



## MARKET SOURCE NEWSLETTER

Written by President David Stark

► THE NUMBERS PRACTICALLY JUMP OFF THE PAGE. Despite a pandemic that has wreaked havoc on so many industries, Dane County housing sales are now up 3.4 percent for the year, and were up 13.8 percent in the third quarter alone. Sales were flat in July, up 3.4 percent in August, but up a whopping **46.3 percent** in September. That's not a typo. There were actually more closings in September than there were in August, which is unheard of in our experience; normally we'd expect about a 25 percent seasonal drop between August and September.

What's even more remarkable is that we're doing this in a time of historically low inventories. Total residential inventories are currently down 40 percent from this time last year, when they were already low. They're down almost 58 percent in Sauk/Columbia. Months of inventory<sup>†</sup> have been cut in half from a year ago. We now have 1.2 to 1.5 months of inventory throughout the region.

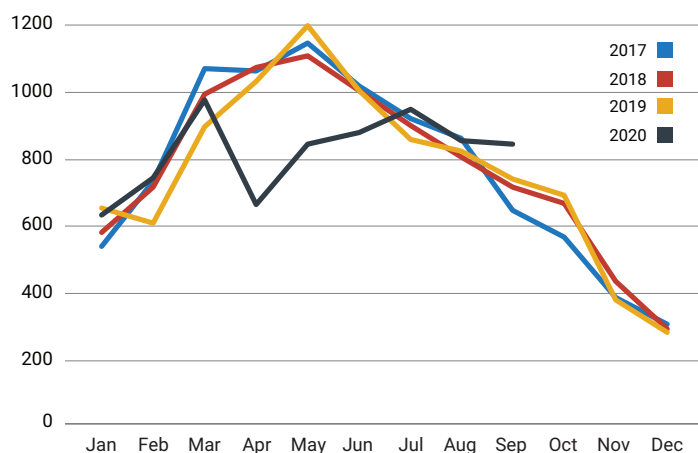
Clearly, the South Central Wisconsin real estate market is red hot. What's driving it, and will it continue?

### ► LISTINGS

We start here, because we couldn't sell the houses we've sold if we didn't have any to sell. For much of the second quarter of this year, we didn't have them. Normally listings follow a fairly predictable seasonal pattern, and 2020 started out the same way. Then the pandemic hit, and new listings plummeted in April, May and June. The primary reasons sellers held back were a reluctance to have strangers touring their homes, coupled with a belief (somewhat correct as it turned out) that the market would pick up again later in the year.

New listings returned to normal in July and August. This gave us inventory to sell again, and buyers responded. New listings were snapped up instantly, often with multiple offers. Then, new listings picked up even more in September. There were nearly

### NEW LISTINGS IN DANE COUNTY BY MONTH



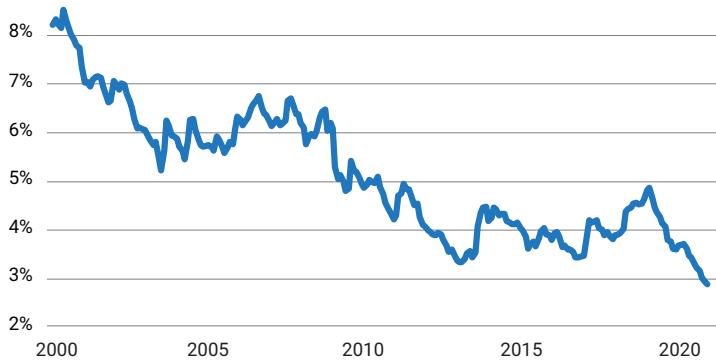
14 percent more listings in September 2020 than the previous year (see chart above). We can't say for certain what motivated so many sellers to finally enter the market. Perhaps many were simply tired of waiting, and decided with a continuing hot market, it was time to move.

Whatever the reasons, new listings in the 3rd quarter gave us the fuel we needed to keep the market moving. But it was still not enough to fill the inventory hole we dug earlier in the year. As the offer pace accelerated, listings continued to flow through the market faster than they could accumulate. There was simply too much pent-up demand. Why should that be?

### ► MORTGAGE RATES

Record low mortgage rates are certainly a driver. Today's 30-year fixed rate of 2.89 percent is the lowest in this century,

## 30 YEAR MORTGAGE RATES



and frankly, in our memory. Record low rates are drawing buyers out and keeping them out, especially young first-time buyers for whom low rates are particularly meaningful. And as if that weren't enough, the Federal Reserve has stated pretty directly that they expect low rates to continue for the foreseeable future.

### ► INVENTORIES AND PRICES

With demand white hot and many new listings selling as soon as they arrive, on-hand inventories have been unable to accumulate. October is normally the high point for inventories, but we are currently at levels usually seen after the holidays, when supply is at its lowest. Even with sellers finally coming out of the woodwork, it's not nearly enough to overcome pent up demand. There is no way at this point we'll see enough new inventory to even begin to make up the shortage before the end of the year.

This means, of course, that we'll probably enter 2021 with lower starting inventory than we've ever had. It seems reasonable to think that, barring a major unforeseen setback in the course of the pandemic, next year will feature a more normal seasonal pattern, and inventories could start to recover later in the year.

### IF YOU'RE BUYING

It seems that this year, buyers in general have truly adapted to the reality of low inventories. This is good, because it's going to be like this for a while. It means competition, bidding wars, and sometimes disappointment. So for the foreseeable future, persistence will be your most valuable ally. Our agents are as good as it gets when it comes to crafting a competitive offer, so it remains imperative to have an agent you trust and to follow their advice. It won't guarantee success every time, but it will raise your chances significantly. If your circumstances allow it, don't be afraid to look farther out. Prices and competition will generally be lower. And be sure to get prequalified for your mortgage before you start. If you find yourself in competition, uncertainty around financing can be the thing that kills your chances.

When we have a supply/demand mismatch like we do now, there is only one way for prices to go: up. In some ways, it's surprising that prices have not risen more than they have. So far in Dane County, the median residential price<sup>†</sup> is up 4.7 percent since the beginning of the year, and 6.9 percent since this time last year. The Dane median was virtually flat in the second quarter, reflecting both the fact that many of those sales were negotiated earlier in the year, along with the brief drop in demand we saw during April and May. But the median rose 3.3 percent in the third quarter alone, a pace of over 1 percent per month. That pace probably won't continue for a full year, but the upward pressure will remain as long as we have this kind of inventory imbalance.

It is interesting to note that prices are increasing even faster in Sauk and Columbia Counties. The residential median is up 9.7 percent in those counties since the beginning of the year, and up just under 11 percent since this time last year. This speaks to a buying pattern that has emerged this year and bears discussing.

### ► MOVE TO THE SUBURBS?

If you follow the housing news, you've probably seen articles suggesting that in the age of COVID, many people are looking to flee urban areas, to reduce density and risk of contracting the virus. Doubtless this has been a factor in large urban areas around the country, especially those hard hit by the virus: New York and New Jersey, Los Angeles, and others.

Honestly, while every buyer makes their housing decisions for different reasons, it's hard to see that the virus is the main driver here. The City of Madison market is as busy as ever, and the condo market has seen something of a surge, up 30 percent in the third quarter in Dane County. That does not suggest a flight from density, and in truth, Madison is not a dense community as urban areas go.

We think that at least in South Central Wisconsin, a bigger driver of the move outward is simply a search for better affordability and availability. Demand is so strong in many Madison neighborhoods,

## TIPS TO SUCCEED





and inventory so low, that some buyers are simply deciding to look further afield. If the virus is playing a role, it probably has more to do with the utility of the home, rather than the density of the city. While we count ourselves among those who believe the bulk of the workforce will eventually return to their places of business, it's also true that we've learned how to work from home if we have to or if it's more convenient. Many buyers have decided that if they're going to spend more time at home, they want a place that can accommodate work and family. This means more varied spaces, and room to spread out so we can get our work done. And finally, as Millennials are now in prime childbearing age, more are looking for yards, parks, and neighborhoods kids can roam in. The Millennials are the largest demographic cohort in the country now, and Madison is a Mecca for Millennials. Most are first time buyers, and they're not so much leaving the city as they are choosing their first home further out.

The virus will eventually fade from our lives, but it will be interesting to see if and how it changes our living patterns after it's gone. We think the move to more family-friendly housing would be happening now in any event, but the pandemic has accelerated

the trend. How it evolves after the pandemic ends will be very interesting to track.

## ► THE FUTURE

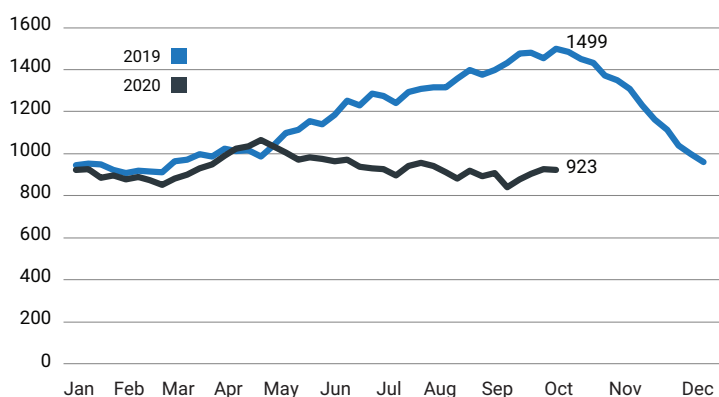
The pandemic has affected the housing market in ways that are nearly as profound as the great recession, but in the exact opposite direction. The recession was marked with high inventories and low demand. We now have the polar opposite, in the extreme. It leads us to wonder what next year will look like; it's not that far off after all. The arrival of an effective vaccine, if and when it comes, could change the game yet again. But whether that will actually happen, and when, is hard to predict, and we're no experts. Nonetheless, we do think there are some trends you can count on no matter what happens with the virus.

First, next year will see a more normal seasonal pattern. The arrival of the virus was a shock to the system, but we're learning to live with it now. If people are active this fall, there's no reason to think they won't be just as active next spring.

Second, low inventories will be with us for a while. We expect sellers to be less reluctant next year, but low mortgage rates will keep demand high as well, so inventory will have a hard time accumulating. A possible wild card: sellers who decided to stay out this year could return next year, boosting inventories a bit more than usual. Still, that won't be enough. The days of 4-6 months of inventory are still a few years away, barring an unforeseen event.

Finally, it's always a mistake to underestimate the power of home ownership to improve people's lives. With our young and growing population, it's hard to see demand for housing dissipating any time soon. The drive to own has carried us through the pandemic, and it should continue long after it passes. That said, if 2020 has taught us anything, it's that we never know what's coming next. There will be further twists and turns, whether this year, next year, or in the years to come. But the bigger picture seems pretty clear. The long-term future for home ownership looks very bright. It would take a lot to knock that future off course.

### DANE COUNTY RESIDENTIAL INVENTORY



### IF YOU'RE SELLING

By the time you read this, we'll be close to November, and normally that means we're reaching the point where it might pay to at least think about waiting until after the new year. This year might be the exception. Activity right now feels more like June than October, and we think the above-average activity will continue right through to the end of the year. Conventional wisdom right now remains to price semi-conservatively, and see if competitive bids raise the price. If that doesn't happen, it doesn't mean the sky is falling. Sometimes it still takes a few days or weeks. If it appears you've overshot on price, adjust, but do it quickly. Buyers remain skeptical of stale inventory. And if your home is above \$700K-800K, it's a whole different ballgame. It will normally take weeks or months in the high price ranges, so be patient and hang in there.

Charts on page four represent sales reported to the South Central Wisconsin Multiple Listing Service (SCWMLS) with closing dates between 7/1/20 and 9/30/20. 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. ©2020 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 10/10/20. This is not intended to solicit existing listings.