MARKET SOURCE NEWSLETTER

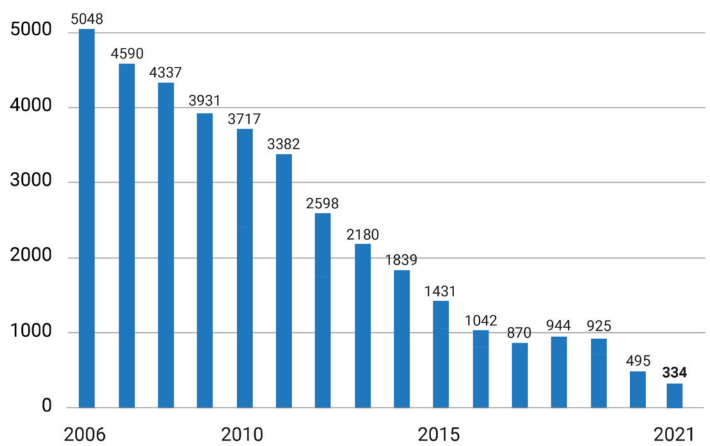
Written by President David Stark

OUR PURPOSE WITH THIS NEWSLETTER HAS ALWAYS been to bring perspective and knowledge to the housing conversation, to help consumers make good decisions. With that mission in mind, we thought that perhaps the best way to address people's perceptions, given recent headlines, was to provide answers to the questions we're hearing most often. The high demand/low supply market of the past two to three years led to price increases that, for many, brought back memories of the housing crash of 2008, and many people fear a repeat. We hope the following will restore some peace of mind for those who have heard the scary stories and aren't sure what to make of them.

Q. Are housing prices going to fall now that mortgage rates have risen?

A: In Dane County and the surrounding counties, the answer is almost certainly "no." Those who promote the notion that we are in for a housing price "crash" due to price increases during the pandemic period often look to the recession from 2007-2011 as their model. But the two periods could not be more different. In 2007, we started the year with over 5000 residential listings on the market in Dane County. We started 2022 with barely over 300 listings. In 2007, we were ending a period of reckless mortgage underwriting, with lenders often lending more than the appraised value of the property, which itself was often inflated. When this type of lending ended, speculative sellers started dumping homes, in a panic, into a market with more inventory than could be absorbed by organic demand. Since that time, by contrast, all mortgages have been rigorously underwritten, almost all homeowners have plenty of equity in their homes, and we still don't have enough inventory to meet demand. In short, there will be no panic selling in this market, and sellers will be able to get something close to the price they want in virtually all circumstances.

DANE COUNTY RESIDENTIAL INVENTORY



Q. Even so, shouldn't I wait a while to buy, in case prices do fall?

A: As explained in the previous answer, the conditions do not exist in which prices can fall in any meaningful way. That said, the competitive landscape from a buyer's point of view has changed. Today's higher mortgage rates have discouraged some buyers from looking. This means that, unlike the last few years, chances are that when you find a house you would like to buy, you will not be competing with nearly as many, if any, other buyers at the same time. And while it's not yet a buyer's market, right now is probably the MOST favorable time to buy from a negotiating perspective with the seller. If you wait for mortgage rates to come back down (if they do), the market will heat back up again and your current negotiating advantage will be lost. Put another way, if you're looking for a favorable price, now is the time to negotiate it with the seller. If you wait too long, you'll be competing with other buyers in a high demand market again.

▶ **Q.** I've heard prices will fall 10% or 20%. Shouldn't I wait for that to happen? I don't want to make a foolish purchase.

A: First, remember that all housing markets are different, but most of the stories written about housing today are written from a national perspective. There are markets around the country where prices rose 60% or more over the last two years. Here in South Central Wisconsin, our prices have risen roughly 9-10% per year over the past two to three years. Some markets, mostly in the Sun Belt or out west, became overpriced, but our market did not. We're more expensive than we were a couple years ago, but not out of reach for most buyers, even at today's mortgage rates. A meaningful drop in prices is not in the cards here. What's more likely is that prices will start rising again next year or the year after.

▶ **Q.** Mortgage rates are too high. Shouldn't we wait for them to come back down?

A: Today's mortgage rates have risen fairly sharply from where they stood through most of 2020 and 2021. However, it's important to note rates during the pandemic period were, by far, the lowest rates we've had in recent history. We tend to forget that the 30 year rate during the "housing bubble" of 2000-2006 was in the mid to upper 6's, and generally in the mid to upper 4's in the years before the pandemic, almost reaching 5% in late 2018. Today's rates seem high only in comparison to the ultra low rates of the past two years, and those rates helped cause the inflation problems we're dealing with today. We believe that once the Fed's inflation fighting stance is eased, 30 year rates will settle in the 5-6% range, and the market will be healthier for it. Today's rates are close to that level, and you can always refinance if they do fall significantly sometime in the future.

▶ **Q.** But what about affordability? Hasn't the combination of high prices and high rates made housing too expensive?

A: While this is the way the question is often framed, we think it should be looked at differently. The question you should be asking yourself is, can I find a house today that I would like to buy, and can I afford it? If the answer is yes, then there's no reason you should hesitate. In fact, as we outlined above, now might be the best time to lock in a better price. Bear this in mind: as a buyer, you will probably not be dealing with sellers who bought their homes over the past two years. You'll be dealing with sellers who have owned their houses for some time and have realized great appreciation, no matter how you look at it. If you and the seller can arrive at an agreement that accomplishes both of your goals, it's a win/win. If and when mortgage rates come back down, you can refinance. And now you'll be an owner, ready to take advantage of future price increases.

30 YEAR MORTGAGE RATES

Source: Freddie Mac

IF YOU'RE BUYING

"Market Timing" is the term stock brokers use to describe trying to time transactions so you buy at the bottom and sell at the top. It's always futile, because you never know where the bottom or top is until it passes, and then you've missed it. In today's housing market, it's particularly futile, because we don't think there will be a "bottom" to hit. The assumption that prices will fall because mortgage rates have risen is faulty because low supply won't allow it. The question then should be, can you afford a house that you want to buy? In fact, if there is such a thing as a "bottom" in this market, it's right now. If you're ever going to have negotiating leverage with a seller in the near term, this is the time. Once the Fed eases up on its inflation fight, the market will pick right back up because there's too much demand building due to our rapid population growth. Be patient, be persistent, set your limits and stick with them. The next 6-12 months are the best buying opportunity we've seen in the last 4-5 years. Don't miss it.

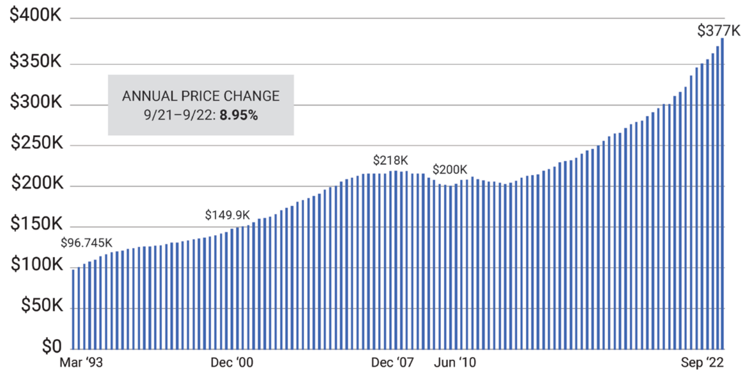
▶ Q. What is the long term outlook for housing? How do we know prices will rise in the future?

A: Over the last 30 years, The Dane County median residential price has risen an average of 4.64% per year. There have been periods where it rose faster (as it has over the last three years), and periods where it's risen more slowly. It is never linear every year. But over the long run, you can probably count on something like that going forward. Dane County and the surrounding counties comprise by far the fastest growing region in Wisconsin, and our demand for housing continues to grow along with the population. Like many regions of the country, we have not been building enough housing since the end of the recession to support our population growth. This consistent growth in organic demand will be a very strong long term driver of housing price growth. The only time the Dane County median price actually fell by a meaningful amount in recent history was during the great recession of 2007-2011, and even then the peak to trough drop here was only about 8%. And remember, inventories at that time were over 15 times higher than they are now. Will prices start rising 5% or 10% a year again starting next year? Probably not. The median price might stay fairly level for a year or two, or rise more slowly than it has recently. But over the longer run, continued growth in the 4% to 5% range is a very safe bet.

▶ Q. I already have a home, and I need to sell it first before I buy. Is this a good market for me to sell?

A: Absolutely. It's not crazy anymore, like it was in 2020 and 2021. It is not a market in which you can expect 20 or 30 offers at one time, with the winner bidding $50,000 over your asking price. Those days are probably over, and frankly, that's a good thing. It's possible you might have gotten more money last summer on a wild overbid than you will now, but you'll still get more than you would have two years ago, and the market remains active with motivated

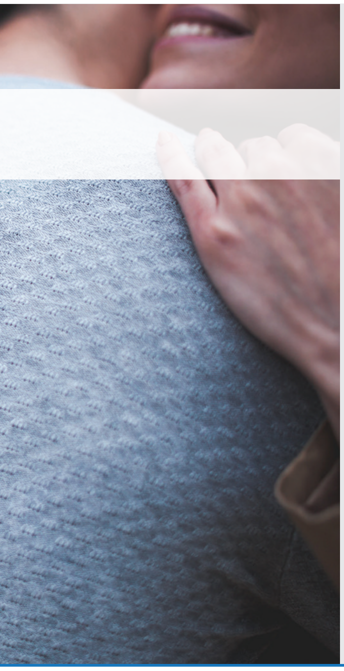
DANE COUNTY MEDIAN PRICE CHANGE



and capable buyers. We are finding that homes are now on the market between three and four weeks on average before they get an offer, and that time period may stretch out further as time goes on. But this is a return to a more normal market, not something to be concerned about. You might even have to negotiate a bit with a buyer, just like in the old days. But you should still get a very good price for your home, and your chances of selling in a reasonable time remain very high.

▶ A FINAL WORD

Transitions to new markets are always difficult because the process of transition creates uncertainty. That's why we always urge our clients to focus on the fundamentals, and take a long term view. The issue is not what's happening in the market today. Your focus as a housing consumer should be on what you're trying to accomplish with your life over the next few years. We don't know how long this current Fed inflation fight will last, but many reliable sources say conditions could start to ease as early as next spring. Even if it goes longer, it will end in the not too distant future. And housing traditionally leads the recovery out of recession. One thing we're certain of; there is no "housing crash" in the cards. Our regional economy is too vibrant, and the demand is too high, for that to happen.



IF YOU'RE SELLING

Supply and demand still favor you, so there's nothing in today's market that should hold you back. What has changed is that you shouldn't expect multiple offers and overbids, although those are still happening in some circumstances. But the smart way to play it is to assume you'll be negotiating with one buyer at a time, and you might sell for slightly less than your asking price. You also should assume you'll be on the market for a few weeks. It might be quicker, but don't be discouraged if it isn't. As for the "prices falling" narrative, the upward momentum for prices has stopped for the time being, but that's not "falling." You'll certainly get more, probably 10-20% more, than you would have two years ago, and that's the key. Plus, if you're going to be a buyer too, it will be easier to find your new home than it was even this spring.

Charts on page four represent sales reported to the South Central Wisconsin Multiple Listing Service (SCWMLS) with closing dates on or before September 30, 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 10/12/22. This is not intended to solicit existing listings.

Stark

Real People. Real Success.

DANE COUNTY REAL ESTATE AT-A-GLANCE

Q3 2022 compared to Q3 2021

ACTIVE INVENTORY

668

↓ 6.57%

YEAR-TO-DATE CLOSINGS

5,878

↓ 10.06%

12 MONTH MEDIAN PRICE‡

$376K

↑ 9.25%

MONTHS OF INVENTORY†

1.0 mo

No Change