were in 2008. If we're still suffering with ultra-low inventories a few years from now we might worry a little more, but we'll cross that bridge when we come to it. For now, our prices are still affordable. We wouldn't be seeing such high demand if they weren't.

SPEAKING OF INVENTORIES

Despite high demand, the number of new listings coming onto the market continues to lag last year by about seven percent. If this pattern continues, inventory can only go one direction: down.

NEW DANE COUNTY LISTINGS THROUGH JUNE



Even though this chart shows new listings have remained steady since 2010, a sharp increase in demand over the past two years has caused the current inventory shortage.

When looking at the new listing activity over the past 15 years, it's interesting to note 2003-2006, when the boom was really kicking in. The number of new listings coming onto the market was increasing at a rapid pace. This rise continued into the early part of the recession, and then new listing activity began to moderate. Since 2010, we've settled into a groove. The problem is that sales have accelerated over the last few years, getting close to where they were in 2003-2006, without the inventory to match. Fifteen years ago, demand drew out supply. So far during this recovery, that has not been the case. This year is near one of the lowest for new listings.

We don't see easy answers to these problems. The good news is our region is growing, and our economy is strong. While new construction continues to improve, we need more housing to meet growing demand. Over the long run, markets always work, and we trust they will again this time. Until then, expect lean inventories to continue. Watch StarkHomes.com for updates until the next Market Source newsletter in the fall.

ADVICE FOR BUYERS

We are well into the summer season, when things wind down from the frenzy of spring. We're hearing that the competition for new listings is not quite as intense as it was in April and May. Inventories remain tight though, so you still need to be aggressive. For simplicity, divide listings into two types: those that are brand new and those that have been on the market for a few weeks or longer. If you're looking at brand new, the spring rules still apply; act fast, make the best offer you can, and be prepared for the possibility of getting beat out. Don't let it discourage you—you'll get there. Also, look at older inventory. There are some great buys to be found with more eager sellers. Our previous issue of Market Source, as well as StarkHomes.com, has more detailed advice on how to attack this market.

ADVICE FOR SELLERS

It's still a seller's market, so it's not too late, and the inventory is definitely needed. If you've been thinking about selling, or the time may finally be right for you, give it a shot. There has been upward pressure on prices this spring, so you might be pleasantly surprised at what your home will sell for. But the pattern established during the recession continues to hold. If you don't sell within the first month or so, your chances go down, as does the price you'll probably get. Shoot for a realistic price to begin with and create excitement around your home when it hits the market. You'll maximize the money in your pocket. As with buyers, go to StarkHomes.com for a more detailed discussion of how to tackle the selling process, or call one of our Realtors to get some specific advice.

SAME SONG, SECOND VERSE

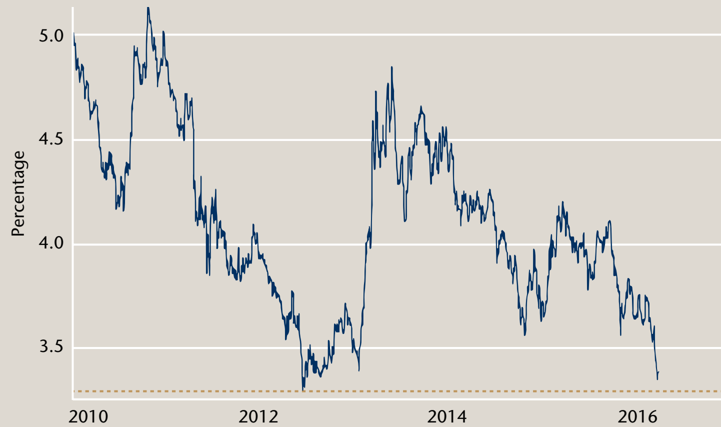
Wild doesn't only apply to the housing market. Check out the 30-year fixed-rate mortgages chart. We are near all-time lows, as rates have fallen roughly one percentage point year-to-date. As you can see, over the last six years, things have been quite volatile. It has made this article a constant rewrite, given the markets are moving as I type!

Our advice to homebuyers and refinancers? Take advantage of the low rates we have today. Trying to "time the market" is like trying to catch a bouncing ball. You can catch it on the way down or back up, but either way, you are near the low point. While we expect rates to stay generally low, it's impossible to know when they're at their lowest. However, we think there is a greater chance of them rising than falling.

Volatility intensified with the stunning Brexit announcement on June 24. It sent shockwaves through the world economy, and to put it lightly, caused markets to react negatively. While stock markets and bond yields plummeted, mortgage rates lagged due to the uncertainty. However, as bond yields continued their run lower, mortgage rates were eventually pulled down to the nearly all-time low we are currently seeing. This is why many have reported a wide variance in rates being quoted by lenders.

For the foreseeable future, it appears low rates are here to stay. The Federal Reserve will likely be holding off on further rate hikes at this time, and England's actual exit from the European Union will take more than two years. It's good to remember that when the Fed raises interest rates, this does not *directly* affect mortgages. However, because the Fed Funds rate affects the overall market it does *influence* mortgage rates. The Fed raised rates in December. Check out the chart again and see where mortgage rates have gone since then. All this being said, many (myself included) have been wrong about rising rates for five years running. No one can predict the future or know for sure where the market is going. If I could do that, I would be typing this from a tropical island somewhere…

30-YEAR FIXED-RATE MORTGAGES



This chart represents the average quotes given for 30-year fixed-rate mortgages starting in the second quarter of 2010. As you can see, rates are reapproaching the low point of the fourth quarter of 2012. *Source: Mortgage News Daily*

by Nathan Stotlar, Mortgage Production Manager
PrimeLending, a PlainsCapital Company

DANE COUNTY

	Single Family			Condominiums			Total Residential		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
2nd Quarter Closings*	2111	2172	1776	612	558	555	2723	2730	2331
Year-to-Date Closings	3134	3209	2633	880	830	792	4014	4039	3425
Active Inventory	1184	1530	2053	314	470	672	1498	2000	2725
Months of Inventory†	2.3	3.1	4.5	2.2	3.5	4.9	2.3	3.2	4.6
12-Month Median‡	256,000	245,000	230,000	160,750	155,000	155,000	238,882	228,700	214,000

SAUK & COLUMBIA COUNTIES

	Single Family			Condominiums			Total Residential		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
2nd Quarter Closings*	490	460	418	50	48	72	540	508	490
Year-to-Date Closings	755	679	625	76	75	96	831	754	721
Active Inventory	768	958	1170	155	194	191	923	1152	1361
Months of Inventory†	5.8	8.4	10.5	11.2	13.9	12.1	6.3	9.0	10.7
12-Month Median‡	165,000	155,000	142,750	149,350	135,000	143,500	164,000	152,500	143,000

*Sales reported to the South Central Wisconsin Multiple Listing Service (SCWMLS) with closing dates between 4/1/16 and 6/30/16. Data for all years was pulled between the 11th-12th 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 7/12/16. ❖Source: 2015 National Association of Realtors Home Buyer and Seller Generational Trends. This is not intended to solicit existing listings.