



## MARKET SOURCE NEWSLETTER

Written by President David Stark

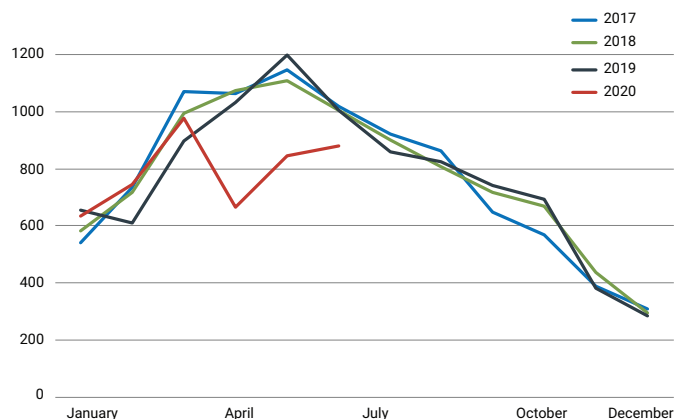
► WHEN WE WROTE OUR LAST EDITION of the *Real Estate Market Source Newsletter*, we had just entered the Safer at Home phase of the coronavirus pandemic. Uncertainty was everywhere, including the real estate industry. We knew that activity would likely be suppressed, but we didn't know exactly how. Now, with three more months under our belts, we have a good idea of how this virus is affecting our local housing market. What we saw was that as safety and virtual options increased so did the activity amongst home buyers and sellers in South Central Wisconsin.

The first challenge was getting useful data. The data for homes sold that we report in this newsletter (and that virtually every news organization reports) is for closings. But closings

normally happen 30-60 days *after* an offer is accepted. It was at the showing and offer stages that the challenges became immediately apparent and that data is more difficult to obtain. In-person showings plummeted initially, but grew steadily over the second quarter. As best we can tell, offers were down between 30 and 40 percent region wide in April, and between 10 and 20 percent in May. Then just after Memorial Day, Dane County entered Phase 1 of Forward Dane, its reopening plan. Activity skyrocketed. June offers were as good, if not better than, a year ago (June 2019 was strong as well). July had a blazing start and is still going strong. All things considered, it appears the real estate market has weathered the pandemic very well.

But as with all things real estate, there are nuances; and in a market like this, some dislocations. We'll discuss them here.

### NEW LISTINGS IN DANE COUNTY



*New listings were down 35 percent in April, 30 percent in May, and 13 percent in June. At the end of second quarter, total residential inventories were down 27 percent from the year earlier.*

### ► INVENTORIES

Any discussion of real estate in our region has to start with inventories (the number of homes for sale on the market). When April began, inventories start to creep upward. For a short period of time, we thought demand may be falling. Boy, were we wrong. As the month went on, inventories declined, and they've been declining ever since. It became clear that the issue was not falling demand, but rather seller reluctance. Some sellers were concerned about potentially exposing their home to the virus.

In the meantime, demand remained surprisingly strong, especially in the lower price ranges (more on page two). Even in April, stories were common of properties hitting the market and receiving 10, 15, 20 offers or more on the first day. With so little new inventory to choose from, buyers were tripping over each other competing for what was available. During a period when supply is normally rising, it was falling. Looking back, it seems clear that the decline in sales during the second quarter had little,

if anything, to do with demand from buyers. We’ve been saying it all along; if we had more sellers, we’d be selling more houses.

That said, we certainly understand the reluctance sellers have to put their home on the market. We would not advise *anyone* to sell their home if they’re not comfortable. But, our ability to showcase a home virtually, safely and socially distanced has improved tremendously during this period. Believe it or not, a number of buyers are even making offers on properties without ever going into the home. Some sellers believed the market would be better when the orders were lifted. Well, it was good before, and it’s great now. If you’re waiting for demand to pick up, you should wait no longer. Talk to your agent about any concerns you may have.

► A MARKET DIVIDED

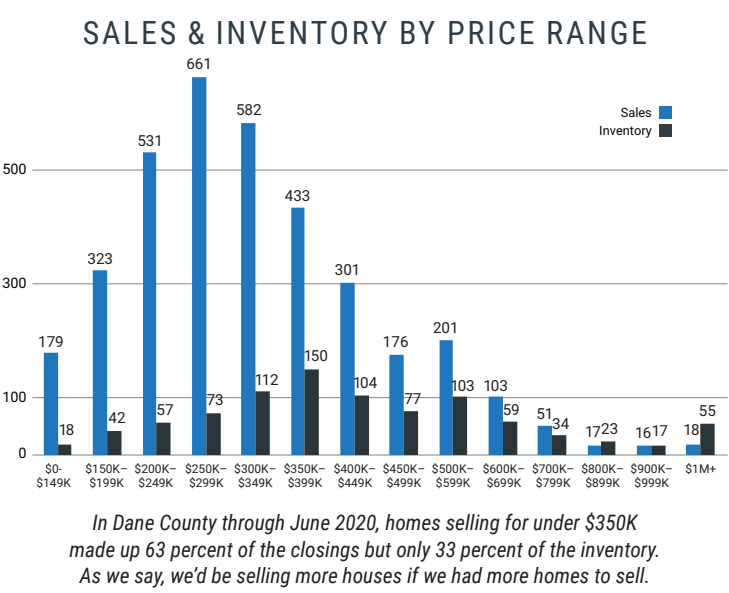
We’ve studied this phenomenon before. Low inventory causes strain on the market in different ways. We thought our readers would find it useful to see how the market is balanced in various price ranges. The chart on page two shows the relationship between sales and inventory by price range. You’ll notice that there are roughly three zones. The first, under \$350K, is by far the most active, and the tightest. Home sales in this price range made up 63 percent of the closings but only 33 percent of the inventory.

When you look at this same price range in the chart on page three, this translates into an average of only three and a half weeks of inventory (six *months* of inventory<sup>†</sup> is considered balanced).

By contrast, months of inventory averages two and a half months for those homes in the range of \$350K-\$800K. Above \$800K, we have over eleven months of inventory; as high as 18 months for homes priced over \$1M. What does this tells us? Not all price ranges are created equal. Those in the over \$1M price range need to approach their home sale with a very different mindset than those under \$350K.

Space does not allow us to do a detailed analysis of every local neighborhood, city, village, or town. Plus, the situation changes daily

and weekly. When considering to buy or sell, there is no substitute for a detailed analysis of your specific neighborhood, and your specific home. Your agent can help you figure out what to expect. Listen to their advice. You’ll make better decisions if you do.



► PRICES AND MORTGAGE RATES

With inventory this low and demand this strong, prices are sure to rise. This flies in the face of many predictions early on (ill informed in our view) that prices were likely to collapse as the virus reduced demand. As we’ve said, it wasn’t demand that was reduced, it was supply. Therefore, the effect on prices was the exact opposite of these predictions. The median price<sup>‡</sup> for Dane, Sauk and Columbia counties is actually up. In comparison to this time last year, the Dane County median is up 5.25 percent even though it stayed flat in the second quarter and has only risen 1.35

percent since the first of the year. In Sauk and Columbia counties, prices are up 10.5 percent over last year.

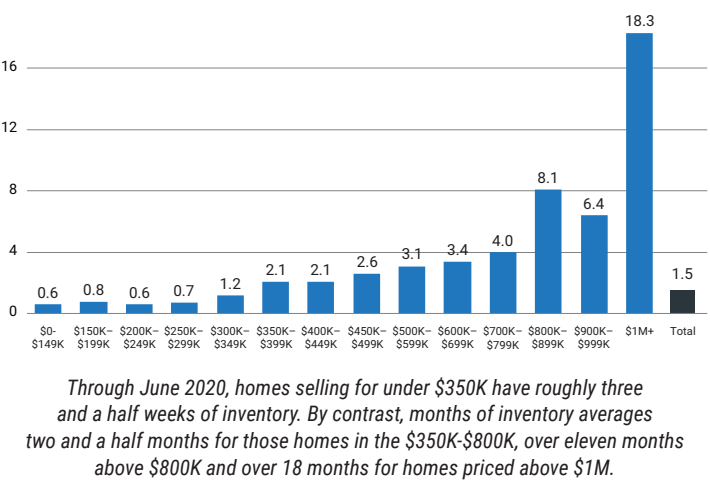
Part of the reason prices may appear more flat than they are is the mix of sales. Since the median price measures the midpoint of all sales, the fact that so much activity is centered in the lower price ranges could be holding the median back. It’s a rough measurement, to be sure, but it’s the best we have on short notice. Over the longer run and with a more active third quarter still ahead, we have no doubt that the direction will be up for the foreseeable future.

A discussion of the influences on today’s market wouldn’t be complete without including mortgage rates. When the economy was shut down in late March and early April, the Federal Reserve went to work providing the economy with liquidity. The result of the Fed’s interventions has been a dramatic decrease in mortgage rates, and from what we’re currently hearing, it looks like they’re going to stay historically low for quite some time. Freddie Mac reported the 30-year rate at 3.16 percent at the end of June, down from 4.57 percent a year earlier. It may be lower yet at this writing, although that can vary from day to day. Still, there is little doubt that these ultra low rates are contributing to the surge in demand we’ve seen throughout this year, and will likely continue through the summer and fall.

► THE BIG PICTURE

Looking back over the last three months, it’s hard to take it all in. The economic interventions to combat the coronavirus are unprecedented. In late March and early April, there was real uncertainty over how the real estate market would respond. Now that we’ve been through what we hope is the worst of it in the housing market (fingers crossed), it’s amazing we’ve done as well as we have. Closings for the quarter were only down 7.7 percent in Dane County from the previous year. To us that’s amazing. Still, homeowners can take comfort in knowing that with all the chaos in the markets right now, real estate is plowing through it pretty well.

DANE COUNTY MONTHS OF INVENTORY<sup>†</sup>



In a way, we think this is to be expected. We said three months ago that if any industry was poised to deal with the pandemic well, it was the residential real estate market. The long sales process, coupled with the fact that people move due to change in their lives, reasons which will outlast a temporary shutdown, led us to believe housing would survive this in good shape. And so it has proven to be.

But uncertainty remains. We don’t know how long this pandemic will last, when a vaccine will be available, if ever, and how the economic dislocations this has caused will work themselves out over time. When will we return to full employment? When will industries much harder hit than ours return to normal? When will life feel normal again? And how will all this affect housing? No one can say. Despite all this, we believe the strength of our local economy, and the resilience of the housing market, will sustain us through the difficulties. In a world of uncertainty, housing is an asset you can continue to count on.

IF YOU’RE BUYING

Today’s low inventories are not making it easy for you. But low mortgage rates make this a compelling time to buy. What to do? Persistence is your best asset. Get a good buyer’s agent, listen to their advice, and tailor your offer in every instance to the needs of the seller. Different sellers have different needs, and price is not always the only thing that matters (although it certainly does matter). Be sure you’re preapproved for your mortgage so you don’t have that uncertainty. If you find yourself in a bidding war, find out what’s important to the seller. Your Realtor can call the seller’s agent and find out. If you have something to offer that others might not, use it. Know your strengths, but also your limitations. And if you get beat out, try not to get discouraged. You’ll succeed eventually. Just stay with it.



TIPS TO SUCCEED

IF YOU’RE SELLING

We’ve had a strong seller’s market for the last five years, and against all odds, it just got stronger. As we head into the summer, demand is increasing (which is not normal for this time of year), while supply is well below normal. Be sure to remember that your price range matters too. Over \$800K is a very different market from below \$350K. If you are concerned about the virus, talk to your agent about how your marketing and showings can be handled. We will do the very best we can to respect your wishes. Much can now be done virtually, a benefit to both buyers and sellers. As always, resist reaching too far on your asking price. You’ll probably get as much (or more) in a bidding war than you will if you have to negotiate down with a single buyer. But if you’ve been waiting for the time to move, that time is certainly now.

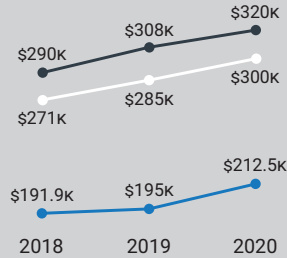
Charts on page four represent sales reported to the South Central Wisconsin Multiple Listing Service (SCWMLS) with closing dates between 4/1/20 and 6/30/20. Data for all years was pulled between the 6th-10th of the month following the end of the quarter. <sup>†</sup>Months of Inventory represents the 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. <sup>‡</sup>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 7/10/20. This is not intended to solicit existing listings.

# DANE COUNTY REAL ESTATE AT-A-GLANCE

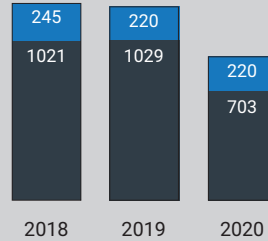
● Single Family

● Condominiums

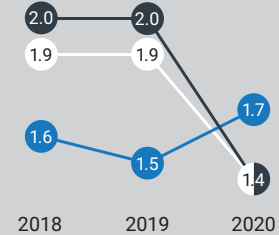
○ Total Residential



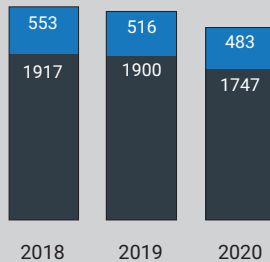
12-MONTH MEDIAN



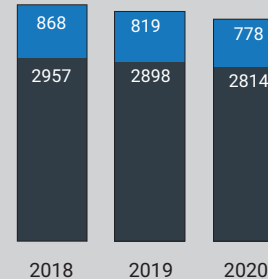
ACTIVE INVENTORY



MONTHS OF INVENTORY



2ND QUARTER CLOSINGS



YEAR-TO-DATE CLOSINGS