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## February 2023 WI Real Estate Summary

### Title: Low Inventories Hamper Home Sales and Boost Prices

#### Talking points:

- Wisconsin existing home sales continued their slide, with sales falling by a significant margin for five straight months. Homes sales fell 28.1% in February 2023 compared to February 2022, and the median price rose 11.7% to \$262,500 over that same period.
- Every region of the state showed the same general pattern of slumping sales and median home price appreciation. Regional home sales dropped between 22% and 34.8% in five of the six regions of the state. The largest decline was in the North region where sales slid 40.3% between February 2022 and February 2023. Prices typically increased between 6.6% and 10.1% over that same 12-month period. The exception was the Northeast, which saw its February median price increase 20% year over year.
- On a year-to-date basis, home sales dropped 30.5% relative to the first two months of 2022, and the median price rose to \$256,500 over that same period, which represents a 10.1% increase in prices.
- Not surprisingly, the winter is a slow period for sales in Wisconsin, and the December-through-February period only accounts for 16.7% of sales in a typical year. However, this winter was especially weak, with sales falling 31.9% compared to the winter period 12 months earlier. The last time we saw such weak sales was 2012 as the housing market was just starting to recover from the Great Recession.
- The 30-year fixed mortgage rate has increased from an average of 3.76% in February 2022 to 6.3% in February 2023, and this has forced some buyers out of the market. However, the buyers who do remain are highly motivated, which has kept price pressure high.
- The combination of flat income levels, rapidly rising mortgage rates and strong price pressure pushed housing affordability down by 30.1%. Specifically, the Wisconsin Housing Affordability Index shows the portion of the median-priced home a borrower with median family income can purchase, assuming 20% down payment and a 30-year fixed-rate mortgage used to finance the balance. The index fell from 203 in February 2022 to 142 in February 2023.

#### Quotes from WRA Chairperson: Lower Affordability Hasn't Significantly Dampened Buyer Interest

- "Home affordability in the state has certainly fallen as prices and mortgage rates have both increased. However, buyer interest remains high, especially among first-time buyers in the millennial and gen-Z generations. We're still seeing multiple offers at or above asking price, and as a result, homes are moving quickly."

#### Quote from Laki: Inventory Problems Limit Home Sales

- “Although it is true that our winter home sales are at their lowest level in 11 years, the reasons for the weak sales now vs. then are very different. In the winter of 2011-12, we had plenty of inventory but very weak demand. Our current market weakness is due to very low supply even as demand remains solid.”

#### Quote from Dave: Fighting Inflation Now More Difficult

- “The Fed’s job to lower inflation just got tougher as several large banks began facing insolvency. Over the last several years, private banks increasingly used government bonds as an alternative to private lending when economic growth slowed. Unfortunately, bonds on their balance sheet lose value when the Fed increases short-term interest rates, and this so-called “interest rate risk” can lead to bank failure if the bank’s portfolio isn’t adequately diversified. With stubbornly high inflation, the Fed must now worry about creating a serious recession if it pushes interest rates up too high. The Fed needs to strike the right balance of lowering inflation without creating a deep recession.”