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TIMING IS EVERYTHING

It's mid-April, we just paid our taxes, and now we sit down to write about yet another hyper-active, low inventory spring real estate market in South Central Wisconsin.

As we look over the past three years, we see that we're settling into a predictable groove. Sales for the first quarter—while slightly down from last year—are in roughly the same territory as 2015 and 2016. Mortgage rates are trying to rise, but haven't had much success.

Everything is pretty much the same as last year at this time. Except for one thing. The number of homes for sale, if it can be believed, is lower yet again.

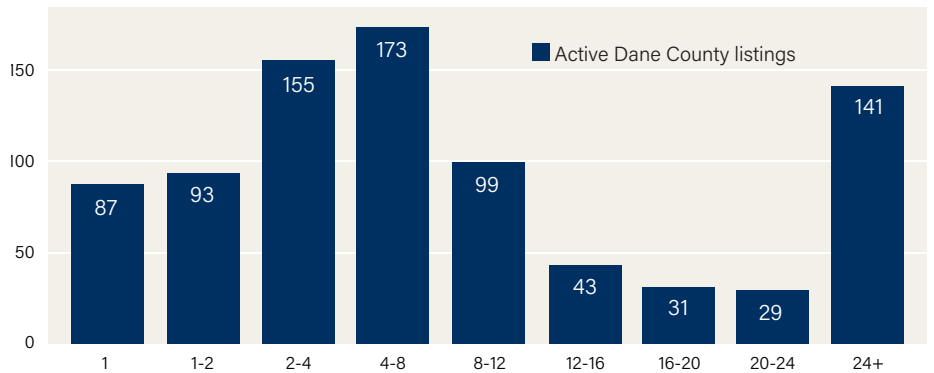
REAL ESTATE MARKET SOURCE OF SOUTH CENTRAL WISCONSIN

LOWER THAN LAST YEAR—which felt minuscule at the time. Total residential listings, actively for sale on the market, are down another 25 percent from a year ago. Active single-family homes are down about 20 percent, with condos down a whopping 43 percent. Amazingly in Dane County, months of inventory[†] for condos is now lower than that of single-family homes. (This reflects the almost total absence of new condo development despite steady demand.)

That said, single-family inventory is also very tight. Overall inventory continues to show a mismatch between supply and demand, especially in the mid-to-lower price ranges. After three-plus years of this pattern, it's hard to go forward without first asking the questions on everyone's mind: Where are the listings? Why has this happened? Will we ever return to normal again?

In this edition of *Real Estate Market Source*, we will look at the state of the market and the current frustrations and habits of both buyers and sellers. We will give advice on how to take back control in this seemingly out-of-control market. The ultimate goal is success with reduced stress.

WEEKS ON MARKET FOR CURRENT LISTINGS



Dane County inventory, still suffering an overall shortage, shows a reoccurring pattern. Listings that weren't purchased during their first week on market are often being ignored by buyers—leaving large opportunity and less competition for those who focus there. Some of the best values have been on the market for two to twelve weeks.

As to 'Where are the listings?' and 'Why aren't there more of them?', here are two reasons often given that we increasingly think are true.

Reason #1: We continue to hear concern from prospective sellers that they'd like to sell, but are afraid there is nothing to buy. There's no question that there are hundreds, if not thousands, of families in our area who feel this way. We hear it all the time. It's a chicken-and-egg problem that we need to solve.

Reason #2: A lack of adequate new construction, particularly in the price ranges where we need it. There are many causes for this too. A lack of enough skilled tradespeople is often cited by builders as one obstacle. The price of land is another. Continued risk aversion by lenders to support land and condo development is part of it as well. Let's also not forget what many feel is an ill-advised federal regulatory scheme. Enacted in the aftermath of the recession, this continues to exacerbate the risk-averse behavior of lenders and starve the market of needed credit.

As to whether we will ever return to normal, the answer in our view is an unequivocal "yes." Markets always work given time. If prices continue to rise, demand will eventually fall and supply will find a way to come forward. But how long this will take is anybody's guess. It certainly won't be this spring. Which leaves us with the most pressing question: What can consumers do now to manage this market more effectively, and perhaps start us on the road to normalcy? We have some ideas we'd like to share.

BUYER BEHAVIOR CHANGE

Our basic advice to buyers is, look a little farther afield and stop competing with the masses for the "perfect home." (Which honestly, doesn't exist anyway.) These two changes would be a major shift. Let's discuss what current buyer behavior has become, how it developed and why we believe it's an unwitting contributor to our unbalanced market. Specifically, the habit of waiting to pounce on brand new inventory the day it hits the market, coupled with the tendency to dismiss listings that are barely more than a couple weeks old as somehow "damaged."

This all started during the recession of 2007-2011, and has continued unabated as the market has improved. In hindsight, it's easy to see how it happened. There was so much inventory sloshing around then, buyers became afraid of making a hasty purchase, and therefore got in the habit of waiting until the "perfect house" came along. Everyone ran to see each new listing, and if they didn't like it—they went home and waited for the next one. There was no urgency to buy, since there was always so much to pick from.

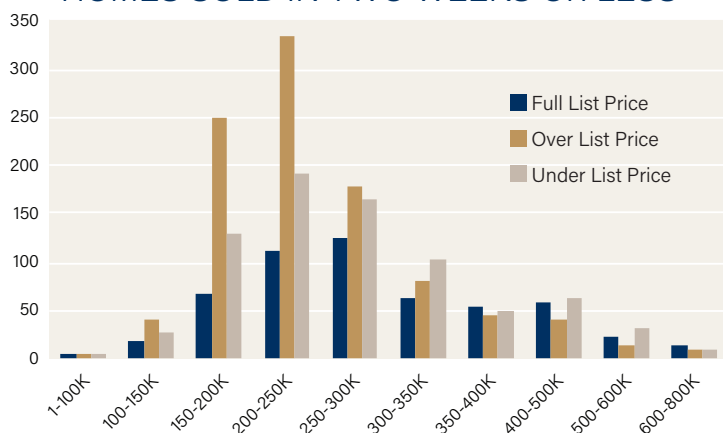
It seems that this habit of assuming if a property didn't sell right away, there was something wrong with it, has remained ingrained in buyer psyche. We recently heard an anecdote of a buyer asking an agent what was wrong with a house that had been on the market all of a week, since it hadn't had the 10-offer feeding frenzy that many listings get today.

Frankly, and with all due respect, this is somewhat absurd. It's human nature to want what everyone else wants, but this has gotten out of hand. It's true that many sellers and listing agents are purposely pricing property to create the auction environment that maximizes price. However, some sellers don't buy into the idea of starting with a lower price. Some assume they can price as high as they want in this market, and still attract many offers.

That strategy has often backfired as of late. It used to be months before buyers started thinking there was something wrong with a house. Now it seems it's a matter of days or weeks. But the fact is, there are plenty of perfectly fine houses that are languishing only because the seller missed the mark at the time they hit the market. So again, look further than just new listings; you'll probably get just as good a house for a better price.

For proof, examine the two charts on this page. You'll note that many houses today do indeed sell for at—or above—full price. This is especially true when looking only at the homes that sold during their first two weeks on the market. However, just as many (if not more) still sell for under full price. That number dramatically increases once the home has been on the market for longer than two weeks—making this an area of opportunity.

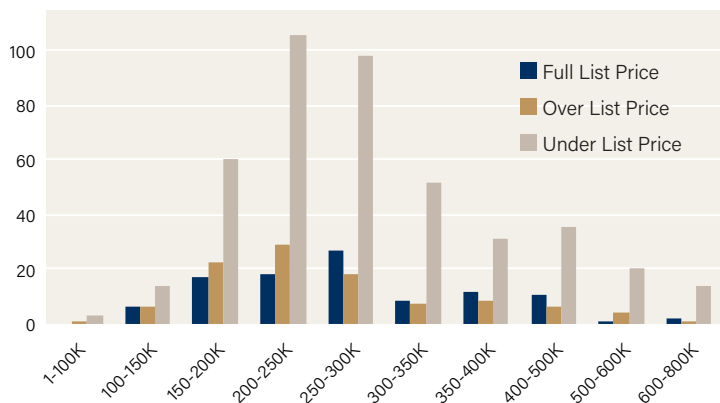
HOMES SOLD IN TWO WEEKS OR LESS



Dane County homes sold during their first two weeks on the market fared unusually well during the last 12 months.* Especially those in the coveted \$150-\$300K range. It's no doubt many of these homes were intentionally priced low to garner multiple competing offers.

Now, go back to the chart on page one. You can see there are still quite a few active properties listed two to twelve weeks ago; those are the ones we'd focus on. Look in different neighborhoods. Go back to older inventory. You'll find some great houses; many just as good as the ones everyone is fighting over. And you'll be one less participant in the stampede, which is where we have to start.

HOMES SOLD IN MORE THAN TWO WEEKS



Most Dane County homes on the market* for longer than two weeks sold for under list price. Often these sellers started with a high price point and therefore didn't receive offers in the first two weeks. These perfectly-good homes are frequently perceived as damaged while buyers rush to see only the newest listings.

THE PERFECT HOUSE

For both buyers and sellers (who want to be buyers!), we'd also like to disabuse you of the notion of the perfect house. The tendency to want to keep waiting until the ideal home comes along is contributing to the problem. In our experience, even owners who built their perfect "dream home" will tell us a few years later that if they had to do it again, they'd change some things. Striving for perfection creates paralysis by analysis. There's even some science to it called the "optimal stopping point." Basically, it tells us that once you have a feel for the market, take the first house you see that beats the best you've seen. Your odds of making the best decision go up by being decisive, within broad parameters.

Of course, everyone has parameters, and if you can only buy in the neighborhoods with low inventories and high demand, then steel yourself for the process and soldier on. You'll get one eventually. But if you have some flexibility, use it. You have more options than you think.

COME ON SELLERS!

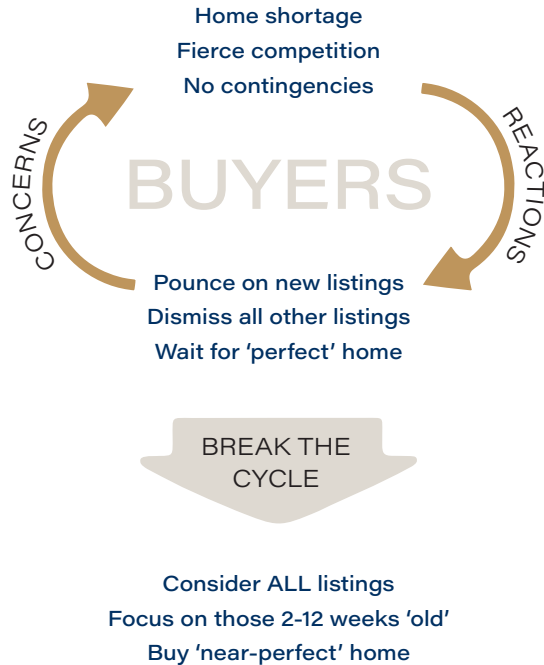
As for you, sellers—there are houses out there, if you take the time to look. If you're buying over \$300K, and especially over \$400K, it's not nearly as intense as many believe. Perhaps just as important, have you looked to see what your house might fetch in this market? This market won't last forever, and while we don't expect a price drop like we saw 10 years ago under any circumstances, you have an opportunity right now to maximize your purchasing power. This is particularly true if you're selling under \$300K and buying over that price. Eventually, the extra supply is going to show up, and your window of opportunity may narrow. Rising interest rates could also dampen demand. If you haven't called your Realtor lately, do it now and get a market analysis. You might be pleasantly surprised as to what you can get.

The point is, if you're eventually going to move, do it when the market favors you. There are things you can do to mitigate the risk of not finding something in time. For example, if you're reasonable on price, a buyer might be able to give you time to search before you close. We've seen this happen a number of times. Being reasonable on price means you also shouldn't have trouble getting your home sold—unless there truly is something wrong with it. Your Realtor can help walk you through the decisions.

MAKE THE FIRST MOVE

In summary, what we're advocating for here is that in order to break the cycle we're in, someone has to make the first move. First movers always get the best advantage. Don't think about where the market was, think about where it's going. We truly are navigating uncharted waters right now. It's safe to say

we've never seen a market with these specific characteristics before, and we as professionals are learning new techniques to deal with them as we go. But it *will* change again someday. Remember, home buying and selling is about improving your life in the long run, not the process today. That's a means to an end. Take advantage of what's before you. It's probably better than you think.



DANE COUNTY									
	Single Family			Condominiums			Total Residential		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
1st Quarter Closings*	969	1019	989	283	266	254	1252	1285	1243
Year-to-Date Closings	969	1019	989	283	266	254	1252	1285	1243
Active Inventory	851	1062	1430	191	335	476	1042	1397	1906
Months of Inventory†	1.6	2.0	3.1	1.3	2.4	3.5	1.6	2.1	3.2
12-Month Median‡	265,000	250,000	240,000	172,000	157,000	155,000	249,200	234,000	223,400

SAUK & COLUMBIA COUNTIES									
	Single Family			Condominiums			Total Residential		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
1st Quarter Closings*	261	264	218	38	26	27	299	290	245
Year-to-Date Closings	261	264	218	38	26	27	299	290	245
Active Inventory	545	683	853	89	151	168	634	834	1021
Months of Inventory†	4.1	5.2	7.7	5.6	11.1	10.5	4.3	5.8	8.1
12-Month Median‡	169,900	162,112	150,000	146,125	152,750	140,000	166,000	161,950	148,920

*Sales reported to the South Central Wisconsin Multiple Listing Service (SCWMLS) with closing dates between 1/1/17 and 3/31/17. Data for all years was pulled between the 14th-17th 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. ‣Denotes single-family homes in Dane County sold between 4/1/16 and 3/31/17. ©2017 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 4/17/17. This is not intended to solicit existing listings.