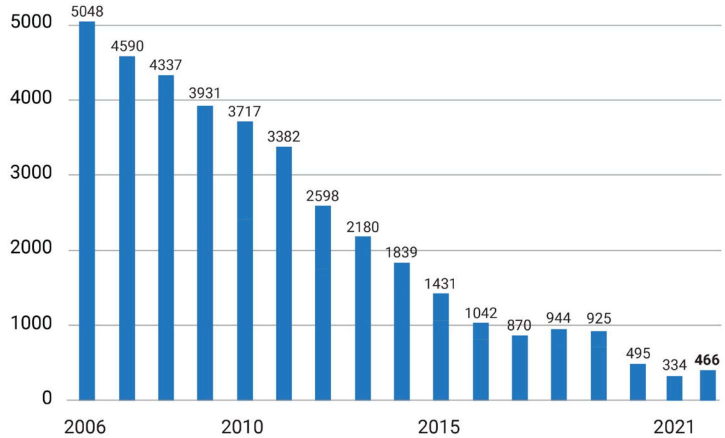
WINTER MARKET SOURCE NEWSLETTER

Written by President David Stark

JUST LIKE TWO YEARS AGO, YOU CAN THROW ALL THE PREDICTIONS WE MADE AT THE BEGINNING OF 2022 OUT THE WINDOW. In 2020, a global pandemic completely upended our assumptions. In 2022, as we all know, inflation unexpectedly ignited, which caused the Federal Reserve to respond by raising short term interest rates at the fastest pace on record. Mortgage rates increased as well, with the 30-year rate topping out around 7% last fall (though they're now being quoted in the high 5's). This led in turn to a sudden slowdown in showing activity around mid-year, and a corresponding reduction in offer activity, particularly in the fourth quarter. Dane County residential closings were down about 15% for the year, and 30% in the fourth quarter. Sauk/Columbia closings were down 20% for the year and 30% in the fourth quarter.

Much of the commentary around housing in the past year compared the market to that of the 2008 recession, contending we were in a "housing bubble" that would pop with rising mortgage rates and falling prices. These predictions were largely wrong, or at best uninformed, particularly when it came to falling prices. It's unfortunate because a clear eyed look at the data confirms that there is nothing wrong with our housing market, values are stable, and homes are affordable. Nonetheless, they led many buyers and sellers to assume they couldn't afford to buy, or sell, or both. We know it's human nature for people to pull back in times of change, because change leads to uncertainty. But that doesn't mean it's the right thing to do. We'll briefly lay out our case in this publication for why we think holding back from this market is a mistake, and why we think housing remains a great investment in 2023 and beyond.

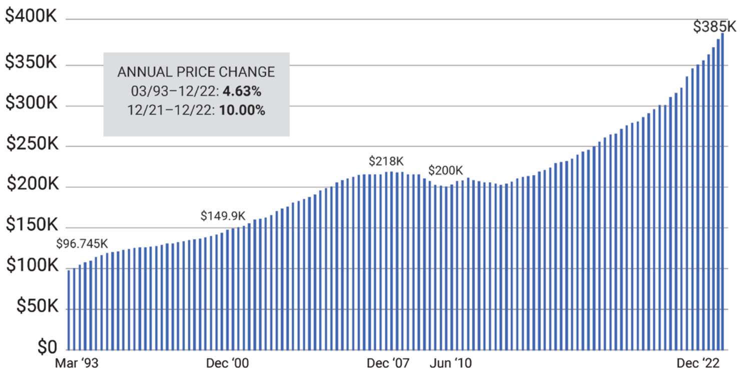
DANE COUNTY YEAR-END RESIDENTIAL INVENTORY



MORTGAGE RATES

Perhaps the largest source of hesitation in the market has been the framing of the increase in mortgage rates. The usual narrative has been some variation of "mortgage rates have doubled since the start of the year, increasing the average homeowner's mortgage payment by 'x'". This misses critical context. Rates during the previous two years were, by far, the lowest on record. In fact, they were held too low for too long, leading to an overheated economy which helped spark the inflation we're now fighting. Most importantly, portraying a 3% 30-year mortgage rate as a normal baseline gives buyers the impression that the increase in rates is catastrophic, when in fact we are far closer to a normal mortgage rate today than we were a year ago. It is unlikely that 30-year rates will return to 3%, or even 4%. We are seeing quotes in the upper 5's, which means we're edging closer to where rates will settle in for the long haul. Therefore, don't be put off by today's mortgage rates, they're very competitive by historical standards, and the market will adjust quickly.

DANE COUNTY MEDIAN PRICE CHANGE



PRICES

Another misleading narrative is the idea that because prices rose more quickly than normal during the pandemic, they must fall now that mortgage rates have finally returned to more normal levels. This betrays a deep misunderstanding about how housing markets actually work. The primary reason is simple: inventories of homes for sale are much too low to allow prices to fall in any meaningful way. The fact remains that in South Central Wisconsin at least, we still have more families looking for housing than we have housing available for them to buy. Just look at the chart on the first page comparing inventories from the Great Recession to those of today. Not much more needs to be said about how different today's market is from that of 15 years ago.

Another point of confusion for our national pundits is to assume that housing responds to changes in financial conditions the same way stocks do. Stock prices can be very sensitive to interest rates. But stocks are liquid, and their markets clear every day. Housing is a capital asset, illiquid, with a value that is grounded in the cost to produce it. When financial conditions become tighter and mortgage rates rise, we usually see fewer transactions before we see falling prices. In fact, this is exactly what we've experienced.

Over the last 30 years, prices in our market have risen roughly 4% per year on average. It's true that they rose roughly 10% per year over the last three years, but they can't fall back down when demand still exceeds supply and sellers are not in a panic to sell. Rather, what we'll probably see going forward are relatively flat prices, longer average marketing times, and fewer transactions than the last three years.

In truth, what's happening in housing today is a return to normal, not a crash. The last three years were an aberration, and it may take some time to get used to once again needing a few weeks to sell a house, negotiating with one buyer at a time, and price increases in the low single digits. But that's what a healthy market looks like, and its return should be welcome. Our region's fast growth guarantees that housing will be solid for years to come. So get into the game now, and take advantage of the future.

NEIGHBORHOOD ANALYSIS

The following page presents a detailed analysis of neighborhoods in Madison, based on MLS sub-areas, as well as similar data for the major small cities and villages in the area. To help you understand the data better, we've included only single family home sales for this analysis. The reason is that condos, by virtue of their inherent concentration, can distort the picture in the areas where they're located. Second, remember that the median price is found by taking all the sales in the area, and ordering them from lowest to highest price. The price of the sale in the middle of the list is the median. An increase in the median price does not necessarily mean that prices of individual homes have increased by the percentage shown. This is particularly true in small neighborhoods with few sales. The larger the number of sales, the more likely the change in the median will reflect the actual change in prices for homes in the area. Finally, remember that inventories are always at or near their low point for the year in January. But the fact remains that our inventories are very low in virtually every market, with less than a month of inventory even with last year's reduced sales volumes. Another competitive market is likely in store this year.

ADVICE FOR BUYERS & SELLERS

BUYERS

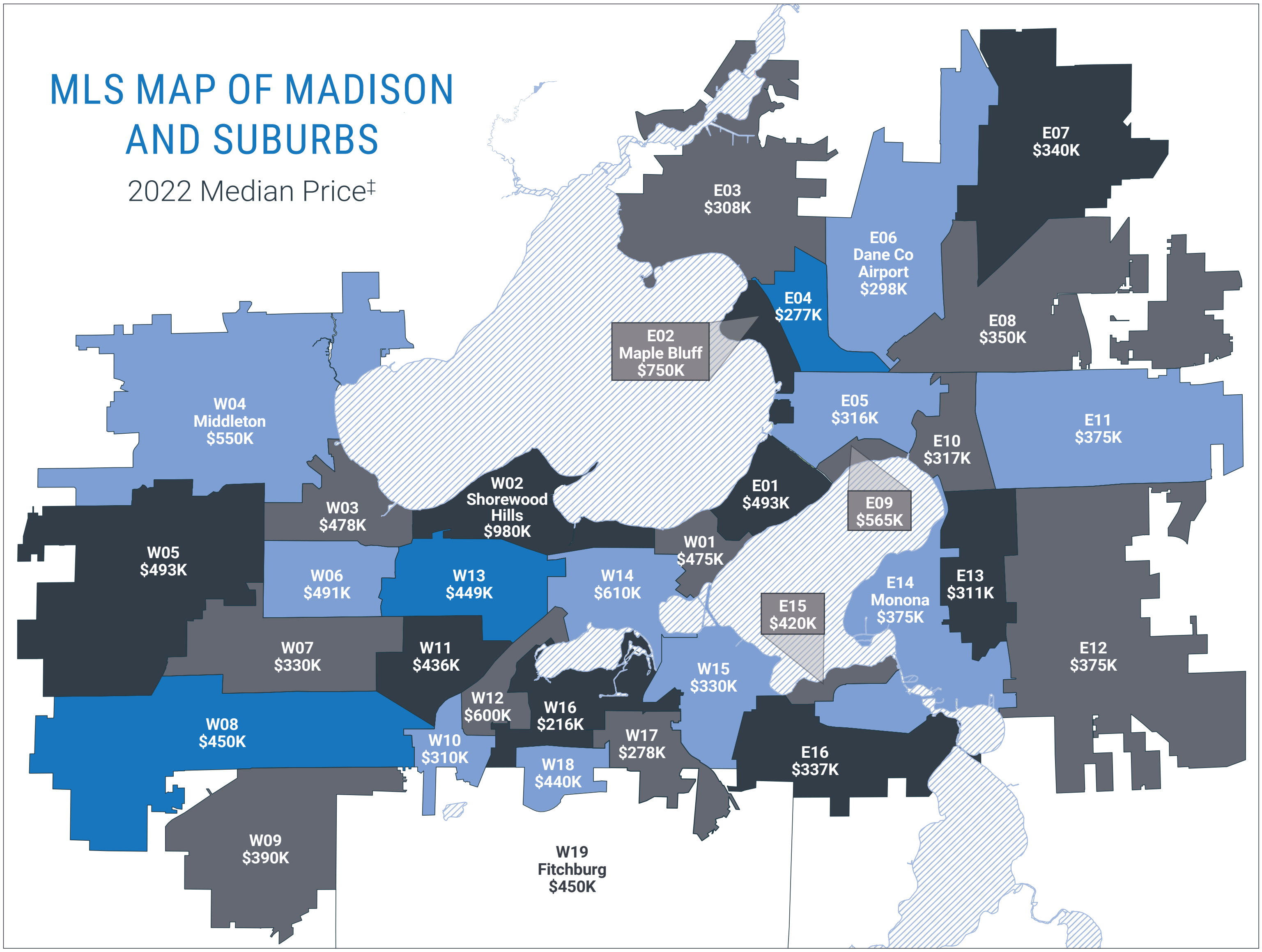
We can't stress enough how important it is for you to ignore the stories complaining about how high mortgage rates are. They are close right now to where they're going to settle for the long run, and they remain very competitive by historical standards. The market will adapt fairly quickly to these rates, and move forward from there. Do not assume you can't afford to buy anything. Go out and look at what's available, and what it would cost you to own it. If rates do come down significantly, you can always refinance. But this is the time to negotiate the best price you can with the seller. You have less competition for the time being than you had a year ago. Prices will resume their rise, probably sooner than later. If you wait too long, you'll have more competition and you'll end up paying more.

SELLERS

You need to ignore the stories about falling prices. We'll see what the spring brings us, but with inventories this low, we expect there will still be more demand than supply. We see no likely scenario in which you will get less for your home today than you would have two years ago, or even one year ago. That said, it seems most sellers are on the sidelines because they can't find another place to buy. So it's still advisable to be a buyer first, find a house you like, and then sell. If you're protecting your current low mortgage rate, we get it, but how long do you want to live in a home you don't love when there's a better one out there? Ultimately, housing is about living, and the market is now easier to access than it was in the recent past.

MLS MAP OF MADISON AND SUBURBS

2022 Median Price‡



East Madison	2022 # Sold	Current Inventory	Months of Inventory†	% Change to Median
E01	34	2	0.7	21.6
E02	17	5	3.5	8.8
E03	112	2	0.2	11.7
E04	91	4	0.5	10.8
E05	109	3	0.3	11.7
E06	2	0	*	10.2
E07	55	1	0.2	8.0
E08	153	11	0.9	7.7
E09	31	0	*	11.1
E10	73	1	0.2	15.9
E11	247	9	0.4	11.8
E12	123	4	0.4	15.4
E13	80	1	0.2	13.3
E14	95	5	0.6	11.3
E15	11	1	1.1	9.4
E16	26	5	2.3	14.9
All East 1,259		54	0.5	11.4

East Madison's total median price for 2022 was $349.9K

West Madison	2022 # Sold	Current Inventory	Months of Inventory†	% Change to Median
W01	6	0	*	50.8
W02	25	0	*	-0.5
W03	52	4	0.9	9.8
W05	338	17	0.6	12.0
W06	56	1	0.2	10.8
W07	8	0	*	10.0
W08	197	7	0.4	11.0
W09	207	2	0.1	12.9
W10	41	0	*	1.6
W11	79	1	0.2	11.1
W12	61	2	0.4	6.6
W13	110	0	*	2.5
W14	67	1	0.2	9.6
W15	33	0	*	36.7
W16	7	0	*	15.2
W17	2	0	*	15.6
W18	11	1	1.1	19.7
All West 1,718		68	0.5	10.0

West Madison's total median price for 2022 was $450.8K

Other	2022 # Sold	Current Inventory	Months of Inventory†	Median Price	% Change to Median
Baraboo	138	18	1.6	$237K	11.2
Cottage Grove	84	2	0.3	$428K	3.2
DeForest	141	13	1.1	$370K	2.2
Fitchburg*	270	31	1.4	$450K	10.4
McFarland	109	12	1.3	$413K	3.3
Middleton*	148	1	0.1	$550K	15.7
Mt. Horeb	114	12	1.3	$388K	9.8
Oregon	133	18	1.6	$425K	8.1
Portage	115	7	0.7	$205K	13.9
Stoughton	168	36	2.6	$335K	15.5
Sun Prairie	446	27	0.7	$390K	7.4
Verona	168	13	0.9	$467K	15.4
Waunakee	219	28	1.5	$500K	3.1
All Dane County	5,639	376	0.8	$412K	16.0

**Included in total median price for West Madison.*

Charts in this publication represent sales reported to the South Central Wisconsin Multiple Listing Service (SCWMLS) with closing dates on or before December 31, 2022. Data for all years was pulled between the 6th-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 1/12/23. This is not intended to solicit existing listings.

Stark

Real People. Real Success.

DANE COUNTY REAL ESTATE AT-A-GLANCE

Q4 2022

466
ACTIVE INVENTORY

0.8
MONTHS OF INVENTORY

Inventory will start to slowly build in Q2, but will remain tight.

$385K
12 MONTH MEDIAN PRICE

Predicting minimal movement in Q1.

7,282
YEAR-TO-DATE CLOSINGS

Q1 will be slow, but sales may pick up in Q2.